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BOMARE COMPANY has obtained several standards, labels, and certifications such as: RoHS (2002/95/CE) (restriction of hazardous substances), Label BASSMA DJAZAIRIA TV and IT products, ISO 9001 : 2015 version (quality management system), EURL : For export.

ENCOURAGEMENT Export Trophy 2015.

Signature of an agreement with NEC, the Japanese leader in network and IT technologies

BOMARE COMPANY has taken a new step forward in technological innovation through its collaboration with the Japanese leader in the integration of network and IT technologies “NEC”. As part of the integration of new software “Fido-NEC”, a biometric authentication system using facial recognition, to unlock Stream System: Smartphones as first step, then switch to other business uses such as security and electronic payment.
Changing track
Page 24

The shift in macroeconomic strategy in late 2017 has brought some relief to Algeria, though the sustainability of this approach rests on the adoption of the necessary corrective measures from 2019 onwards. Unless there is a significant and sustained increase in global oil prices to offset the impact of medium-term fiscal consolidation, economic growth is set to slow over the coming years until the twin budget and current account deficits are balanced.

SNAPSHOT

6 Algeria in brief

COUNTRY PROFILE

11 Moving forward: A young population and resurgent energy sector lead to positive outlook after several years of economic decline

13 Productive discourse: Ongoing reforms make space for economic recovery

16 Interview: President Abdelaziz Bouteflika

18 Unified approach: Diplomatic engagement sees rising levels of foreign trade

19 Viewpoint: Xi Jinping, President of the People’s Republic of China

20 Interview: Ferid Belhaj, Vice-president for MENA, World Bank

21 Historic ties: Algeria and China’s mutually beneficial partnership accelerates economic growth and infrastructure expansion

ECONOMY

24 Changing track: New strategy targets increased spending and an improved investment climate

31 Organic changes: Legislative reform expected to enhance budget planning

32 Business Barometer: Algeria CEO Survey

34 Interview: Abderrahmane Raouya, Minister of Finance

35 Quantitative easing: A closer look at the new macroeconomic strategy and its impacts

38 Protective measures: Import restrictions and structural reforms target increased domestic production and economic sustainability

41 Tax liabilities: Impacts of the trend towards lower corporate tax rates on developed and developing economies

42 Interview: Richard Lesser, CEO, Boston Consulting Group

43 Global village: Medium-term prospects suggest globalisation is set to continue for the foreseeable future

45 Interview: Ali Haddad, President, Algerian Business Leaders’ Forum

FINANCIAL SERVICES

48 Mindful leadership: Fundamentals remain sound in the banking sector as the authorities move to tackle new issues

52 Interview: Mohamed Loukal, Governor, Bank of Algeria

53 Card bargain: Despite legal changes, e-payments struggle to gain foothold

54 Extending access: Recognising the role of financial inclusion in broader economic development

55 Interview: Brahim Semid, CEO, Banque Extérieure d’Algérie

57 Ready and willing: The bourse upgrades infrastructure and rules while it awaits the introduction of new listings and financial instruments

61 Interview: Lazhar Sahbani, Partner, PwC Algeria

Market analysis & data provided by PwC

62 Funds and gains: Private equity investments have a role to play in deepening and diversifying the economy, but some obstacles remain

63 On the up: More favourable economic conditions support stronger insurance growth

67 Reassuring trend: New reinsurance programmes are bolstering coverage against natural disasters in emerging markets

ENERGY & RENEWABLES

75 Encouraging outlook: An increased focus on renewables is set to complement the country’s long-term commitment to fossil fuels

82 Interview: Abdelmoumen Ould Kaddour, CEO, Sonatrach

83 Gas giant: As a viable energy alternative, gas will become an increasingly important resource going forward

85 Interview: Claudio Descalzi, CEO, Eni

86 Interview: Hesham Mekawi, Regional President, BP North Africa

87 Fuelling growth: A focus on liquefied petroleum gas is central to a drive to increase domestic production

88 Rising tide: Solar and wind power industries are growing thanks to ample potential and decreasing costs

89 Interview: Fatma Zohra Zerouati, Minister of Environment and Renewable Energy
Efficient expansion
Page 92

Algeria faces challenges in its utilities sector in terms of distribution and efficiency. While the provision of electricity is a non-issue – though sustainable generation notably is – the rate of household connections to the national gas distribution network is in need of improvement, especially outside major cities. Drinking water is largely secure, yet business needs are straining resources, prompting increases in desalination and wastewater treatment.

UTILITIES & WATER
92 Efficient expansion: Aims include building more water-related infrastructure and growing the natural gas distribution network
95 Interview: Mohamed Arkab, CEO, Sonelgaz
97 Currents of growth: Focused investment in areas like desalination, sanitation and irrigation has eased the stress of acute water scarcity
99 Interview: Hocine Necib, Minister of Water Resources

INDUSTRY & MINING
102 Productivity boost: Industrial policy focuses on facilitating small business creation and raising local integration
107 Interview: Amara Charaf-Eddine, CEO, Madar Holding
108 Below the surface: New legislation aims to attract fresh mining investment and tap the country’s wide variety of minerals
110 A steely performance: Algeria moves closer to its goal of becoming self-sufficient in steel
111 Best medicine: Import replacement policy and strong fundamentals support pharmaceuticals expansion
112 Into high gear: Economies around the world are preparing for the opportunities and challenges brought about by the next industrial revolution

AGRICULTURE
116 National priority: The authorities work to lower the food import bill and attain self-sufficiency in key crops
118 Interview: Nabil Assaf, Representative, Food and Agriculture Organisation of the UN
121 Water works: Expanding irrigation infrastructure is high on the agenda
122 Interview: M’hamed Metiddj, CEO, Metiddj Group; and President, National Interprofessional Council for Cereals

TRANSPORT
125 In the pipeline: Rail and road infrastructure developments forge ahead
129 Interview: Abdelghani Zalene, Minister of Public Works and Transport
130 On track: Expanding rail capacity remains a national priority
133 Modern travel: The authorities are looking to ensure intermodality becomes a standard feature of future transport projects
134 Skybound: Rapid expansion of global aviation industry propels investment efforts

CONSTRUCTION & REAL ESTATE
140 Scaling up: Domestic producers are increasing output of building materials, while infrastructure developments are supporting export goals
145 Interview: Abdelwahid Temmar, Minister of Housing and Urban Planning
146 Sustainable urbanisation: As urban populations undergo rapid growth around the globe, planners are striving to create efficient spaces
149 Interview: Li Jian, Assistant President, China State Construction Engineering Corporation (CSCEC); and Chairman, CSCEC Algeria
150 Home run: The state continues its housing drive, providing support for financing and addressing the informal market

ICT
156 Increased competition: Alongside digitisation efforts and strengthened cybersecurity, the arrival of new players has galvanised the local market
160 Incubating growth: As funds are being directed to technoparks, incubators have witnessed growth and the flourishing of their ideas
162 Interview: Steve Tzikakis, President, SAP South Europe, Middle East and Africa
163 Expanding network: The country has witnessed a rapid increase in 4G, backed by network expansions that have boosted subscribership numbers
164 Building blocks: Blockchain technology has applications that could revolutionise trade and provide opportunities for the developing world

ALGIERS SMART CITY
168 Time for technology: Scaling the Algiers Smart City approach may provide a model for developing ICT in an effective and sustainable way across sectors

www.oxfordbusinessgroup.com/country/algeria
170 A smarter blueprint: The new smart city is paving the way for widespread technological development in other cities across the emerging world
173 Leapfrog to the lead: Project set to reposition the country as a regional technological frontrunner
175 Roadmap in action: Development of the full project implementation model gets under way following the release of blueprint plans

TOURISM
179 Sights set high: Long-term development plans seek to improve international perception and support hotel growth
185 Interview: Abdelkader Bennessaoud, Minister of Tourism and Handicrafts
186 Skills and development: Hotel and tourism upgrades provide a broad range of job opportunities from Algiers to Oran

HEALTH & EDUCATION
190 Committed to care: Working to meet rising demand for medicine through increased partnership between the public and private sectors
194 Interview: Amine Sekhri, Country Manager, Roche Algérie
195 Promoting pharmaceuticals: As health care provision expands, demand for both local and imported pharmaceutical products is rising
199 Contemporary tutelage: Transforming the education system to expand capacity and prepare students for the modern age
204 Interview: Tahar Hadjar, Minister of Higher Education and Scientific Research
205 On the job: Development and promotion of technical and vocational training key to improving employment rates

TAX
Mazars
209 Terms of payment: A breakdown and analysis of the tax system
214 Viewpoint: Samir Hadj Ali, Chartered Accountant and Managing Partner, Mazars Algeria

LEGAL FRAMEWORK
Gide Loyrette Nouel
217 Legal landscape: A summary of the relevant laws and regulations pertaining to investors in Algeria
222 Interview: Samy Laghouati, Partner, Gide Loyrette Nouel

THE GUIDE
224 Luxury stays: Hotel accommodation in cities around the country
227 Listings: Telephone directory of helpful public and private entities
228 Facts for visitors: Useful tips for new arrivals

Productivity boost
Page 102
The industrial sector is seen as having the potential to drive economic diversification and reduce the import bill. In addition to heavy industrial subsectors such as steel and cement, pharmaceuticals, agri-business and automotive manufacturing have the ability to become key exporters, assisted by the country’s strategic geographic location as a gateway to both Europe and Africa.

National priority
Page 116
The high food import bill, a growing population and effects from climate change are behind Algeria’s drive to increase local food output. Food production improved significantly between 2007 and 2018 thanks to efforts to clear obstacles that have traditionally hindered the sector’s development, such as financing, legislation, insufficient infrastructure and land ownership.

In the pipeline
Page 125
Meeting the country’s growing transport needs remains a priority, and the national development plan 2015-19 allocates €6bn to upgrading, modernising and expanding air, rail, road and maritime capacity, with significant progress already made. Foreign investment is actively being sought to incorporate the latest technologies and know-how into the modernisation process.

Scaling up
Page 140
Construction is a consistent engine of growth, even when the overall economy slows, constituting 11.7% of GDP and employing 17.2% of the workforce in 2017. The building materials segment, which expanded by 16.3% in the first quarter of 2018, is particularly promising as Algeria builds on recent investment in manufacturing plants and shifts its focus to scaling up exports.
Algeria in brief

Recovering oil prices and a loosening of the government’s purse strings have afforded Algeria some breathing room after a number of challenging years. However, as Africa’s most important gas exporter, it remains highly dependent on the hydrocarbons sector for the majority of its government revenue and almost the entirety of its exports. Despite efforts to encourage private sector development, promote diversification and attract foreign direct investment in recent years, the state still plays a preponderant role, meaning that changes to government expenditure and investment continue to have a significant impact on overall economic performance.

<table>
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<tr>
<th>Real GDP growth, 2011-20F (%)</th>
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Source: IMF

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<th>Assets of commercial banks, 2012-18 (AD trn)</th>
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Source: Bank of Algeria

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<th>Oil indicators, 2007-17 (000 bpd)</th>
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Source: BP

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<th>Natural gas production, 2007-17 (bn cu metres)</th>
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Source: BP

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<th>Travel &amp; tourism’s contribution to GDP by segment, 2017 (%)</th>
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<td>Leisure</td>
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Source: WTTC
Container traffic at the Port of Algiers, 2012-17 (TEUs)

Source: Port of Algiers

Individuals using the internet, 2007-17 (%)

Source: ITU

Building sector GDP*, 2012-17 (AD bn)

Source: ONS

*current prices

Industry value added growth, 2015-18 (% change)

Source: ONS

Government budget for agriculture, 2015-19 (AD bn)

Source: MoF

Tertiary enrolment by gender, 2011-16 (% of gross)

Source: World Bank

Electricity consumption, 2013-17 (TWh)

Source: MoE
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Country Profile

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Young and growing population offers high potential
Oil and gas remains a major contributor to GDP
Authorities signal upcoming structural reforms
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Moving forward

A young population and resurgent energy sector lead to positive outlook after several years of economic decline

Algeria's population reached 42.3m by the end of 2018, making it the second-largest country in North Africa after Egypt, which surpassed 100m earlier in the year. With demographic growth of 1.7% in 2017, Algeria's Ministry of Health expects that the population will reach 51m by 2030. The population remains relatively young, with a median age of 27.8 and 29.2% of residents under the age of 15. Life expectancy at birth continues to rise, reaching 76 years in 2016.

In line with global trends, recent decades have seen Algeria become increasingly urban, with approximately 76% of residents living in urban centres in 2018. However, the population is highly decentralised, and only about 5.4m live in the metropolitan area of Algiers, the capital. The western port of Oran is the country's second-largest city, with an estimated population of roughly 650,000, and in the north-east Constantine ranks third with around 500,000. Altogether, the country has 40 cities with populations of around 100,000.

GEOGRAPHY: At 2.4m sq km, Algeria has the largest land mass of any country in Africa or the Mediterranean. Located in the French-speaking Maghreb region of North Africa, it boasts a Mediterranean coastline of more than 1200 km, with 6734 km of land bordering seven countries and territories: Libya, Mali, Mauritania, Morocco, Niger, Tunisia and the Western Sahara.

The country is divided into 48 administrative provinces, known as wilayas, and 1541 municipalities, or baladiyats. The largest wilaya by land mass is Tataouine in the south, with a sparsely populated area of 556 sq km, but the largest according to population remains the Algiers metropolitan area.

Algeria can be broadly divided into three topographical regions: the Tell, a narrow coastal strip north of the Tellian Atlas mountains; the Hauts Plateaux, between the Tellian Atlas and Saharan Atlas mountain ranges; and the desert region to the south of the Saharan Atlas range, which accounts for 80% of the country's territory. Characterised by hilly and mountainous terrain, Algeria's average elevation is 800 metres and more than half of the country is at least 900 metres above sea level. The highest point is Mount Tahat, standing at 2908 metres in the Hoggar range of the Sahara region.

The north of the country lies at the boundary of the African and Eurasian tectonic plates, and thus is seismologically active. In 1980 and 2003 major earthquakes struck the country, each individually killing and wounding at least 2000 people.

The northern coastal region is relatively fertile and receives up to 1000 mm of rain in some areas, and benefits from year-round rivers descending from the nearby Tellian Atlas mountains. Due to erratic rainfall, rivers in other regions do not have water year-round, and none of the country's rivers are navigable. Further south, the steppes become increasingly arid, giving way to the Sahara Desert beyond the Atlas Mountains.

While the southern desert regions have large intraday variations in temperature and can be hot all year round, coastal areas can be classified as Mediterranean. The majority of the population lives in these areas, where summers are hot and dry, while winters are relatively cool and wet. The central Hauts Plateaux have a similar climate, though they experience less and far more irregular rainfall overall.

Average temperatures in Algiers, range from 22°C to 29°C in August, the hottest month of the year, to as low as 9°C to 15°C in January.

LANGUAGE, RELIGION & ETHNICITY: More than 90% of Algerians identify as Berber, descended from the indigenous pre-Islamic populations of North Africa. Considering the strong influence of Arab culture following the 7th and 8th century conquests, most Berbers also officially identify as Arab.

Despite centuries of Arabisation, more than a quarter of the population still speaks Berber as their first language, and many identify primarily as Berber. While Berbers are spread throughout the country, they are concentrated in the north-east region. There are about
In addition to hydrocarbons, Algeria also has notable reserves of high-grade minerals. The country has the third-largest reserves of phosphates in the world, and has significant proven deposits of iron ore, gold, zinc, copper and uranium. Many of these deposits are under-exploited or under-explored due to their location in the more isolated and mountainous southern regions of the country, areas which frequently have underdeveloped transport infrastructure links.

ECONOMY: Algeria’s GDP is anticipated to reach $188bn by the end of 2018, which will make it the largest economy in the Maghreb region and second largest in North Africa after Egypt. Its per capita GDP, anticipated to reach $4500 by the end of 2018, indicates that it has the highest living standards in the Maghreb. Tunisia and Morocco follow with per capita GDPs of $3573 and $3355, respectively.

Neighbouring Libya has experienced a strong recovery, with its per capita GDP reaching $6639 and surpassing Algeria’s. Due to the size of its population, Egypt has the largest economy in the region, but it experiences the lowest living standards, with its 2018 per capita GDP predicted to come in at $2572. Measured on a purchasing power parity basis, Algeria boasts the highest GDP per capita in the region by virtue of its lower price of basic purchasable goods.

The state continues to play a dominant role in the Algerian economy, depending on oil and gas exports for some 60% of public revenue and 96% of exports. The sharp decline in global oil prices since 2014 resulted in several challenging years for the Algerian economy. However, until 2016 its relatively low debt-to-GDP ratio and significant savings in its hydrocarbons stabilisation fund allowed the government to maintain high fiscal deficits, and thereby cushion the negative impact it might have on economic growth.

Fiscal consolidation in 2017 caused growth to diminish to 1.4% that year, down from 3.2% in 2016, accompanied by a corresponding increase in overall levels of unemployment. Facing the challenges of this economic downturn, in late 2017 the authorities made changes to economic policy, and in 2018 they financed government spending by way of monetary financing through the central bank. While this is expected to boost economic growth in the short term, with the IMF forecasting GDP growth of 2.5% for 2018, it risks an eventual increase in inflation.

When the authorities do take action to rein in the budget deficit, economic growth is expected to slow significantly. At the same time, the imposition of import restrictions on 851 consumer products has done little to impede the current account deficit or slow the decline in international reserves thus far, raising chances of more difficult corrections in future years.

The authorities have signalled their intention to introduce a wide range of structural reforms aimed at diversifying the economy, promoting the private sector and gradually leading the country away from its established dependence on hydrocarbons. A number of actions have been taken to achieve these goals since 2015, with new initiatives also to be launched in 2019.
Productive discourse

Ongoing reforms make space for economic recovery

Under its constitution, which was last amended in 2016, Algeria is a semi-presidential republic, with a president acting as head of state and a prime minister acting as head of government. Elected for a five-year term, the president is empowered to appoint the prime minister and a council of ministers, following consultation with the parliamentary majority. While within this structure executive power lies formally with the government, in practice the most significant power is centred around the head of state, who also sits as commander-in-chief of the armed forces. The current president, Abdelaziz Bouteflika, has served four terms since coming to office in April 1999. The two-term limit was abolished via constitutional amendment in 2008, but reinstated in 2016 in such a manner as to allow the incumbent to run for a fifth term in the next election, which is scheduled for April 2019.

By late 2018 a consensus was beginning to emerge that President Bouteflika would run for, and likely win, his fifth consecutive term.

PARLIAMENT: Legislative power is shared between the executive and the two chambers of Parliament, namely the National People’s Assembly (Assemblée Populaire Nationale, APN), or lower house, and the national council, or upper house. The 462 members of the APN are directly elected to serve five-year terms under a proportional representation system of multi-seat constituencies, with eight seats reserved for Algerians living abroad. The last assembly election took place in May 2017. The president appoints a third of the members of the national council, with the other two-thirds elected for six-year terms, and half of that number elected for three-year intervals.

At a local level, the country is divided into 48 administrative divisions, known as wilayas, each of which are governed by a regional governor, or wali, appointed by the president. The legal system is a mixture of French civil law and Islamic law, with an Constitutional Council consisting of public officials and Supreme Court judges charged with the judicial review of legislative measures.

The 150-member Supreme Court is the highest judicial body in the country, structured around eight functional chambers. Supreme Court judges are appointed for lifelong terms by the High Council of Magistracy, which is presided over by the president.

Despite the influence of Islamic law on the Algerian legal system, there are no sharia courts currently operating in the country.

HISTORY: Algeria was under Ottoman rule for over three centuries until being colonised by the French in 1830, and did not achieve independence until 1962. This was after a long and bloody war of liberation in which more than 1m Algerians were estimated to have been killed.

Unlike neighbouring Tunisia and Morocco, which were governed as protectorates, the north of Algeria was incorporated into metropolitan France, with representatives in its national assembly. French citizenship, however, was not automatic, and remained difficult to obtain. The country’s interior was completely under French control, although it was not incorporated into the French state itself.

The key player in the independence movement was the National Liberation Front (Front Libération Nationale, FLN), which would go on to constitute the dominant political party in the post-colonial period, first as ruler of a one-party state, and later as the largest in a multi-party democracy. In practice, however, since achieving independence, political power in the country has remained concentrated in the hands of a small community of politicians, military figures and, more recently, businessmen.

Ahmed Ben Bella, one of the FLN leaders during the struggle for liberation, became the first president of newly independent Algeria. He pursued socialist economic policies and an independent
The nation is undergoing numerous reforms to diversify the economy and stimulate domestic production.

foreign policy as part of the Non-Aligned Movement until being deposed in 1965 by Houari Boumiediene, chief of staff of the armed forces then-chief of staff of the armed forces who became president in a bloodless coup. In his role as president, Boumiediene continued on a socialist economic trajectory, while increasing the role of the state in economic activity and centralising political power for himself, after a series of failed attempted coups that occurred in the early years of his rule.

A new constitution was introduced in 1976, which allowed for a degree of political liberalisation, and Boumiediene was subsequently elected with 95% of the vote. The president's death in 1978 gave rise to political instability amid a power struggle within the FLN, before the moderate former military figure Chadli Bendjedid emerged as a consensus candidate for the presidency. Bendjedid was re-elected in 1984 and 1988, and pursued modest economic liberalisation during the latter part of his tenure.

Social unrest in October 1988 gave rise to a new constitution in the following year. This new framework relaxed restrictions on the media and media coverage, and allowed for the establishment of political parties other than the FLN.

ELECTIONS: The first multi-party legislative elections under the modern constitution took place in 1991, and led to a resounding and unexpected first-round win for the Islamic Salvation Front (Front Islamique du Salut, FIS). However, the military launched an almost immediate coup, preventing the second round of elections from taking place. President Bendjedid was eventually forced to resign, and tens of thousands of FIS supporters and other Islamists were incarcerated, while a military junta known as the High Council of State (Haut Conseil de l'Etat) took control of the country.

This marked the beginning of a civil war that lasted until 2002 – a period known as the décennie noire, or black decade – as a succession of armed Islamist groups waged a lengthy series of wars against the secular state security apparatus.

Mohamed Boudiaf – who was another prominent FLN leader during the war of liberation – was appointed as the first president by the military junta in January 1992, but was assassinated soon thereafter and succeeded by Ali Kafi, who ruled until 1994. Kafi was then replaced by Liamine Zeroual, a fellow military figure. Zeroual was elected with a popular mandate in 1995 as the junta brought its period of rule to an end and eventually was succeeded in 1999 by the current incumbent.

PRESIDENT: Abdelaziz Bouteflika was born in 1937 and served as foreign minister from 1963 to 1979. His time included a period acting as president of the UN General Assembly, before coming to power as the country’s fifth president in 1999 after a lengthy absence from politics. His early years in office preceded the end of the civil war in 2002, and were followed by a programme of national reconciliation that included an amnesty for FIS members not guilty of war crimes.

The president has been seen in public only occasionally since suffering a stroke in 2013. Nevertheless, in 2014 President Bouteflika secured his fourth term in office, garnering some 81.5% of the vote, amid turnout of around 49.4%. Although the military retains a central role in Algeria’s power dynamics, President Bouteflika has been widely credited with curbing its overall influence and direct power, notably with the disbandment of the Department of Intelligence and Security in 2016.

Algeria was not immune from the unrest experienced across the region in 2011, during the Arab Spring. More recently, there have been protests related to the deteriorating economic situation and, in early 2018, this extended to public pay for medical professionals. However, these have largely proved to be exceptions to the relative social and political stability experienced during the two decades of President Bouteflika’s tenure.

The next presidential election is scheduled to take place in April 2019, and despite his failing health, President Bouteflika is widely anticipated to be successful in winning a fifth term.

While some opposition is expected throughout the election, it appears likely that the incumbent will secure the majority of votes. Nonetheless, the pressure for reform and desire for eventual political transition is predicted to build during his fifth term, particularly if the economy continues underperforming in the near future.

According to the constitutional reform of February 2016, the president is obliged to appoint a prime minister from the largest party in Parliament. In reality, however, this is rarely enforced. The incumbent prime minister, Ahmed Ouyahia, is the co-founder of the National Rally for Democracy (Rassemblement National pour la Démocratie, RND), which is the second-largest party in Parliament. Prime Minister
Ouyahia is a career diplomat who has also served as minister of justice, and it is his fourth term acting as prime minister, having occupied the position on three previous occasions: between 1995 and 1998, 2003 and 2006, and from 2008 to 2012.

Before most recently undertaking the role of prime minister in August 2017, Ouyahia served as chief of staff to President Bouteflika from March 2014. His immediate predecessor, Ali Tebboune, served just three months in office following the May 2017 legislative elections.

**POLITICAL PARTIES:** Algeria is a multi-party democracy with more than 40 parties in operation. Although the constitution expressly forbids the establishment of political parties founded on a religious, linguistic, racial, sex, corporatist or regional basis, there is a degree of latitude in the interpretation of this clause. A number of Islamist parties are currently represented in Parliament, for example. All parties require the assent of the minister of the interior in order to register.

Considering the increasing diversity of political representation, coalition politics are becoming increasingly popular. Prime Minister Ouyahia governs a coalition headed by the FLN party, which gained 164 seats in the lower house in the May 2017 election, compared to 97 gained by the RND.

Since 2005 these two parties have governed as part of the Presidential Alliance, having previously been joined in coalition by the Social Movement for Peace. This is a moderate Islamist party which has 33 members in the APN, but which ultimately withdrew from the alliance in 2012.

An additional two Islamist movements – the Algerian Rally for Hope and the three-party Nadha-Adala-Bina coalition – currently hold 19 and 15 seats in the lower house, respectively.

**POLICY & REFORM AGENDA:** The government announced in late 2017 that it was changing its economic strategy, deciding to postpone focusing on the budget deficit until at least 2019 and permitting the central bank to finance the budget deficit for a period of five years. This was expected to be accompanied by a wide range of structural reforms which were aimed at further diversifying the economy, stimulating domestic production and reducing the current account deficit.

The IMF warns that the continuation of monetary financing beyond the short term will likely have the effect of significant medium-term economic risks, and the country’s international reserves have already begun a precipitous decline.

Beginning in early January 2018 some 850 products became subject to import restrictions, with tariffs and excise duties also increasing on a range of other, mostly luxury, consumer goods.

Once the April 2019 election has concluded, it is expected that the country will return to a more orthodox macroeconomic policy stance. However, the budget deficit reduction that this will entail is expected to weigh heavily on economic growth and standard of living in the next several years.

This impeding of economic growth may make efforts to introduce the needed structural reforms more difficult than previously anticipated.

In an indication that the authorities are aware of the importance of these reforms, the president made a rare address to the nation in October 2018, which took place on the 64th anniversary of the beginning of Algeria’s independence revolution. He stated that the country must “meet the challenge of accelerating economic reforms and the diversification of national production to free ourselves from dependence on hydrocarbons and the fluctuation of their prices on international markets”.

The timely implementation of this agenda will likely become one of the overriding priorities of the new administration when it comes to power.
Sustainable strength

President Abdelaziz Bouteflika, on how long-term diversification, regional integration and public-private partnerships (PPPs)

What is Algeria’s model for growth to 2030?

BOUTEFLIKA: In the current context of uncertainty, especially after the financial crisis of 2008, economies around the globe have been searching for a growth model that ensures the economy is both resilient and adaptable. In particular, the environment after 2014 has impacted our economy, as we saw our revenue from hydrocarbons exports – which represent an important source of financing for Algeria – reduce dramatically. Such a situation was expected, and therefore a plan to cushion the impact had already been put in place. As a result, we were able to fund most of our external debt, reduce internal indebtedness, contribute to financing domestic development, consolidate levels of currency reserve and create a public savings fund. Our strategy over the last two decades has allowed for sustained expenditure, infrastructure upgrades, a reduction in unemployment, controlled inflation, increases in the purchasing power of our citizens and improvements in the main indicators of human development.

Now, however, we must develop an approach that tackles the challenges of the new economic reality, ensuring our sustainable growth while also reducing our vulnerabilities. This has become even more urgent as the erratic oil and gas markets adversely affect our financial equilibrium, both internally and externally. In the previous edition of OBG’s report I had the opportunity to present the foundations of this new economic model and the goals set for 2030, under horizon 2030. This is founded on the principles of rationalisation and efficacy of public expenditure; solidarity and social justice; the prominent role of the private sector within the national economy; continued improvement of governance in all fields; and social dialogue in all our economic processes. To this end, the government is focusing on infrastructure investment that will not hamper our production capacity in order to progressively reduce deficit levels, make our sector strategies more visible and improve our business climate to promote exports, with a particular focus on non-hydrocarbons sectors. We continue to encourage domestic and foreign investment, especially in high-value-adding sectors such as renewable energy, agro-industry, the digital economy, the downstream segments of oil and gas and mining, tourism and logistics. We expect this approach will contribute to regaining balance in the national public accounts, increasing GDP and GDP per capita growth, boosting manufacturing and industry, and transforming our model for the energy sector in the 2020-30 period.

While we work towards a productive economy that is both socially effective and less dependent on hydrocarbons revenue, we may also need to adjust our policies to account for current global economic uncertainties.

How does Algeria add to African development?

BOUTEFLIKA: Algeria is committed to developing its relations with and within Africa, as we believe that continental integration has a very positive impact on domestic and regional growth. Trade and investment, together with social and political cooperation, are essential elements of this. Dedicated to the South-South cooperation model, Algeria has engaged with the New Partnership for Africa’s Development Planning and Coordinating Agency to execute major projects. Notable examples include the deployment of fibre-optic cables; the Trans-Saharan gas pipeline, which will run from Nigeria to Algeria; and the new port centre project, which would be of significant value for the development of commercial and social relations in Africa. Our solidarity with African countries is also shown in many other ways, such as our role in multilateral financial institutions, and support in the development of borders. In addition, we contribute to alleviating the burden of over-indebtedness, an issue that affects some of our partner countries in the region. We also understand it is very important to contribute to the development of people. Many thousands of Africans have received an education at our institutions, and will continue to.
Algeria is also involved in the institutional reform of the African Union (AU), with a focus on guaranteeing its financial independence and the autonomy of its projects, particularly those related to achieving peace. Economic development and trade must happen in a secure context. To this end, the AU Mechanism for Police Cooperation, headquartered in Algiers, has been created to put in place a harmonised strategy against crime. While business and trade between Algeria and African actors remains poorly developed to date, we are seeking to rectify this. In December 2016 we held the African Investments and Business Forum in Algiers, which contributed to enhancing the relations of the continent’s economic actors. Algeria never ceases advocating for and actively leading participation in various forums. These are valuable occasions for promoting our local products and opening new horizons in the African economic space. This particularly applies to the revival of our manufacturing industry, which is very open to cooperation. The sector has benefited from the African Development Bank’s initiative to create a platform to actively involve private actors in delivering projects through to the point of financing. There is significant potential for new partnerships between Algerian and African firms; however, we need to keep enhancing the legal framework for investment and economic cooperation, notably putting in place agreements on investment protection and double taxation.

The country is involved pursuing regional peace, integration and development, as defined in the AU’s Agenda 2063. Algeria actively participates in the negotiations for a continental free trade zone that would facilitate trade, and contribute to the structural development of our country and continent. With a population of over 1bn and a GDP of more than $2.2trn, Africa has huge scope for the evolution of continental trade, especially as intra-African trade only represents 10% of its trade with the rest of the world. Africa can become a rich region, full of youth, energy and rising demand. For Sustainable Development Goals to be achieved, the continent needs to invest $600m-700m per year, with $100m-130m per year for infrastructure development.

How can economic diversification and private actors support domestic growth?

**BOUTEFLIKA:** Economic diversification is one of our key goals; however, it is not an easy task, as it requires new economic, industrial and agricultural long-term policies that are well implemented. It also requires all actors – including public bodies, local players, public and private companies, and foreign firms – to mobilise. Our interest in diversification is not recent. We committed to this goal years ago and have been working towards it ever since. For instance, we have made progress in terms of enhancing the infrastructure network through state projects, creating more jobs, opening investment opportunities and improving citizens’ quality of life.

We have equally allowed for the re-emergence of industrial activities through our industrial redevelopment and investment-friendly policies. These have helped launch industries such as pharmaceuticals, automobile manufacturing, electronics, agri-foods, cement and, more recently, phosphates. The level of diversification that has been reached is not insignificant, but it remains insufficient to sustainably balance the economy or present a range of exports that can be a serious alternative to hydrocarbons. Therefore, we need to persevere. I believe there are three main elements that will allow us to succeed in diversification.

First, diversification will not be achieved without the strong presence and participation of private actors in all economic sectors. We must continue to enhance the tools for business creation and related support policies. We must also enhance the investment framework for small and medium-sized enterprises to help them integrate properly into manufacturing chains and subcontracting activities. With regards to foreign investment, its positive impact on development capacities, innovation and technology, knowledge of foreign markets and overall competitiveness is recognised.

Second, diversification requires improved economic governance to succeed. This needs to happen in the government, and public and private companies, and new initiatives are necessary. We have already set the axis of our industrial policy, and have recently started with a redeployment plan for public holdings to enable them to better participate in industrial development, economic integration and diversification processes.

Lastly, economic diversification will also require efforts to minimise excessive bureaucracy. In terms of removing administrative barriers, we have made some significant progress since we began enhancing the business climate years ago. The results of these efforts are now visible in multiple domains, though further improvements are still required in this area.

What is being done to facilitate PPPs?

**BOUTEFLIKA:** The 2018 Finance Law enables investment in public projects in the frame of partnerships between private and public institutions. This represents an avenue for achieving a financial balance while also maintaining public expenditure. In our country, the public budget for equipment represents 15-20% of GDP. PPP projects have already been started, including the port in Cherchell, with an investment of over $3m.

However, PPPs have been designed for more than supporting public operations. In priority productive sectors – such as industry, agriculture and energy – these partnerships should reduce our vulnerabilities. We therefore support every dynamic investment that promotes collaboration between public and private operators, local or foreign. The most recent partnership of this type is related to the production of phosphates, with a project launched in the east of the country. We are now working on making the framework for this more attractive. In the case of energy, the revision of the hydrocarbons law will definitely contribute to developing win-win partnerships with foreign companies in the sector. Algeria offers a stable political context, 20-year dynamic growth, external and internal financial solvency, infrastructure and policies to improve the business climate, which will help attract such investors.
Since achieving independence in 1962, Algeria has pursued an activist foreign policy, pushing interests of developing countries through the Non-Aligned Movement, as well as in groups like the G-77. Current president of the republic, Abdelaziz Bouteflika, served as the 29th president of the UN General Assembly in 1974 during his lengthy term performing as the country’s minister of foreign affairs.

During Algeria’s civil war, which took place between 1991 and 2002, the country experienced a period of relative prolonged international isolation. However, the country has gradually re-emerging as a player on the global stage under the administration of President Bouteflika. For instance, President Bouteflika has played a leading role in the peace talks between Eritrea and Ethiopia since 1999, which led to the signature of a peace agreement in July 2018 to put an to two decades of conflict between the two countries. Furthermore, in 2015 Algeria also hosted negotiations between the Malian government and rebel factions, and proposed a mediation agreement that was finally approved by both parties in June 2015, after months of war in northern Mali.

As well as being a full member of both the IMF and World Bank, Algeria is an observer country to the World Trade Organisation, and an active member of the Global Counterterrorism Forum – serving as chair of the body’s West Africa working group. The country is also a partner to the Organization for Security and Cooperation in Europe and occasionally provides logistical support, such as airlifting, to both UN and African Union peacekeeping operations.

**UNITY:** Although it has a relatively closed economy, Algeria holds close trading links with its Mediterranean neighbours to the north, and remains an important source for the EU's natural gas imports, particularly to France, Spain and Italy.

Relations with France, Algeria’s former colonial ruler, have remained close despite a strong anti-colonial sentiment in the population. French remains widely spoken by governing elites in Algeria, and France is also home to a significant Algerian diaspora. In addition, Algeria has cordial relations with most of its immediate Maghreb neighbours, though its relationship with Morocco has been constrained since the 1990s, in large part driven by disagreement over the disputed territory of the Western Sahara.

**GLOBAL TIES:** In July 2001 President Bouteflika became the first Algerian head of state to visit the US since 1985. Since this visit diplomatic engagement has developed significantly. Previously, bilateral relations had been distant, and had been severed completely between 1967 and 1974. Bilateral cooperation on security matters became particularly important in the aftermath of the terrorist attacks on New York and Washington in 2001.

Under the Bouteflika presidency, Algeria has greatly increased its diplomatic and economic relations with China, which has become an important source of official development financing and discounted lending. In 2016 China overtook France, becoming the number one source of imports to the country. Furthermore, in September 2018 Algeria signed a memorandum of understanding in order to join China’s Belt and Road Initiative, focusing in particular on potential future infrastructure investment throughout the country (see analysis).

Turkey has also become a more important economic and diplomatic partner, as evidenced by a visit from the Turkish president, Recep Tayyip Erdoğan, in early 2018. In late 2016 Turkey overtook France to become the single biggest source of inward investment to Algeria. However, although Algeria has become increasingly open to foreign trade and investment in recent decades – especially across the Maghreb and sub-Saharan Africa – the country still remains resolutely opposed to relying on foreign sovereign borrowing to any significant or regular extent.
Shared interests

Xi Jinping, President of the People’s Republic of China, on a new, win-win model of economic partnership in Africa

With similar pasts and a common mission, China and Africa have extended sympathy to and helped each other throughout the years, and together, we have embarked on a distinctive path of win-win cooperation.

On this path, China has taken an open and inclusive approach to cooperation, fully aware that long-term stability, security and development in Africa is not only the longing of its people, but also the responsibility of the international community. Thus, China stands ready to work with other international partners to support Africa in pursuing peace and development.

Our world is undergoing changes unseen in a century, such as the trends towards multi-polarity, economic globalisation, IT application, cultural diversification, the transformation of global governance, the rise of emerging markets and greater balance in global power configuration. The well-being of people in all countries has never been so closely intertwined as it is today.

Let us build a China-Africa community with a shared future. We could seize the opportunity created by the complementarity between our respective development strategies and the opportunities of the Belt and Road Initiative (BRI). We need to see to it that the BRI, the African Union’s Agenda 2063, the UN’s 2030 Sustainable Development Agenda and the development plans of African countries complement each other better.

Since the 2015 Forum on China–Africa Cooperation, many infrastructure projects and economic and trade cooperation zones have been built or are under construction, while our cooperation on peace and security, science, education, culture and health has deepened.

Mutual help and solidarity have defined China-Africa relations over the years. Going forward, we will do more to help Africa pursue development, increase employment and income, and better the lives of its people.

First, China will launch an industrial promotion initiative, wherein we will open a China-Africa economic and trade expo in China; encourage Chinese companies to increase investment in Africa; build and upgrade economic and trade cooperation zones; and strengthen cooperation in local currency settlement. We will support Africa in achieving general food security by 2030, and in formulating and implementing a programme to promote cooperation on agricultural modernisation.

We will also launch an infrastructure connectivity initiative and jointly formulate an infrastructure cooperation plan with the African Union. We will support Chinese firms that participate in Africa’s infrastructure development by way of investment-construction-operation or through other models, with focuses on enhancing cooperation on energy, transport, information, telecommunications and cross-border water resources.

China will also launch a trade facilitation initiative to increase imports from Africa, particularly of non-resource products, and strengthen the exchanges on market regulation and between Customs authorities. We support the building of the African Continental Free Trade Area, and will continue to hold free trade negotiations with interested African countries and regions.

Furthermore, we will launch a capacity-building initiative that shares Chinese development practices and supports cooperation on economic and social development planning. China will also back the opening of a China-Africa innovation cooperation centre to promote youth innovation and entrepreneurship.

To ensure the implementation of these initiatives, China will extend $60bn of financing in government assistance and encourage Chinese firms to invest at least $10bn on the continent in the next three years.

The future of our relations lies in our young people. Many of the measures in these initiatives are designed to help young people in Africa, by providing them with training and job opportunities and opening up space for their development. The day will surely come when the Chinese nation realises its dream of national renewal and Africa realises its dream of unity and invigoration. The above is adapted from a speech given at the Forum on China-Africa Cooperation in September 2018.
Business boost

Ferid Belhaj, Vice-president for MENA, World Bank, on how to increase business levels in the region

What more can be done to support inclusive economic growth in the Maghreb?

BELHAJ: In spite of moderate growth in recent years, unemployment remains high in the Maghreb, at around 13.5%, according to the latest figures from the International Labour Organisation. It is especially high among young people, at 32.8%. Jobs often come from newly created enterprises. Developing entrepreneurship in the region is therefore an avenue for job creation, hence greater inclusion and economic development.

Entrepreneurship ecosystems in the Maghreb are underdeveloped, however, and a concerted effort is required to address obstacles for current and future entrepreneurs. The region’s economies will not prosper unless businesses that aspire to take risks and grow can succeed. The most effective government policies will employ a bottom-up and holistic approach based on consultations with an array of stakeholders. Furthermore, their focus needs to change from supporting broad-based entrepreneurship to more targeted policies aimed at innovation and developing growth-oriented firms. To ensure that the youth bulge is translated into an asset, Maghreb countries should pursue a two-way strategy. On the supply side this should include investment in human capital, especially in training and developing skills of the youth that the job market currently seeks, including in areas such as technology. On the demand side there is a need for a sharp increase in job creation, which could be achieved through economic diversification. Adopting business-friendly policies that help to strengthen the non-hydrocarbons sectors is imperative.

How can trade be boosted among Maghreb countries and sub-Saharan Africa?

BELHAJ: Although trade increased for Maghreb countries during the 2000s, this has not translated into deeper intra-regional integration. Trade across countries remains low, while market and product concentration levels are still high. We see a lot of potential for fostering trade across the Maghreb as well as with sub-Saharan Africa, and have welcomed recent regional free trade agreements. The effective implementation of these agreements could translate into important efficiency gains for member countries. To develop levels of trade within the region, various measures should be implemented, including improvements in the regulatory framework, trade facilitation and export training programmes. Improving the regulatory framework would imply improving transparency on all measures and regulations in each trade area, as well as enabling cross-border digital payments. This should be done through discussions among stakeholders to reach consensus on improvements and an implementation schedule. Existing regional trade agreements could act as coordination mechanisms. A second axis would be to develop firms’ ability to become exporters or expand their exports, for example through measures providing training and access to finance. This could be implemented through private sector organisations, chambers of commerce and export promotion agencies. A third axis would be to facilitate the movement of goods by harmonising border procedures and reducing the costs of connectivity.

To what extent could private companies support Algeria’s diversification strategy?

BELHAJ: The Algerian private sector has a key role to play in securing the future of the country. It is the only sector that can create jobs in a sustainable way in non-extractive sectors, and therefore support diversification. To be able to do so in the long term the private sector will need to benefit from a better business environment. Algeria must successfully implement a strategy that is based on improved competition, gradually withdraw from the productive sphere, open trade, develop more efficient sector policies and create an enabling environment for entrepreneurship.
Historic ties

Algeria and China’s mutually beneficial partnership accelerates economic growth and infrastructure expansion

In 2018 Algeria and China celebrated their 60th anniversary of diplomatic relations, a particularly notable achievement considering China has recently become the number-one source of Algerian imports. “The two countries are pioneers that have made history in many areas in the expansion of China-Arab ties,” China’s minister of foreign affairs, Wang Yi, said in a statement at the China-Arab States Cooperation Forum (CASCF) in early July 2018.

IN BUSINESS: Chinese companies have been coming to Algeria for a long period of time, but ties have multiplied and strengthened in recent years. China’s Belt and Road Initiative has started to yield results: companies from the eastern giant are building a trade and infrastructure network in Africa, and are now able to play a participating role in developing Algeria in conjunction with relevant government planners.

Algeria’s relationship with China mirrors that of the broader continent. African and Chinese trade in 2017 was over three times higher than US and African trade. Chinese foreign direct investment (FDI) to Africa increased by 130% between 2011 and 2016 and currently stands at $53bn. Algeria is the third-largest recipient of Chinese FDI with $2.5bn, coming behind only South Africa ($6.5bn) and the Democratic Republic of Congo ($3.5bn), and ahead of Nigeria, Zambia and Zimbabwe. Particularly, Chinese interest in Algeria is evident in infrastructure. China participates in multiple mega-projects across Algeria, such as the great mosque of Algiers, the East-West Highway and aerospace. The most recent infrastructure-related project in Algeria to be awarded to China is a phosphate plant in the Tebessa region. The deal, worth $6bn, is expected to generate almost $2bn per year, according to Sonatrach CEO, Abdelmoumen Ould Kaddour. In a statement, Ould Kaddour said that the plant is slated to open in 2022 and will create 3000 jobs.

China has also made strategic advances in ICT infrastructure, and both ZTE and Huawei have gained significant market shares. In late 2016 Huawei was awarded an eLTE broadband trunking project for the Houari Boumediene Airport in Algiers. The project marks the first time an eLTE system has been implemented in a commercial airport facility in Africa.

In late 2018 it was announced that another five industrial and port infrastructure projects were to be carried out in partnership between public Algerian companies and Chinese firms in the fields of commercial vehicle manufacturing, electronics, mining and maritime transport infrastructure. The projects fall under a cooperation agreement signed in 2016, and aim to boost production capacity in engineering, railway, iron, steel and petrochemicals, among others.

Algeria has also seen recent success in its manufacturing industry. Shaanxi Automobile Holding Group, a state-owned truck manufacturer in China, started selling its products in Algeria in 2007, when the market was dominated by European brands. According to reports by local media, the Chinese firm now controls approximately 70% of the local market.

TWO-WAY ROAD: Increased cooperation between China and Africa has benefited both parties. In the majority of cases, Chinese companies acted as investors and Algerians were the recipients of those investments. However, the trend is likely to shift as Algerian firms increase their stakes in the Chinese market.

In early November 2018 Algeria participated in the China International Import Expo, which aimed for China to widen its market by importing products and services worth more than $10trn within five years. There were 14 Algerian companies that took part in the event, offering an extensive range of products.

While Algerian businesses have not had much success in entering the Chinese market thus far, the country could potentially offer easier access to Algerian companies than some Western markets, opening a large number of opportunities for the Algerian manufacturing industry (see Industry & Mining chapter).
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Economy

New import restrictions aim to spur local production
Fiscal consolidation delayed to foster economic growth
Efforts under way to diversify sources of investment
Legislative reforms set to improve budget planning
Real GDP growth is forecast to increase to **2.7%** in 2019

Recovering international oil prices and a loosening of the government’s purse strings have afforded Algeria some breathing room after a number of challenging years for the economy. As Africa’s most important gas exporter, Algeria remains highly dependent on the hydrocarbons sector for the majority of its government’s revenues and almost the entirety of its exports. Despite reforms to encourage private sector development, promote diversification and attract foreign direct investment (FDI) in recent years, the state still plays a preponderant role, meaning that changes to government expenditure and investments continue to have a significant impact on overall economic performance.

**POLICIES:** The drop in global oil prices since 2014 is at the root of Algeria’s most recent economic challenges, giving rise to large twin deficits in the fiscal and current accounts. The correction of such imbalances typically requires actions such as fiscal consolidation and currency devaluation, which can compound economic weakness in the short term. Though the authorities embarked upon this strategy in mid-2016, it was abandoned in October 2017. Instead, increased public spending became the goal for 2018, and the target date for balancing the budget was pushed back from 2020 to 2022.

To this end, the authorities have adopted an “quantitative easing” policy, whereby the central bank, the Bank of Algeria, would purchase sovereign bonds directly from the government. This eases the financing pressure on the government by reducing their imperative to issue bonds on the primary market (see analysis). No further significant changes to monetary policy is expected before the next presidential election, which is due to take place in April 2019. Failure to rein in unorthodox macroeconomic policies thereafter could postpone unfavourable circumstances, but may also eventually require stricter financial management measures in the future. When it restarts in earnest, fiscal consolidation is expected to weigh upon growth over the medium term.

**GDP:** Algeria has been able to cushion the impact of falling oil prices since mid-2014 on economic growth by drawing down on the savings from its oil stabilisation fund to support public finances and investment. However, these funds were depleted in early 2017, and since then the authorities have embarked on a path of fiscal consolidation to rein in the budget deficit. This had a predictable impact on real GDP growth, which had held up reasonably well at 3.7% and 3.2% in 2015 and 2016, respectively, before slowing markedly to 1.4% in 2017, according to the IMF. Although the non-hydrocarbons sector – which accounted for about 77% of GDP in 2017 – accelerated modestly from growth of 2.3% in 2016 to 2.6% in 2017, this was swamped by a dramatic swing in the hydrocarbons sector, which contracted by 3% in 2017 after a 7.7% gain in 2016.

According to the National Statistics Office, year-on-year (y-o-y) growth continued to weaken in the second quarter of 2018, with real GDP expanding by 0.7% compared to 1.5%. The performance of the hydrocarbons sector dulled significantly, contracting by 8.2%, while non-hydrocarbons activity grew by 2.8%. The latter was led by the agriculture sector, which expanded y-o-y from 0.7% to 8.9%, although it was somewhat muted by the industrial sector, which moderated from growth of 4.4% to 2.1%. The continued recovery of oil prices in 2018 should help the hydrocarbons sector regain lost ground, while supportive monetary and fiscal policies should see the rest of the economy gain momentum through to the end of 2018 and into early 2019.

In its latest World Economic Outlook, published in October 2018, the IMF forecast real GDP growth to increase to 2.5% in 2018 and 2.7% in 2019, before trending lower each subsequent year to a growth rate of less than 1% by 2022 as efforts to correct
public finances weigh increasingly on demand. The impact of fiscal policies is expected to be channelled largely through the non-hydrocarbons sector, with greater flexibility in public expenditure to drive a 3.4% expansion of the sector in 2018, which would be its fastest growth in three years, before declining to 2.9% in 2019, 1.8% in 2020 and less than half that rate in the following years, according to the IMF’s 2018 Article IV Consultation for Algeria. The recent recovery in oil prices, together with a modest increase in the volume of extracted oil and gas, is expected to result in a rebound in the hydrocarbons sector, with 1.3% growth in 2018, 2% growth in 2019 and a modest acceleration thereafter.

**OIL & GAS:** Although the hydrocarbons sector accounted for only 23% of GDP in 2017, it constituted 96% of total exports and roughly 60% of government revenue. Thus, its importance is magnified as the public sector still plays such a central role in the economy. Production of hydrocarbons jumped from 141m tonnes of oil equivalent (toe) in 2015 to 153m toe in 2016, before falling slightly to 152m toe in 2017. The IMF projected that production would advance gradually over the following years to reach 159m toe by 2020, the vast majority of which is likely to continue to be exported. Crude oil exports are expected to remain steady at 500,000 barrels per day between 2017 and 2020, while natural gas exports are expected to increase modestly from 53.4bn cu metres to 56.2bn cu metres.

Since mid-2014 the challenging oil price and macroeconomic backdrop has constrained investment, in turn hampering efforts to ramp up production. Data on the first quarter of 2018 suggested that investment in the oil and gas sector dropped by 9.9% y-o-y, while aggregate production of hydrocarbons declined by 0.9%, as the 1.4% increase in natural gas production was insufficient to offset a 4.1% decline in crude oil and condensate output.

Hydrocarbons production continues to be dominated by Sonatrach, the state-owned oil and gas company, which exploits its own fields as well as collaborates with foreign partners. As part of ongoing efforts to attract higher levels of foreign investment to the sector, the authorities plan to finalise a new hydrocarbons law reform in early 2019 to this effect. It is expected that the revised hydrocarbons law will include a wider range of contracts – in addition to the production-sharing arrangements already in play – and possibly new tax incentives to encourage foreign investors. “Domestic demand for hydrocarbons is increasing faster than production, so much so that the amount of oil and gas available for export is falling,” Rachid Sekak, senior advisor on commercial and investment banking at BRS Consultants, told OBG. According to Sekak, this imbalance is exacerbating the country’s twin deficits.

In the longer term Algeria has significant non-conventional shale reserves of both oil and gas, which should further support increased production of hydrocarbons. Although not currently commercially exploited, Algeria has the third-largest shale gas reserves in the world, estimated by industry players to stand at 20tnr cu metres, which is around four times greater than its conventional reserves.

**GROWTH MODEL:** Taking stock of the perennially hydrocarbons-dependent economy, the government outlined a new growth model in mid-2016, setting up a strategic vision for economic development and diversification by 2030. This was accompanied by a medium-term fiscal consolidation plan that originally sought to reach a balanced budget by 2020. However, these budget cuts worsened the slowdown in economic growth in 2017, prompting the government to reverse course later that year. In October 2017 the authorities launched a new macroeconomic strategy that is based on four pillars: increased fiscal spending in 2018 and a revised consolidation trajectory that seeks to reach a budget balance by 2022; looser monetary policy, whereby the central bank is permitted for a period of five years to directly finance the government, purchase outstanding sovereign debt and inject money into the National Investment Fund; restrictions on certain imports to correct external imbalances and foster domestic production; and commitments to a range of structural reforms that are aimed at improving the business climate and broader economic performance (see analysis).

**STATE BUDGET:** Under the revised medium-term budget framework adopted in October 2017, nominal budget spending for 2018 was increased by 12%, with the most notable expansions in capital investment. As a result of these changes, the budget deficit is expected to widen modestly from 8.8% of GDP to 9%, which is still an improvement compared to the budget deficit high of 15.7% of GDP in 2015. The government signalled its intention to push back their target year for balancing the budget from 2020 to 2022, expecting deficits as a share of GDP.
Government revenue is projected to rise by 0.2% to €47.2bn in 2019, while spending will ease moderately to €62.4bn, following large increases in the 2018 budget.

The 2019 Finance Law, which was adopted by the government in September 2018, sets out tax and spending measures for the coming financial year, which suggest that the start of any meaningful fiscal consolidation is to be further postponed until 2020. The 2019 Finance Law did not contain increases in taxes or charges for public services, which notably ruled out further contentious changes to the energy subsidy regime for the time being. Government revenue is projected to increase modestly by 0.2% to AD6.5trn (€47.2bn) in 2019, while spending is expected to be reduced moderately to AD8.6trn (€62.4bn) following a large increase in the 2018 budget. Given that inflation is expected to reach 4.5% in 2019, with the government projecting GDP growth at 2.6%, these changes suggest only a very modest fiscal consolidation in real terms, from a deficit of 10.8% of GDP in 2018 to 10% in 2019. At nearly AD2.2trn (€16bn) in nominal terms, the 2019 budget deficit is significantly higher than the AD580bn (€4.2bn) which was estimated at the time the 2018 budget was approved.

The 2019 draft budget dedicates approximately one-fifth of public spending, equal to AD1.8trn (€13.1bn), to social programmes, while the cost of public services was expected to increase to nearly AD5trn (€36.3bn), attributed to greater border security costs. The government is budgeting for a small decrease in capital investment in 2019, and will not be allocating AD300bn (€2.2bn) for the payment of arrears to suppliers as it had done in 2018.

NATIONAL DEBT LEVELS: The country was reasonably well positioned financially before the onset of the oil price drop-induced challenges in 2014, with low debt levels, at 7.7% of GDP, as well as significant savings that had built up in its hydrocarbons stabilisation fund. This allowed the country to weather against large budget deficits of 15.7% of GDP and 13.5% of GDP in 2015 and 2016, respectively. However, the hydrocarbons fund ran out in early 2017, which led to national debt reaching 27% of GDP by end-2017. The IMF has forecast further deficit increases of over 40% of GDP by 2020, before budget adjustments put it on a declining path. The postponement of fiscal consolidation implied by the 2019 budget suggests that the debt-to-GDP ratio is likely to peak at a level even higher than the 34.8% that was envisaged by the IMF in mid-2018.

The country’s exposure to global financial markets and currency depreciation is reduced by the authorities’ long-standing avoidance of foreign financing. Gross external debt in 2017 amounted to only 2.4% of GDP, equal to €4.1bn, and is projected to decline gradually over the coming years. Despite suggestions from the IMF and other industry observers to consider tapping foreign sources of financing in the future, particularly as the country tries to wean itself off monetary financing, no near-term changes to this policy stance are expected. “The authorities are still dogmatically opposed to seeking foreign financing, partly due to Algeria’s history of over-indebtedness in the 1990s when they had to deal with the Paris Club and the London Club of international creditors,” Sekak told OBG.

In order to finance budget deficits, as well as capital investment by state-owned enterprises and those made via the National Investment Fund, the government adopted a policy of monetary financing, whereby the Bank of Algeria would be permitted to purchase sovereign and quasi-sovereign debt. The IMF estimated that by the end of 2018 this monetary financing would reach 23% of GDP. Although the policy would facilitate large budget deficits and economic indicators, 2018-21F

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<td>Gov't gross debt (% of GDP)</td>
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<td>Current account balance (% of GDP)</td>
<td>-8.98</td>
<td>-7.93</td>
<td>-6.28</td>
<td>-5.18</td>
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Source: IMF World Economic Outlook, October 2018
Algeria initially resisted market pressures to devalue the dinar following the drop in international oil prices. By early 2018, however, the dinar experienced a cumulative depreciation of nearly 30% to surpass AD140:€1.

With foreign reserves dwindling and the current account deficit set to remain relatively wide, pressures are likely to remain in the direction of further depreciation in the coming years, particularly if the backdrop of a strong dollar and a complicated environment for emerging markets persists, or if the upward trend in oil prices were to reverse. To the extent that the authorities continue to resist more than modest depreciation, there is likely to be increased divergence between the official exchange rate and the effective exchange rate on the informal currency market, a premium running at 45% by mid-2018 (see Financial Services chapter). This would further increase the incentives for economic actors to engage in rent-seeking activities by, for example, over-invoicing in foreign currency for imported goods.

### DEPRECIATION:

The Algerian government initially resisted market pressures to devalue the dinar following the drop in international oil prices. In January 2015 the currency even strengthened slightly to nudge below AD100:€1. By early 2018, however, the dinar experienced a cumulative depreciation of nearly 30% to surpass AD140:€1.

Inflation: With economic growth slowing and liquidity in the banking sector drying up, inflation moderated from an average of 6.4% in 2016 to 5.6% in 2017. The government’s revised economic strategy, notably including looser fiscal and monetary policies, was not only expected to support economic growth, but also to lead to a spike in inflation.

Average prices during the first seven months of 2018 were 4.5% higher than prices during the corresponding period in 2017. Food prices, which make up nearly half of the basket of goods used to calculate the consumer price index, inflated by around 4%, while the cost of housing, which makes up one-tenth of the basket, advanced by only 0.9%.

“Inflation has not yet picked up as much as some had feared when the government introduced monetary financing, which is partly because the index is out of date and does not fully reflect the cost of living, and partly because there has not yet been a big increase in public sector wages,” Sekak told OBG.

According to October 2018 World Economic Outlook, the IMF projects a pickup in headline inflation to 6.5% in 2018 and 6.7% in 2019. Of greater concern, however, is the fund’s longer-range projections that expect inflation to continue accelerating to double figures by 2022. This indicates that, even on the current trajectory, assuming the government gradually withdraws fiscal and monetary policy accommodation, there are long-term risks that consumer price inflation and expectations may become unanchored.

**RESERVES:** In the face of a large current account deficit and market pressure for the dinar to depreciate more than it has, foreign reserves at the Bank of Algeria have declined precipitously from $177bn at 33 months’ of the following year’s imports in 2014 to $96bn at 19 months of imports in 2017 and $87bn by mid-2018. Although the pace of decline has slowed, the IMF is still projecting further deterioration to $64bn in 2019 and as low as $12bn at only three months’ worth of the following year’s imports in 2023. According to two adverse scenarios included in the fund’s 2018 Article IV Consultation, Algeria’s international reserves could reach dangerously low levels even sooner in the event of either lower-than-anticipated oil prices or higher-than-anticipated government spending.

The authorities also signalled that the level of reserves is an area of concern in February 2018, and stated that further efforts are needed to better match internal demand and supply so as to help stave off or minimise further declines. Protecting reserves by reducing the trade deficit was one of the motivations cited for imposing a raft of import restrictions in January 2018.

### DEPRECIATION:

The Algerian government initially resisted market pressures to devalue the dinar following the drop in international oil prices. By early 2018, however, the dinar experienced a cumulative depreciation of nearly 30%.

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Attracting foreign direct investment is important not only as a source of capital, but due to the associated technology and know-how, which can boost productivity levels, and support economic diversification and domestic production.

**FOREIGN TRADE:** Of total exports in 2017, oil and gas accounted for 96%, with the share edging back upwards, largely supported by the recovery in oil prices. Despite government efforts to promote diversification and domestic production, no great progress has been seen in the medium term as non-hydrocarbons do not account for a significant share of exports. Algeria’s top-three non-hydrocarbons exports in 2017 consisted of inorganic chemicals (1.1% of total exports), fertilisers (0.9%), and sugar and sugar confectionery (0.6%).

Algeria is a key supplier of natural gas to the EU market, with Italy accounting for a 16% share of total exports in 2017, France with 12.9% and Spain with 11.9%. Meanwhile, the US made up 9.8% of total exports that year. In terms of imports, China is Algeria’s biggest source market making up 18.1% of total inbound trade, followed by France (9.4%), Italy (8.2%), Germany (7%) and Spain (6.8%).

**BALANCE OF TRADE:** The relative price of Algeria’s exports to the price of its imports, known as the terms of trade, fell by approximately two-thirds during the 2014-16 period due to the decline in global oil prices. Total export volume fell by a similar magnitude, while import volume only fell by approximately one-tenth over the same period. This resulted in a dramatic swing in the trade balance from a surplus of $30m in 2014 to a $20.4bn deficit two years later before narrowing to a deficit of $14.3bn in 2017. The IMF projected that the trade deficit would narrow to $9.4bn in 2018, but widen again to $11.6bn in 2019, before contracting to 9.5% and 7.5% in 2020 and 2021, respectively. This will depend to a large extent on the trajectory of oil prices over the coming years, given the significant role that hydrocarbons play in Algerian trade.

Since trade balance is the most important component of the current account, it is not surprising that the latter followed a similar pattern, with the deficit ballooning from 4.4% of GDP in 2014 to 16.5% in 2016 before narrowing to 12.9% of GDP in 2017. The IMF projected that the current account deficit would also remain elevated in the medium term, widening slightly from 9.7% of GDP in 2018 to 10.1% of GDP in 2019, before narrowing gradually yet remaining greater than 5% of GDP through to 2023.

**FOREIGN INVESTMENT:** Between 2008 and 2017 Algeria’s inward stock of FDI nearly doubled as a share of GDP from 8.5% to 16.7%, peaking at 17.3% in 2016. Progress has slowed in more recent years, with annual inward FDI flows averaging less than 1% of GDP between 2012 and 2017. Algeria remains the lowest recipient of inward FDI stocks in the Maghreb region, with barely more than half the level of Libya, the next lowest in the region with 29.9% of GDP, let alone the 72% of neighbouring Tunisia, the regional leader on this metric. While Algeria has been a relatively closed economy for some decades, this stance has shifted in more recent years, with successive economic development strategies explicitly targeting the attraction of FDI.

Efforts are also under way to diversify the sources of foreign investments, as evidenced by Algeria signing a memorandum of understanding in September 2018 to join China’s Belt and Road Initiative, for example. Increased FDI could also be a valuable source of not only capital, but also of the technology and know-how that is needed to boost productivity levels and support economic diversification and domestic production (see analysis).

**INVESTMENT ENVIRONMENT:** The country’s investment climate has become gradually more complicated in recent years, particularly for foreign investors. This evident in the country’s rankings in international indices. For example, in 2008 the World Bank ranked Algeria 134th globally out of 178 economies in its ease of doing business index; however, in 2018 the country’s rank dropped to 166th out of 190 countries. For comparison, neighbouring Morocco and Tunisia ranked 69th and 88th, respectively, in 2018. Algeria registered particularly weak performances in the categories for protecting minority investors (170th position), getting credit (177th) and trading across borders (181st).

Nevertheless, some important progress has been made in recent years. In July 2016, for example, Algeria adopted Law No. 16-09, also known as the Revised Investment Law, as well as accompanying decrees, which updated the legal framework governing investments in the country. One important innovation was the removal of the obligation that foreign investments generate a foreign exchange surplus for the host country over the course of that investment. This made it easier for foreign investors to repatriate profits generated in Algeria.

Meanwhile, the reported burden on foreign minority investors was eliminated in cases where the stake held does not exceed 10% of the Algerian firm’s capital. At the same time, a wide range of new investment incentives were also introduced, and these are open to all investments that are
The drop in global oil prices since 2014 has prompted the authorities to pursue economic diversification. A total of 26 public-private partnership projects were undertaken in Algeria between 1990 and 2017, with corresponding investment commitments amounting to $8.3bn. This relatively weak long-term labour market performance can at least partly be explained by the lower participation and employment rates among youth and women. The labour force participation rate among men was 66.7%, some four times higher than among women (16.6%), with a similar divergence in employment rates – at 60.7% compared to 13.4%. Meanwhile, the unemployment rate among women stood at 19.5%, close to double the rate among men. Similarly, the unemployment rate in the 16-24 age range, regardless of gender, was 36.4%, roughly four times higher than those in the range of 25 years and over. The divergence is even more striking by gender, with unemployment rates among women more than twice as high in both age cohorts. Twice as many men work in the private sector (67.4%) as the public sector (32.6%), whereas women are more likely to work in the public sector (57.4%). Social unrest due to labour market conditions is not prevalent, although there were a series of strikes in early 2018 among doctors and teachers who were protesting pay rates.

OUTLOOK: Algeria’s change in macroeconomic strategy in late 2017 has bought some breathing room, and should ensure reasonable economic growth and macroeconomic stability through to early 2019. The sustainability of this approach is not without risks, however, and rests on the adoption of the necessary corrective measures from 2019 onwards. Unless there is a significant and sustained increase in global oil prices to offset the impact of medium-term fiscal consolidation, economic growth is set to slow over the coming years until the twin budget and current account deficits are brought closer to balance. Even as inflation begins to moderate, weak growth per capita suggests that living standards will continue to stagnate.

Meanwhile, the government’s capacity to confront any future balance of payments crisis is likely to be constrained by the expected medium-term rundown in central bank reserves. The quantitative easing approach has also raised the risk of a more adverse scenario if, for example, the global economy were to witness another drop in oil prices. Given that oil prices continue to be the main driver of Algeria’s economy, the country’s long-term challenge remains to further diversify the economy and seek more stable sources of income, while at the same time better translating its oil and gas revenues into broadly shared improvements in living standards.
Organic changes

Legislative reform expected to enhance budget planning

One of the most important budgetary reforms to be introduced in Algeria in recent years was the promulgation of the Organic Finance Law on Finance Laws in August 2018. Annual finance laws from 2021 will be prepared under procedures and parameters set out in the new Organic Law. Requiring several years before it is fully implemented, the legislation represents the first such fundamental change to the budgetary process since the 1985 Organic Law was implemented. While this is essentially an exercise in legislative housekeeping, it is expected to lead to important long-term improvements in how the budget is planned, structured and delivered.

**MULTI-YEAR ADVANTAGE:** The new Organic Finance Law relative to Finance Laws heralds two instrumental changes to the budget process: expenditure will be planned around specific programmes rather than ministries, as was previously the case; and income and expenditure will be set out on a multi-year basis. The organisation of spending on programmes should better align expenditure with policy objectives and outcomes, thereby improving flexibility and accountability. This new structure will also facilitate mid-year restructuring of government ministries and agencies, which has been difficult under the current structure of the annual budget laws.

The move towards multi-annual budgeting should provide greater predictability, not only for government agencies, but also for the private sector, by allowing them to extend the horizon of their tax planning and have better visibility of future revenue streams. Short-term government budgeting has been a source of constant frustration, particularly for foreign firms operating in the country; now, according to Article 5 of the new law, the medium-term budgetary framework will publish, during the preparation stages, a forecast of government receipts, expenditures, balance and debt for the year being budgeted as well as the two following years. The multi-annual budget can then be updated during the annual budgetary process as new information becomes available. In addition, under Article 36 of the new law, up to 5% of unspent capital funding allocation can be carried forward to the subsequent budgetary period upon joint approval by the minister of finance and relevant department minister. Transfers of spending allocations between programmes will also be possible, albeit requiring a presidential decree.

**INNOVATION:** To facilitate implementation of the new budgetary regime, a new programme commissioner is to be appointed for ministries and state-owned enterprises, which will be tasked with structuring the budget around programmes, sub-programmes and actions through the integration of operational and capital budgets under a single account. In another move likely to improve accountability, the Court of Accounts will be required in the future not only to report on fiscal outturns each year, but also to formally endorse the state accounts.

**IMPLEMENTATION:** While the Organic Finance Law relative to Finance Laws is a welcome development in the budgeting process, its impact will not be felt for some time since the new regime will be phased in gradually over a number of years, beginning with the 2021 budget. The Organic Law will mostly come into full effect for the budget years 2023, 2024 and 2025, albeit prepared on the basis of the fiscal outturn in the year prior to the budget’s preparation. From budget year 2026 onwards the new regime will be in full force and prepared on the basis of the fiscal outturn of the year prior to the budget year.
Business Barometer: Algeria CEO Survey

While the 2014-17 period saw the effectiveness of the import ban called into question and was marked by a significant drop in oil receipts, recovering commodity prices in 2018 appear to be bolstering both local business sentiment and economic growth prospects. The results of the second OBG Business Barometer: Algeria CEO Survey, gathered through face-to-face interviews with 90 of the country’s top executives, show that the general outlook is optimistic, with 73% expressing positive or very positive expectations of local business conditions in the coming 12 months, up from 61% in the November 2017 edition of the survey.

For more information on the OBG Business Barometer, please visit www.oxfordbusinessgroup.com/ceosurveys.

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

What type of skill is in greatest need in Algeria?

Given the efforts deployed to diversify the economy and attract FDI inflows, how would you assess the impact of recent reforms on the level of investors’ confidence in Algeria’s economy?

What is the level of transparency for conducting business in Algeria relative to the region?

Queries regarding the OBG Business Barometer can be directed to: ceosurveys@oxfordbusinessgroup.com.
How well founded is the positive outlook of CEOs?

With the import ban launched in 2016 having coincided with a drop in energy prices, in early 2018 Algeria started to rethink, with a view at improving the country’s finances and easing a challenging tax situation. In June 2018 Parliament duly approved a measure replacing the ban on certain products with Customs duties.

The 2014-17 period saw the effectiveness of the import ban being called into question: while it was intended to boost local industries and promote competitiveness internally, results have yet to be seen. The period was also marked by a significant drop in oil prices, highlighting the need to promptly implement economic diversification strategies.

OIL PRICE UPTICK HAS LIFTED SPIRITS: Since end-2017, however, perspectives have changed only gradually, thanks to a rise in commodity prices that has allowed the largely hydrocarbons-dependent country, where oil and gas revenues account for more than 90% of total exports, to see some growth again.

The renewed strength of energy prices has undoubtedly helped local businesses. Over 100 CEOs were surveyed in our latest OBG Business Barometer: Algeria CEO Survey, with 73% saying they had positive (61%) or very positive (12%) expectations of local business conditions in the coming 12 months, up from 61% in the November 2017 edition of the survey. However, with 2019 a year of presidential elections, this may prove somewhat overly optimistic. A similar percentage, 71%, is considering making a significant capital investment during the same period of time.

With such a large degree of reliance on hydrocarbons, there is the expectation that most of these investments would be focused on the energy sector. Offshore exploration, for example, is one of the top economic news stories expected in early 2019, with Sonatrach, the state oil and gas company, having partnered successfully with the Italian company Eni and French giant Total to pursue offshore drilling. Interviews with Abdelmoumen Ould Kaddour, CEO of Sonatrach, and Claudio Descalzi, CEO of Eni, are featured in The Report: Algeria 2018 (see Energy & Renewables chapter), along with conversations with key players and analyses of the energy sector’s prospects.

The country is also making efforts to maintain its position as a gas supplier, particularly to the EU. In this context, Miguel Arias Cañete, the European commissioner for climate and energy, began a visit on November 20, 2018 with a view of re-affirming the energy partnership between the EU and Algeria.

DIVERSIFICATION NEEDS TO GATHER SPEED: Notwithstanding renewed confidence in the energy sector, the 2014-17 period highlighted once again the importance of diversification for a country that still relies too heavily on the upstream segment. Unsurprisingly, 72% of the CEOs surveyed signal a drop in oil prices as the top external event that could impact Algeria’s economy in the short to medium term.

CEOs have demanded a series of reforms in recent years aimed at ensuring that diversification happens both efficiently and swiftly. While minor reforms have been implemented recently – on Customs duties and financing means, for example – the business community sees that it is essential for more work to be done on the issue of structural reforms.

Our survey reflects this: despite certain efforts made to date to diversify the economy and attract foreign direct investment inflows, 69% of CEOs see the impact of recent reforms on investor confidence as insufficient (48%) or very insufficient (21%). The 51:49 rule, which limits the ownership of any Algeria-based company by foreign shareholders to 49%, is, as always, a point of discussion. Furthermore, the tax environment is widely seen as non-competitive, with 64% of CEOs declaring it uncompetitive or very uncompetitive, against only 24% who see it as competitive or very competitive. With regards to the level of transparency, meanwhile, opinion was divided, with 34% saying levels of transparency were high, but 46% were of the opposite opinion.

YOUNG PEOPLE ARE KEY TO A DIVERSIFIED FUTURE: A crucial population segment in Algeria is that of young people. With a 28% unemployment rate, young Algerians are now facing the need to find new paths, and entrepreneurship has started to become a relevant trend.

When CEOs were asked about local skills availability, they said the country needs leadership (26%), research and development (21%), and business administration (20%). Engineering (10%) was also selected as a trait among the CEOs. Comprehensive entrepreneurship programmes would bolster all of these areas, and perhaps this will be one of Algeria’s next focuses in its drive to be able to fully diversify and expand its economic output.
ECONOMY INTERVIEW

Abderrahmane Raouya, Minister of Finance

Economic equality
Abderrahmane Raouya, Minister of Finance, on subsidy reforms, entrepreneurship and public spending

How will the new Organic Law relative to Finance Laws improve public budgetary management?
RAOUYA: The Organic Law No. 18-15 put in place in September 2018 defines the general framework by which financial laws are formulated, adopted and executed. This law is part of wider budgetary reforms that will ensure a better management of public funds, and improve the efficiency and transparency of public spending. This can be achieved through a more results-oriented budget with performance indicators established by a new public management, transparent and accurate accounts based on cost analyses, and giving managers new tools for managing public expenditure. In short, the implementation of the Organic Law will result in a restructuring of how finance laws are presented and will help to enhance transparency.

How will a multi-year strategy of public administration increase the visibility of economic actors?
RAOUYA: The multi-year strategy of public administration is a governance tool that defines the actions and needs of public administrations, taking into account both forecasts and recorded results. This strategy is reflected in multi-year budget planning, including expenditure ceilings for multiple years. This management system, applied to the field of public procurement, allows for the development of a culture of project management as well as the improved monitoring of expenses in the markets. This contributes to better control of expenses, which from a multi-year perspective allows for better medium-term financial visibility and budgetary appropriations.

What incentives are in place to support innovative small and medium-sized enterprises (SMEs)?
RAOUYA: The development of entrepreneurship is one of the major concerns of the public authorities as it is at the heart of the national strategy for diversification. SMEs represent 95% of all companies in Algeria, employing 56% of the working population, and accounting for 52% of non-hydrocarbons production and 35% of value added. We have put in place organisations that encourage entrepreneurship, start-ups and innovative projects, and created start-up accelerators. A seed fund has been created to promote these companies. SMEs also benefit from a national preference clause in the framework of public contracts when evaluating tenders. Young promoters of innovative projects can benefit from tax and financial advantages provided by investment promotion or employment facilitation mechanisms. Tax benefits are granted in the areas of value-added tax, Customs duties – with a reduced duty of 5% – and company registration fees and taxes. These companies can benefit from bank credit supported 100% by the Treasury. Investment credit guarantee schemes are in place to facilitate repayments.

What is your main focus in terms of subsidies?
RAOUYA: We want to ensure the continued purchasing power of the most disadvantaged social categories. The current system of subsidies comes at an excessive cost, and no longer meets our objectives of reducing inequality. It has therefore become imperative to initiate a reform that ensures the protection of lower-income social groups, by identifying and targeting this population. This reform will come about in a gradual manner, by revising the prices of goods and services, to bring them closer to their economic value. A study conducted by the World Bank and led by the Ministry of Finance in association with the Ministry of the Interior, Local Authorities and Territorial Planning is focused on identifying the players involved and the necessary tools. The complexity and cross-sectorial nature of this reform requires a cautious and gradual approach in order to build a consensus before implementing a set procedure and setting a deadline for its launch. We are also working on a communications campaign to inform the general public about the measures adopted.

www.oxfordbusinessgroup.com/country/algeria
Quantitative easing
A closer look at the new macroeconomic strategy and its impacts

Faced with slowing economic growth and an increasingly constrained banking sector, Algeria decided to change its macroeconomic strategy in October 2017. As part of the new plan, monetary and fiscal policies would be eased simultaneously, an approach which has come to be known in Algeria as “quantitative easing”. Instead of continuing to narrow the budget deficit every year until coming to balance by 2020, the target for a balanced budget was pushed back to 2022, with the budget for 2018 to be expansionary instead of contractionary as was previously planned. Additionally, the Bank of Algeria is permitted to purchase debt directly from the government, public enterprises and the National Investment Fund for a period of five years. In terms of sovereign debt, ad hoc government issuances of bonds with long maturities and an interest rate of 0.5% are purchased by the Bank of Algeria.

UNCONVENTIONAL APPROACH: In response to the global financial crisis of 2007-08, many leading global central banks, including the US Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England, pursued unconventional monetary policies, in addition to reducing their interest rates to zero. These alternative monetary policies are sometimes referred to as quantitative easing.

Indeed, there are similarities between the quantitative easing policies undertaken by the world’s leading banks and the monetary policy adopted by the Bank of Algeria since late 2017. Both involve expanding a central bank’s balance sheet to purchase sovereign bonds, which should drive down long-term interest rates and increase liquidity in the banking sector. Some economists have argued that quantitative easing was simply a form of monetary financing, whereby central bank purchases of sovereign debt were essentially used to finance government debt, a policy mix that has been known to lead to a surge in inflation, even hyperinflation. There are important distinctions, however, between the quantitative easing strategy pursued by leading global central banks and Algeria’s quantitative easing policy. First, interest rates were not already at zero in Algeria, so it is difficult to view this approach as a purely monetary policy measure. Second, the purchase of sovereign bonds by global central banks was done on the secondary rather than the primary market, meaning those central banks were not directly financing the government or quasi-governmental agencies. Third, rather than pursuing fiscal consolidation alongside monetary expansion, as was the case with quantitative easing, the Algerian authorities pursued a policy of simultaneous monetary and fiscal expansion, with a commitment to fiscal consolidation only over the longer term.

BY THE NUMBERS: According to the IMF’s 2018 Article IV Consultation for Algeria, between November 2017 and June 2018 the Bank of Algeria purchased sovereign debt equivalent to 3% of GDP. A further 8.6% of GDP was made up of debt held by state-owned enterprises and the National Investment Fund. Between November 2017 and June 2018 the Bank of Algeria purchased sovereign debt equivalent to 3% of GDP. A further 8.6% of GDP was made up of debt held by state-owned enterprises and the National Investment Fund.
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The central bank may purchase debt directly from the government and public enterprises for five years.

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Liquidity was also reported to have returned to the banking sector, supporting credit growth and in turn economic growth. In essence, the new macroeconomic strategy allowed the government to postpone tough choices, such as reducing the budget deficit, increasing foreign financing or resorting to a loan from the IMF. At the same time, it increases the longer-term risks facing the economy, namely rising inflation.

INFLATIONARY PRESSURE: Any rapid expansion in the money supply, beyond that justified by underlying economic growth, can lead to higher inflation, even runaway inflation. There were fears that quantitative easing would lead to increased inflation, but this has not come to pass. Similar fears have been expressed in the instance of Algeria, but as of December 2018 there was no sign of a significant pickup in consumer prices. Average prices for the first seven months of 2018 were 4.5% higher than prices during the corresponding period in 2017. As of mid-2018, however, consumer price inflation had trended downwards.

The central bank is aware of these inflation risks and has taken steps to contain them. In January 2018 the reserve ratio for banks was doubled from 4% to 8%. A further hike to 10% in March 2018 meant that banks in Algeria would have to hold 2.5 times as much capital to support the same amount of lending. To some extent, this has sterilised the significant increase in the money supply, warding off excessive credit growth or a surge in inflation. In its 2018 IV Consultation for Algeria, the IMF suggested that the central bank should ready itself to tighten monetary policy, if inflation pressures arise, by introducing safeguards such as strict quantitative limits to financing, for example.

EXTERNAL FACTORS: Rising oil prices in 2018 will likely have had a positive impact on Algeria’s year-end public finances. The IMF forecast hydrocarbons revenue would increase from AD2.4trn (€17.4bn) in 2017 to AD2.6trn (€18.9bn), which would serve to reduce the budget deficit and thereby lower the need to resort to quantitative easing to finance public expenditure. While higher energy prices can be expected to feed through to higher consumer prices, any reduction in the government’s reliance on monetary financing should have the opposite effect, by slowing the expansion in the money supply and thereby reducing inflationary pressures. If higher oil prices were to be sustained over the medium to long term, this should lead to a reduction in budget deficits, lower government debt and increased economic growth – the latter due to greater investment and activity in the hydrocarbons sector rather than a further pickup in fiscal stimulus. Sustained higher oil prices are also expected to lead to a reduction in external balances, notably the current account, and therefore ease pressure on central bank reserves. However, the break-even oil price, which would bring the government budget in balance, remained at over $90 per barrel in 2018 and significantly higher than the spot price on the market, despite the break-even price having fallen from a high of almost $140 per barrel in 2014 and the spot price having strengthened throughout 2018.

Emerging markets, and particularly those with large fiscal and current account deficits, have come under pressure on financial markets in 2018. Algeria has been largely insulated from such pressures due to its relatively low level of external debt, which amounted to only 2.4% of GDP in 2017, equal to €4.1bn, and is projected to decline gradually over the coming years.

LONG-TERM RISKS: Any sharp reduction in oil prices, whether due to a reduction in global demand or an increase in global supply, raises the risk that the economy and government finances underperform, putting greater pressure on the fiscal and external balances as well as on central bank reserves. In turn, this could increase pressure on the government to rely more heavily than anticipated on non-conventional monetary financing, which could raise inflation. Alternatively, if the authorities were to opt to rely on foreign financing, this could raise the risk of a sudden stop in such financing and a balance of payments crisis.

LOOKING AHEAD: The real test of the quantitative easing strategy will come in 2019 after the presidential election. The government has committed to achieving a balanced budget by 2022, with the path of fiscal consolidation to begin in 2019. The 2019 draft budget law suggests the budget deficit will not narrow substantially before 2020, and that the burden of fiscal consolidation, and the likely negative impact on economic growth as a result, will be postponed until later. That would mean that Algeria would either have to resort to foreign financing, which they have been highly reluctant to do for many years, or to monetary financing to a greater extent than had been previously envisaged. If inflationary pressures do materialise, and the government responds by ramping up spending so as to maintain the real value of public sector wages and other spending, the IMF noted that this risks “plunging the economy into an inflationary spiral.”

Hydrocarbons revenue is expected to rise from €17.4bn in 2017 to €18.9bn in 2018, which should help to reduce the size of the budget deficit.
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Standard: (+213) 23 544 404 | Fax : (+213) 23 544 389
email : contact@arkas-algerie.com | serviceclient@arkas-algerie.com
Protective measures

Import restrictions and structural reforms target increased domestic production and long-term economic sustainability

The fall in oil prices from mid-2014 onwards not only heralded an economic slowdown and a sharp rise in Algeria’s twin deficits, it also called into question the longer-term sustainability of the country’s hydrocarbons-dependent development model. In July 2016 the authorities unveiled their new growth plan, a strategic vision to transform the economy by 2030. The overarching objective is to promote economic diversification through accelerated growth in the non-hydrocarbons economy, particularly in manufacturing. This is to be accompanied by medium-term fiscal consolidation and a relatively neutral monetary policy. However, in late 2017 the government tweaked its economic strategy. In addition to postponing fiscal consolidation and loosening monetary policy to directly finance budget deficits and public investment, the authorities introduced a range of import restrictions and structural reforms to promote economic transformation, domestic production and long-term sustainability.

IMPORT BARRIERS: Algeria has long imposed restrictions on imports through tariffs, excise duties, licensing and other behind-the-border measures. These can help improve the trade balance and promote domestic production by encouraging businesses and consumers to switch from purchasing imported goods to those produced domestically. In theory, such protectionism should shelter local industries until they are strong enough to become globally competitive, at which point import barriers can be phased out. Although such import substitution strategies have become somewhat unfashionable since the 1980s, they were popular in many now-advanced economies during their initial industrialisation phase and across the southern hemisphere in the post-Second World War period. The same mercantilist economic theory also underpins the increased trade protectionism being pursued by the current US administration of President Donald Trump in respect to steel and aluminium imports, for example. However, such a strategy is not without costs, which may arise in the form of increased prices, reduced choice of goods for consumers and intermediate inputs for domestic producers.

In January 2018 the government replaced the pre-existing import licensing regime with a more restrictive temporary import ban on 851 products. For the most part, these consisted of food and household consumer goods for which Algerian-produced alternatives are readily available, but it also included some industrial equipment and construction materials. At the same time, the government extended the list of imported goods subject to a 30% excise tax – which now includes salmon, dried fruit and confectionery – and increased Customs duties on certain electrical products and industrial goods to 60%, including laptops and tablets, electric cabling, and tractor and truck bodies. According to the Ministry of Commerce, the new import restrictions enabled the country to save $700m in the first quarter of 2018 alone.

In order to ensure that these import barriers stimulate domestic production, the authorities established a committee charged with monitoring implementation and advising on changes to the restricted list. Through the committee, Algerian producers can request that products be added or removed from the restricted list. For example, the list of import restrictions was revised in early 2018 following advice from the committee to exclude raw materials and intermediate imports destined for the production of final goods.

UPDATED FRAMEWORK: In June 2018 the Complementary Finance Law unveiled temporary additional safeguards (droit additionnel provisoire de sauvegarde, DAPS), a new regulation designed to replace import restrictions in order to reduce imports and protect national industry. Indeed, the temporary import bans set up in January 2018 have generated significant discontent among economic operators due to the sudden deficit of key products, some of which were used as raw materials in specific industries.
particularly in the agri-foods segment. To avoid such shortages and their related impact on local industrial production, DAPS plans to introduce taxes of between 30% and 200% on certain products that were previously subject to import restrictions.

A decree published in September 2018 indicated that an inter-ministerial committee will be in charge of determining the list of goods that will be subject to this new regulation mechanism, as well as the specific tax rate fixed for every item. Said Djellab, the minister of commerce, confirmed in early December 2018 that the list was being finalised by the committee.

**STRUCTURAL REFORMS:** Long dominated by the government and largely dependent on the hydrocarbons sector, Algeria does not yet benefit from a policy framework conducive to balanced, dynamic, private-sector-driven growth, despite some progress in recent years. Establishing such a framework will be key to unleashing the productivity potential needed in the non-hydrocarbons and private sectors to drive sustainable improvements in living standards. Substantial structural reforms are perhaps the most important, and also the most challenging, pillar of the government’s economic growth and transformation strategy.

There has also been speculation about potential reforms that would be aimed at reducing energy subsidies through increased taxes on fuel and electricity. Further adjustments to energy subsidies will likely target the households most in need, but no such changes were included in the 2019 budget. The central bank has also been charged with assessing the government’s implementation of reforms and reporting on their progress directly to President Abdelaziz Bouteflika. While this could ensure expert and independent evaluation of reforms by a competent and well-respected body, some have expressed concerns that the reporting structure could compromise the independence of the central bank.

In the 2018 Article IV Consultation for Algeria, the IMF highlighted the necessary policy reforms and emphasised the importance of their sequencing. Priority reforms noted by the IMF include: improving governance and transparency while reducing red tape; easing access to finance, particularly for small and medium-sized enterprises; opening up to foreign trade and investment, partly by relaxing the 51:49 rule; improving the functioning of the labour market, notably through advancing revision of the labour code; and encouraging more women to take up employment.

In a positive signal for reform, President Bouteflika made a rare address to the nation on November 1, 2018, the 64th anniversary of the outbreak of the Algerian revolution, and said the country must “meet the challenge of accelerating economic reforms and the diversification of national production to free ourselves from dependence on hydrocarbons and the fluctuation of their prices on international markets.” The government had already flagged plans to simplify business regulations, modernise the financial sector and reform the pension system; however, more concrete plans are not expected before late 2019.

**DIVERSIFIED INVESTMENT:** In 2017 inward foreign direct investment (FDI) stock equalled 16.4% of GDP, half the level in Libya and less than a quarter of that in neighbouring Tunisia. While Europe, especially France, has traditionally been the most important source of FDI, Algeria has begun to look to markets in the east. Turkey is playing an increasingly important investment role, as evidenced by the visit of Turkey’s President Recep Tayyip Erdoğan to Algeria in February 2018 for the Turkey-Algeria Business Forum. In 2016 Turkey leapfrogged France to become the single biggest source of inward investment to Algeria. The Gulf countries have also become increasingly active investors, with international investment agreements concluded with Saudi Arabia and the UAE in 2016. China, too, is becoming a key player, accounting for 17.9% of total inbound trade to Algeria in 2016, making it the African nation’s biggest import market. In September 2018 Algeria signed a memorandum of understanding to join China’s Belt and Road Initiative, with a focus on potential future infrastructure investment in Algeria.

Broad-based structural reforms have the capacity not only to improve the business environment for Algerian firms, but to make it a more attractive destination for foreign investors. Nonetheless, there are a number of reforms that could prove particularly beneficial in terms of attracting FDI. For example, the 51:49 rule prohibits foreign investors taking a majority stake in Algerian firms or subsidiaries. Similarly, foreign contractors are required to seek local partners in bidding for public tenders. Investors are reluctant to transfer capital, technology or know-how to a country in which they cannot maintain a majority interest, since minority stakeholders can be taken advantage of in the absence of sufficient protections. A relaxing of this rule would not only encourage increased inward FDI, but could have a beneficial spillover effect by boosting productivity in the rest of the economy. It would also increase the domestic, albeit foreign-owned, production base.

**NEXT MOVES:** Loosening fiscal and monetary policy in the short term can serve to buy time and ease the adjustment process for the sort of structural reforms needed to promote economic dynamism in the medium to long term. Then, as reforms start to bear fruit in the medium term by way of increased demand and higher productivity, fiscal and monetary policy can be gradually withdrawn.

In effect, Algeria likely has a window of opportunity to implement reforms until mid- to late 2019, after which fiscal consolidation will be required and monetary financing reined in so as to avoid its twin budget and current account deficits becoming unsustainable, and its international reserves from being extinguished. While import restrictions can help to foster domestic production, they will be far from sufficient on their own to achieve the goal of a diversified and hydrocarbons-independent economy. Therefore, a lot hinges on the country making the most of its narrow reform window in the second half of 2019 to lay the foundations for more sustainable economic growth.

In September 2018 Algeria signed a memorandum of understanding to join China’s Belt and Road Initiative, with a focus on potential infrastructure investment in Algeria.
<table>
<thead>
<tr>
<th>Manifestations</th>
<th>Organisateurs</th>
<th>Dates</th>
<th>Pavillons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrefour de l’Emploi et de la formation</td>
<td>UNFA</td>
<td>26-28</td>
<td>Casbah</td>
</tr>
<tr>
<td>Salon International des Transports, de la Logistique et de la Mobility</td>
<td>SYMBOISE</td>
<td>28-30</td>
<td>Concorde</td>
</tr>
<tr>
<td>“ALGERIA INFRASTRUCTURE 2018”</td>
<td>ESPIRIT OUVERT</td>
<td>30 Jan-02 Fev</td>
<td>Union</td>
</tr>
<tr>
<td>SIFHAL</td>
<td>EXPOED</td>
<td>02-05</td>
<td>Ahaggar</td>
</tr>
<tr>
<td>Salon International des Equipements et Services pour Hotellerie, Restauration</td>
<td>ADVISION</td>
<td>10-13</td>
<td>Ahaggar, Casbah</td>
</tr>
<tr>
<td>et les Collectivités SIEL</td>
<td>SYMBOISE</td>
<td>11-14</td>
<td>Concorde</td>
</tr>
<tr>
<td>Salon International des Equipements et Services pour l’industrie Chimiques</td>
<td>SICAL, SEER</td>
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<td>SIAU</td>
<td>SFP COM</td>
<td>20-23</td>
<td>Sourgara</td>
</tr>
<tr>
<td>Salon du secteur tertiaire</td>
<td>ELLIPSE</td>
<td>20-24</td>
<td>Gourara</td>
</tr>
<tr>
<td>DJAZAGRO</td>
<td>PROMO SALONS ALGERIE</td>
<td>25-28</td>
<td>Concorde, C, A, G</td>
</tr>
<tr>
<td>SECUREXPO</td>
<td>MEDITHERAL</td>
<td>27 Février-02 Mars</td>
<td>Union</td>
</tr>
<tr>
<td>SANIST</td>
<td>CACI / SAFEX</td>
<td>04-07</td>
<td>Sourgara</td>
</tr>
<tr>
<td>Salon de la femme - EVE</td>
<td>WTCA</td>
<td>04-09</td>
<td>Union</td>
</tr>
<tr>
<td>Salon International de l’Environnement et des Energies Renouvelables</td>
<td>Ministere SAFEX</td>
<td>07-10</td>
<td>Ahaggar, Casbah</td>
</tr>
<tr>
<td>Maghreb Mobile Expo</td>
<td>BE SMART</td>
<td>11-14</td>
<td>Gourara</td>
</tr>
<tr>
<td>EQUIPAUT</td>
<td>COMEXPOSUM</td>
<td>11-14</td>
<td>Concorde</td>
</tr>
<tr>
<td>Salon HADJ EXPO</td>
<td>Exposerv NA</td>
<td>12-16</td>
<td>Bahdja</td>
</tr>
<tr>
<td>BATIMATEC EXPO</td>
<td>SAFEX / BATIMATEC EXPO</td>
<td>24-28</td>
<td>PAALIS</td>
</tr>
<tr>
<td>Salon International de l’Equipement Hospitalier et Médical “SIEHM”</td>
<td>COMEVENT</td>
<td>01-04</td>
<td>Ahaggar</td>
</tr>
<tr>
<td>Salon International de l’olive, huile d’olive et dérivés de l’olivier “MED MAG OLIVA ALGERIE”</td>
<td>SANGLOBAL</td>
<td>03-05</td>
<td>Casbah</td>
</tr>
<tr>
<td>AUTOEXPO</td>
<td>SAFEX</td>
<td>24 Avr-04 Mai</td>
<td>Palais</td>
</tr>
<tr>
<td>RAMADAN</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foire Internationale d’Alger</td>
<td>SAFEX</td>
<td>18-23</td>
<td>Le Palais</td>
</tr>
<tr>
<td>WOODEX EXPO</td>
<td>SARL KHIYAM</td>
<td>11-14</td>
<td>Ahaggar</td>
</tr>
<tr>
<td>Salon Sport et forme</td>
<td>EFFECTIF</td>
<td>24-29</td>
<td>Ahaggar, Casbah</td>
</tr>
<tr>
<td>11ème Salon Professionnel International de l’industrie “ALGER INDUSTRIE”</td>
<td>BATIMATEC EXPO</td>
<td>07-10</td>
<td>Ahaggar</td>
</tr>
<tr>
<td>Salon International de la Rénalisation et Récupération des Dénchets Industriels “REYADE”</td>
<td>CACI / SAFEX</td>
<td>07-10</td>
<td>Gourara</td>
</tr>
<tr>
<td>IPSA-SIM</td>
<td>EXPOSIA</td>
<td>07-10</td>
<td>Concorde, Casbah</td>
</tr>
<tr>
<td>Salon International de l’Immobilier</td>
<td>SM PLUS</td>
<td>30 Oct - 02 Nov</td>
<td>Bahdja</td>
</tr>
<tr>
<td>Salon International du Chocolat et du Café “CHOCAF”</td>
<td>VISION FUTURE</td>
<td>30 Oct - 02 Nov</td>
<td>Sourgara</td>
</tr>
<tr>
<td>23ème Salon international du livre d’alger “SLA”</td>
<td>ENAG</td>
<td>25 Oct-10 Nov</td>
<td>Concorde, Casbah, Ahaggar, Gourara</td>
</tr>
<tr>
<td>Salon International du Transport et de la Logistique “LOGISTICAL”</td>
<td>CACI / SAFEX</td>
<td>18-22</td>
<td>Casbah</td>
</tr>
<tr>
<td>16ème Salon International des Travaux Publics “SITTP”</td>
<td>SAFEX / Ministere TP</td>
<td>19-23</td>
<td>Concorde</td>
</tr>
<tr>
<td>Salon National de l’innovation</td>
<td>INAPI</td>
<td>06-08</td>
<td>Casbah</td>
</tr>
<tr>
<td>Foire de la Production Algérienne</td>
<td>SAFEX</td>
<td>19-25</td>
<td>Concorde, Ahaggar, Casbah</td>
</tr>
<tr>
<td>Salon des Biens, Assurances et Produits Financiers “ExpoFinances”</td>
<td>SAFEX</td>
<td>19-25</td>
<td>Concorde</td>
</tr>
</tbody>
</table>

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Mise à jour 23/11/2016
Tax liabilities
Impacts of the trend towards lower corporate tax rates on developed and developing economies

Recent decades have seen a downward trend in corporate taxation, with headline corporate tax rates falling by 20 percentage points since the early 1980s. The average for advanced economies dipped to 22% in 2015, and investment incentives have further reduced effective rates for transnational corporations. After the 2007-08 global financial crisis, many countries had to slash spending and raise revenue to rein in deficits, but lower corporate taxes persisted. In the face of post-crisis austerity, however, public tolerance of corporate tax avoidance has dissipated, thus increasing political momentum to improve transparency and limit loopholes. The OECD, in cooperation with the G20, partner countries and emerging markets, has led this charge.

DEVELOPED MARKETS: In a 2017 review of its 35 member countries’ tax policies, the OECD highlighted intensifying competition. For example, 12 countries reduced or announced plans to reduce headline corporate tax rates in 2016-17, with only Chile and Slovenia raising them. The most dramatic change was Hungary’s corporate tax rate reduction from 19% to 9%.

The US had resisted cutting corporate tax rates until late 2017. With a headline rate of 39.1%, its corporate taxes were more than 10 points above the advanced economy average. In December 2017 the US Congress reduced this to 21% and limited liability to income generated in the US rather than worldwide profits, following the global trend. A 15.5% amnesty rate is to be applied to historical profits to encourage repatriation.

EMERGING MARKETS: Reductions are also taking place in emerging markets, with the OECD highlighting Slovakia and Israel within this trend. The Czech Republic and Slovenia have also reduced rates since 2008. Turkey, with the introduction of its so-called super tax incentive model, was another main mover in 2016, while Hungary, Poland and Mexico signalled intentions to improve tax incentives.

The IMF has labelled this a “partial race to the bottom” in global corporate tax regimes. Evidence is particularly strong in Africa, where many effective corporate tax rates had fallen to zero. Large declines also took place in Egypt, Ghana, Kenya and Morocco in the decade leading up to the financial crisis.

IMPLICATIONS: One of the most important implications of downward corporate tax convergence is the reinforcement of inequality. Reduced taxation on corporate profits means that wealth remains more concentrated in the hands of shareholders, leaving governments to rely on a combination of increases in other taxes or reduced spending to maintain healthy public finances. In sub-Saharan Africa, for example, countries rely on indirect taxes for around two-thirds of their tax revenues compared to less than one-third in advanced economies. At the same time, overall tax revenues in less developed economies are generally much lower, meaning there are less resources available for public investment or social spending.

Lower rates of corporate tax in advanced and emerging economies has also meant that in some cases profits on activities carried out in developing countries are diverted to economies with friendlier tax regimes. According to Oxfam, corporate tax avoidance causes $100bn in lost revenue for developing countries, while the NGO Action Aid puts this figure at $138bn.

In theory, low corporate taxes should encourage productive investment, however, investment slowed in the 2007-17 period. Rather than reinvesting earnings to expand, large corporations have generally hoarded cash or returned it to shareholders as dividends or share buy-backs. Nonetheless, many countries are working on phased multi-year rate reductions. The medium-term outlook for corporate taxes is therefore clear: globally coordinated efforts to improve transparency and curb legal tax avoidance schemes are changing the landscape to some degree, but have not slowed the emergence of new or redesigned incentives. This appears to be the more intense arena for tax competition among countries, albeit perhaps with clearer rules of the game.
Unlocking potential

Richard Lesser, CEO, Boston Consulting Group, on boosting the economy through diversification and international partnerships

What are Algeria’s main competitive advantages, and how can its potential be unlocked?
LESSER: Algeria has many assets that it can use to become and remain a strong economic power in Africa. It is the largest territory on the continent and has abundant natural resources, a young and educated workforce and a growing internal market. The country can benefit from its favourable position at the heart of the Maghreb region, with access to fast-growing markets. In addition, its cultural heritage and diverse landscape could foster a strong tourism industry.

Still, Algeria has several challenges ahead, notably diversifying its economy and exports. The nascent but growing private sector shows strong potential to contribute to this diversification through entrepreneurship and innovation. Tackling unemployment, especially among the younger generation, also remains a high priority for policy action. Furthermore, building human capital and encouraging diversity in the labour market are key to every country’s development.

How could the impact of Algeria’s strategy for diversification be assessed?
LESSER: The fall in international oil prices in 2014 and the possibility of low oil prices ahead, if the global economy slows, has put the issue of diversification at the top of the political agenda. I understand that Algeria is already working towards this goal and that an action plan was drawn up by the government in 2017.

Algeria will face challenges during its diversification process. Providing the right support to start-ups, small, medium and larger enterprises will be critical, as well as modernising the banking sector. Further integrating downstream activities in the oil and gas industry could help Algeria to benefit more from its natural resources and provide a first step towards diversification. Meaningful action in that direction has been taken recently by Sonatrach in the petrochemicals sector. Algeria is also further leveraging its other natural resources through the development of a phosphate value chain, from mining to fertilizer production. This should have a significant impact on GDP and exports.

Lastly, the government demonstrated its willingness to invest in renewable energy with an ambitious development programme that has been in place since 2013. The country is fortunate to have unique solar energy potential, the exploitation of which should provide both environmental and economic benefits.

What can be done to improve business conditions in Africa, and what role can international firms play?
LESSER: We must recognise that business conditions vary widely across Africa’s countries, which have very different cultures and levels of development. However, some concerns are common to most emerging countries. Recurring challenges include the limited access to credit and financing; the duration and cost of legal procedures for local and international companies; and the instability of legal and fiscal rules and policies. Addressing these factors is key to improving the business environment in emerging markets.

Partnerships with international companies can help improve conditions in different ways. They can provide solutions to financing constraints by investing in local businesses, creating joint ventures and providing warranties to their suppliers. International companies can also help generate activity using their network of subcontractors and suppliers, as well as by increasing purchasing power locally through direct and indirect job creation. These partnerships also contribute to a better business environment by training the local workforce and facilitating a transfer of knowledge. Building human capital is essential, and international companies have a crucial role to play in achieving this. Lastly, international companies can help explain the needs of business to the authorities, if this is required. They can also participate in reforms and share experiences from other countries where they are active.
Global village

Medium-term prospects suggest globalisation is set to continue for the foreseeable future

Decades of growth in trade and foreign investment have seen global economies become more interconnected than ever before. This trend has been reinforced by the steady liberalisation of international trade and investment, at the bilateral, plurilateral and multilateral levels. National economic specialisations, and regional economic and political integration, have broadly proceeded in a single direction since the 1980s. On aggregate, emerging markets have become the main drivers of growth around the world.

LIMITATIONS: Despite the apparent progress of trade and investment liberalisation, multilateral negotiations aiming for further openness have had limited success in the 21st century. Launched in late 2001, the Doha Round of talks at the World Trade Organisation (WTO) finally ended in 2015 due to lack of sufficient progress.

In the intervening years, trade negotiators had in any case shifted focus to bilateral and plurilateral deals, while efforts at the multilateral level targeted more limited goals, such as the trade facilitation package agreed by the WTO in 2013, and the phasing out of agriculture subsidies agreed in 2015. Fisheries subsidies and e-commerce were front and centre when the WTO last met at the ministerial level in Buenos Aires between December 10 and 13, 2017.

Meanwhile, a subset of 46 WTO member states began working towards an Environmental Goods Agreement (EGA) in 2014. A smaller group of 23 WTO members has been negotiating a Trade in Services Agreement (TiSA) since early 2013. Although talks on both the EGA and the TiSA stalled in late 2016, there are hopes in a new-found political impetus arising from the December 2017 WTO ministerial conference.

POLITICAL FALLOUT: Globalisation has always had its critics, but the global financial crisis of 2007-08 and the widespread political backlash in advanced economies has caused many to call its central tenets into question. While there were many factors behind the election of Donald Trump as president of the US, economic discontent among swathes of the population was among them, and explains the success of his protectionist rhetoric. Immediately upon inauguration, President Trump announced the US would no longer participate in efforts to finalise the Trans-Pacific Partnership (TPP) with 11 other countries in the Pacific basin. Although negotiations on the Transatlantic Trade and Investment Partnership between the US and the EU had not advanced to the same extent as the TPP by the time President Trump entered office in early 2017, prospects for a deal remain weak. Negotiations are ongoing on the two-decade-old North American Free Trade Agreement (NAFTA) between the US and its neighbours Canada and Mexico, with success by early 2018 far from guaranteed.

In Europe, it can be said that such discontent has fuelled both the rise of radical, right-wing political groups across the continent, as well as the UK’s Brexit vote in 2016. Centrifugal forces have also manifested themselves in the drive for independence in Catalonia, and similar movements in the north of Italy and elsewhere. While both the UK and Catalan political class have professed commitment to free trade and open investment regimes, these situations should be seen as de facto protectionist, as both mean leaving the world’s largest free trade zone.

An observed gradual deglobalisation phenomenon is not entirely confined to the most advanced economies. Established in 1981, the Gulf Cooperation Council (GCC) consists of six Middle Eastern nations. The GCC Customs Union had been fully operational since early 2015, with further efforts under way to integrate the region’s common market; however, this process was affected in June 2017, following the imposition of an economic embargo on Qatar, and the cutting of diplomatic relations by the UAE, Saudi Arabia, Bahrain and Egypt.

The South American trade bloc, Mercosur, which has existed since 1991, and counts among its members Argentina, Brazil, Paraguay and Uruguay, has seen...
internal discord of a similar nature. Due to its mounting political and diplomatic issues, Venezuela's membership was temporarily suspended on December 1, 2016, and suspended on an indefinite basis several months later. Perhaps more importantly, emerging economies are, in general, characterised by far greater trade tariffs and investment restrictions than their advanced economy counterparts. A slowdown, or even a reversal, in liberalisation may thus be even more of an issue for some emerging markets, with negative implications for their further integration into global value chains.

**CAUSE FOR OPTIMISM:** Even if the media is dominated by high-profile threats to free trade and open investment regimes, there have been some positive developments. Despite the challenges to NAFTA, key business players in Mexico retain a pragmatic approach. Nuno Matos, CEO of HSBC México, told OBG, "Undoubtedly, NAFTA will bring about a marked increase in market volatility over the course of 2018." That being said, Mexico's medium- to long-term economic prospects are remarkably positive. According to Matos, the global shift towards protectionism affects countries like Mexico, but there is still hope from other regions. "With increased capital flows from Asia, Mexico is not short of other trade partners that have growth rates far superior to those of the US," he added.

Indeed, during the Asia-Pacific Economic Cooperation (APEC) leaders' summit held in Da Nang, Vietnam in November 2017, the other 11 parties to the TPP resurrected the pact as the Comprehensive and Progressive Agreement for TPP (CPTPP), signalling their intention to proceed without the US.

In the context of the APEC talks, Vietnam's deputy minister of foreign affairs, Bui Thanh Son, told OBG, "Efforts must be made to enhance greater regional integration and connectivity. As global trade is losing its momentum, revitalising trade and investment is crucial to regional economic growth and the achievement of the Bogor Goals [a set of targeted goals for achieving free and open trade in the Asia-Pacific region] by 2020."

In parallel to the CPTPP, the 10 member countries of the Association of South-east Asian Nations (ASEAN), in addition to the six countries with which ASEAN already has free-trade agreements (FTAs) – Australia, China, India, Japan, South Korea and New Zealand – have been pursuing the Regional Comprehensive Economic Partnership since 2012, and there is growing confidence that an agreement can be reached in 2018.

On September 21, 2017, after many years of negotiations and a long chain of discussions, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU entered into force provisionally, pending its final ratification by national and regional legislatures. In some respects CETA represents the first in a new generation of plurilateral agreements, with a new investor-state dispute settlement mechanism. EU authorities have signalled that this could serve as a model for the EU-UK relationship after Brexit. Ongoing EU trade talks include those with Japan, with negotiations being finalised in December 2017; the seventh round of talks with Mexico on a new and reformed FTA in late December 2017, and bilateral negotiations with ASEAN members in various stages.

**REGIONAL INTEGRATION:** Other regions have continued their own integration efforts. In 2011 Chile, Colombia, Mexico and Peru launched the Pacific Alliance. Some 92% of goods can already be exchanged tariff free between the member states, with work under way to eliminate the remaining tariffs. In late 2017 the four members of the alliance moved forward with plans to upgrade the status of four of its observer countries – Australia, Canada, New Zealand and Singapore – to that of associate members, which should facilitate efforts to negotiate trade deals as a bloc going forward.

Economic integration among the 10 members of ASEAN continues. A free trade area since 1992, the ASEAN Economic Community (AEC) was formally established in late 2015, with a blueprint to make the AEC a reality by 2025. In Africa regional integration has a long pedigree, with a large number of regional economic communities recognised by the African Union.

**BY THE NUMBERS:** Trade growth has been disappointing for most of the decade since the global financial crisis. In 2016, for example, growth in merchandise trade was only 1.3%. The latest estimates from the WTO, however, suggest that merchandise trade growth was likely to have reached 3.6% for 2017 – 1.3 times that of global GDP growth – and that it would moderate slightly to growth of 3.2% in 2018. In the first half of 2017 both exports and imports were up strongly in North America, at 4.9% and 3.9%, respectively; in Europe, at 2.6% and 1.2%, respectively; and, in particular, Asia with exports up by 7.3% and imports up 8.9%. Meanwhile, trade flows were relatively flat in South America, with exports down 0.7% and imports up 1%, while imports were up 0.1% in the Middle East and North Africa region, and up 2.5% in the Commonwealth of Independent States.

Having picked up to their highest level since the global financial crisis in 2015, foreign direct investment (FDI) flows eased slightly in 2016, falling by 2% to $1.75trn. However, this average masks much steeper declines in developing Asia (-15%) and Latin America and the Caribbean (-14%), while Africa also experienced an above-average decline in inflows of 3%. Globally, the UN Conference on Trade and Development projects modest year-on-year increases, with FDI flows to reach an estimated $1.85trn in 2018, although this is still below the record levels that were seen in 2007.

After a decade of sub-par performance, global economic growth is picking up. If this translates into broader improvements in living standards, it is possible that the political climate may become more hospitable to liberalisation. Even if the multilateral agenda remains stalled into 2018, progress on bilateral, plurilateral and regional initiatives suggests the most likely direction of future trade is further openness, even if progress is uneven and slower than in recent decades. This is all despite recent instances of trade and investment relationships caught in the crossfire of political dispute. Whether or not the resolution of high-profile cases comes to pass, the bigger picture suggests the march towards globalisation is unlikely to end in the near term.
Diverse strategies

Ali Haddad, President, Algerian Business Leaders’ Forum (Forum des Chefs d’Entreprise, FCE), on encouraging ongoing investment

How can Algeria continue to support the improvement and proliferation of entrepreneurship?

HADDAD: There are two approaches: one is strategic and the other concerns public policy. On the strategic side, Algeria needs to focus on economic diversification, which will lead to a wealth of opportunities for investment and company creation. This approach necessitates involvement in sectors such as agriculture, tourism, industry, new technologies and energy transition. One example of how diversification can boost both entrepreneurship and investments is by promoting agriculture and tourism in the southern region. We have an opportunity to use natural resources like hydrocarbons, ore and solar to accelerate this diversification process, though it needs to be supported by public policies dedicated to entrepreneurship. The legal frameworks and regulations set up in the past few years include a variety of incentives for entrepreneurship and investment; however, these incentives have not had a significant impact on economic operators. It is important to ensure flexibility in the regulations by establishing segment plans that involve all operators.

At the global level, challenges include attending to economic reforms in order to aid local business conditions and accelerating bureaucratic procedures.

What has been done to expand dialogue in foreign business communities, specifically within Africa?

HADDAD: In recent years the FCE and the business community more broadly have been committed to improving their presence in other countries by participating in international events and exhibitions.

In 2018 several bilateral business councils were established with other countries, 13 permanent delegations were created abroad and conventions were signed with foreign business leaders. In Dakar, Abidjan, Bamako and other African capitals, we are now able to propose balanced and equally beneficial economic relationships that distinguish our unique approach.

In what ways might the diaspora help to further stimulate Algerian investments?

HADDAD: Members of our diaspora are involved in many economic, scientific and cultural areas. They also hold positions in high-level management of major industrial and financial services companies, as well as in prominent universities in the areas of humanities, and scientific and technical research.

It is up to the business community to establish appropriate tools that reinforce relationships with nationals. In the era of digital and technological revolution, these tools are diverse and plentiful. We need to focus on mobilising our human resources and unlocking potential financing and expertise that may be leveraged by the economy. Our business community has substantially increased its activities in other countries, and we have received great encouragement from the diaspora to continue developing initiatives and new projects.

How can incentives be put in place to strengthen foreign direct investment inflows?

HADDAD: Algeria’s potential is clearly evident in its geography, resources and market growth. However, there is inadequate familiarity with the incentives in place for investors. The cost of gas, electricity and water are the cheapest in the region; there is increasing focus on professional training; and considerable investments have been made during the last 20 years to improve communication, transport and logistics infrastructure. Investment and commerce regulations have been updated and the constitution encourages the country to work on improving business conditions. Furthermore, the president of the republic has put the private sector forward as a key area for development. There is still progress that must be made in order to enhance overall ease of business and increase openness to foreign investors. This means bolstering sectors with the highest potential for future growth such as renewables, agriculture, mines and construction materials.
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Financial Services

State-owned banks continue to dominate the sector
Efforts to increase financial inclusion under way
Bond and equity trading could break records in 2018
Life insurance remains the most dynamic segment
The decision by authorities to embark on a programme of monetary financing towards the end of 2017 marked somewhat of a turnaround in a difficult year for Algeria’s banks. A competitive dynamic has remained in recent years, with no new entrants, exits, mergers, acquisitions or privatisations of note. In fact, early 2018 saw the government announce that it was backtracking on plans to float one or more of the state-run banks on the local stock exchange (see Capital Markets overview). The state’s insistence on maintaining the “51:49” investment rule, which prohibits foreign investors from holding majority stakes in Algerian businesses, remains a barrier to both the import of capital by existing financial institutions and the entrance of new foreign banks. Efforts to improve financial inclusion are under way; however, attempts to grow the banking sector through the mobilisation of domestic resources have been dampened by Algerians’ strong cultural preference for cash and a certain distrust of financial intermediaries. Still, it is also hoped that the opening of Islamic windows in the main banks will boost penetration (see analysis).

PUBLIC BANKS: Of the 20 banks operating in Algeria, six state-run banks retain the lion’s share of the market, accounting for nearly 90% of the total AD14.1trn (€102.4bn) in sector assets at the end of 2017. Of these, Banque Extérieure d’Algérie (BEA) was the largest, holding 22.1% of the market with assets of AD3.1trn (€22.5bn), an increase of 21.2% on 2016. Although recent years have seen BEA diversifying its assets, the bank’s bottom line is closely linked with the performance of the hydrocarbons sector, given that it is the bank of Sonatrach, the national oil company. In second place was Banque Nationale d’Algérie (BNA), the first national commercial bank to open in Algeria in 1966, with AD2.8trn (€22.5bn), an increase of 21.2% on 2016. Although the authorities’ decision to engage in monetary financing from late 2017 onwards has injected large amounts of liquidity into the system, allowing them to grow their balance sheets steadily through 2018.

PRIVATE BANKS: Private banks, all of which are foreign-owned, held the remaining 10% of sector assets in 2017. Of these, 10 are wholly owned subsidiaries of international banks, three are branches and one is a joint venture. French-headquartered Société Générale established a fully-owned subsidiary in Algeria in 1999 and has since become the largest private sector bank operating in the country with assets of AD353.3bn (€2.6bn) at end-2017. Gulf Bank Algeria, a subsidiary of the Burgan Bank of Kuwait, has also built up a large presence in the country since it entered the market in 2004. It enjoyed particularly strong growth in 2017, expanding its balance sheet by 35.6% to reach AD256.9bn (€1.9bn) in 2017, and leapfrogging into second place. France’s BNP Paribas registered assets of AD248.9bn (€1.8bn) at the end of 2016, according to its latest annual reports. Other private banks include Bahrain-headquartered Al Baraka, which was established as the first Islamic bank in the country in 1991 as a joint venture with the state-run BADR. This was followed by Al Salam Bank, also Bahrain-based, which entered the market in 2008 to become the second Islamic bank operating in Algeria. Even though restrictions on private sector banks financing state-owned enterprises (SEOs) were lifted recently, an ongoing reluctance among SEO executives to engage with them means that private banks continue to focus almost exclusively on the private and external sectors. In any case, their relatively small lending capacity restricts the extent to which they can compete with larger public banking institutions for contracts.
There are also restrictions placed on foreign-owned banks that act effectively as barriers to importing capital. Some industry players have pointed to the 51:49 investment rule as one of the things holding back foreign direct investment into the banking sector. Limiting the regulation to only strategic industries, such as the oil and gas, water or electricity sectors, could be a move in the right direction. Furthermore, reducing foreign exchange and capital transfer controls could help attract more foreign investors.

**PENETRATION:** Prior to 1990, domestic credit to the private sector was approaching 70% of GDP. However, the civil war period and the central economic role that the state played thereafter saw a collapse in private sector credit, which bottomed out at less than 4% of GDP in 1997. This was followed by a slow but steady recovery to 24.4% of GDP as of the end of 2017, although it was still relatively low by regional standards, with Morocco and Tunisia registering 63.3% and 85.6%, respectively. Indeed, domestic credit to the private sector only accounts for about half of all lending in Algeria.

According to data from the IMF, total credit to the economy had increased from 38.3% of GDP in 2014 to reach 47.4% of GDP as of the end of 2017, although it is projecting little in the way of further credit growth in the coming years against what they expect to be a challenging macroeconomic backdrop.

**PERFORMANCE:** Algerian banks remain relatively profitable, despite declines in return on equity (ROE) at both public and private sector banks. State banks typically perform better on this measure, due to their ability to operate with lower levels of capital than their private sector counterparts. Across the sector, ROEs continued to fall in 2017, with public banks seeing figures decline from 19% to 18.7% and private banks from 15.2% to 14.7%. The underlying trend can be explained to a large extent by the increased levels of capital that both have taken on in recent years.

With regard to return on assets (ROA), aggregate profitability has been relatively stable at around 2% over the past decade, measuring exactly 2% in 2017. Here, there are divergent trends between public and private sector banks, however. Private sector banks have historically been more efficient at converting their assets to profits, with ROAs at or above 4.5% during the 2010-12 period, for example. Although this advantage has been fading in recent years as private ROA slipped to 2.6% in 2017. Meanwhile, ROA at public banks improved to a decade-high 1.9% in 2017.

Unsurprisingly, in the face of a challenging economic backdrop, there has been a sustained uptick in non-performing loans (NPLs), from 9.2% in 2014 to 12.3% in 2017. While public banks were working to reduce the burden of legacy bad loans prior to 2014, from 23.6% in 2009 to less than 10% by 2014, they began rising in 2016 to reach 12.9% by 2017. While private banks did not have the same overhang of historical bad loans, they have nonetheless seen their NPL rate double over the past decade, from 3.8% in 2009 to 7.9% in 2017.

Unlike state-run banks, however, private players have managed to reduce the share of bad loans since they spiked in 2015. Speaking to OBG, Rachid Sekak, senior advisor at BRS Consultants, noted that “the spike in NPLs is the result of broad economic weakness, but the construction sector was hit particularly hard”. Although the improved near-term economic outlook may allow for a reduction in NPLs in 2018 and 2019, they are likely to undermine profitability in the longer term with the economy expected to slow again, according to the IMF.

**BALANCE SHEETS:** Collectively, bank balance sheets are relatively robust, with a capital adequacy ratio (CAR) of 19.6% of risk-weighted assets at the end of 2017, per the IMF. This was up from a low of 16% in 2014, but down from a high of 26.2% in 2009. Public banks continue to operate with lower capital buffers than their private sector peers, but levels in both cases are still relatively high. Capitalisation at private sector banks fell steadily from 35.2% in 2009 to 18.7% in 2017. State banks’ CAR fell from 23.9% in 2009, to a low of 14.9% in 2014, before capital injections from the government helped to prop levels back up to 19.6% in 2017. This marked the first time in recent history that state-owned banks registered higher capital buffers than private players.

Tier-1 CAR across the banking sector bottomed out at 13.3% of risk-weighted assets in 2014, before recovering to 16.3% in 2016 and settling at 15.2% in 2017. Private banks’ Tier-1 CAR dropped steadily from 32.9% in 2009 to 17.9% in 2017, while figures for public banks over the same period remained relatively constant, falling from 15.6% to 14.6%. The decline in Tier-1 capital ratios during 2017 can be explained by the increase in bank asset portfolios through organic credit growth.

There is also evidence that the removal of excess liquidity from the banking system has, over time, seen a reduction in the share of liquid assets on bank balance sheets, as well as with respect to short-term debts. The share of liquid assets fell from 53% of total assets in 2010 to 23.7% in 2017, while the coverage of short-term debts by liquid assets also declined by more than half, from 114.3% to 53.9%, over the same period. These
BANKING OVERVIEW

Mortgages play a key role in growing private credit, with interest rates capped by the central bank at 7.5%.

Around one-third of the money supply is outside the formal banking sector, being circulated or saved as cash. Trends are evident across both public and private sector banks, but in both cases have been more pronounced among the state-owned institutions.

BASEL NORMS: In its May 2018 Article IV consultation, the IMF rated Algeria’s bank regulation and supervision regime as “satisfactory”. Since 2014 Algeria has been operating in compliance with the first pillar of Basel II regulations and is on course to implement elements from Basel III with respect to the CAR and some liquidity requirements. Nonetheless, the country still has some distance to travel towards full implementation of Basel III standards and a macro-prudential regime in-line with international best practices. In particular, the IMF recommended better surveillance of macro-financial linkages in the public sector, more frequent stress tests, the introduction of a countercyclical capital buffer and macro-prudential measures such as loan-to-value limits. The IMF also suggested that authorities develop crisis management processes for the sector and a clear bank resolution framework. More broadly, the IMF also advocates strengthening creditors’ rights, simplified bankruptcy procedures, improved procedures to tackle NPLs and the phasing out of interest rate subsidies.

CENTRAL BANK POLICY: In October 2017 a key policy change allowed Bank of Algeria, the country’s central bank, to directly finance government borrowing for a period of five years (see Economy chapter). This move reduced the acute funding pressures facing banks and allowed for a modest re-acceleration in credit growth through the early months of 2018. According to BRS Consultants’ Sekak, “it is business as usual in the banking sector, but this stability has been brought about somewhat artificially by virtue of the government’s programme of monetary financing. This injected a lot of liquidity into the system, but it is difficult to say what will happen when these temporary measures end.”

In addition, Le Conseil de la Monnaie et du Crédit, (CMC), a central bank committee, agreed in November 2018 to double the minimum capital holdings required of banks and other financial institutions, in order to increase the system’s solidity, profitability and resiliency to external shocks. Going forward, banks will be mandated to keep AD20bn (€145.2m), while other financial entities will work with a threshold of AD6.5bn (€47.2m).

CREDIT & LOANS: Credit growth remained relatively robust in early 2017, according to the IMF, increasing from AD7.9bn (€57.4m) to AD8.5bn (€61.7m) in the first half of 2017. This was mostly due to an influx of liquidity to banks caused by the government’s disbursement of the hydrocarbons fund, central bank refinancing and the halving of reserve requirements from 8% to 4%. As the year progressed, however, liquidity began to dry up, interbank interest rates rose and credit growth slowed, prompting the government to implement its monetary financing programme. This action restored significant liquidity to the banking system from November 2017 onwards, although it did not immediately prompt an acceleration in credit growth. In January 2018 the Bank of Algeria took action to minimise the impact of its monetary financing on lending and inflation by restoring the reserve ratio to 8%, among other measures. Nonetheless, headline credit growth has remained relatively robust, rising by 5.6%, from AD8.9trn (€64.6bn) to AD9.4trn (€68.2bn) in the first six months of 2018.

Lending to the public and private spheres has largely moved in tandem, and by the end of the first half of 2018 the figure was almost evenly split: AD4.64trn (€33.69bn) to the public sector (including local government) and AD4.77trn (€34.63bn) to the private sector, representing year-on-year increases of 10.7% and 10.4%, respectively. A large part of private credit growth is accounted for by household mortgages. Recent years have seen an increase in state-subsidised mortgages, which support a greater share of the population owning homes and help explain the rapid lending growth in this segment. While all commercial banks offer mortgages, the segment is dominated by CNEP. Mortgage interest rates are capped by the central bank at 7.5%. Speaking to OBG, Nadir Idir, CEO of Arab Banking Corporation, highlighted the segment’s growth potential, noting that “consumer credit is still a relatively new phenomenon, but it is a niche market that is expected to develop quickly over the medium term”.

FINANCIAL TECHNOLOGY: Algerian banks are still relatively unsophisticated in their use of digital tools. Even where such services, like bank cards and online payments, have been introduced, people have been slow to adopt them into their habits. Nonetheless, this is an area in which the government has been trying to spur development. Recent legal changes required that all businesses install a remote e-payment terminal by December 31, 2018, with non-compliance incurring a AD50,000 (€363) fine. Internet payment has been possible for a narrow range of public and private sector goods and services since late 2016, but after 18 months of rapid growth, the number of transactions appeared to have plateaued by the middle of 2018 (see analysis).

INCLUSION: While many Algerians remain outside the formal banking sector, major progress has been made in recent years: according to the World Bank,
the share of the adult population with an account at a financial institution increased from one-third in 2011 to one-half in 2014. Despite further progress in recent years, the authorities still see financial inclusion as a big challenge, not least due to the large amount of cash that still circulates outside of the banking system (see analysis). According to BRS Consultants’ Sekak, about one-third of the money supply is outside the banking sector, circulating or saved as cash.

Small and medium-sized enterprises (SMEs) predominate among Algerian firms, forming the backbone of the private sector; however, SMEs often struggle to access financing. In the World Bank’s “Doing Business 2018” report, Algeria ranked 134th out of 190 countries for getting credit, marking an improvement of 43 places on its 2017. Since its establishment in 2004 the SME Credit Guarantee Fund (Fonds de Garantie des Crédits aux Petites et Moyennes Entreprises, FGAR) has acted to guarantee SME loans issued by the banks. In total, it had backed AD69bn (€500.1m) in loans as of September 2018, supporting 2289 projects and nearly 70,000 jobs. Some 400 SMEs are expected to receive FGAR guaranteed loans during 2018, up one-third on 2017 levels.

**Islamic Finance:** The authorities’ reluctance to be seen as empowering political Islam, particularly through the provision of a dedicated legal framework, has hindered growth in sharia-compliant finance. “There is still a need to explain that it isn’t confessional finance but real competitive financial tools. The fact that Islamic finance flourishes under other juridical regimes, for instance in Europe, proves this”, Nasser Hideur, general manager at Al Salam Bank, told OBG. Despite this, the market currently hosts two specialist banks – Al Baraka and Al Salam Bank – and most of the country’s largest institutions already operate Islamic windows. “There is potential in this segment as the market already exists,” Mohammed Tifour, general manager at Fransabank, told OBG. “However, banks have been purposely moving slowly, because the regulations need to be made clear before they can really engage with this segment.”

The CMC moved towards providing greater policy clarity in November 2018 by finalising an order for “participatory finance” instruments, outlining procedural, accounting and management requirements and gain approval from the central bank.

**Leasing:** Long favoured for its compatibility with Islam, leasing has become a viable alternative to Islamic financial products. The segment accounted for 1% of all financial services in 2017, with GDP contribution of AD47bn (€341.2m). There are 76 specialists operating in the country and seven banks also provide such products, though just two providers, Maghreb Leasing Algérie and Arab Leasing Corporation (ALC), dominate the segment. “One of the most attractive features of leasing in Algeria is that since 2007 there has been a tax incentive in the form of accelerated depreciation: two years compared to four or five in the case of a medium-term bank loan,” Abdelhakim Djebarni, director-general of ALC, told OBG.

“Leasing had a tough year in 2017 following the prohibition of the import of the type of vehicles financed by leasing. Following the relaxation of import restrictions at the end of 2017, however, the prospects for 2018 are much better,” Djebarni added.

**Outlook:** Monetary financing has eased pressure on banks by addressing liquidity shortages. Coupled with the rise in the oil prices through 2018, this measure has also improved the near-term outlook for the economy, investment and credit while stemming the rise in NPLs. These trends should support sector profitability in 2018 through to early 2019. However, if as expected, the government tapers monetary financing and begins to rein in the budget deficit from the second half of 2019 onwards, this could reverse the fortunes of the banks. Meanwhile, forecasts of slower growth after 2019 could also weigh on the finance sector and eventually propel the authorities to revisit the 51:49 investment restriction, making the market more attractive for new international entrants. Either way, clarifying the legal regime for Islamic financing should allow the sharia-compliant segment to play a greater role in future.

### Total assets of commercial banks, 2012-18 (AD trn)

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<th>Year</th>
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Source: Bank of Algeria
What objectives has unconventional financing addressed since it was put in place in late 2017? 

LOUKAL: The dramatic fall of hydrocarbon prices has had a considerable impact on the economy. It has generated high fiscal and external deficits. Since 2016, the country has showed great resilience in facing the challenges, thanks to the prior accumulation of net budget saving in the Revenue Regulation Fund and international reserves.

Looking forward, the 2018-23 period will be dedicated to the implementation of the structural reforms that are necessary for re-establishing the equilibrium of the national economy, including domestic and external deficits. This set of macroeconomic adjustments and reforms will have to be put in place gradually over the next five years, in order to anchor strong, sustained job creation and inclusive economic growth. To this end, the recourse to unconventional financing has been adopted and is to take place on an exceptional and temporary basis for a period of five years. It has been conceived as a tool to accompany the deployment of a programme of structural economic reforms that aims to restore the equilibrium of the state budget as well as the external accounts in the medium to long term.

Unconventional financing has three main objectives: covering the fiscal deficit, financing the internal public debt and providing funds for the National Investment Fund. As of June 2018, the total amount of these financing resources stood at AD3.6tn (€26.1bn), of which AD2.2tn (€16bn) was provided during the fourth quarter of 2017 and AD1.4tn (€10.2bn) during the first quarter of 2018.

With regards to the monetary effects of this strategy, liquidity within the interbank market, which dropped drastically between the end of 2014 and October 2017 due to high deficit of the balance of payments, and then increased again to AD1.4tn (€10.2bn) at the end of December 2017. In order to prevent any potential inflationary shocks caused by the increased liquidity, the Bank of Algeria has implemented adequate monetary policy tools to neutralise any excess of liquidity resulting from unconventional financing operations. In January 2018 the bank restarted open-market operations to absorb liquidity at different maturity levels – 24 hours, one week and one month – and twice raised the reserves requirement ratio, from 4% to 8% in January 2018 and from 8% to 10% in June 2018.

This monetary policy, and particularly the aforementioned operations of liquidity absorption, relies on tools that assess and forecast the level of liquidity and therefore allow the bank to identify the amounts to absorb in order to maintain a suitable level of free reserves within the banking system.

How could a softening of the regulations over currency exchange help to boost inflows of foreign direct investment?

LOUKAL: The national currency is fully convertible for all current account transactions of the balance of payments. In 1997 Algeria adopted the IMF’s Article VIII and committed to introducing no exchange restriction on these operations. Regarding financial operations of the balance of payments, Algeria’s foreign exchange regulatory framework is supportive of foreign direct investment. Within the current foreign investment legislation, there are regulations for the transfer of the dividends on the foreign capital invested, including the reinvestment of dividends, as well as the proceeds from a cession or liquidation.

In order to increase foreign direct investment inflows to Algeria, which currently remain at low levels – at around $1.2bn as of 2017 – we will need to place more focus on other challenges. The country is taking sustained steps to improve the business environment with a view to enhancing the attractiveness of our economy to outside foreign investors.
Card bargain

Despite legal changes, e-payments struggle to gain foothold

Advances in financial technology (fintech) have been slow to arrive to Algeria. A low bank penetration rate remains a significant challenge, notwithstanding substantial progress in recent years (see analysis), as do a cultural preference for cash and the dominance of state-run banks that have little incentive to innovate.

**FRAMEWORK:** In June 2017 the government announced that Algérie Poste would roll out 50,000 mobile terminals by October 2017. To further cooperation in this area, it was announced in May 2017 that a number of banks and industry associations would establish Filiale Interbancaire Monétique, an e-banking entity dedicated to the commercialisation and distribution of electronic payment terminals (EPTs) in businesses. “Some 16,000 EPTs had been deployed as of June 2018, mostly in supermarkets, restaurants, clothing shops and malls, though independent shopkeepers are less keen to adopt EPTs because of their traceability, plus they want to see first if the demand for card payment is worth the investment, even if prices of EPTs are very attractive” said Newel Benkritly, director general of Satim, the company in charge of implementing the cards. “Algeria only chose to authorise mobile payments for those who have a bank account, which, while different from other African countries, is justifiable.” The 2018 Finance Law is expected to make these EPTs reasonably ubiquitous as it requires all businesses to install a terminal by the end of 2018, under threat of an AD50,000 (€363) fine for non-compliance. Mastercard has also partnered with Banque Extérieure d’Algérie, the country’s largest bank by assets, to allow clients with foreign currency accounts to apply for cards.

**CIRCULATION:** By 2018 there were around 1.5m bank cards in circulation, with the distribution of 4m more cards by Algérie Poste under way. However, their use is limited: in 2018, 80% of transactions with such cards were made to the telecoms sector, followed by 15% for electricity and water, and 5% to e-commerce. Only 21 public and private businesses participating though a handful of insurance companies have started accepting digital payments (see Insurance overview).

As such, there has yet to be a meaningful extension of fintech beyond public utilities. By mid-2018 some 16,000 e-payment terminals had been installed in Algerian businesses, which comprises only a small share of the approximately 1.5m businesses registered in the country. For small shops in particular, the price of installing and maintaining the terminals is not inconsequential, with costs in France estimated to range up to €700 for installation and €200 per annum for maintenance. Transaction costs ranging from AD2 (€0.01) to AD6 (€0.04) are low, but these are incurred by the business rather than the consumer.

**BARRIERS:** The short supply and high cost of electronic terminals, coupled with limited enforcement measures to ensure compliance have sparked issues. “There is a need to offer more services with bank cards than just payments and cash withdrawals, since on their own, these may not be enough to attract clients,” Mohammed Tifour, general manager at Fransabank, told OBG. “It is also hard for private banks to increase their market share. There are some 18m-19m account holders between the post office and public banks, but private banks only have about 1m accounts between them. This slows the uptake of bank cards,” he added.

Meanwhile, Mohamed Arabi, secretary-general of Société Générale Algérie, told OBG that “the payment terminals are not manufactured in Algeria, so it is very unlikely that all businesses will be able to get one by end-2018 to comply with the law”. Poor network connections can also hamper e-payments and in-store terminal payments, while a lack of staff training in some stores presents added challenges.

**CHALLENGING FUTURE:** The uptake in internet card payments plateaued in mid-2018, suggesting issues remain in extending their use. Cultural resistance to formal financial services is likely to be a barrier to the universalisation of bank accounts and card payments.
Extending access

Recognising the role of financial inclusion in development

In developing and emerging market economies, the share of the population with access to basic financial services tends to lag significantly behind that of advanced economies. This can be chalked up to the relatively smaller size and sophistication of the banking sector, lower incomes, a higher degree of informal employment and patchy identification records prevalent in less developed countries. As financial inclusion is key to broader economic development, stakeholders are encouraging officials to continue growing the number of Algerians included in the formal financial system, especially as banks face higher costs and lower returns from serving an unbanked population.

INCLUSION: According to the most recent data from the World Bank, the proportion of Algerian adults with a bank account had increased from one-third in 2011 to one-half in 2014, while the share of the adult population with a debit card increased from 13.5% to 21.6% over the same period. To compare, the bank penetration rate in neighbouring Tunisia was 27%, with the number of adults with debit cards at 12% in 2014.

While this represents impressive progress over a short time frame, account penetration levels in Algeria still fall short of the upper-middle-income country average (70.5%). The large and growing quantity of cash circulating outside the formal financial system also poses a problem for authorities. Bank of Algeria, the central bank, estimates that the level of cash in circulation had increased from AD3.2trn (€23.2bn), or 19.5% of GDP in 2013, to AD4.8trn (€34.9bn), or 29.6% of GDP in 2017. Of this, some AD2trn (€14.5bn) was estimated to consist of household savings.

MEETING THE CHALLENGE: In February 2018 Mohamed Loukal, governor of the central bank, wrote to Algerian banks encouraging them to do more to boost financial inclusion, while recalling efforts undertaken by the authorities to tackle the problem in recent years. Notably, he pointed to the 2012 declaration that all citizens had the right to a bank account and to Article 43 of the 2015 Finance Law, which permitted new actors to enter the financial sector. He went on to suggest that the arbitrary application of procedures by the banks to tackle money laundering and the financing of terrorism was undermining financial inclusion. He called on banks henceforward to halt requiring documentary proof of, for example, a source of funds beyond the regulatory requirement for proof of identity. In June 2018 the governor followed up with a similar direction to the banks, urging them not to require additional documentation from clients setting up or making transactions with foreign currency accounts beyond what is explicitly required by law.

Speaking to OBG, Nadir Idir, CEO at Bahrain-based Arab Banking Corporation noted that “the central bank is making great efforts to boost financial inclusion, while the government decision to restrict imports to support local industry should lead to domestic producers entering the banking system and asking for loans”.

LOOKING AHEAD: These measures should make procedures for bank clients less onerous and more coherent at the margin, and could succeed in reining in some of the cash circulating in the informal financial system. However, they are not expected to significantly increase financial inclusion on their own, and they could see Algeria face challenges at the international level with respect to its commitments regarding money laundering and the financing of terrorism.

Progress in extending bank account access to the adult population in the three years to 2014 demonstrated the possibility of rapidly boost financial inclusion in Algeria. Based on the experiences of many other African and Arab countries, the inherent potential in digital and Islamic banking also has the scope to move the country even closer to universal bank access. Further efforts are likely to be necessary to overcome the cultural preference in Algeria to save and transact in cash, however, including improving financial literacy and increasing confidence in formal financial institutions.
Meeting demand

Brahim Semid, CEO, Banque Extérieure d’Algérie (BEA), on the role of public banks in creating new financing tools

How would you assess the current levels of liquidity and credit to the economy?

**SEMID:** Due to the dynamism recorded in some sectors, there is currently an offset between the resources of national banks and the demand for financing in the national economy. Mega-projects run by public operators, for instance by hydrocarbons company Sonatrach, and private operators active in a range of industries, including cement plants and steel mills, require a significant amount of credit raised from Algerian banks. This trend is the main factor that drives the increase of the total amount of credit to the economy, which reached AD9.4trn (€68.2bn) as of June 2018. However, the credit capacities of the different public banks differ widely from one to another, as do their levels of liquidity, depending mostly on the sector they are related to.

Credit from banks remains the main way for local companies to finance investments. As a result, there is a need for more options and demand is high for new financing tools. The authorities have asked banking institutions to diversify their offer, in areas including leasing, sharia-compliant products and private equity.

The BEA and another public bank are also in the process of creating a private equity firm with shared capital of AD11bn (€79.9m) to address this demand. Since these financial instruments are relatively new in Algeria, their management will be conferred to a US investment fund in order to take advantage of their expertise and knowledge. Together with the investment funds of each wilaya (province) and the private players joining this market, we can hope to see a boost in this segment in the medium term.

What role are local banks playing in order to accompany the national strategy for financial inclusion?

**SEMID:** The government and the Bank of Algeria (BA) have identified financial inclusion as a top priority for the banking sector. This strategy implies the collection of dinars as well as foreign currency. To this end, the BA has used the new banking measures implemented in June 2018 to offer two new incentives: a lift on restrictions on opening accounts using foreign currency and a lift of the requirement to justify the origin of foreign currency reserves that individuals wish to put into these bank accounts. As a result of these policies, the amount of dinars collected by public banks through saving accounts reached more than AD15bn (€108.9m) between January and November 2018. Beyond these incentives, it is also the role of the public banks themselves to offer attractive products and develop marketing campaigns to convince individuals to open accounts. For instance, the BEA launched a campaign to provide Algerians living abroad and travelling to Algeria, or making pilgrimage to Mecca, with free Mastercard payment cards if they open a deposit account. With such measures that offer a concrete benefit to customers, local banks are able to move forward on financial inclusion as well as on the extension of their use of electronic payment.

To what extent could the internationalisation of Algeria’s public banks further boost the sector?

**SEMID:** The internationalisation of Algeria’s banks has become necessary to strengthen the sector, as well as to further assist Algerian companies in exporting to other countries. Banks would be able to act as a facilitator for processes and payments, as well as providing their knowledge on these markets to their clients. However, there are some requirements that need to be fulfilled before Algerian banks can engage in this strategy. Firstly, they need to increase their capital and second, they must consolidate their equity ratio to be able to show consistent performance indicators. Participating in these new markets can be done through creating partnerships with local banks that can support socio-economic development for both nations. In this regard, BEA aims to reinforce its deployment internationally, beyond its subsidiaries already in operation.
Ready to start a relationship based on trust?

Advising and assisting companies and their managers is also a question of proximity.

PwC's professionals in Algeria are there to listen to you and support you in your investment, growth, restructuring, transformation, organisational and operational efficiency improvement and risk management projects.

Worldwide, more than 236,000 people in 158 countries share ideas, expertise, sectoral approaches and innovative perspectives to improve service quality for their customers and partners.
Ready and willing

The bourse upgrades infrastructure and rules while it awaits the introduction of new listings and financial instruments

Stability has been the order of the day in Algeria’s capital markets of late, with little in the way of new products, listings or other impetus for significant evolution. The authorities’ decision to embark on a programme of non-conventional monetary financing in late 2017 has restored liquidity to the banking system, increasing the availability and reducing the cost of bank lending (see Banking overview). Thus, for the moment, much of the pressure has been lifted from the public and private sectors to seek alternative sources of financing, whether through a stock market listing or issuing corporate bonds. Other recent events include the March 2018 announcement in which the government said it was no longer exploring the possibility of privatising state enterprises, a number of which had been expected to pursue initial public offerings (IPOs) in the coming years. Moreover, most economic actors are forced to use informal avenues to secure foreign exchange (forex).

Nevertheless, operators and regulators continue to develop the infrastructure and environment necessary to support future development of Algeria’s capital markets in anticipation of a cultural shift in mindset and a more favourable macroeconomic backdrop – factors likely to be required if market financing is to rival bank lending as a go-to option for all types of business. Notably, the window for small and medium-sized enterprises (SMEs) saw its first listing in December 2018, raising hopes for further activity in the year ahead.

SIZE & PERFORMANCE: The combined market capitalisation of the debt and equity markets of the Bourse d’Alger jumped by one-third between 2012 and 2016, from AD347.6bn (€2.5bn) to AD462.4bn (€3.4bn). It has levelled off in the 18 months since, with total market capitalisation in mid-2018 little changed at AD458.7bn (€3.3bn). These aggregate figures hide notable developments in 2016, however, when the equity market nearly tripled in size to AD458.7bn (€332.5m) with the IPO of Australian pharmaceuticals company Biopharm. Market capitalisation as a whole advanced only AD7bn (€50.8m) that year, though, since most of the growth in the equity market was mirrored by a AD23.4bn (€169.9m) decline in bond market capitalisation to AD416.6 (€3bn). While the debt market’s steady capitalisation of AD416.4bn (€3bn) in June 2018 was still roughly 10 times the size of the AD42.3bn (€307.1m) equity market, the reallocation of assets that occurred in 2016 led this multiple to fall sharply from about 28.5 in 2015. Meanwhile, the performance of equities listed on the bourse has been stable in recent years. After falling by 17% in 2013, the DZAIRINDEX had recovered nearly all of that ground by the end of 2015 and has remained relatively flat since. Standing at 1288.5 points in December 2015, the index declined only marginally to 1263.4 points in June 2018, though a dip to 1203.2 points was recorded at the end of 2017.

Four of the five firms listed on the equity market recorded positive earnings in 2017. The stocks of the four saw their average price-to-earnings ratio decline from 9.6 times in 2016 to 5 times in 2017, while the average dividend yield increased from 6.5% to 8.9%.

LISTING HISTORY: Established by Decree No. 93-10 in May 1993 and incorporated in May 1997, the capital markets operator Société de Gestion de la Bourse des Valeurs (SGBV) has six public banks as its shareholders, and is in charge of daily operations and IPOs. The first equity listings came to the market in September 1999, beginning with the publicly owned agri-food producer Eriad Sétif, which floated 20% of its capital, followed swiftly by Saidal, the state-owned pharmaceuticals firm. After the flotation of public hotel operator Entreprise de Gestion Hôtelière El Aurassi in February 2000, there was no new listing until Alliance Assurances became the first private sector IPO in March 2011. The DZAIRINDEX declined only marginally from 1288.5 points in December 2015 to 1263.4 points in June 2018, though a dip to 1203.2 points was recorded at the end of 2017.

The capitalisation of the debt market was roughly 10x that of the equity market in June 2018.
These IPOs, and particularly that of Biopharm, have added a degree of dynamism in recent years to a market that had exhibited fairly low listing and trading activity in the first 15 years of its existence. **MARKET REGULATOR:** The Commission for the Organisation and Oversight of the Stock Market (Commission d’Organisation et de Surveillance des Opérations de Bourse, COSOB) was established alongside the SGBV in 1993 as the independent regulator of Algeria’s capital markets. The body is charged with ensuring both investor protection and the proper, transparent functioning of the market through the correct use of financial instruments and the timely, accurate publishing of company records, among other measures.

The regulator is engaged in a large-scale project to upgrade the technological infrastructure that underpins the market. BME Innova-AFI, a consortium from Spain of which the former is a subsidiary of that country’s securities market manager and the latter a financial consultancy firm, was contracted in February 2017 to design and install the hardware and software necessary to automate the information systems of the SGBV, COSOB and Algérie Clearing, the central securities depository. As of late 2018 the new systems were yet to enter their testing phase but it is hoped the programmes will be rolled out in the first half of 2019. **REFORM:** In an effort to stimulate activity, market participants saw aspects of trading and pricing change in 2018. Having previously been limited to sessions on Monday and Friday mornings, trading opportunities increased to three times per week on Sundays, Tuesdays and Thursdays in late September. Tick sizes were reduced from AD5 (€0.04) to AD1 (€0.007) that same month, while the maximum permitted buy-sell spread on block transactions was raised from 1% to 10%. Price movements continue to be subject to a daily limit of plus or minus 5%, however, so as to avoid excessive volatility. Additional changes in this realm may come in the future. “There is currently only a single price fixing per day, but recent investments in technology allow for the possibility of moving to continuous price quotation if and when there is market appetite for it,” Kamel Taleb, director of market surveillance and development at COSOB, told OBG.

In March 2018 the government announced it was suspending its privatisation programme, under which eight state-owned enterprises had been slated for initial public offerings. These included a bank, an insurance firm and a mobile phone operator. Many public and private sector enterprises feel discouraged from pursuing an IPO when they hear experiences like that of Société des Ciments de Ain El Kebira, a subsidiary of Groupe Industriel des Ciments d’Algérie (GICA). In June 2016 the cement producer – which would have had a market capitalisation larger than the other five listed companies combined – embarked on an IPO. However, bids for only 5% of the available shares had been received by the final day of the subscription period. This was insufficient to surpass the minimum 20% free-float threshold set by COSOB, thus the firm’s listing did not occur. The most significant recent development related to the prospects for further flotations was the announcement in March 2018 that the government was suspending its privatisation programme, under which eight state-owned enterprises (SOEs) had been slated for IPOs in the coming years. These were bank Crédit Populaire d’Algérie, insurance company Caar, national hydraulic firm Hydro-Aménagement, mobile phone operator Mobilis, Cosider Carrières, a subsidiary of Cosider Group, and three cement companies of GICA.

The authorities had already begun to lay the groundwork for these listings, working with the companies’ senior management to prepare them for an eventual debut on the bourse. Public businesses continue to dominate the Algerian economy, and there is some scepticism about relinquishing control of state assets with an IPO. However, it is likely that the primary factor causing the authorities to halt the programme was the launch of monetary financing in late 2017, through
which the central bank, the Bank of Algeria, lends directly to the government in order to help finance budget deficits, public investment and the debts of SOEs (see Economy chapter).

This scheme has increased liquidity in the banking sector in 2018, improving the availability of financing from that source and reducing the need of many public firms to raise funds from alternative sources like the bourse. However, if the authorities begin to phase out monetary financing and reduce the budget deficit from late 2019 onwards, funding pressures are likely to re-emerge. Thus, it is conceivable that state privatisations, including via stock market flotation, could be back on the political agenda in the medium to long term.

For the time being, Yazid Benmouhoub, director-general of the SGBV, sees a silver lining in the government’s decision to move away from its privatisation programme. “If large state enterprises were listed on the market with small free floats, they could have come to dominate the market in terms of size, but without adding much in terms of liquidity,” he told OBG. “This gives us an opportunity to concentrate on other development measures, such as growing the SME window.”

**INTERMEDIARIES:** While no IPOs occurred in 2017 and 2018, COSOB granted permission for two new intermediaries to participate in the stock market in March 2018, bringing the total to 11. Banque Al Baraka d’Algérie and El Salam Bank Algeria, both financial institutions with a focus on sharia-compliant products, joined the bourse in anticipation of the issuance of Islamic instruments such as sukuk (Islamic bonds). However, their intervention in the market proved limited for the first year, not least because the eagerly anticipated launch of sukuk had yet to materialise by end-2018. Other, more established players include BNP Paribas El Djazïr, which was named the best-performing intermediary in 2017 by the authorities, and Banque Extérieure d’Algérie, which came in second for the distinction.

**DEBT MARKET:** The bourse’s debt market, meanwhile, has been comprised exclusively of sovereign issues since the last corporate bond matured in 2016. In parallel to the publicly listed market, a number of corporate bonds are also traded on an over-the-counter (OTC) basis, while a number are solely traded on the OTC market. Examples of the latter include Air Algérie, Algerie Telecom and Sonatrach. Opponents of such OTC activity believe that it suppresses liquidity of the publicly traded debt market and undermines efforts to develop the capital markets more generally.

**TRADING ACTIVITY:** After years of relative stagnation, trading activity on both the equity and bond market surged in 2015. The value of debt instruments traded that year more than doubled from 2014 levels to AD1.25bn (€9.1m). However, in 2016, equity transaction volume fell to AD300m (€2.2m) in 2017, and 2018 was on track for further contraction, with AD80m (€581,000) recorded for the six months through June. While the value of this six-month period was down 29% from the first half of 2017, it places the equity market on course for full-year 2018 activity that is about four times the pre-2015 level, suggesting that meaningful progress has been made in recent years.

Activity in the debt market has been far more robust, doubling to reach AD23.7bn (€172.1m) worth of traded bonds in 2017, with a further AD15bn (€108.9m) traded in the first six months of 2018 – again, double the AD11.4bn (€82.8m) traded in the same period of 2017. If these trends continue through the second half of 2018, aggregate trading activity for bonds and equities could top AD30bn (€217.8m) for the first time.

**SME BOARD:** For smaller firms, an SME board was established in 2012 and saw its first listing in December 2013. AOM Invest, a firm based in western Algeria that specialises in the study, development and operation of tourism projects, was expected to be the first to the market in late 2017, but delays saw its IPO postponed. In November 2018, COSOB gave approval for the company to list, with the SGBV becoming responsible for the actual integration. Over 10% of the firm’s shares had been pre-placed with three institutional investors by November 2018, and the shares debuted at AD297 (€21.78) in December 2018. AOM Invest has registered capital of AD115.9m (€841,000).

With the first SME listing having taken place, more may come. “We have other SMEs in the pipeline and are working with them on valuation and other issues, with a view to bringing one or two of them to market in the second half of 2019,” Benmouhoub told OBG.

**NEW INSTRUMENTS:** To date, Algeria’s capital markets have featured relatively unsophisticated, straightforward instruments such as bonds and equities. However, there has been growing appetite in recent years for a more diverse offering. Perhaps the most keenly
Due to high demand, foreign currency on the informal market was trading at about 150% of official rates in mid-2018.

The most awaited new instrument is sharia-compliant, fixed-income sukuk, which the authorities have been considering introducing for some time now. Already the 2018 Finance Law included a provision for the eventual issuance of sukuk, while the SGBV is prepared at a technical level for their quotation, whether sovereign or corporate issues. It is hoped that these instruments can mobilise citizen savings that are currently held in cash outside the financial system, while they will also be necessary to successfully underpin the development of Islamic banking and insurance in the country.

CULTURAL BARRIERS: It is a combination of many reasons why the Bourse d’Alger has not developed as quickly or robustly as markets in other countries. The primary factors include the historical ready availability of bank lending, the government’s general unwillingness to privatise state entities, and private sector business owners wary of ceding control or taking on the increased burden in terms of reporting and transparency that comes with a stock market listing. Moreover, some citizens do not use financial products that are not sharia-compliant, while others simply keep their savings in cash rather than put money in a bank account – let alone invest it in the financial markets. The SGBV has thus undertaken efforts to raise awareness among key population segments as to the benefits of using the market as both a source of finance and a destination for investment. “We work closely with and put on training sessions for chambers of commerce, universities and employer organisations to explain how the markets work,” Benmouhoub told OBG. The relative aversion of households to financial instruments as a way to grow their savings means that the market is largely left to professional investors. “Our investor base almost exclusively consists of institutional investors, particularly local banks and public bodies,” Benmouhoub added.

To generate more interest among households, we are going to need a more representative stock exchange, with more listings from a wider range of sectors.”

FOREX: Access to forex is another element of a well-functioning capital market and financial ecosystem. The Bank of Algeria operates the country’s official exchange avenues and is the primary market maker, as it is the sole body permitted to sell hydrocarbons for export, which is Algeria’s main source of foreign currency. The central bank’s exchange framework has been deemed too rigid for the common economic player, thus a parallel, informal forex market has developed to cater to the needs of retail investors, commercial actors and foreigners. Due to high demand, foreign currency on the parallel market was trading at about 150% of official rates in mid-2018, according to the IMF. In its Article IV Consultation from June 2018, the body warns that the government programme of monetary financing could have the indirect effect of further fuelling demand for foreign currency on the parallel market. Due to its negative impact on macroeconomic management, the IMF recommends the government take steps to phase out this alternative avenue by adjusting the official rate and relaxing import restrictions.

OUTLOOK: While equity market liquidity has fallen in recent years, with delays and disappointments in bringing new firms to the primary market since 2016, the sovereign debt arena has been far more dynamic, both in terms of issuance and trading activity. The anticipated arrival of sukuk to the bond market in the coming years is expected to add a further dose of dynamism.

Looking back, recent financial performance suggests that valuations in the equity market have become compressed, as indicated by relatively low price-to-earning ratios and high dividend yields. Turning ahead, the April 2019 presidential election represents near-term political risk for investors, and the macroeconomic backdrop is expected to deteriorate thereafter as the authorities reign in monetary financing and phase out the budget deficit. Over the medium term, the end of the monetary financing programme has the potential to add impetus to capital market development, as it is likely to be accompanied by a tightening of bank liquidity and a need for public and private sectors alike to explore alternative sources of funding to bank lending.
Investing in synergies
Lazhar Sahbani, Partner, PwC Algeria, on the possibilities that private equity investments present

To what extent can listings of private companies restore trust in the capital markets?
SAHBANI: Considering the current market’s status, with only five registered companies, the involvement of large private companies in the Algiers Stock Exchange (ASE) could restore trust in the capital market, enhancing the attractiveness of initial public offerings (IPOs) from smaller entities. In such a scenario, that listing will improve the governance model of private entities by drawing up a transition plan to ensure that the next generation will succeed the current management and protect their wealth. Companies that are listed are required to publish their financial statements on a regular basis, consequently improving the corporate governance of these companies and significantly raising the level of transparency within the business environment.

What are some of the challenges that small and medium-sized enterprises (SMEs) face to being able to access capital markets?
SAHBANI: SMEs face many practical and economic environmental challenges. One of the main factors preventing the market evolution is strong inflation, which negatively influences the performance of listed companies and their financial statements, showing both realised and unrealised foreign exchange gains and losses. Additionally, while legislative instability increases, there remains an uncertainty and lack of trust in the financial market.

In addition to these challenges, there are some barriers that are directly linked to the governance models of SMEs, where there is a strong intervention from the founder to be able to limit access to the capital of their family-owned entities. This restrictive investment method systematically excludes private equity investment possibilities, depriving companies from the skills and management tools which could increase the companies’ potential growth and productivity.

The government keeps a close eye on the activities of large private groups through several measures, including exercising a pre-emptive right upon any operation linked to share deals, which could be considered as a major constraint to the company’s listing.

How can private equity funds take advantage of IPO operations while stimulating capital markets?
SAHBANI: Private equity funds should focus at first on a communication plan to describe their activities, the financing tools they offer, and the role of private equity for improving productivity and managing firms. In practice, private equity players, together with ASE representatives, should set up marketing tools dedicated to explaining their activities around think tank sessions to demonstrate the feasibility of IPO operations and highlight their many advantages.

Furthermore, involving companies’ leaders in a larger discussion on the potential growth of the stock exchanges and the synergies with private equity investment should illustrate the real practical problems their businesses face generally and in relation to IPO projects specifically. This will lead to a joint-action plan that details operational solutions to realise IPO projects and help companies join the rank of listed companies, as well as allowing private equity players to diversify their portfolios for a dynamic capital market.

The current legal framework offers numerous incentives for private equity companies investing in Algeria. However, these incentives remain limited to private equity business and have not been extended to the companies planning to make an IPO.

Some amendments should be introduced to the current regulations. Repealing the pre-emptive right on IPO operations should be the first priority. The introduction of a more attractive legal and tax framework for companies and investors could start with exemptions from corporate income tax, registration duties and other taxes that are linked to share deals.
Funds and gains

Private equity investments have a role to play in deepening and diversifying the economy, but some obstacles remain.

Investment funds are smart financing tools that encourage private investment by providing short- and medium-term capital resources to companies. Private equity financing supports companies looking to finance their foundation, growth and in some cases recovery and maintenance. Furthermore, in an economic context in which financing needs are steadily increasing, they represent a real operational solution to enhancing the national economy, which is still largely dependent on hydrocarbons.

**STRATEGIC SUPPORT:** This type of investment constitutes a majority or minority stake in the capital of a small or medium-sized enterprise (SME), not usually listed on the stock exchange, for a limited period. The duration of financing may vary. When the investment is made by a fund, only the quantity is defined beforehand, while the return and exit are decided on later, in line with the evolution of the funds placed. At the end of the financing period the target company has the option of choosing which exit method to adopt. The invested capital could be redeemed by the original shareholder (that is, the company itself) or by another investment fund, with a view to continuing the development phase. In this context, the investment fund can carry out its exit through the stock exchange.

Private equity represents an innovative financing instrument in Algeria that aims to offer complete support to SMEs with high growth potential, in both the financial and the strategic aspects of their projects. It offers secured equity financing accompanied by contracts that provide operational support in the management of these companies, enabling them to achieve their growth objectives and create value.

**BARRIERS TO GROWTH:** Nevertheless, given the absence of a structured stock market in Algeria, private equity financing is struggling to grow, with demand tending to exceed financial organisations’ capacity to meet the market’s needs. Moreover, priority is often given to larger projects, leaving small businesses to face recurring difficulties, in addition to a very low level of capitalisation.

The broader Algerian public remains largely uninformed about the private equity sector, due to lack of promotion and communication on the part of the funds themselves, as well as the fact that local entrepreneurial culture tends to be orientated towards self-financing, or simply indebtedness. Besides this, various economic factors directly impact the growth of the private equity business, such as foreign exchange losses and administrative delays.

**EXPANDING MARKET:** The authorities have made considerable efforts to ameliorate this situation, notably through the creation of 48 regional public investment funds. In addition, Articles 27, 28 and 29 of the Private Equity Law of 26 June 2006 established an attractive tax regime for investment funds, which includes total exemption from corporate income tax on dividends, investment income, proceeds and capital gains from the sale of shares and corporate shares by investment funds.

These efforts notwithstanding, the barriers to market entry for private equity activity in Algeria remain relatively stringent. Entry is subject to prior authorization from the Ministry of Finance, following an opinion issued by the Commission for Organisation and Supervision of Stock Exchange Operations, and the Bank of Algeria. In addition, local regulations set a maximum participation rate of 49% in the capital of the funded company and a participation period of between five and seven years. If these barriers were to be removed or alleviated, private equity investment could work to encourage local investment in the country, enhancing export activities as well as strengthening the country’s foreign exchange earnings. This would contribute substantially to the development of a sustainable industrial economy.
On the up

More favourable economic conditions support stronger growth

Following a muted performance in 2017 on the back of sluggish growth in the wider economy, market players in Algeria’s insurance industry anticipated that improved conditions in 2018 would support a sector recovery, a view partially borne out by the sector’s performance in the first half of 2018. A particular bright spot is the life segment. Although it accounts for just 10% of the overall sector and witnessed a dip in premium growth in the first half of 2018, the value of written life premium has doubled since 2011 and is expected to expand at a greater rate in the coming years as the population becomes more aware of its potential benefits. As with many sectors, state-run insurers continue to dominate, with the four biggest public sector players capturing about 63% of the market. Although private providers have begun to make modest advances into the market, there have been no major new entrants in recent years, and the sector dynamics remains largely unchanged.

REGULATIONS: The primary responsibility for regulating and overseeing the insurance sector lies with the Ministry of Finance (MoF). Within the ministry, the Insurance Department is responsible for establishing the overarching policy and legislative framework. The most important legal instrument governing the sector is Ordinance No. 95/07, first issued in 1995 and later amended by Law No. 06/04 in 2006. The 1995 reform allowed private sector participation in the industry for the first time, while the 2006 amendment established a legal separation between life and non-life providers. The latter has been strictly enforced since 2011, since which time a small number of life insurance specialists have entered the market. The 2006 reform also created a legal framework that would allow bancassurance firms to operate, though serious development considerations have not taken off until recently. “The authorities and insurance players are moving forward on bancassurance to revise the application texts of the Insurance Law of 2006 and build up a competitive framework for this segment in Algeria,” Brahim Kassali, CEO of state-owned insurer Compagnie Algérienne d’Assurance et de Réassurance (CAAR), told OBG.

The amendment further established the Insurance Supervision Commission under the MoF to provide oversight for the sector and license new market entrants. The MoF also manages the Fonds de Garantie Automobile, which indemnifies victims of auto accidents when the person culpable is either uninsured or has not been found, and the Fonds de Garantie des Assurés, which protects the clients of insurers should the latter go bankrupt and cannot pay claims.

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On the up

More favourable economic conditions support stronger growth

Following a muted performance in 2017 on the back of sluggish growth in the wider economy, market players in Algeria’s insurance industry anticipated that improved conditions in 2018 would support a sector recovery, a view partially borne out by the sector’s performance in the first half of 2018. A particular bright spot is the life segment. Although it accounts for just 10% of the overall sector and witnessed a dip in premium growth in the first half of 2018, the value of written life premium has doubled since 2011 and is expected to expand at a greater rate in the coming years as the population becomes more aware of its potential benefits. As with many sectors, state-run insurers continue to dominate, with the four biggest public sector players capturing about 63% of the market. Although private providers have begun to make modest advances into the market, there have been no major new entrants in recent years, and the sector dynamic remains largely unchanged.

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DISTRIBUTION CHANNELS: Most insurance is contracted through the traditional channels of agencies or brokers. The number of agencies mushroomed from 874 to 2358 between 2000 and 2017, meaning that there is one agency per 18,000 inhabitants compared to one per 28,000 a decade earlier. There are 37 licensed insurance brokers operating in the country, with no new entrants since February 2016.

MAJOR PLAYERS: The non-life segment is dominated by five providers, four of which are private companies and one, Caisse Nationale de Mutualité Agricole (CNMA), a mutual company, which have seen only very minor shifts in their respective market shares. Société Algérienne d’Assurance (SAA) is the largest player, with a market share of 22.7% in 2016 – the latest year for which data is available – 0.6 percentage points below what it was in 2015. SAA is followed by Compagnie Algérienne des Assurances (CAAT), which in 2016 narrowed the gap to the market leader, increasing its market share from 18% to 19.1%. CAAR is in third, commanding 12.7% of the market in 2016, down from 14.1% a year earlier, while CNMA, in fourth, accounted for 10.7%, up from 10.5% in 2015. The fifth-largest player Compagnie Algérienne des Assurances des Hydrocarbures, which specialises in the hydrocarbons sector, controlled 8.4% of the market in both 2015 and 2016.
Collectively, the market share of these five providers fell only marginally over the period, from 74.4% to 73.6.

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A further eight private sector non-life insurers, including specialists in Islamic insurance products, shared the remaining 16.4%. By contrast, the life segment has eight market participants in total, six of whom have captured shares ranging from 12.7% to 19.5%. Taamine Life Algérie, a subsidiary of CAAT, retained its position as market leader in 2016, despite its share slipping from 21.2% to 19.5%. Caarama Assurances, a subsidiary of CAAR, narrowed the gap to the top by seven percentage points to 18.4%, while a marginal increase by Cardif El Djazaïr, which is owned by French firm BNP Paribas, from 15.5% to 15.7%, was enough to retain third position. Cardif El Djazaïr was closely followed by Société d'Assurance de Prévoyance et de Santé, which increased its market share from 14.7% to 15.1%. AXA Assurances Algérie, in fifth position, saw the largest gain in that year, increasing its share from 12.8% to 13.8%, and overtaking Macir Vie, which saw its own stake slip from 13.5% to 12.7%.

There have been no market entrants, exits, mergers or acquisitions of note in recent times, in the life or non-life segment. The last player to join the ranks was the Algerian Gulf Life Insurance Company in 2015, which managed to capture 0.3% of that segment in 2016 under its L'Algerienne Vie brand.

PREMIUM: Having experienced double-digit growth in the decade to 2014, premium has advanced at a more modest pace in recent years due to challenging economic conditions weighing on the sector. After posting nominal increases of 2% in both 2015 and 2016, premium expanded by 3.2% to reach AD133.7bn (€970.7m) in 2017. Nonetheless, this was the third year running that premium growth failed to outpace inflation, which was 5.6% in 2017. In early 2018 stakeholders were hopeful that continued growth would allow the sector to buck the trend of recent years by growing at a rate faster than both inflation and GDP. According to provisional data from the National Insurance Council (Conseil National des Assurances, CNA) as of the end of June 2018 premium was on course to surpass the previous year’s total, at AD73.3bn (€532.2m), but the pace of growth was slower than expected, at 4.7% year-on-year (y-o-y) – below the IMF’s average annual inflation estimate for the year, which was 6.5%.

MARKET PENETRATION: According to the 2018 Swiss Re “World Insurance Report,” insurance premium reached 0.72% of GDP in 2017, approximately one-fifth of the level seen in Morocco (3.49%) and a third of that seen in Tunisia (2.04%). Although overall insurance penetration was slightly ahead of Egypt on 0.68%, the structure of the two markets is very different. Algeria’s life segment has shown strong premium growth in recent years but started from a very low base, so that by 2017 it accounted for just 0.07% of GDP, compared to 0.33% in Egypt, 0.42% in Tunisia and 1.43% in Morocco. This underscores the life segment’s considerable potential for growth. By contrast, insurance penetration in the larger non-life segment stood at 0.65% of GDP, nearly double that of Egypt on 0.35%, but still lagging behind Tunisia (1.62%) and Morocco (2.06%).

DENSITY: The penetration pattern is mirrored in the density statistics, which compare the premium per capita across markets in US dollars. At $29, Algeria’s insurance density is ahead of Egypt, at $16, but less than half of Tunisia ($71) and less than one-third of Morocco ($104), even though Algeria’s GDP per capita is higher than all three. Again, these figures illustrate how Algeria’s insurance sector remains relatively skewed towards the non-life segment, despite rapid growth rates in life in recent years. At $27 per capita, non-life insurance density in Algeria is closer to neighbouring Tunisia, at $56, and Morocco ($61), but its life insurance density of $3 is about one-fifth the level of Tunisia ($14) and one-fourteenth the level of Morocco ($43).

LIFE: The life segment has continually outperformed the non-life segment in terms of premium growth in recent years. In 2017 life premium increased by 20% to AD13.4bn (€97.3m), far ahead of inflation and underlying economic growth, and enough to see it increase its overall share of insurance premium to 10%, up from 9% the previous year. Non-life premium, meanwhile, increased by 2% to AD121.6bn (€882.8m).

However, the life segment’s performance in the first half of 2018 bucked this trend. Life premium fell by 7.7% y-o-y to AD6.5bn (€47.2m), reducing their share of overall premium to 8.9%, while non-life premium grew by 5.1% to AD64.5bn (€468.3m). This was due in large part to a decline in life and death insurance, the segment’s largest category. Life and death premium fell by 22.1% y-o-y in the January-June period due to a decline in sales of term life insurance products. The assistance and accident subsegments also saw reductions in premium growth, of 9.5% and 8.4%, respectively.

Market players, however, emphasise the overall robustness of the segment and its potential for further expansion. “Since the first specialised providers entered the market in 2011, the amount of life insurance has doubled from AD6.7bn (€48.6m) to almost AD13bn (€94.4m) in 2017 and its share of the sector has increased from 8% to nearly 10%,” Youcef Benmicon, CEO
In 2017 health insurance premium registered double-digit growth of 11.6%.
The reinsurance segment recorded €120.5m in premium in the first half of 2018, putting it on track to surpass 2017’s full-year total of €213.4m.

The authorities are developing a legal framework for Islamic insurance in supporting the development of local agriculture and industry. Agriculture lacks these services the most because insurance companies aren’t overly engaged in natural risks. However, as more agro-industrial projects are ongoing we can be optimistic this trend will change. 

**REINSURANCE POTENTIAL:** One segment of the market gaining much more traction is reinsurance. It posted premium growth of 8.4% in 2017 to AD29.4bn (€213.4m) and at the end of the first half of 2018 was on track to surpass that figure, with AD16.6bn (€120.5m). The majority of all reinsurance business is domestic, and more than one-third (36.5%) of domestic reinsurance premium relates to fire risk. The second-largest segment is engineering, accounting for 15.6% of domestic reinsurance premium in the first half of 2018. Publicly owned Compagnie Centrale de Réassurance is the only company licensed to provide reinsurance domestically.

**SHARIA-COMPLIANT PRODUCTS:** Although takaful (Islamic insurance) has yet to take off in Algeria, it too has a lot of potential, and the authorities are working to develop it. Takaful products have been available in Algeria since the specialist provider Salama Assurances entered the market in 2000, but as yet there is no dedicated legal or regulatory framework for the segment. To address this lacuna, the CNA worked with the government to prepare a feasibility study and, subsequently, a draft law that would provide the required legal framework for both non-life and life products, known as general takaful and family takaful. It is expected that the law would also allow general insurers to offer Islamic insurance as part of their portfolios, much in the same way that non-specialist banks are permitted to operate Islamic windows (see Banking chapter). The MoF is understood to be considering the draft law, but it is not expected to be enacted before mid-2019. For this initiative to be a success, it will be necessary to introduce sharia-compliant, fixed-income products at the same time so that insurers can not only issue takaful, but also invest the resulting funds in instruments consistent with their religious obligations.

**MICRO-INSURANCE:** With a large informal labour market, one-fifth of the workforce dedicated to agriculture, a high prevalence of micro-enterprises and relatively low penetration of traditional insurance products, conditions would appear to be ripe for micro-insurance to blossom, but in fact the segment has yet to establish a meaningful foothold. The introduction of a legal framework for Islamic insurance may provide an opportunity to develop micro-takaful products dedicated to those population segments for whom their faith has heretofore caused them to avoid traditional insurance. “There is a great need and opportunity for growth in this segment, but products better tailored to the Algerian market will be essential,” Tirische said OBG.

**OUTLOOK:** Broader macroeconomic performance is expected to govern the insurance sector’s prospects over the coming years. While a modest improvement in economic conditions supported stronger growth between January and June 2018, and was expected to do so in the latter half of the year, the medium-term outlook is more challenging. Economic growth looks set to slow from the second half of 2019 onwards as the authorities move to reduce the budget deficit. However, efforts to raise awareness of the potential benefits of insurance products should support improvements in penetration levels over the long term. Given its low base, life insurance is expected to remain the more dynamic segment, although other categories such as Islamic insurance and micro-insurance could also gain a greater foothold given further development.

**Premium by segment, 2017 (AD bn)**

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<thead>
<tr>
<th>Segment</th>
<th>Non-life</th>
<th>Life</th>
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<tr>
<td><strong>Vehicle</strong></td>
<td>2.6</td>
<td>2.1</td>
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<tr>
<td><strong>Fire &amp; misc. risk</strong></td>
<td>5.9</td>
<td>65.3</td>
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<td><strong>Travel</strong></td>
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<td><strong>Agriculture</strong></td>
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<td><strong>Credit</strong></td>
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**Non-life**

- 2.6 Vehicle
- 5.9 Fire & misc. risk
- 2.1 Life

**Life**

- 66.3 Death cover
- 12.4 Collective pension plans
- 21.9 Medical assistance
- 26.3 Accident
- 32.8 Illness

Source: CNA
Reassuring trend

New reinsurance programmes are bolstering coverage against natural disasters in emerging markets

While advanced economies generate the vast majority of insurance and reinsurance business, emerging markets are posting higher rates of growth. Complementing this underlying trend is a strong and expanding interest in catastrophic risk, which by nature tends to pertain to emerging markets. This is coming alongside fast-paced, sector-transforming innovation, which could provide a major boost to industries in less-developed economies.

“You have nothing but opportunity: big populations and tonnes of risks,” Tom Johansmeyer, assistant vice-president of property claim services at ISO Claims Analytics, a division of Verisk Insurance Solutions, told OBG. “Look at the populations and the potential growth in financial sophistication – it is an easy call to make.”

BY THE NUMBERS: In terms of simple throughput, insurance remains very much centred in North America, Europe and mature Asian markets. With long histories of trading risk, a general acceptance of the relevant products, and massive and increasingly vulnerable asset bases that need protection, developed economies generate steady volumes. According to insurance group Munich Re, in 2016 North America paid 31.1% of global premium, Western Europe paid 28.8% and the more advanced Asian markets, such as Japan, paid 19.8%.

However, growth rates in emerging markets outpace them by far: according to global accountancy EY, life premium remains very much centred in North America, Europe and mature Asian markets. With long histories of trading risk, a general acceptance of the relevant products, and massive and increasingly vulnerable asset bases that need protection, developed economies generate steady volumes. According to insurance group Munich Re, in 2016 North America paid 31.1% of global premium, Western Europe paid 28.8% and the more advanced Asian markets, such as Japan, paid 19.8%.

However, growth rates in emerging markets outpace them by far: according to global accountancy EY, life premium in developing markets rose by 7.8% in 2014, while advanced markets grew by 4%. Those rates were 13.2% and 3.4% in 2015, respectively, 20.1% and 2% in 2016 and an estimated 14.9% against 2.1% in 2017. Particularly strong growth was noted in the life segments in Vietnam, Malaysia and Indonesia. Regarding non-life insurance, the growth in emerging markets has been in the range of 5-8.5% since 2012, while growth in developed markets has remained around 2%.

These trends are leading to a relative decline in the share of business in developed insurance markets. Munich Re has estimated that primary premium in North America will fall to 27.8% of the world’s total by 2026, Western Europe to 24.5% and mature Asian markets to 17.5%. Meanwhile, emerging Asia’s share will jump from 13.3% in 2016 to 21.4%, the MENA region’s allocation will rise from 1.3% to 1.8%, and the share held by sub-Saharan Africa will remain at 1.1%. Swiss Re, another international reinsurer, forecasts the global rate of growth in reinsurance at 1% over the three years to 2019; by comparison, reinsurance in emerging markets is growing at about 10% per year.

REINSURANCE TRENDS: The global reinsurance market on the whole is healthy and on a firm footing, with capital reaching $605bn at the end of the second quarter of 2017. However, in the wake of hurricanes Irma, Maria, Harvey and Nate, among other natural disasters, the long period of relatively low claims appears to be coming to an end, inevitably altering the fundamentals of the existing market. In its “Global Insurance Trends Analysis” for the first half of 2017, EY noted this flip in the market, with average event occurrence rising above the mean. According to the report, 2016 was the biggest year for catastrophe (CAT) claims since 2012, with $54bn in insurance losses reported on $210bn worth of damage, a coverage rate of 26%; in the first half of 2017 this rose to 42%.

Reinsurance returns are already at or below the cost of capital: ratings agency Fitch expected return on equity to fall from 8.5% in 2016 to 2.1% in 2017, but forecast it would increase to 7.1% in 2018. The cost of capital for companies, meanwhile, was projected at 6-7% in 2017. As reinsurance recovers from a turbulent year, emerging markets should help drive the rebound. Although conditions are likely to remain tight, there is considerable optimism as reinsurers and investors in related securities look for opportunities in fast-growing economies in Asia, Africa and the Gulf.

Latin America is not to be ignored, however, as Mexican insurance authorities reported strong demand from international markets and healthy pricing in early 2018, despite a series of recent global catastrophes. At
In August 2017 an international partnership was forged between the UN and the global insurance industry, which will help boost micro-insurance.

Developing countries are often compelled to turn abroad to cover major disasters, as they have limited domestic capacity due to the size of their economies and local insurance markets.

In 2015 the International Financial Corporation, part of the World Bank Group, opened the Global Index Insurance Facility (GIIF) with Swiss Re as its technical partner. The GIIF is a donor-funded programme to support index-linked insurance in developing countries. That same year, French insurer AXA announced it would provide reinsurance capacity for weather-linked products introduced by the World Bank under the GIIF.

CATASTROPHE RISK: One of the main avenues to emerging markets for reinsurers is through CAT coverage. Developing countries are often compelled to turn abroad to cover major disasters, as they have limited domestic capacity due to the size of their economies and local insurance markets. It is also a product line where the modes of participation for international reinsurers are straightforward, with ample opportunity for innovation and product development. The triggers are transparent, the events are well defined and the duration of the cover tends to be short.

Although CAT coverage is needed and utilised everywhere, and most claims are paid in developed markets, the insurance is particularly suited to emerging economies. Because of their locations, populations and lack of infrastructure, these countries tend to be most affected by weather-related and seismic events. Thailand, the Philippines, Mexico, Indonesia, Papua New Guinea and a number of sub-Saharan African nations, for instance, are all highly vulnerable to natural disasters and are good candidates for coverage.

Development of the segment is ongoing, but a number of programmes are already in place. For example, the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which is currently owned and operated by 16 governments from the region, was created in 2007 with international assistance. It is the first and only regional fund to date that pays out claims based on statistical parameters rather than actual losses incurred. Reinsurance is a key component of the coverage, as it allows for the purchase of CAT insurance at lower rates than would usually be available commercially. Payouts from the CCRIF totalled $100m as of late 2017.

Another such entity is the Pacific Catastrophe Risk Insurance Company (PCRIC), which covers the Cook Islands, the Republic of the Marshall Islands, Samoa, Tonga and Vanuatu. The entity was designed to pool risk and tap international reinsurance markets to cover key regional risks, such as tsunamis, earthquakes and cyclones. Established in June 2016 after the completion of a pilot programme from 2013 to 2015, the PCRIC mobilised $45m worth of coverage for the 2017/18 cyclone season, up from $38m a year earlier.

To cover the African market, African Risk Capital (ARC) was launched in 2014 as a sovereign CAT fund. It aims to have $1.5bn of coverage available by 2020, although it will likely require significant international support to meet this goal. In this regard, the ARC has reported that the response from the global reinsurance market has been positive so far.

INNOVATION: In addition to traditional reinsurance arrangements, CAT bonds and CAT swaps are becoming a bigger part of the landscape. Under a swap, exposure is transferred to investors in return for a payment – similar to a bond or a reinsurance agreement, but with less structure. These developments allow for the quick identification of risk and deployment of capital, in turn resulting in highly competitive terms. As reinsurance becomes more oriented towards capital markets, some developing economies may be better served.

For instance, Mexico’s Fund for Natural Disasters (Fondo de Desastres Naturales, FONDEN) uses an index based on the Richter scale to provide reinsurance to cover costs after the country’s earthquake insurance fund is tapped out. In 2017 FONDEN sold a $360m CAT
bond, surpassing the $290m that was initially planned. In the Philippines, a parametric disaster line to cover the 25 most disaster-prone provinces was initiated in 2017. The fund, valued at P1bn ($19.8m), received support from the World Bank, with the risk fully ceded to international reinsurers. In a related development, the World Bank arranged a $206m CAT swap line for the country, which will cover typhoon and earthquake risk.

At a global level, the World Bank has initiated a pandemic CAT programme, issuing a $320m bond and completing $105m worth of swap transactions in 2017. The pandemic emergency financing facility will provide cover for the flu; coronaviruses, such as SARS, filoviruses, including Ebola and Marburg; Crimean-Congo fever; Rift Valley fever; Lassa fever; and others. World Health Organisation data on the number of people affected by an outbreak is used to trigger payments.

The size of the CAT bond market has more than doubled over the past decade. It reached record volumes in 2017, estimated at $12bn, with more than $30bn outstanding. There are signs that alternative financing is outpacing traditional reinsurance, which could have a major impact on developing economies, given the speed and flexibility of market-based solutions.

**BARRIERS TO RISK:** The micro- and index lines have historically faced challenges, and it can be difficult to generate demand for these products. The Manggarai Water Gate micro-insurance programme, for example, was established in 2009 with the help of Munich Re. It paid out a fixed amount when the level at the Manggarai Gate – built to help control floods in Jakarta – breached a predetermined level. However, the demand was not there: only 50 policies were sold, and as a result, the programme was discontinued in 2010.

In terms of index-linked initiatives, it is not clear whether these securities can be fully self-sustaining, as most rely on multilateral and donor support. In places like China and India, markets are able to fund the risk internally, but in smaller markets, the mismatch between the potential losses and the critical mass on the ground is substantial. Island nations in particular lack the domestic markets to fund the amount of reinsurance required to cover inevitable natural disasters. Poor performance also threatens the sector, and one major loss can shift sentiment, which can freeze markets and make risk difficult to transfer. For instance, an 8.1-magnitude earthquake in Mexico in August 2017 could have wiped out FONDEN’s financing completely. Although the payout ended up being a manageable $150m, it highlighted potential problems.

**PROTECTIONISM:** Another challenge for reinsurers in emerging markets is the rise of protectionism. According to AM Best, an insurance ratings agency, the trend towards more open economies has hit a speed bump in recent times, as populist sentiment and isolationism increase around the globe. In insurance markets, these trends have resulted in new efforts to restrict market entry, such as local incorporation rules and higher capitalisation levels. Reinsurance is often targeted directly. This can include mandatory cessions to state reinsurers, minimum retention levels and high capital requirements for overseas cessions.

The Global Reinsurance Forum has identified 28 countries or regions that have restrictions on reinsurance or are in the process of putting them in place. While a number of developed countries are included – such as the US, Germany and France – mandatory cession and other similar requirements are more common in emerging markets. For instance, Kazakhstan and Russia have been particularly restrictive, with the latter forming the Russian National Reinsurance Company in 2016. “The introduction of local requirements is influencing international reinsurers,” Solomon Lartey, CEO of Activa International Insurance in Ghana, told OBG. “The global view of the reinsurer is bittersweet. For the big players facing natural disasters, they are getting squeezed from every angle.”

In 2008 Saudi Arabia announced that all foreign insurance companies operating in the country had to become locally incorporated. In addition, foreign ownership was restricted to 30% of the total capital of an insurer, while all risk was required to be placed
Although natural disasters have led to a tightening of the market, new technologies and innovation are assisting insurers and reinsurers in reaching historically underpenetrated markets.

With local insurers. A report by AM Best concluded that these rules were ineffective, as informal fronting arrangements meant much of the risk was placed internationally anyway. To mitigate this, authorities initiated minimum retention levels, requiring that 30% of premium ceded be kept in the country. The Saudi net retention ratio has been well beyond this in recent years, at 81% in 2015 and 82% in 2016.

Similar requirements have been introduced in sub-Saharan Africa: 15% of life cessions and 10% of non-life cessions in Gabon must go to the Société Commerciale de Réassurance du Gabon; 15% of all reinsurance cessions in Uganda must be made to Uganda National Reinsurance; African Reinsurance Corporation (Africa Re) is entitled to 5% from underwriters in the African Union; and in Nigeria 5% goes to Africa Re and 5% is ceded to the West African Insurance Companies Association Reinsurance Corporation. Furthermore, Nigeria, Ghana and Uganda require that all local capacity be exhausted before placing risk overseas, but due to the small size of domestic markets this threshold is generally reached.

Protectionism is increasingly evident in Asian markets as well. So-called voluntary cessions to Malaysia Re will continue at a rate of 2.5% until the end of 2019 at least. In the Philippines, 10% must be ceded to the National Reinsurance Company of the Philippines, while in Sri Lanka 30% must go to National Insurance Trust Fund, up from 10% in 2013. Thailand has required 5% cessions to Thai Re since 2005, though this has not been enforced since the damaging 2011 floods. Vietnam, meanwhile, has required mandatory 10% local cession since 2016.

Notably, Indonesia, via the Indonesian Financial Services Authority (OJK), has established a number of reinsurance rules to encourage more domestic cession. Motor, health, personal accident, credit, life and surety risk must remain in the country, though products for multinational companies underwritten by international insurers are allowed. Each insurer must prepare an insurance support strategy, which sets out a reinsurance and retention plan, while automatic reinsurance agreements must utilise domestic capacity first—going overseas only if the domestic market is unwilling or unable to fill the order, as long as proof of this is provided to the OJK. Furthermore, foreign insurers taking on risk must be rated above “BBB”.

Indonesia has also set up a national reinsurer, Indonesia Re. Formally established in 2015, Indonesia Re is an amalgamation of the existing reinsurers: Reasuransi Umum Indonesia, Reasuransi Internasional Indonesia, ASEL Re, Asuransi Kredit Indonesia and Reasuransi Nasional Indonesia. It was created to keep premium in the domestic market and may be recapitalised to achieve this goal. European insurers are worried that the new company could result in a higher rate of mandatory cession. While Indonesia is starting to employ protectionist measures, its economic growth is leading to overexposure in the domestic insurance sector. JLT Re, global provider of reinsurance broking, noted that although premium grew at a 10% rate from 2011 to 2016, the pace is not fast enough to fully cover the rise in exposure, placing underwriters at more risk.

Interestingly, Mexico and most Latin American markets are free of such protectionist measures, with the exception of Argentina, with a 15% mandatory cession.

Forcing up retention rates may be difficult, as insurers in developing countries often do not have the necessary capital to serve all business. A good portion of premium required to remain domestic already ends up overseas; national reinsurers often have no choice but to turn to international markets. “A lot of our local players are more distribution organisations,” Mark Lwin, CEO of AIG Philippines Insurance, told OBG. “If you look at retention rates, they are between 1-2% and 6% at most. The gap between the desire to keep premium in the local market and the capacity to do so is significant.”

STRUCTURAL RISKS: Local conditions can impose specific challenges for insurers and reinsurers alike. On the life side, EY anticipates a tapering of growth in East Asia, as demand shifts from investment-linked products to protection products. In terms of the non-life segment, EY has forecast a pick-up following a period of slower growth stemming from macroeconomic concerns, although the rebound will likely be capped by competitive and regulatory pressures.

There are common structural risks in emerging markets, such as limited data and underwriting experience; however, advances in technology should see these areas improve, and some developing economies already have a substantial amount of data available. For example, PNG has 50 years of cyclone data and Mongolia’s livestock census dates to 1918. Distribution is another significant issue in emerging markets, as extending coverage to both individuals and corporations can be challenging. Reinsurers becoming more involved at the local level is one potential solution; however, this sort of activity currently lies outside the normal field of operations and responsibility.

Globally, the reinsurance market is becoming increasingly concentrated—the top-five players currently control around 90% of the market—but in some cases, local markets are becoming too competitive, which can lead to a mismatch in terms of pricing. In PNG, foreign exchange restrictions have led to reinsurance payment challenges, while in other markets, the fall in local currencies has led to a decline in the market size in dollar terms, despite strong business.

LOOKING AHEAD: The reinsurance sector is changing in both developed and emerging economies all over the world. Although natural disasters have led to a tightening of the market, new technologies and innovation are assisting insurers and reinsurers in reaching historically underpenetrated areas. Alternative solutions are likely to create uncertainties as well as opportunities, but all indications suggest that reinsurance in emerging markets is set to grow in both absolute and relative terms.

Although there are concerns surrounding increased protectionism, the desire to keep more premium within emerging economies is likely to bolster industry development and capacity building. “It is up to global players, but they must stop thinking that African business is too small,” Lartey told OBG. “African regulators are talking to each other, fighting to close every loophole.
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Energy & Renewables

Gas will become an increasingly important resource
Efforts to increase refining and reduce fuel imports
Potential for offshore and unconventional exploration
Focus on renewables set to complement fossil fuels
ALL ROADS LEAD SOMEWHERE, OURS LEAD TO THE FUTURE

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Encouraging outlook

An increased focus on renewable energy is set to complement the country’s long-term commitment to fossil fuels

The steep fall of oil prices in 2014 underlined the extent to which the Algerian economy, already under pressure from growing domestic demand for energy and decreasing output, was dependent on hydrocarbons. Algeria is now facing the challenges of reforming and revitalising this strategic sector and, through state-owned energy company Sonatrach and its SH2030 Leading the Change strategy, is giving shape to long-term developments in offshore and shale. Renewables, meanwhile, are set to become an increasingly prominent component of the energy mix.

SIZE & PERFORMANCE: The energy sector is the driving force behind the Algerian economy, with hydrocarbons accounting for about 30% of national GDP, 60% of budget revenue and 96% of exports.

Algeria was the biggest gas producer in Africa in 2017. It had some 4.3trn cu metres of proved natural gas reserves, ranking it 10th in the world and second in Africa, behind Nigeria. It was also third largest on the continent in terms of proved oil reserves, behind Libya and Nigeria, and 16th in the world.

In the second quarter of 2018 the National Statistics Office recorded an 8.2% year-on-year decrease in volume terms in the hydrocarbons sector, following a 2.4% drop in the first quarter. This follows a downward trend in output over the last decade: in 2006-16 oil production contracted by an annual average of 2.2%, while gas, conversely, grew by an average of 1.2%. Although oil output experienced a brief recovery in 2016, production was down 2.3% from 1.6m to 1.5m barrels per day (bpd) in 2017. Gas production, meanwhile, was down marginally from 91.4bn to 91.2bn cu metres in 2017. Although primary production from current oil and gas fields is forecast to ease to 181.3m tonnes of oil equivalent (toe) by 2019 and 167.2m toe by 2023, new fields are expected to generate 3.5m toe and 31.5m toe, respectively, for these years, bringing combined production to 192.2m toe in 2019 and 203.7m toe in 2023. The remainder is to be contributed by associated gas. While energy exports decreased in volume terms in 2017, the recovery in global oil prices allowed Algeria’s energy exports to rise in value, from $27.92bn to $33.06bn. The government forecasts energy export revenue will amount to $33.2bn in 2019, down slightly from the $34.37bn targeted in 2018.

It has been predicted that the world oil supply gap will reach 3m bpd by 2030, and Algeria finds itself in a similar position to that of most hydrocarbons producers, whereby lower oil prices have tightened the resources available for to fund exploration. Due to a combination of falling energy output and growing domestic consumption eating into energy exports, foreign exchange reserves decreased from $178.93bn in December 2014 to $88.6bn in June 2018.

With imports slated to reach $44bn in 2019, compared to a forecast of $43.5bn in 2018, the trade deficit seems likely to deepen. At the core of Algeria’s strategy to reduce imports is a new orientation towards refined products and petrochemicals. Oil refining is expanding, recording growth of 3% in the first half of 2018 relative to the same period in 2017.

STRUCTURE & OVERSIGHT: The nationalisation of the hydrocarbons industry in 1971 institutionalised the predominance of the state in the sector. State-owned company Sonatrach is the main oil and gas producer in the country, as it must by law own at least 51% of hydrocarbons exploration and exploitation rights. Sonatrach can choose to carry out activities alone or in partnership with international oil companies (IOCs). IOCs operating in Algeria include Shell, Total, Eni, BP, Statoil, Cepsa, Repsol and Anadarko, as well as other major players. In 2018 Sonatrach carried out most upstream activities without support from partners, undertaking 73 research perimeters alone, against seven in partnership, and 122 exploitation perimeters alone, against 49 in partnership.

Hassi R’Mel and Hassi Messaoud are the biggest gas and oilfields, respectively, in the country, accounting for around 96% of exports.
The SH2030 Leading the Change project aims to increase the national oil company’s revenue by $68bn between 2018 and 2030. for 44% of remaining conventional reserves. The Ministry of Energy and Mining oversees the sector, while the Hydrocarbons Regulatory Authority administers it. The National Agency for Hydrocarbons Resources Valorisation (Agence Nationale pour la Valorisation des Ressources en Hydrocarbures, ALNAFT) is in charge of promoting investments and concluding research and exploitation contracts. As the sector is closely tied to the national legal framework, it has undergone many changes. Law No. 86-14 of 1986 was the first piece of legislation to open it up to foreign investment, while stipulating that Sonatrach must hold a minimum 51% stake in any upstream activities. Then in 2005 Algeria took a step towards the liberalisation of hydrocarbons with the draft Law No. 05-07 in April 2005, which was set to allow foreign partners to have a majority stake. However, the state intervened before the law could be published, modifying it with Ordinance No. 06-10 in 2006. This amendment restored Sonatrach’s right to a majority stake, as well as introducing a retro-active windfall profit tax on barrels exceeding $30.

The hydrocarbons law was again amended in 2013 with Law No. 13-01, in a bid to offset the negative impact of windfall profit taxes on foreign investment by introducing a battery of investment incentives.

ENERGY POLICY: Policy adjustments were deemed necessary in light of a context of growing demand for energy, combined with decreasing output and vulnerability to external shocks. After a period of unstable management since 2010, Sonatrach was appointed a new CEO in March 2017, Abdelmoumen Ould Kaddour, who has demonstrated a commitment to reform the Algerian national oil company.

The new CEO announced a strategy of overall transformation for the company entitled the SH2030 Leading the Change project, with an investment plan of $55.7bn in 2019-23. Of this total planned investment, 76% will go towards exploration and production (E&P), 16% for refineries and petrochemicals, 3% to pipeline transport, 2% for liquefaction and separation, and 2% to renewables. Beyond Algeria, the company has additional plans to invest some $724m abroad over the period, primarily in Libya, Mali and Niger.

The overarching aim of the initiative is to make Sonatrach one of the top-five national oil companies in the world, and raise its revenue by $68bn between 2018 and 2030. It focuses on reorientating the company towards downstream and more value-added fields like petrochemicals and refining, but also on sharpening its traditional E&P activities, with the support of renewable energies. In addition, it addresses issues related to investment in human capital and digitalisation. Ould Kaddour’s approach is distinguished by an understanding of the importance of public relations, as shown by the regular press conferences he holds, as well as the recent resolution of disputes with foreign partners such as Total, Eni or Saipem. Prior to his appointment, relationships with foreign partners had deteriorated, as evidenced by unfruitful tenders: only four of the 31 blocks tendered in 2014 were attributed. Additionally, Sonatrach has been focusing on internationalisation. It has bought the Augusta refinery in Italy, with ownership transferred in December 2018, and signed a memorandum of understanding (MoU) in August 2018 with Bolivia’s Yacimientos Petrolíferos Fiscales to cooperate in gas trading, petrochemicals and refined products.

NEW LAW: Alongside this, the government is preparing a highly anticipated new hydrocarbons law, slated to be finalised in early 2019, which will be more pragmatic and investor friendly than existing legislation. Among the landmark measures it is expected to include are tax incentives and contract models that are more adaptive and responsive to the needs of different projects. The 49:51 policy is set to remain in place, however. Data indicates disinterest among international companies to invest in Algeria in recent years. For instance, 19 offers have been received for the 67 exploration blocks tendered since 2008. Drilling done in partnership has also dropped, from 25 sites in 2008 to four sites in 2018. While oil price volatility and the redeployment of activities by E&P companies can explain part of this evolution, legal frameworks are also a key factor as countries with hydrocarbons reserves compete to attract foreign investment.

The combination of Sonatrach’s new approach and the new hydrocarbons law might lead to a broader change of paradigm in relationships with foreign investors. Ould Kaddour asserts that partners are needed to share risks and finance new projects. This change of attitude is also perceptible in the ALNAFT communication processes; the institution organised an open day in October 2017 to promote its activities and bring together current or potential private partners. “We have changed many of our approaches. We are now more open,” Arezki Hocini, president of ALNAFT, told OBG. A surge of interest among foreign companies has duly ensued. “Even companies which have never operated in Algeria have come to see us,” Hocini told OBG. A further illustration of the positive impact of
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.
Algeria aims to have 22GW of renewable generation capacity by 2030

The new hydrocarbons law, expected to be tailored to attract FDI, could reverse this trend, however.

This more outward-looking approach is the Algeria Future Energy Summit, held in October 2018, which was attended by over 500 guests from 43 countries and led to various new agreements being signed.

Another crucial focus of energy policy is the promotion of energy efficiency and renewable energies, along with a revaluation of subsidies. Mustapha Guittouni, the energy minister, estimates the annual cost of oil subsidies to be $15bn, which Algeria simply cannot afford given the pressure on its finances. In 2011 the government launched the National Development Plan for Renewable Energies. The plan was updated in 2015, and now sets an objective of 22 GW of renewable energy generation capacity by 2030, with a first target of 4500 MW by 2020. This transition is a way for Algeria to comply with the requirements of the Paris Agreement of 2015 on climate change, while in the process easing pressure on its gas resources, which are critically important to generating revenues. Implementation of the plan will be supported by National Fund for Renewable Energies and Cogeneration.

**OIL & GAS VALUE CHAINS:** The oil and gas value chain includes all stages from discovering fields to delivering end-products, such as exploration, development, production, transport, storage, refining for oil or processing for gas, trading, marketing and distribution. Transportation is carried out via pipelines or on liquefied natural gas (LNG) carriers. Oil is stored in tanks, while gas is stored underground. It is a long and complex chain involving diverse costs and risks, especially in the E&P phase, and is highly capital and technology intensive – hence the need for Sonatrach to partner with IOCs that have financial means, experience and technical know-how.

Being more oriented towards upstream activities, Algeria’s economic performance depends on commodity prices. At present, its downstream activities are characterised by a lack of global investment, although there are projects under way to further develop this segment in the medium to long term, and boost downstream activities with more added value. To this end, Algeria is developing petrochemicals, refining and even trading activities, and in August 2018 Sonatrach announced it had entered into talks with 14 foreign companies regarding the possibility of setting up joint ventures.

**OIL PRICES & LOCAL INDUSTRY:** Along with many other hydrocarbons-producing nations, Algeria was affected by the drop in international oil prices that began in mid-2014, and which shrunk the country’s revenue and investment capacity, and consequently slowed down the broader economy. However, it is notable that the latter proved more resilient than it did during the 1986 oil glut. Sonatrach, for its part, was able to maintain its investments over the period, preventing a dramatic plunge in production as foreign investment decreased in 2015 and 2016.

“The market in Algeria is dominated by Sonatrach, and Sonatrach does not act according to the barrel price. It has a five-year plan,” Zied Ben Hamad, general manager for North Africa at oilfield services company Schlumberger, told OBG. “Nevertheless, Algeria is not impermeable to the international context, and 2015 marked the biggest crisis the industry has known.”

Globally, investment in the hydrocarbons sector decreased between 2014 and 2016 by more than 40%. Investment in upstream, meanwhile, fell by 15.4% in 2016 and 8.3% in 2017, with a direct impact on E&P activity. The first annual rise in oil prices since 2012 came in 2017, with Brent crude oil prices averaging $54.19 per barrel, compared to $43.73 in 2016.

This recovery allowed a range of activities in the sector to resume, with hydrocarbons investment amounting to $450bn globally. There were also further price increases in 2018, with the per barrel price of Brent crude oil topping $80 in October of that year, its highest level since 2014, but decreasing somewhat thereafter, dipping to around $60 in late 2018.

**FDI:** Extensive bureaucracy and high rates of taxation currently hamper foreign direct investment (FDI) in Algeria’s energy sector. It has recorded a continuous decline since 2016, decreasing by 8% in 2016 and 33% in 2017, from $2.1bn to $1.4bn. According to the UN Conference on Trade and Development, FDI in Algeria fell by 26% year-on-year in the first half of 2018, largely due to dependence on hydrocarbons.

The disaffection of foreign investors has impacted production levels in recent years, although they have been kept on track by Sonatrach investments. It was reported that out of the 31 potential licences offered to foreign investors, only three are in development, with all of these at the initial set-up stage.

Moreover, Algeria is increasingly in competition with countries like Egypt that are more appealing to foreign investors. “Everyone wants to work in Egypt. A few IOCs are the traditional partners in Algeria, which is relatively limited for a country offering many opportunities,” Ben Hamad told OBG.

The new hydrocarbons law, expected to be tailored to attract FDI, could reverse this trend, however.

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Indeed, many players are likely waiting for the law to be implemented before moving in. “Stability of contracts and a more incentivising tax framework would definitely further encourage international investment in the future,” Didier Wloszczowski, Algeria Business Unit Director of Repsol, told OBG.

E&P: Decreasing output and maturation of major oil and gas fields such as Hassi Messaoud or Hassi R’MEL has precipitated a need to further exploit Algerian underground reserves, two-thirds of which remain unexplored, especially in the north and south-west of the country. Based on the pace of production in 2017, reserves are forecast to be depleted in 47.5 years for gas and 21.7 years for oil. To address this, Algeria announced that $78bn will be invested in upstream activities through to 2021, with the largest share to be devoted to surveying and exploration.

Recent exploration efforts have proved fruitful, with Guitouni announcing the discovery of 17 oil and gas fields in the first five months of 2018, against 14 for the same period in 2017. In line with a strong acceleration of discoveries since 2010, there were 32 discoveries recorded in 2016 and another 33 in 2017. This helped the level of remaining available reserves increase from 4.13bn toe in 2017 to 4.19bn toe in 2018. Although most discoveries are made by Sonatrach, foreign partners also play a key role in exploration. Sonatrach is similarly predominant when it comes to production. In 2018, for example, 25% of primary production came from projects done in association, while the 75% remaining were done by Sonatrach. Sonatrach also moved forward on gas exploration with the signing of an MoU with BP and Equinor to explore the basins of south-west Algeria.

While exploration activity is ongoing, there are also concerted efforts to maximise output from existing fields. Indeed, the biggest field development under way in the country is the Boosting Hassi R’MEL Phase III project – a $2.79bn investment planned for the first quarter of 2020, which Sonatrach hopes will maintain the field’s levels of production. Declining hydrocarbons output has also prompted interest in offshore and unconventional hydrocarbons, whose potential is largely unexplored. “The Algerian oil map stops at the sea,” according to Ben Hamad. Both feature in the SH2030 Leading the Change strategy, which aims to generate 2bn cu metres of unconventional resources by 2030 and 70bn by 2040, as well as explore the untouched 100,000 sq km offshore area.

In 2014 evaluation of seismic studies carried out off the coasts of Béjaïa and Oran indicated that it might be worth digging further, but to date no drilling has been done. However, steps forward were made in 2018, which saw the announcement of three new offshore studies and a possible start to drilling offshore in 2019, in addition to the signing of a deal between Sonatrach, Total and Eni to pursue offshore exploration.

OFFSHORE: The Algerian offshore area corresponds with the southern edge of the western Mediterranean, extending from east to west over 1200 km, and covering an area of 93,500 sq km. It is characterised by a relatively narrow continental shelf. Exploration began in the late 1960s with seismic reflection work, and a total of 38,000 km of 2D and 5000 km of 3D seismic surveys have been carried out. Gravimetric and magneto metric surveys have also been conducted. Deep drilling has taken place at the HBB-1 site in the marginal plateau level of the Habibas basin, in the west zone; and there are two core drill sites, ARZ-1 and ALG-1, on the continental shelf of the Algerian-Provençal basin. The analysis of the results of the HBB-1 drilling, combined with the existing data and basin modelling, suggests that the Algerian offshore area has the possibility of petroleum potential linked to a functional play. To explore this potential, Sonatrach has partnered with Eni and Total in two areas to the east and west, respectively, with the aim of drilling the first exploration wells in the Algerian offshore. As of late 2018 related preparation work was being started, with well drilling to be preceded by a 3D seismic acquisition programme to allow engineers to optimise the position of the well.

TECHNOLOGY & INFRASTRUCTURE: In addition to conventional and unconventional exploration, Algeria has been making concerted efforts to develop its pipeline network. A new 765-km pipeline connecting Reggane North and the GR5 compression station in Hassi R’MEL was inaugurated in February 2018. This followed the opening of the Hassi R’MEL station in July 2017, which will see the field’s production capacity increased thanks to the new pipeline. Various other pipeline expansions are also taking place. The construction of a new $274m pipeline between El Aricha and Beni Saf started in September 2018 and is slated to finish in August 2020. Spanning 200 km, this development will allow gas from the Maghreb-Europe pipeline to reach MEDGAZ. As a result of this project, the capacity of the latter will be increased from 8bn cu metres per year to 10bn cu metre, following the proposed installation of turbochargers.

In line with its overarching strategy to boost downstream activities, Sonatrach is in the process of revamping several of its oil refineries and gas

Oil indicators, 2007-17 (000 bpd)

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Source: BP
Reinvigorated by the rebound in oil prices and the pressing need to bolster more value-added activities as oil production declines, the national oil company is planning to invest in downstream activities, notably petrochemicals.

Petrochemicals: Reinvigorated by the rebound in international oil prices and the pressing need to foster more value-added activities as oil production declines, Sonatrach is planning to invest in a number of downstream activities, notably petrochemicals. The SH2030 Leading the Change project outlines plans for four petrochemicals projects in partnerships by 2023, concentrated in Arzew and Skikda. A milestone in the execution of this strategy came about in October 2018, when Sonatrach and Total established a joint venture – Sonatrach Total Entreprise Polymère – which will carry out petrochemicals activities in Arzew, transforming propane into polypropylene. Front-end engineering and design of the facility is expected to begin in November 2018. The plant will have a production capacity of 550,000 tonnes per year, sourcing the 640,000 tonnes of propane required for production from the liquefied petroleum gas (LPG) plant in Arzew. Other projects include a polyester production facility in Skikda, and an LPG steam cracker facility and methanol facility, both in Arzew.

In November 2018 Sonatrach signed a stakeholder pact with Turkish conglomerate Rönesans Holding for the construction of another petrochemicals complex in Turkey’s Adana province. With an expected investment of $1.2bn, the plant is expected to transform 550,000 tonnes of propane per year – to be provisioned by Sonatrach from its LPG installations – in order to produce 450,000 tonnes of polypropylene.

With regard to further investment possibilities – given that Algeria intends to increase its output of electricity, though the total more than doubled from 257 GWh in 2016 to 537 GWh in 2017.

Renewable Energy: Algeria made the development of renewable energies a national priority with the National Development Plan for Renewable energies, which seeks to have renewable energy sources account for a combined 27% of the national energy mix by 2030. Renewable energies are still largely untapped, with investments remaining modest in spite of considerable potential. Algeria has a high level of sunshine, at over 3000 Hz per year, and an extremely high average

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Energy & Renewables Overview

Proper management of projects, further inclusion of foreign players and increased participation of new energy are all essential to making Algeria globally competitive going forward.

Some progress on the solar front has already been made. In October 2018 the company announced the inauguration of a 10-MW photovoltaic solar plant in its Bir Rebaa Nord field that will produce 20 GWh, which will in turn allow the company to use less gas.

Outlook:
The continued vulnerability of the Algerian energy sector to external shocks makes its continued evolution a necessity. Sonatrach appears to have accelerated this development in recent years and has launched a strategy of transformation of the state-owned oil and gas company, which is set to open opportunities in untapped segments such as renewable energies or downstream activities. This goal was expressed in the SH2030 Leading the Change strategy, and has already generated interest among international companies involved in the country. While diversification will need to remain a top priority to avoid economic crises such as that of the 2015-17 period, energy will remain the most prominent sector for the country in the long run. Proper management of projects, further inclusion of foreign players and an increased participation of new energy sources are all essential to making the country globally competitive.
Bright futures

Abdelmoumen Ould Kaddour, CEO, Sonatrach, on encouraging international partnerships and sparking local participation

What is being done to ensure mutually beneficial partnerships with international companies?

OULD KADDOUR: Current and future partnerships are a core part of our SH2030 strategy. Since early 2017 most litigation with partners have been resolved, and our goal is for Algeria to once again begin attracting major global actors. Considering this, in early October 2018 we signed two deals with Total, with the aim of developing the Erg Issouane gas field and setting up joint ventures for petrochemical projects. In addition, our hydrocarbons law is being changed in order to attract both partners and foreign investors. The law is expected to be ready for implementation at the beginning of 2019. Amendments may include tax incentives and the loosening of administrative procedures.

What can be done to improve the participation levels of local Algerian companies?

OULD KADDOUR: Our goal, which has been set with the government, is to increase local content rates from 40% to 55% by 2030. This is a strong national commitment to promote the Algerian economy, and the first step towards this goal is the implementation of a clear and defined local content policy for Sonatrach.

Significant measures are being implemented to promote local content, and ambitious targets at all levels will be established. New procurement procedures are being deployed all over the company, taking into consideration local choice of goods and services companies, and committing to the future development of a national engineering and manufacturing sector. In particular, a procurement and logistics organisation is being established, which will allow local suppliers to increase their overall competitiveness.

How can companies arrange their organisations to maximise efficiency within management structures?

OULD KADDOUR: We need to put performance at the heart of our business and this includes the evolution of our key processes. At a level like human resources, we need to make careers more attractive and diverse. Additionally, management of deadlines is fundamental to our projects and can be improved with the creation of an engineering department that follows these projects.

Centralisation of procurement and logistics is an imperative step to simplify processes, improve performance and reduce costs. Likewise, the performance of each of our activities must be measured and verified in a simple, fast, quantitative and rigorous manner.
Gas giant

As a viable energy alternative, gas will become an increasingly important resource going forward

As oil output declines and fields mature, state-owned Sonatrach is relying more on Algeria’s extensive gas reserves to maintain exports while meeting growing domestic demand, with gas the focus of its SH2030 Leading the Change transformation strategy. There are two unconventional and offshore exploration wells planned for 2019, seven for 2020 and 12 in 2021 – with half to be carried out by Sonatrach and the other half in partnerships. While more and more offshore and shale gas opportunities are being identified, they may prove challenging to harness. Unconventional gas is thus in a strong position to attract investors, especially in light of the new hydrocarbons law currently in preparation.

CONVENTIONAL GAS: Boosting gas output is at the heart of Algeria’s strategy to maintain high levels of energy exports and revenue. “There are many untapped gas reserves, especially in the south-west,” Zied Ben Hamad, general manager for North Africa at oilfield services company Schlumberger, told OBG. “There is much exploration and some development to be undertaken, but Sonatrach cannot do everything alone. It requires capital,” he added.

Fields that began operations in 2017 and 2018 are set to boost gas output. In late March 2018 the gas field at Timimoun entered its production phase, with a capacity of around 5m cu metres of natural gas per day. It is jointly managed by Sonatrach (51%), Total (37.75%) and Cepsa (11.25%). Timimoun’s gas will come from 37 wells connected to a gas processing facility that ties into the GR5 pipeline, used to transport gas from fields in south-west Algeria to Hassi R’Mel.

This followed the launch of operations of the Reggane Nord project in December 2017, which will have an annual capacity of 4.5 cu metres once fully operational. Operated by Sonatrach and European partners Repsol, DEA Deutsche Erdool and Edison, this project is composed of six gas fields: Azrafil Sud-Est, Kahlouch, Kahlouch Sud, Tioulline, Sali and Reggane. Other projects under way include Touat, co-managed by Neptune Energy and Sonatrach, which will produce 4.5bn cu metres per year, with reserves estimated at 68.5bn cu metres. This project was expected to launch production in 2016 but is now scheduled for April 2019.

International oil companies that are traditionally more involved in oil production are significantly expanding their gas activities. For example, Total signed a contract in October 2018 with Sonatrach to jointly develop the Erg Issouane gas field, located on the Tin Fouyé Tabankort Sud permit. Reserves are estimated at around 100m tonnes of oil equivalent. As part of this $400m investment project, a 22-km pipeline will be built to link the field with the TFT gas treatment plant. Operations are planned to start in 2021. In addition, after the acquisition of Maersk Oil in March 2018, Total is now involved in the Berkine Basin. Eni and Sonatrach also strengthened their cooperation in the Berkine basin.

Sonatrach plans to expand gas production of oilfields such as Hassi Messaoud or Rhourde El Baguel. It also launched a new gas pipeline pumping 8.8bn cu metres per year from south-western fields.

PRODUCT DIVERSITY: In line with its SH2030 Leading the Change strategy, Sonatrach is also focusing on diversifying its portfolio of products for export, as well as developing commercialisation agreements with international partners. In November 2018 the company signed two deals valued at $100m with the US-headquartered company Air Products, which will see them produce and sell helium through their joint venture HELIOS. Sonatrach will furnish HELIOS’ liquid helium plant located in Arzew with the gas, with the aim of boosting exports to Europe and Africa.

Another step forward was the launch in November 2018 of the project to construct a phosphates complex, spread over four eastern provinces, which will start operations by 2022. This $6bn investment deal signed by Sonatrach (51%) and Chinese company CITIC (49%) will include three units, one of which will transform natural gas for the production of ammonia and...
Algeria has the third-highest available resources of shale gas in the world, with 9.3% of the global total. In terms of shale oil, Algeria is ranked 13th worldwide, with proven resources of 5.7bn barrels.

Unconventional is set to become a key pillar of Algeria’s energy mix. With total production to reach 5m tonnes per year, is hoped the plant will cover local needs as well as generate surplus for export. Sonatrach estimates it will export $1.9bn per year if the expansion of the global market continues at the same pace.

Growing Demand: While exploration and production are central concerns, the performance of the gas sector must also overcome growing consumption. “The biggest challenge for gas in Algeria is domestic consumption, which leaves little scope for export,” Ben Hamad told OBG. Consumption increased by 66% in 2007-17, and in 2017 domestic electricity and natural gas use were up 6.4% and 7.9%, respectively.

With the government pursuing universal gas connection, the country may need to produce as much as 100bn cu metres of gas per year to satisfy projected demand. An expanding population and middle class will drive consumption higher still, particularly as gas and electricity subsidies mean the population is not incentivised to consume carefully. In short, as gas is an essential part of the energy mix, and in light of consumption trends, it will likely prove both increasingly important and difficult to maximise gas exports.

Gas Flaring: In addition, the widespread practice of gas flaring represents not only an environmental hazard but also a waste of energy. In 2017 Algeria was the 11th-largest gas flarer in the world.

In part to address this, in September 2017 the Guel-lala unit was established to recuperate flared gas in Hassi Messaoud. Valued at €140m, the project allows the recovery of 900,000 cu metres of gas daily, of which 500,000 will be for retail and 400,000 for re-injection into exploitation processes.

In August 2018 Sonatrach announced it had signed up to the World Bank’s Zero Routine Flaring by 2030 initiative, aimed at reducing systematic gas flaring. It joined 35 companies, including the Tunisian, Egyptian and Moroccan national oil companies, as well as over 25 governments – among them the US, Russia, France and Morocco – and development institutions such as the African Development Bank.

The World Bank praised the move to join the initiative, and explained that in 2017, 140.6bn cu metres of gas had been flared around the world – 7.1bn less than in 2016. Additionally, the initiative is in line with the Paris Agreement of 2016, which means that by reducing gas flaring, Algeria may be able to receive further financing from international climate funds.

Unconventional Boost: According to a 2015 study published by the US Energy Information Administration, Algeria has the third-highest available resources of shale gas in the world, after China and Argentina, with 9.3% of global resources. The main basins for shale gas are located in the wilayas (provinces) of Ouargla, Adrar and Ghardaïa. In terms of shale oil, Algeria ranks 13th, with proven resources of 5.7bn barrels located in the provinces of Ouargla, Adrar and Illizi.

“Unconventional gas will become a pillar of Algeria’s future energy,” Abdelmoumen Ould Kaddour, CEO of Sonatrach, told OBG. “We will increase our efforts, together with our partners, to further explore and exploit these resources,” he added.

In October 2018 Sonatrach signed an agreement with BP and Norwegian multinational Equinor to explore and develop unconventional resources in the basins of south-western Algeria, which are seen as having considerable potential (see analysis). “When it comes to unconventional resources, Algeria benefits from a comparative advantage thanks to existing infrastructure, which mitigates the need for heavy investment and allows for high early returns,” Wissam Al Monthiry, head of country for BP, told OBG.

The agreement, signed on the sidelines of the Algeria Future Energy Summit, includes a research programme that provides for a new 3D seismic acquisition, and the drilling of several exploratory and appraisal wells. According to a company statement announcing the signed agreement, in the medium term the development of this project is expected to make it possible to replace gas production in existing deposits, as well as extend the operating life of surface installations.
Untapped potential

Claudio Descalzi, CEO, Eni, on investment opportunities in upstream, downstream and renewables

How would you assess the potential of the upstream segment in the medium term?
DESCALZI: Algeria still has a great upstream potential. Gas production is proving to be vital as many resources in the south-west basins are being developed and will be producing over the next few years. I also believe that Algeria has much to benefit from re-examining well-known producing plays using newer exploration technologies. This could also open up new plays that were previously overlooked, as we have seen with the Algerian offshore segment.

What are the main strengths and weaknesses of the Algerian energy sector?
DESCALZI: Algeria’s energy sector can boast many positive factors. First, it is a well-established industry, with an extensive and reliable infrastructure network and a variety of export routes. Second, from the point of view of an international company, Algeria is a reliable partner; Sonatrach is widely recognised as one of the best national oil companies in the world in terms of human resources and industrial knowledge. Lastly, Algeria has proved to be a remarkably stable country, despite being in a region dominated by political tensions, which has significant benefits for the energy sector.

The country’s main challenges are related to the natural decline in the quantity of hydrocarbon reserves. Algeria needs to stabilise its long-term production while striking a delicate balance between sustaining its exports and meeting a growing domestic demand for energy, as well as investing in the development of new infrastructure.

Which particular areas have the most potential for further investment?
DESCALZI: I think the upstream sector still has potential and I believe it will remain a strong engine for investments. Another strategic sector is renewables; Algeria has plenty of solar energy and this potential has yet to be harnessed. Rather than being a threat to the oil and gas industries, renewables can work in synergy, helping to reduce the gas demand of the domestic power sector while diversifying and decarbonising the energy base of the economy. The downstream oil sector can offer good reasons to invest as well. As Algeria develops its economy, it will need to meet growing demand for oil products and plastics. However, international companies need to look beyond their core markets, which are often struggling with a decline in demand.

How can international companies support the modernisation of Algeria’s energy sector?
DESCALZI: Eni has been in Algeria for almost 40 years, and since 1981 we have built a healthy relationship with Sonatrach and local stakeholders. This does not happen by coincidence, but instead is made possible through a proficient collaboration in many areas, going beyond a purely industrial relationship.

In this regard, international oil companies can contribute a lot, bringing to the country modern exploration and drilling technologies, as well as improving standards and processes. For example, Eni has committed to decarbonisation and aims to achieve zero gas flaring by 2025. We welcome any enhancement on the regulatory framework that favours companies working towards similar goals.

What could be done to improve the sector’s attractiveness to foreign investors?
DESCALZI: Investments in the energy sector are made under predictable and certain terms. There has been an ongoing debate over the reform of the petroleum law, which is expected to be finalised in 2019. Having a final and stable legal framework in place should help to encourage foreign investment in Algerian energy in the medium to long term.
Building momentum

Hesham Mekawi, Regional President, BP North Africa, on new technologies and developments in oil and gas

What can be done to further encourage Algeria’s upstream segment to reach its full potential?

MEKAWI: We are excited about Algeria’s upstream potential. Its improved infrastructure and reserves make it ideally positioned to become a major global oil and gas supplier. We recently extended the In Amenas production-sharing contract to 2027, and also signed a memorandum of understanding with Sonatrach and Equinor to find and develop gas resources around In Salah and Tadmaït. These will potentially sustain production at the In Salah Gas joint venture for many years.

Sonatrach’s 2030 strategy represents a significant positive development for its upstream prospects. The discussed amendment to the hydrocarbon law complements this strategy. These reforms demonstrate the government and Sonatrach’s shared interest in building growth in the sector.

How are international oil companies (IOCs) supporting the emergence of the shale gas segment?

MEKAWI: Algeria’s shale gas potential is among the largest in the world; however, its resources must first be thoroughly evaluated and explored. This must happen in order to accurately understand the scale, potential and challenges of the opportunities available. IOCs have the expertise to be ideal partners in the future development of unconventional gas resources. We can apply our technology and capabilities across the life cycle of field development. BP is now one of the largest shale operators in the US, and we have already demonstrated the application of our experience outside of the US through projects with major unconventional gas resources in Oman.

How will shale gas exploration and production projects in the MENA region continue to develop?

MEKAWI: There is likely to be considerable unconventional potential across the MENA region. The industry has been gathering data and conducting studies to better understand areas that could present the most competitive opportunities. These studies demonstrate that while there are large resources established across a number of hydrocarbon provinces, there remains significant uncertainty as to the production potential of shale in the region. Exploration and appraisal are needed.

What role will shale gas and alternative energy sources play in supporting energy diversification?

MEKAWI: The globe faces a complicated challenge. Increasing levels of energy are needed to build roads and hospitals, create jobs, and fund training and education, but we must simultaneously work to reduce emissions. Renewables are growing faster than any fuel in history, but they are likely to reach only one-third of energy demand by 2040. Therefore, we need to take a collaborative approach to reducing emissions, and meet energy needs while making all fuels cleaner. The BP energy outlook suggests that by 2040, oil and gas will account for at least 40% of the world’s total energy. Continued investments in oil and gas resources are necessary in order to replace declining output from existing fields and meet growing demand for energy. The MENA region has the conventional resource base and unconventional opportunities to add to that.

Where in North Africa holds the most potential?

MEKAWI: BP is active across the region, and we are excited by its diverse exploration opportunities. The Mediterranean is a key gas basin for us, and we believe that Egypt, Libya and possibly Algeria hold significant reserves. There are also vast areas of unexplored land in Libya and Algeria, and many technologies that could help unlock this potential. For example, we could use super high-density seismic technology, which is efficient and cost effective, to explore large areas while minimising the environmental impact. Similar technology has previously been used successfully in Oman.
Fuelling growth

A focus on liquefied petroleum gas is central to a drive to increase domestic production

Despite being a major oil producer, Algeria is a net fuel importer and is thus in the paradoxical position of being rich in hydrocarbons but lacking in refined products. It is currently in the process of developing its refining operations in order to satisfy domestic fuel demand, which has grown steadily since the 2000s.

REDUCING FUEL IMPORTS: The development of refining activities is now more urgent than ever. In 2017 domestic electricity consumption and natural gas consumption increased by 6.4% and 7.9%, respectively. Overall energy consumption rose by 7.1% to 16.7m tonnes of oil equivalent in the first three months of 2018, while natural gas consumption was up by 9.1%, reaching 12.8bn cu metres.

Refining production grew by 47% from 443,000 to 651,000 barrels per day (bpd) in 2006-16, with an average annual growth rate of 3.9%. However, it has been largely stagnant since 2014. The country’s six refineries cannot meet demand and fuel has to be imported in considerable quantities – especially diesel and petrol, which account for nearly 80% of derived energy imports. In 2017 the fuel import bill decreased in volume but went up in cost, reaching $1.6bn for 2.96m tonnes, compared to $1.3bn for 3m tonnes in 2016. Although refining throughput rose by an average of 4.3% a year in 2006-16, it has also declined since 2014. However, in the first quarter of 2018 it reached 8.2m tonnes, an increase of 4.4%.

With its investment capacity enhanced by the recovery in oil prices, state-owned energy firm Sonatrach has launched a programme to develop the refining industry and boost annual production capacity from 27m to 31m tonnes by end-2018, and 40m tonnes by 2022. It involves rehabilitating old refineries in Arzew, Skikda and Algiers, the purchase of the Augusta refinery in Italy, and the construction of new facilities in Tiaret, Biskra and Hassi Messaoud. The latter is being developed with $4.2bn of investment and should open in the fourth quarter of 2022.

Sonatrach is also pursuing a strategy of internationalisation to expand refining activities of which in-country development is lagging. In January 2018 the company signed a contract with the Dutch energy firm Vitol to exchange crude for refined products, and is in talks with oil majors and trading firms to create a trading joint venture. In May 2018 it announced plans to buy the ExxonMobil Augusta refinery at a cost of around $1bn. With a capacity of 175,000 bpd, it is set to help reduce fuel imports. Indeed, Abdelmoumen Ould Kaddour, CEO of Sonatrach, told local press that the combined production of the Hassi Messaoud, Algiers and Augusta refineries would be sufficient to cover all of the country’s domestic fuel needs.

STRATEGIC LPG: One major focus is increasing the production and use of liquefied petroleum gas (LPG). The government has set up a kit subsidy programme aimed at converting 500,000 vehicles to LPG by 2021 and kept LPG prices consistent while increasing the cost of other types of fuel. As a result, LPG consumption went up 57% between 2015 and 2017, and 39% year-on-year in the first half of 2018. By comparison, petrol and diesel use dropped by 6.3% between 2015 and 2017, with further decreases expected in 2018.

In November 2018 Sonatrach signed a $248.5m engineering project construction contract with Italy’s Maire Tecnimont to construct a fourth LPG train in the Naili Abdelhalim industrial complex. Expected to come on-line in 2021, the facility will increase LPG production from 3600 to 4800 tonnes per day. Consequently, LPG presents significant investment opportunities, especially in the development of distribution networks, storage and transport.

EXPORTS: Once it achieves self-sufficiency, Algeria plans to turn its strategic focus to boosting exports. It has set a target of exporting 35% of its fuel production by 2023. Storage capacity will therefore need to increase to 2m cu metres by 2021, up from 600,000 cu metres currently, and autonomy rise to 30 days.

In 2017 the fuel import bill decreased in volume but went up in cost, reaching $1.6bn for 2.96m tonnes, compared to $1.3bn for 3m tonnes in 2016.
**Rising tide**

Solar and wind power industries are growing thanks to ample potential and decreasing costs

In November 2018 the government released a new series of tenders for electricity production from renewable sources. A total of 200 MW of solar capacity is available for development, of which 150 MW can be bid on by international independent power producers (IPPs) in partnership with local firms, while 50 MW are reserved for state-owned utilities operator Sonelgaz. This is a key step in opening up the solar segment to IPPs, as Sonelgaz subsidiary SKTM currently dominates the country’s production of electricity from solar power.

Mouloud Bakli, managing director of local consultancy firm Tell Group, believes these tenders will constitute a catalyst for expanded participation of IPPs in the solar segment. “After this phase of 200 MW, we will continue to move forward,” he told OBG. “It is always difficult in the beginning, but Algeria is at the dawn of a revolution,” he added.

**SOLAR:** According to SKTM data from mid-2018 by SKTM, there are 21 photovoltaic (PV) power stations in the country, with a total capacity of 344.1 MW. In 2017 five PV stations were opened, with a combined capacity of 125 MW. Hybrid projects also exist, such as the combined solar thermal power plant at Hassi R’Mel in the wilaya (province) of Laghouat.

Solar energy is central to the National Development Plan for Renewable Energies, launched in 2011. Of the 22 GW of renewable generation capacity it targets, 13.6 GW will come from PV. One of PV’s advantages is the relatively short construction time of solar parks, averaging three to six months in sub-Saharan Africa. The Sahara represents 75% of Algeria’s territory and has 3000 hours of sunshine per year, or an average isolation of 5 KWh per sq metre per day; this rises as high as 6.9 in the southern region. Algeria thus has the highest solar potential in MENA and one of the highest in the world.

Sonatrach is working to leverage this underexploited potential, signing a contract with Total to identify opportunities in renewable energies at the Algeria Future Energy Summit in October 2018.

Crucially, the development of solar energy should help ease pressure on gas. “Algeria hopes to increase its gas exports by meeting domestic demand with solar energy,” Bakli told OBG. Another important advantage of solar is that it can be used to bring electricity to isolated and off-grid areas, as demonstrated by a solar programme installed in 20 villages in the south of the country.

The government has set a targeted integration rate for PV and solar thermal of 80% and 50%, respectively by 2020, and the local PV panels industry is growing, led by manufacturers Aures Solaire and Condor Electronics. However, the requirements of the tenders regarding locally manufactured PV components has been raised as a possible challenge.

**WIND:** Although more modest in potential, wind is the second axis of the government’s renewable energies strategy. The country’s first and only wind farm was constructed in 2014 at Kabertene in the wilaya of Adrar, with a generation capacity of 10 MW. Two 20-MW wind farms were slated to be constructed between 2014 and 2015, but these have yet to be built. The government aims to boost wind generation capacity to 1.7 GW by 2030, and is also planning the development of a wind industry with a targeted integration rate of 50% by 2020.

Wind development may be slower to take off due to lower levels of competition than solar. This partly stems from the fact that wind power is less profitable, varying as it does according to wind speed, which in Algeria is relatively moderate, at an annual average of 9.7 km per second.

In addition, the country has less experience in wind generation, and farms located in the Sahara imply higher-than-normal maintenance costs. Another challenge is accurate localisation. “The mapping of wind resources is not very precise,” Bakli told OBG.
Green goals

Fatma Zohra Zerouati, Minister of Environment and Renewable Energy, on national strategies to develop renewable sources and improve waste management

What are the main characteristics of the national environmental strategy up to 2030?

ZEROUATI: Based on the rights safeguarded by the constitution, the national strategy for the environment aims to progress the health and quality of life of citizens, the circular economy, food security, the fight against desertification and resilience to climate change. This will ensure the country is able to address future socio-economic and environmental challenges. The governance framework will remain the responsibility of the structures and institutions involved, but it will rely on adjustments to legislative and regulatory frameworks to reinforce synergy across sectors.

The economic vision of the country aims to strengthen the role of the private sector in the national economy. As such, it plays a crucial role in the implementation of the national environmental strategy, particularly in the context of public and private partnerships. The public sector will also strengthen its regulatory functions. The opportunities and areas of investment in this sector are rich and varied.

How can the use of solar energy and other renewable solutions be encouraged?

ZEROUATI: Algeria enjoys high solar potential, with 2000 to 3000 hours of sunshine per year and daily irradiation of 3-6 KWh per sq metre. These levels have allowed the government to establish a long-term national development programme that provides a capacity of about 22,000 MW. This programme has been supported by the recent creation of a legal framework that encourages the use of renewable energies through multiform incentives and the promotion of various local equipment suppliers.

A national strategy is being finalised regarding the implementation of a programme to develop off-grid renewable energies. The strategic objectives of this programme will include answering the energy demands of remote, isolated sites away from the energy grid, and reducing the impact of conventional electricity generation on the environment.

Algeria is beginning an exciting socio-economic and environmentally-dynamic relationship with renewable energies. The implementation of several of these projects will require detailed preparation of regulatory conditions, followed by communication and awareness campaigns with the goal of mobilising stakeholders and encouraging investment in the relevant issues.

What are the priority projects for the creation of a productive system for waste management?

ZEROUATI: The National Strategy for Integrated Waste Management 2035 focuses on reducing waste at the source, developing the circular economy and supporting these transitions with implementation plans, ongoing monitoring and evaluation. Reducing the volume of household waste, which is currently 13m tonnes per year, is a priority, as is the gradual establishment of selective sorting. The recyclable potential here is considerable, representing close to 6m tonnes per year.

The “polluter pays” principle will be introduced, and taxes will be changed to finance the costs of services related to waste management. In the past, public management of waste has not been sufficient and few financial incentives have been developed thus far. Moreover, around $2bn of public investments have been made since 2003. This gives us a solid base on which we can build systems for increased waste recovery. In addition to strengthening institutional, regulatory and governance frameworks, we will develop a communication strategy to motivate stakeholders. We will also encourage the opening of the market to the private sector; improve knowledge of waste streams; establish economic and financial incentives in order to stimulate interest in private investment; and implement a public packaging recovery system that will organise a variety of recovery channels for comprehensive, ongoing improvements to waste packaging.
Utilities & Water

Nationwide electrification rate at 99% in 2018
Efforts to increase rural natural gas connections
Climate and agriculture weigh on water resources
Strategy focused on infrastructure and sustainability
Efficient expansion

Aims include building more water-related infrastructure and growing the natural gas distribution network

Despite being rich in fossil fuels, Algeria faces challenges in its utilities sector in terms of distribution and efficiency. While the provision of electricity is a non-issue — though sustainable generation notably is — the rate of household connections to the natural gas network is in need of improvement, especially outside major cities. Drinking water is largely secure, yet business needs are straining resources, prompting increases in desalination and wastewater treatment.

SECTOR STRUCTURE: The distribution of gas and electricity began as a public service mission, and was solely controlled by the government until the early 2000s. Law No. 02-01 of 2002 brought a significant restructuring, in that it ended the state’s monopoly and allowed private operators to produce electricity. However, transport remains a natural monopoly, with private operators able to distribute electricity and gas only through concessions. The law also created the Algerian Electricity and Gas Regulation Commission, which oversees the sector. Today, the electricity and gas industries are under the direction of the Ministry of Energy (MoE), with other bodies, such as the Ministry of Environment and Renewable Energies, participating in the development of the national energy policy.

Despite liberalisation in 2002, public bodies remain dominant in the sector. Sonelgaz, the historical state-owned utilities operator, was itself reorganised in 2017 and now comprises 16 subsidiaries — compared to over 30 before the reshuffling — operating across electricity production, transport and distribution; and gas transport and distribution. Through its two subsidiaries, Sonelgaz Distribution d’Alger and Sonelgaz Distribution Centre, the company is the single distributor of electricity and gas in the country.

In terms of power producers, Algeria has six: Sonelgaz Production Électrique, Sharikat Kahraha Skikda and Shariket Kahraha oua Takat Moutadjadida, where Sonelgaz holds a majority stake in all three; as well as Sharikat Kahraha Hadjret Ennous – 51% held by Algerian Utilities International – Kahrama and Solar Power Plant One. The latter three are independent power producers, accounting for 45% of all output.

Water provision, meanwhile, is overseen by the Ministry of Water Resources (Ministère des Ressources en Eau, MRE), and guided by Law No. 05-12 of 2005. This legislation opened the segment to private actors by allowing water management through government concessions or via delegated management.

An example of delegated management is the agreement that has been in place since 2006 between Société des Eaux et de l’Assainissement d’Alger (SEAAL) and Suez, a private French firm, wherein the latter provides water and sanitation services for the Greater Algiers area. In September 2018 the contract was extended for three years.

UTILITIES POLICY: The last few years have seen Algeria revise its energy policy amid lower hydrocarbons prices and growing domestic demand for utilities. Further impetus for revision is driven by nationwide infrastructure development and a growing local manufacturing industry. This has led the authorities to reorient their position towards more efficient energy use and support of renewable sources. Launched in 2011 and updated in 2015, the Renewable Energy and Energy Efficiency Programme (Programme des Energies Renouvelables et de l’Efficacité Énergétique, PEREE) aims to reach 22 GW of generation capacity from renewable energy by 2030, of which 10 GW will be destined for export (see Energy chapter).

At the community level, the Ministry of the Interior and Local Government has set up a territorial development plan for greater use of renewable energy and is working towards energy efficiency by teaching mindful consumption. The Green Mosques Programme, which plans to construct places of prayer powered by renewables that will also act as education points in the community, and efforts to equip primary schools with renewable energy are examples of such initiatives.
The National Agency for the Promotion and Rationalisation of Energy Use is also active in implementing energy efficiency aims, launching a programme in 2018 to encourage citizens to install solar water heaters for their homes, with financial support from the government equaling 45% of the total cost. In addition, Algeria ratified the Paris Agreement at the COP21 UN Conference on Climate Change, committing to reduce its greenhouse gas emissions. Joining this international accord with 190 other countries has further accelerated efforts to turn towards more renewable energy.

However, some local players believe energy-related policies lack the common vision required to move initiatives forward. “There is still no centralisation of strategy, as four entities are involved in renewable energy policy,” Mouloud Bakli, managing director of local consultancy firm Tell Group, told OBG. “There is no common line, even though it is a presidential priority.”

One of the keys to promoting energy efficiency among the populace and spurring development of renewable energy by businesses may lie in the revision of state subsidies, which historically have not fostered conscientious use due to low prices.

**SUBSIDIES:** Indeed, utilities are inexpensive in Algeria compared to most countries. This is the result of abundant gas, which allows for low production costs that are passed on to the end user, and however, in the post-2014 era of lower hydrocarbons prices – which account for 60% of the government budget and 95% of exports – the authorities are taking another look at the subsidy system. To lessen their share of the state budget, Abderrahmane Raouya, the current minister of finance, announced in July 2018 that subsidies would be eased beginning in 2019, first in energy, then in water.

Cointing with state support for traditional utilities, a feed-in tariff for electricity generated by renewable sources has been in place since April 2014. It incentivises producers of solar and wind energy by guaranteeing a purchase price beyond a base tariff to ensure an attractive return on investment.

**BY THE NUMBERS:** Commercial production of primary energy was 165.9m tonnes of oil equivalent (toe) in 2017, flat on the previous year, according to the 2017 “BP Statistical Review of World Energy” report. This generation grew by 6% in 2017 to stand at 75.2 TWh, against 71 TWh in 2016, according to the June 2018 “BP Statistical Review of World Energy” report. This continues a growth trend, as electricity production posted an average expansion of 7.3% per year over 2006-16. In the 2011 PEREE, the government forecast electricity output would reach up to 80 TWh in 2020 and 150 TWh in 2030 to meet rising domestic demand, with any excess potentially being exported to neighbouring countries like Tunisia and Libya.

The supply of drinking water, for its part, amounted to 3.6bn cu metres in 2017, with 50% stemming from groundwater resources, 35% coming from dams and 15% from desalination plants, according to Abdelwahab Smati, director of water resources mobilisation at the MRE, noting that this is not a cause for concern. Industrial water use, meanwhile, is the target of efficiency measures. Agriculture accounts for 70% of national water consumption, and there is room for improvement in its use. While land irrigated with water economisers rose from 90,000 ha in 2000 to 600,000 ha in 2018, 50% of the irrigated surface still employs traditional systems that often result in water waste (see Agriculture chapter). The MENA region as a whole struggles with water security, and with much of Algeria's territory in the Sahara desert, it is no exception. Water availability in the country stands at 470 cu metres per inhabitant per year, below the scarcity threshold of 1000 cu metres set by the World Bank.

**UTILITIES COVERAGE:** According to Mustapha Guftouni, the minister of energy, the country’s electrification rate was 99% in 2018, and the gas coverage ratio between 60% and 62%. Recent efforts have been made in wilayas (provinces) with a particularly low connection rate to natural gas. In December 2017 some 1500 homes in the Mila wilaya were brought into the fold, bringing gas penetration there to 64%. Similar projects were launched in January 2016. In Tablat, a town in the wilaya of Mèdèa, 2870 households will be connected, with the government equalling 45% of the total cost. In addition, Algeria ratified the Paris Agreement at the COP21 UN Conference on Climate Change, committing to reduce its greenhouse gas emissions. Joining this international accord with 190 other countries has further accelerated efforts to turn towards more renewable energy.

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One of the keys to promoting energy efficiency among the populace and spurring development of renewable energy by businesses may lie in the revision of state subsidies, which historically have not fostered conscientious use due to low prices.
As of mid-2018 production of clean water from wastewater treatment stood at 400m cu metres per year

receive natural gas when a new pipeline is completed; the wilaya had a gas coverage ratio of just 47% at the beginning of 2018. Natural gas distribution networks were also commissioned in January for the municipalities of Sedraya and Beni-Slimane. This will result in some 1000 and 1145 new subscribers, respectively.

In terms of water coverage, resources are unevenly distributed across the arid country and thus supply can vary greatly between regions. Rising temperatures induced by climate change, coupled with growing demand, are set to worsen this vulnerability.

Therefore, Algeria has made considerable moves to ensure better access to water for its population, resulting in the construction of infrastructure and a strategy to diversify its water resources.

"Algeria suffered from high hydraulic stress in the early 2000s, so many projects were launched to change that," Arezki Berraki, the managing director of the National Agency of Dams and Transfers, explained to OBG. "The country has gone from 44 dams in 2000 to 80 in 2018, and there will hopefully be 85 in 2020," Berraki added. Ongoing efforts have similarly helped to raise the average amount of water per inhabitant per day from 123 litres in 1999 to 180 litres in 2017. However, while 90% of the country is connected to the national water supply, according to data from state-run Algerian Water, there is great discrepancy between urban (95%) and rural (70%) areas. Taps in the latter can often run dry when there are leakages or breakdowns in distribution infrastructure.

INFRASTRUCTURE DEVELOPMENT: To match growing demand for utilities, Sonelgaz is investing some AD1.95trn (€14.1bn) over the 2017-27 period to create additional electricity generation capacity of 21.3 GW. The company is also planning 34,441 km of electricity transmission lines during the same period – bringing the total length of the network to 60,790 km in 2027 – and 8035 km of additional gas pipelines.

International energy majors are also active in infrastructure projects around the country. For example, a new AD32bn (€232.3m), 446-MW gas turbine power plant is expected for early 2019 delivery in Boutelils to enhance the electricity capacity of the western part of the country. It is being built by a consortium of GE and Cegleg Energy, part of France’s VINCI Energies.

To address growing water needs, four new dams were built in 2018, bringing the total to the aforementioned 80. In November 2018 Hocine Necib, the minister of water resources and environment, announced the forthcoming reception of two new dams in the wilayas of El Tarfa and Batna for a combined storage capacity of 143m cu metres. He also noted that 2019 will see many projects related to drinking water supply networks and water treatment facilities.

DESALINATION: To help meet water demand from agriculture and industry, and to slow the depletion of groundwater resources, desalination is an increasingly used technique for water treatment. In 2003 Algeria began a programme aimed at constructing 13 desalination stations; 11 were operational as of 2018, with a total production capacity of 2.1m cu metres per day. Desalinated water accounted for approximately 17% of all drinking water in the country in 2018, with this set to increase to as high as 25% with the operation-alisation of additional desalination facilities.

Four desalination stations are planned to be constructed in the coming years, according to Guitouni, although a specific timeline for the projects had yet to be announced as of late 2018. The facilities will likely be constructed in Fouka, El Tarf, Béjaïa and Skikda. However, while seen as necessary by many, the desalination process does add to water costs.

WASTEWATER: Although often overshadowed by other utilities, waste and wastewater management is a vital part of any society. Algeria has grown its waste-water treatment network from 12 stations in 2000 with a capacity of 90m cu metres per year to 177 in 2016 with a capacity of 805m cu metres. According to Omar Bougueroua, director of drinking water supply at the MRE, the production of clean water from all treatment plants stood at 400m cu metres per year in mid-2018. SEAAL, for its part, manages four water treatment plants in Algiers and three in Tipasa, west of the capital. These have a combined theoretical average flow of 313,800 cu metres per day, for an annual sanitation capacity of over 114m cu metres. "Investments in desalination and wastewater treatment will be target-ed in the coming years, and we would like foreign companies to associate with Algerian operators in structuring these projects," Berraki told OBG.

OUTLOOK: With its sizeable hydrocarbons resources, Algeria relies heavily on fossil fuels for its utilities. A gas coverage rate of 60-62% will ensure natural gas stays in high demand, as efforts to connect rural households to the distribution network continue; however, electrification of close to 100% means generation plans for the segment are now pivoting to focus on renewable sources. For water, heightened demand and dry conditions are translating to greater employment of desalination and wastewater treatment. Future investment opportunities in the utilities sector, therefore, are set to be especially focused on rural gas needs, green electrification and unconventional water resources.
Mohamed Arkab, CEO, Sonelgaz, on setting the continental standard for the development of efficient energy grids

What are Sonelgaz’s 2030 development objectives?
ARKAB: The evolution of the country’s energy needs has been anticipated through annually updated decennial studies to launch relevant programmes at the right time. Our $32bn investment through 2028 will achieve an installed generation capacity of 30 GW, and the construction of 22,000 km of transport networks and 106,000 km of distribution networks. In gas, the plan covers 5000 km of transmission lines and nearly 55,000 km of distribution networks, which will connect 2.3m customers and raise the gas service rate to 75%, among the highest in the world. This plan has been developed with the public authorities to meet the demand generated by development programmes initiated in industrialisation, agriculture and housing, as well as to prepare the transport and distribution networks for the 22,000 MW of renewable energy capacity planned for 2030. Likewise, while we already carry out remote management operation for all of our customers, we will work to modernise distribution, enhance service continuity, and extend remote management through the implementation of smart meters.

How can national and international companies contribute to modernising the sector?
ARKAB: Modernisation is essentially linked to the introduction of smart processes and innovative solutions, and many private firms are already active in the sector, particularly in equipment and services. However, we continue to manufacture high-tech electrical equipment in partnership with international firms to ensure technology transfer. We also encourage domestic and foreign firms to invest in the manufacture of other electrical components and the construction and assembly of electrical works. Sonelgaz has initiated structuring projects in international partnerships to reduce our dependence on importing the equipment needed for subsidiary investments. Today we are associated with several manufacturing companies in diverse fields, including power plant equipment, large power transformers, heat recovery boilers and heat exchangers.

What is driving local energy diversification?
ARKAB: Fossil fuels are the primary source for 98% of our electricity, but the national programme aims to raise renewable energy’s share to 27% by 2030. This transition, which is crucial for Algeria’s future, will be part of an industrialisation plan that will create jobs and added value. Our subsidiary SKTM has implemented several projects, including one for wind power and about 20 photovoltaic power plants, that increase our renewable generation capacity to nearly 400 MW. Diversification must be economically viable, and some regions, such as those in the South, will see accelerated deployment, given the solar potential and opportunity to optimise the cost per KWh. Nationally, renewable energy capacity could be optimised through more efficient use of the existing grid and the development of robust regional interconnections in order to avoid double investment.
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Currents of growth

Focused investment in areas like desalination, sanitation and irrigation has eased the stress of acute water scarcity

In the early 2000s frequent water shortages fuelled social unrest and curbed production capacity across the economy. To address these chronic challenges, the government launched an extensive programme to diversify the water resource base, and improve storage and distribution in the medium to long term. The successes of the sector’s development have been central to broader attempts to diversify the economy since 2014, particularly with respect to agriculture and industry. In the face of rising demand for water from businesses and the destabilising effects of climate change, investments in water infrastructure are expected to continue in the near term.

HYDROGRAPHY: Approximately 85% of the 2.4m sq km of territory of Algeria – the largest country in Africa – is classified as arid or semi-arid. Per capita access to renewable water resources for its 29m inhabitants is roughly 470 cu metres, less than half of the World Bank’s threshold for water scarcity. Moreover, annual precipitation is unequally distributed: while part of the north-east region receives 600-1150 mm, rainfall ranges from 250 to 500 mm in the north-west, and falls below 100 mm in the centre and south, according to data from the National Office for Meteorology. The effects of climate change have exacerbated this imbalance in recent years, with lower rainfalls and longer dry periods recorded in several parts of the country.

REGULATION: In 2001 two agencies were founded by executive decree within what was then called the Ministry of Water Resources and the Environment, but has since been renamed the Ministry of Water Resources (Ministère des Ressources en Eau, MRE), to oversee the sector in all 48 wilayas (provinces). Water resource management and the implementation of the country’s national water plan fell under the purview of the public company Algérienne des Eaux (ADE), while several other entities were consolidated into the National Office for Sanitation (Office National d’Assainissement, ONA) for the purpose of managing the sanitation segment. The 2005 Water Law defines the legal framework for the ADE and the ONA to delegate service provision to public entities and assist in their operations at the municipal level. More recently, the MRE and the Ministry of the Interior launched a triennial plan that would unify the systems’ management by integrating these local collectivities within the ADE and the ONA by 2020.

PPP: The 2005 Water Law also defines the terms by which the ADE and ONA may contract management services out to private firms. In the years since the law was passed, they established joint subsidiaries with three international companies: Société des Eaux et de l’Assainissement d’Alger (SEAAL), which operates in Algiers and Tipasa under the French firm Suez; Société de l’Eau et de l’Assainissement d’Oran, a partnership with the Spanish Grupo Agbar, which manages services in Oran; and Société de l’Eau et de l’Assainissement de Constantine, which runs networks in Constantine in concert with the France’s Société des Eaux de Marseille (SEM). However, as of late 2018 the partnerships with Grupo Agbar and SEM had both ended. ADE and ONA has contracted with Suez since 2006 to manage SEAAL, whose ownership is split 70:30 between ADE and ONA, and benefits from technology transfer from the French multinational. “Despite the economic slowdown, SEAAL receives DZ20bn (€145m) annually from its shareholders to invest in expanding and modernising the production, distribution and sanitation infrastructure,” Brice Cabibel, SEAAL’s general manager, told OBG.

Water loss control is an area where the sharing of tools and expertise can improve SEAAL’s performance. Network yield – or the proportion of water that enters the distribution system, arrives at its destination and is paid for – is 60% in Algiers and 45% in Tipasa. “There are two reasons: 54% is due to leaks and 46% is commercial losses, mostly owing to illicit connections,” Cabibel explained Real-time data systems have been installed to identify sites in the network where losses occur, with a goal of improving distribution efficiency and lowering
by 2018

98% water network to access to the potable two decades increased retention in agriculture.

The first five-year increment (2015-19) of the National Water Plan aims to expand purification capacity, improve flood protection and boost water retention in agriculture.

Investment in dams and transfer systems has produced significant achievements, such as increasing connections to the potable water grid from 78% in 1999 to 98% in 2018. Further goals concerning production, distribution and sanitation are outlined in the 2015 National Water Plan (Plan National de l’Eau, PNE), which runs to 2030 and is being carried out in five-year increments. In addition to expanding access to drinking water, the first five-year programme (2015-19), aims to expand purification capacity, improve flood protection and boost water retention in agriculture. Lastly, subsidies reduced the cost of water per cu metre by two-thirds in 2017, from AD60 (€0.44) to AD20 (€0.15), at a cost of $3bn to the public budget.

DAMs: Investments in dams and transfer systems have created more sustainable and consistent reserves, and improved redistribution to regions with lower precipitation. Since 1999 the construction of 36 new dams has increased storage capacity to 5.4bn cu metres and raised their share to 35% of total delivered drinking water. Five projects currently under way are expected to boost capacity to 9bn cu metres at 85 sites by 2020, and the PNE envisions that total to grow to 139 by 2030.

New complex transfer systems have expanded coverage to isolated and dry regions, and increased the volume available for industrial and agricultural use. Five such conveyance systems are currently under construction in the north-west and the north-east. In addition to expanding their reach, the installation of these new networks has been focused on modernising monitoring processes. “Informatisation is key to improving management,” Arezki Berraki, general manager of the National Agency for Dams and Transfers, told OBG. “A geoportal to manage the whole network in real time, along with seismic studies and databases, have been implemented to enhance day-to-day management and prevent isolated incidents.”

DESAFLATION: Since 2001, as part of a strategy to reduce dependence on surface and groundwater, Algeria has invested heavily in desalination technologies. Per the ADE, 11 existing mega-stations can purify up to 2.1m cu metres of water per day – or roughly 15% of national distribution – in service of 11.9m customers. The Mactaa complex in the Oran wilaya serves 1.3m customers with 500,000 cu metres daily, making it one of the largest such plants in the Mediterranean basin. An additional 12 small-scale “monoblock” facilities – the largest, in Skikda, has a capacity of 7000 cu metres – produce 57,000 cu metres daily. Interest in increasing total capacity has grown with recognition that such plants reduce logistics costs, as their seaside locations are closer to coastal towns and cities, where roughly 80% of the country’s population lives. Four new stations are also planned in Algiers, Béjaïa, El-Tarf and Skikda.

SANITATION: Investment has also prioritised improving wastewater treatment in the last two decades. In 1999-2018 network development raised the population equivalent (PE) – a measure of processing capacity by volume per customer – from 1.3m PE to 16m PE, and improved the coupling rate from 72% to 91%, achieving a Millennium Development Goals. The ONA currently oversees operations at 188 treatment stations, while another 30 are expected to come on-line in the near term. This infrastructure is supported by the environmental provisions of the 2005 Water Law, which defines how individuals and manufacturers may connect to sanitation networks or, for those in remote areas, operate autonomous systems. A national programme launched in 2010 across 24 wilayas obliged 255 industrial units to build pre-treatment systems for polluting effluent to reduce the contamination of soil and water sources.

FARMING: The 2014 economic diversification strategy prioritised agricultural growth and increased the water supply available for farming. New perimeter irrigation expanded total irrigated land from 350,000 ha in the early 2000s to 1.3m in 2018, and ongoing programmes are intended to lift that to 2m ha by 2020. Land economised for water usage grew from 90,000 ha in 2000 to 600,000 in 2018, driving down the share of water mobilised for traditional irrigation techniques from 80% to 50% over the same period. M’hamed Metidji, general manager of the agro-industry firm Metidji Group, told OBG, “Beyond the availability of water, the implementation of modern irrigation techniques has a major role to play to further boost the sector.” To that end, the MRE and the Ministry of Agriculture and Fisheries launched a programme to equip traditionally irrigated surfaces with water savers to reduce agricultural water use by 20% over the medium term, with the eventual intention to allocate savings to supply a further 200,000 ha.
Ensuring supply

Hocine Necib, Minister of Water Resources, on sustainably tapping a variety of water sources

What major hydraulic projects have been completed in recent years, and what investments are planned? **NECIB:** Over the past two decades the state has invested more than $55bn in infrastructure to mobilise, distribute and diversify its water resources, including dams, transfers, desalination plants, purified wastewater treatment plants (WWTPs), rehabilitated supply networks, irrigation perimeters and sanitation networks. The situation has improved considerably both in quantity and quality since water resources became a national priority in the early 2000s. We also have a large, ongoing short- and medium-term programme that includes the construction of five dams with a total capacity of 373m cu metres; 55 WWTPs with a shared estimated capacity of 4.6m population equivalent (PE); 29 other WWTPs scheduled to be launched in the coming weeks, with a total capacity of 3.9m PE; and 11 large perimeter irrigation projects.

What strategy has been implemented to diversify the mix of water resources at a national level? **NECIB:** Algeria’s water resources are limited, vulnerable and unequally distributed. Declining rainfall, recurring drought cycles and climate change are now constants of the national water policy. Prioritising water resources has created a complete infrastructure to mobilise, produce, supply, distribute and store water, ensuring a balanced network able to mitigate regional imbalances.

Within this perspective, the sector has developed an essential tool for effective and rational management and exploitation, namely the National Water Plan, which defines all the actions and structural programmes that will be implemented by 2035. The strategy for increasing water resource mobilisation, in all its conventional and unconventional forms, is divided into several axes: the completion of several large dams, major transfers and conveyances; the desalination of seawater; sewage treatment and reuse for agricultural purposes; and the preservation of water against waste and pollution.

How is the management of water distribution and sanitation services delegated under the law? **NECIB:** The 2005 Water Law states that the supply of drinking water and industrial sanitation are public services under the jurisdiction of the state and municipalities. The law also provides a framework for conceding these services to public entities and delegating their management to public or private entities, which come in three forms. In the first, Algerian Water (Algérienne des Eaux, ADE) is responsible for delegated management through 44 wilayas (provinces) while the National Office of Sanitation (Office National de l’Assainissement, ONA) is responsible for sanitation networks and treatment plants. The second form comes from ADE and ONA subsidiaries in Algiers, Tipasa, Oran and Constantine, which have entrusted management to foreign companies via management contracts. The last form is governed by communal boards that receive assistance from the ADE or the ONA as needed.

In addition, we are prioritising the consolidation of the ADE and the ONA to modernise and standardise management mechanisms throughout the country, while a three-year plan has been initiated to integrate the municipal boards into the ADE and the ONA by 2020.

How have law and policies been adapted to address the challenges of nationwide water treatment? **NECIB:** In the last two decades the development of the sanitation sector increased the total national treatment capacity from 1.3m PE in 2000 to 16m PE in 2018. In addition, steps have been taken to improve governance and build a legal framework. The state also outlined the multi-year National Development Plan for Sanitation to better organise its future actions and provide a tool for formalising a national strategy on water sanitation intervention. Its implementation will lead to the protection of water resources, the reduction of waterborne diseases, the decontamination of the coastline and the fight against negative health impacts through 2030.

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Industry & Mining

National policy aimed at supporting small businesses
Reforms facilitate foreign direct investment in mines
Local steel production moves closer to self-sufficiency
Import restrictions boost domestic pharmaceuticals
Productivity boost

Industrial policy focuses on facilitating small business creation and raising local integration

The 2014 slowdown in oil prices revealed the vulnerability of Algeria’s economy, heavily reliant on hydrocarbons, and highlighted the need for a paradigm shift. The government sees the industrial sector as having the potential to drive diversification and reduce the import bill. In addition to heavy industrial subsectors, such as steel (see analysis) and cement, a number of other industries have the potential to become key exporters, including pharmaceuticals (see analysis), agro-industry and automotive manufacturing, assisted by the country’s strategic geographic location as a gateway to both Europe and Africa.

STRUCTURE & OVERSIGHT: While the industrial sector accounted for about 20% of the GDP at the beginning of the 1980s, its development was halted by the debt crisis which took place at the end of that decade. In the 1990s, when the country transitioned away from being a planned economy to a market economy, small and medium-sized enterprises (SMEs) played a crucial role, and they are now predominant in manufacturing during its current relaunch phase.

The private sector share in industry value added roughly equals that of the public sector, while private SMEs, of which some 97% are small, account for the bulk of the industrial landscape. The Ministry of Industry and Mining (Ministre de l’Industrie et des Mines, MIM) is responsible for oversight, while investment promotion comes under the purview of the National Investment Development Agency (Agence Nationale de Développement de l’Investissement, ANDI) and the Algerian Chamber of Commerce and Industry.

POLICY: Facing the challenge of promoting national industry in a globalised context, the government made the sector a focus of its five-year investment plan 2015-19, which aims to diversify the economy away from its reliance on hydrocarbons and facilitate growth and job creation in non-oil sectors. The industrial strategy is comprised of three main axes: developing industrial and mining systems, promoting competitiveness, and improving the business environment. This implies the densification of the industrial landscape, restructuring of specific sectors and improvements to the value chain. The plan identified seven priority industries for development, namely, iron and steel; mechanical and metals; electrical and electronics; agri-business; manufacturing; chemicals; plastics and pharmaceuticals; and construction materials. It also set a target of creating 1m SMEs between 2015 and 2019 and initiated a series of incentives to encourage their creation.

To that end, Law No. 17-02 on the development of SMEs was promulgated in June 2017. The law modifies and completes the law of 2001 and aims to foster the establishment of SMEs, improve their competitiveness and capacity to export, and promote the development and integration of a subcontracting ecosystem. To achieve this last goal, the law exempts subcontracting companies from value-added tax (VAT), profit tax, tax on professional activity and property tax in the frame of investment. Additionally, since May 2018 subcontractors in mechanical industries are exempted from VAT and Customs duties for imported or locally procured components and raw materials.

In addition to expanding the role of subcontractors, the government is also moving to improve land access. “A critical challenge to entering the Algerian market is the availability of industrial land,” Marcel El Khoury, CEO of speciality construction chemicals firm Sika El Djazaïr, told OBG. In September 2018 it repurposed farmland in the wilayas (provinces) of Oran, Tebessa and Skikda for three industrial projects: a Peugeot assembly plant in Tarfaya and two phosphate fertiliser facilities.

The move is part of efforts to restructure industrial activity into new industrial zones and clusters. In 2018 three operational clusters were established, in the mechanical, precision mechanics and automotive segments, and two technical centres have been set up – one for mechanical and metals businesses, which is located in the wilaya of Ain Smara, and one for agri-food
industries in Boumerdês. The purpose of technical centres is to provide businesses with practical solutions to their technological needs. According to the MIM, there are currently three other industrial technical centres under development in the chemicals, construction materials and electronics segments.

The new industrial strategy has a protectionist orientation, as it looks to promote those industries most suitable for import substitution. In January 2018 the government banned the import of 851 products to encourage local production, with mixed results.

In some segments a shortage of locally produced raw materials left businesses unable to operate, and 34% of companies in the public sector and 19% in the private sector reported demand outpacing supply in the first quarter of that year, according to a survey conducted by the National Statistics Office (Office Nationale des Statistiques, ONS). This situation resulted in a softening of the import-substitution measures, as the government realised that local industry was not yet sufficiently developed to supply the entire production chain for a number of products. For example, some raw materials used in ceramics and earthenware manufacturing were taken off the list of prohibited import products in October 2018. Instead, a tariff of 6% on the value of the imported products has been applied.

TURN TO PHOSPHATE: After years of standby within the mining sector, the end of 2018 saw the launch of an unprecedented large-scale project in north-eastern Algeria. A memorandum of understanding was signed in November 2018 between Sonatrach and Chinese multinational Citic Construction to set up a joint venture that will construct an integrated complex which will include the extraction, transformation and value addition of phosphate to produce fertilisers, phosphoric and sulphuric acids. In addition, it will transform natural gas to produce ammoniac and derivatives.

This $6bn investment is planned to start operations in 2022 and boost local production of merchant phosphates from 1m tonnes to 6m tonnes per year. “Around 20% of the production will cover the needs of the agriculture sector, a share that might increase with the projects currently ongoing across the country,” Ferhat Ounoughi, head of project for Sonatrach, told OBG. “The rest will be exported, mainly to Asia, including China, which is the leading consumer of phosphate products in the world, but also to Europe, Africa and the Americas.”

PERFORMANCE: Reflecting its position at the heart of the government’s economic development plans, the industrial sector, although still marginal, is growing. Industry expanded by approximately 4.5% in 2017, above the rate recorded for non-hydrocarbons activities, at 2.2%, and overall GDP, which slowed to 1.4% in that year, according to figures from the ONS. In total the sector accounted for 6.3% of GDP, up from 5.6% in 2016. Industrial output had a value of AD1.1trn (€8bn) in 2017 compared to AD989.7bn (€7.2bn) in 2016 and AD919.3bn (€6.7bn) in 2015.

Industry’s share in value added has fluctuated in recent years, from 5% in 2015 to 3.7% in 2016 and 4.5% in 2017, according to the ONS. Yet, its share in non-hydrocarbons value added has grown at a faster rate, at 7.1% in 2015, 7.2% in 2016 and 7.5% in 2017. However, the sector’s role in the national economy remains modest, lagging behind more developed sectors, such as agriculture or construction.

In the first half of 2018 industry continued to record positive results, expanding by around 4.3% and 2.1% year-on-year (y-o-y) in the first and second quarters, respectively. Once again it outperformed non-hydrocarbons growth, which stood at 1.9% and 2.8%, and the overall economy, at 1.2% and 0.7%. Growth was driven in the second quarter by leather and shoes industries, which recorded y-o-y growth of 4.1%, and agri-business, at 3.6%, followed by water and energy (3.5%), construction materials (3.2%) and steel, metal, mechanical and electrical industries (3.1%). As a sign of its growing attractiveness, 50.7% of investment projects declared to ANDI in 2017 were in the industrial sector, which together accounted for approximately 57.9% of total project value. While the performance in 2017 is an indication of industry’s resilience to that year’s slowdown in economic growth, SMEs – the main component of the sector – were nevertheless affected. “The financial crisis of 2017 has had a big impact on SMEs, Mohamed Bouloufade, managing director of telecommunications infrastructure company BN Electric, told OBG. “Payments have suffered delays, which has impacted the cash flow of these companies.”

AGRO-INDUSTRY: The most developed industrial segment is agro-industry, accounting for approximately 38% of the sector’s value added in 2017. In that year there were 716 new agro-industrial investment projects, accounting for almost 28% of the volume of new industrial projects and 18.05% of their value. The segment, which comprises some 700 companies and has two main subsegments – cereals and beverages – does not have the capacity to meet total domestic demand. In 2017 around 98% of the 4.5m litres of drinks consumed in that year were produced locally.

In 2017 the industrial sector expanded by 4.5%.
The automotive industry is projected to produce **400,000 units** per year by 2020.

While the remainder was imported. Besides cereals and beverages, other subsegments with development potential include dairies, oils and fats, tinned fruits and vegetables, and frozen products.

**Cement:** One of Algeria’s fastest-growing segments in recent years is cement. Since 2015, when cement imports peaked at 6m tonnes per annum (tpa), capacity has expanded rapidly, so that production now exceeds demand. “We went from a cement crisis to a production surplus,” Reda Radjradj, business line manager of mining and rock excavation at Atlas Epiroc, a mining and infrastructure equipment firm, told OBG. In 2018 cement output was hovering at 25m–30m tpa, up from 22m tpa in 2016, with domestic demand at 23m tpa.

The performance has enabled the industry to begin exporting to both regional and international markets. In the first half of 2018 the state-owned Groupe Industriel des Ciments d’Algérie (GICA) signed a contract with Europe for 200,000 tonnes of grey cement, while LafargeHolcim Algérie exported 30,000 tonnes of Algerian cement to The Gambia. At the same time, the Swiss-headquartered firm announced its intention to export 5m tpa to West Africa by 2020. An urbanising continent with a rapidly growing volume of construction projects, Africa constitutes a booming cement market, importing around 21m tpa as of 2018.

With several cement projects under way, including two new GICA plants in Béchar and Sigus, which are scheduled to be operational in 2020, and an Algerian-Chinese cement plant in Timetgane, the country’s cement production is expected to reach 40.6m tpa by 2020. Of this amount, 20m will be produced by GICA, 11.1m by LafargeHolcim Algérie and 9.5m by other operators. This is expected to create a production surplus of around 12.5-13.5 tpa. “On the domestic market, the building and the renovation of the road network based on new technology cements is the highest potential outlet in the short to medium term,” Serge Dubois, Public Affairs Director, LafargeHolcim Algérie, told OBG.

**Automotive:** Prior to 2014 the domestic automotive industry was comprised of just one vehicle manufacturer – the Entreprise Nationale de Véhicules Industriels. Since that time, however, the country has become a sought-after vehicle assembly location for international vehicles manufacturers. Renault, Volkswagen, Hyundai and Kia have all established assembly plants in the country, and in 2018 the Algerian car market was the largest car market in the Maghreb and fourth-largest on the continent, with domestic demand estimated at some 500,000 units per year.

Growth has been sustained by increasing urbanisation and underdeveloped public transport systems, as well as government incentives and import restrictions. Quotas on imported vehicles, introduced in 2016, reduced the number of units coming into the country incrementally, from 79,000 in 2016 to 55,000 in 2017 and 50,000 in 2018. At the same time, the number of locally assembled vehicles rose, reaching 110,000 in 2017, according to Youcef Yousfi, minister of industry and mining. Yousfi told local media that output is expected to reach 400,000 units per year by 2020.

Several projects are under way that will help the automotive industry attain this goal, such as a $50m manufacturing and assembly plant for trucks, which is expected to enter into operation in 2018. Located in Annaba, 535 km east of Algiers, the facility is the result of a joint venture (JV) between local car dealer KIV Group and Chinese manufacturer Foton. It plans to have a production capacity of 5000 units in its first year, scaling up to 20,000-30,000 units by 2022. A second heavy-vehicle assembly plant is expected to be operational in January 2020 in the industrial zone of Sidi Khaled. Valued at AD3.4bn (€24.7m), the facility – a partnership between Italian car company Iveco and Iival Group – will have a 4000-unit-per-year capacity.

In 2017 France’s PSA Group, maker of Peugeot, signed a JV with three domestic firms for a €100m car plant in Oran that is expected to be fully operational by 2019, and in late 2018 US carmaker Ford received a permit for a 150,000-unit facility in the Sidi Khettab industrial zone, located 300 km west of the capital. Additionally, following strong sales of its Ibiza model, Spain’s Seat is expanding operations at its Relizane factory to include the Leon and Arona brands. While the wave of new projects is good news for the segment, there is a downside. Imports of car parts, which were valued at $2.1bn in 2017 and grew by 76% in the first eight months of 2018, are weighing on Algeria’s import bill. Furthermore, the integration rate remains low, at around 5%, according to Mohamed Benmeradi, former minister of trade. In response, the government is encouraging the industry to move up the value chain and achieve greater integration by manufacturing car components locally. The rapprochement with African neighbours like Mauritania could also present automakers with new export opportunities. In October 2018 Global Group announced that it plans to export vehicles produced under its Kia brand to Mauritania.

**Fertilisers:** Another burgeoning segment of industry is fertilisers. Already a large-scale producer of nitrogen fertilisers, Algeria is keen to capitalise on its sizeable phosphate reserves and expand output of the chemical from 1-1.5m tpa to 11m, which will then be processed...
into fertiliser for export. To this end, a $6bn project is under way to exploit phosphate reserves held in the Bled El Hadba deposit in the country’s north-east. Undertaken in partnership with Chinese firms CITIC and the Wengfu group, the project, which will be spread across four areas and be operational in 2022, aims to export around $2bn of fertiliser each year.

OTHER SEGMENTS: Developments are also forging ahead in other high-potential industries, including household goods and electronics, and textiles. In order to take advantage of import restrictions, South Korea’s Samsung, a major player in white goods and electronics in Algeria, opened a smartphone assembly plant in 2018 in partnership with local distributor Timecom. The Algiers-based facility is expected to produce 1.5m phones in its first year and 2.5m in its second.

Meanwhile, operations in the Relizane Textile Complex started in March 2018, following the completion of Algerian-Turkish spinning plant Tayal. The Relizane complex, which is located in Sidi Khettab and valued at AD170bn (€1.2bn), aims to establish eight textile plants in its first phase and a further 10 in its second. The second phase is expected to be completed in 2020.

Further down the line, significant opportunities could present themselves in renewable energy, as it is high on the national agenda. The government aims to capitalise on Algeria’s sunny climate to expand total renewables generation capacity to 22 GW by 2030, and is encouraging a local solar industry to grow by making local procurement a requirement of tenders. At present, production is at an embryonic stage, with two solar module manufacturers operating in 2018 – Aurés Solaire and Condor Electronics.

SME: In recognition of the fact that SMEs form the backbone of the industrial landscape, the government has placed business creation at the heart of its development plans, and aims to establish 1m new companies by 2019. As of mid-2017 there were approximately 92,988 SMEs in the manufacturing industry, of which 92,804 were privately owned and 84 public, according to the MIM. In June 2017 the authorities promulgated Law No. 17-02, which aims to support new business development, improve the competitiveness and export capacity of SMEs, and encourage innovation.

The main instrument for implementing public policy in regards to SMEs is the Agency for the Development of SMEs and Promotion of Innovation (Agence de Développement de la PME et de la Promotion de l’Innovation, ADPIPME), which was established in 2005. Initiatives implemented by ADPIPME include the Programme for Modernising and Upgrading Algerian SMEs, which financed consultants to work with SMEs on their development and invested in equipment. Another agency – the Youth Employment Support Agency (Agence Nationale de Soutien à l’Emploi des Jeunes, ANSEJ) – has been created to support entrepreneurship among young people. ANSEJ provides grants and access to loans with subsidised interest rates for projects of up to AD10m (€72,600) in value. Between 2007 and 2013 it supported a total of 292,186 projects, and in 2017-18 it intends to fund 46,000 business creation projects developed by graduates. However, according to some stakeholders, more needs to be done to facilitate development of SMEs. “Regarding the tax regime, there are no real incentives for SMEs. They are taxed around 40%, while their margins are just 30%. They can receive advantages only if they are part of a programme like ANSEJ,” Bouloudene told OBG.

According to Adly Kafafy, managing director of El sesso Electric Algérie, an electrical infrastructure firm, new businesses also suffer from a lack of visibility in terms of projects in the industrial sector, which creates a mismatch between supply and market needs, and causes some new businesses to fold in the first few years. “In 2013 there was great demand for electricity cables. Investments were made and new businesses established. Now the market is saturated and prices are very low, which affects return on investment,” he told OBG. However, the mortality rate for SMEs is declining. According to the MIM, in the first half of 2017 a total of 221 registered manufacturing SMEs closed compared to 1433 in the same period of the previous year.

INVESTMENT INFLOWS: In 2017 Algeria’s foreign direct investment (FDI) declined by 26% to $1.2bn, as part of a downturn that saw FDI across Africa decrease by 21%, according to the 2018 “World Investment Report” from the UN Conference on Trade and Development (UNCTAD). Algeria’s performance stemmed partly from a decline in foreign investment in oil, possibly caused by uncertainty ahead of the new hydrocarbons law, which is expected to be ready in 2019. According to UNCTAD, non-hydrocarbons FDI inflows in 2017 were mainly driven by two industrial projects. The first was Samsung’s smartphone assembly plant in Algiers and the second was Chinese firm Huawei’s installation of its eLTE Rapid Deployment Broadband Trunking System in the Houari Boumediene Airport. Pharmaceuticals manufacturer Sanofi also invested €70m to build its third facility in Algeria, in the pharmaceuticals and biotech cluster at Sidi Abdellah (see analysis). At full
The trade deficit declined by approximately 54.7% year-on-year in the first half of 2018 to stand at $3.6bn.

In 2017 semi-finished products accounted for 73% of non-oil exports. In 2017 semi-finished products accounted for 73% of non-oil exports and 4% of total exports. In the first half of 2018 the plant will produce 100m units per year, and is expected to be fully operational in 2019-20. As part of the overall initiative aimed at attracting new FDI, in mid-July 2016 Parliament passed a law modifying the national investment promotion framework, which dates from 2001. Incentives implemented at that time include a 10-year exemption from property tax and VAT, and import duty exemptions for all goods and services acquired for use in an investment project. Such projects are also exempt from corporate tax and professional activity taxes during the first three years of operation. In addition, the law granted further advantages to industrial, agricultural and tourism projects, such as the provision of land in underdeveloped parts of the country at concessionary rates.

Indeed, land access continues to be an area of focus for industry stakeholders today. The Forum of Entrepreneurs is advocating for the creation of free zones in the seaport of Cherchell in the north and in Tamanrasset in the south. The forum said the first would serve to attract industrial FDI while the second would help Algeria establish a trans-Africa trading hub.

The country is home to 72 industrial zones that span some 12,000 ha, as well as 450 activity zones, covering 17,000 ha. Skikda has 26 industrial zones and activity zones, the most of any wilaya. In 2014 the authorities announced a €726.1m development programme aimed at building 42 industrial parks in 34 wilayas, but the plans have yet to be implemented.

**EXPORTS:** Although still small, manufacturing exports are growing. While non-oil exports accounted for just 5.5% of total export volumes in 2017, they increased by 5.2% over 2016, according to the ANDI. Growth was driven by semi-finished products, which accounted for 73% of non-oil exports and 4% of total exports. In the first half of 2018 non-hydrocarbons grew substantially, by 51.2% y-o-y to $1.3bn, according to the Bank of Algeria, while total exports expanded by 20.8%. Imports declined by approximately $400m in 2017 and $811m in the first half of 2018. This has supported a 54.7% y-o-y reduction of the trade deficit in the first half of 2018 to $3.6bn. Algeria’s biggest export partners in the first eight months of 2018 were Italy, which at $3.94bn accounted for around 13.9% of total exports; and France, with $3.6bn (12.7%). These countries were followed by Spain, the US and the UK, with $3.41bn (12.03%), $2.7bn (9.5%) and $2.1bn (7.3%), respectively. In 2017 Algeria’s main export partners were Italy, with $5.8bn, followed by France ($4.5bn), Spain ($4.1bn), the US ($3.4bn) and Brazil ($2.1bn), according to ANDI.

**LOGISTICS & LOCAL PROCUREMENT:** The steady expansion of exports shows Algeria’s progress in developing local industry, but there are still challenges to overcome. One of the main hurdles is inefficient logistics. “Exports are indeed encouraged, but the logistics chain is currently such a mess that SMEs cannot really compete as they don’t have any internal logistics or transport capacities,” Bouloudene told OBG.

Another significant barrier to export growth is the sector’s low integration rate. Subcontracting accounts for an estimated 10% of industrial activity, Kamel Agsous, president of the Algerian Subcontracting and Partnership Scholarship, told local media in late 2018. This compares to 20% and 28% in neighbouring countries Morocco and Tunisia. The country’s high reliance on imports for spare parts supply is also a challenge. “We import 90% of spare parts,” Kafady told OBG.

Abdelkader Oulhadj, maintenance director at state-owned hydrocarbons firm Sonatrach, said 5% of the $390m that the company spent each year on spare parts in 2015-17 was locally procured.

“Establishing strategic technology partnerships has become more than necessary for Algeria’s industrial sector, as we cannot simply base our production on basic products,” Ali Boumediene, CEO of Algerian electronics manufacturer Bomare Company, told OBG. “We need instead to develop our internal R&D and associate with global leaders to ensure consistent transfers of technology,” he added. In early 2018 it was reported that Samsung had trained 130 Algerian engineers to support its new household appliances plant in Annaba, set to open in late 2018. The automotive industry, whose production is primarily of semi-knocked-down kits, has been set an integration target by the authorities of 15% by 2021 and 40% by 2023.

**OUTLOOK:** While the sector’s role in the economy remains modest, steady growth and rising export volumes coupled with new investment constitute positive indications that the government’s diversification strategy is paying off. There is a growing tendency of firms building production units in-country in order to sidestep import restrictions. This is likely to give manufacturing a boost, although sustained growth will depend on the extent to which they are able to move up the value chain by, for example, increasing local integration and creating economies of scale. For the sector as a whole, and particularly for small businesses, investment in logistics and transport capacities will be crucial to building a local ecosystem that is robust enough to position industry as a key driver of growth.
Amara Charaf-Eddine, CEO, Madar Holding, on catalysing industrial innovation and supporting entrepreneurship

**Hand in hand**

How can innovation help to boost high-potential manufacturing segments?

**CHARAF-EDDINE:** The growth of production and the creation of long-term jobs are at the base of the national growth model. This strategy targets a significant rise in production, giving priority to those segments, such as agriculture, fisheries, ICT and tourism, that produce tradable goods and services.

In my opinion the sources of innovation are of two types. The first is the realisation of partnerships and strategic alliances with leading companies in their segment. The second is the bridging of industries and research centres through the establishment of clusters. A consortium of companies is more capable than single firms of mobilising funds dedicated to applied research and the production of prototypes that can be duplicated during the industrial phase. However, some innovations, particularly in ICT, are the work of start-ups or innovative entrepreneurs. Even if the company does not find an immediate need in its sphere of production, it is crucial that it provide support during product development, or that it help through injecting private equity.

To what extent can public companies support innovation and youth entrepreneurship?

**CHARAF-EDDINE:** Incubators could complement the function of those clusters that are dedicated to innovation based on industrial needs and the responses elaborated by teams of researchers, and the authorities have already subscribed to the process of creating incubators for publicly supervised projects. As such, it is left to a given firm to get closer to these structures and to agree on their contributions to young entrepreneurs. For instance, a public company could propose subcontracts that help to integrate these entrepreneurs into the value chain.

It is essential to provide project promoters with services that enable them to embark under the best conditions in carrying out market research, building business plans, identifying the content of investment, defining their commercial policy and keeping accounting records, and these are the kinds of assistance that any young entrepreneur would need from these firms.

On another level, consortia of public companies could support project holders by buying capital stakes in the creation or development phases of a nascent firm. In some cases it will be a matter of reframing the projects with a view to both their immediate and eventual success, as well as engaging a contribution to Algeria’s attractiveness and socio-economic development. Incubators should help to create ecosystems for the development of viable enterprises in the long term.

How could partnerships between the Algerian private sector and international firms be encouraged?

**CHARAF-EDDINE:** Algeria is attractive as a business site because of its market size, its low costs of production – with respect to labour, supply and distribution, operations and energy – and a range of investment incentives. However, partnerships also depend on a technology-product-market triptych, meaning that a project’s viability relies on a market’s dynamism, the foreign partner’s technological contribution and the expected success of a sales network.

Improvements to encourage partnerships include diffusing information and economic data on the market and its players; facilitating access to bank loans; reinvigorating funds for small and medium-sized enterprises; and bolstering human capital to meet the demand for skilled labour. These must be done with the help of sectoral organisations and institutions as a means to encourage partners to develop industry-specific training centres, as in the vehicle industry in Oran or textiles in Relizane. We could also encourage the reorganisation of the tax system and the modernisation of the commercial code to adapt its contents to the new realities of the global economy.
Below the surface

New legislation aims to attract fresh mining investment

In addition to its hydrocarbons wealth, Algeria is rich in a variety of minerals, such as phosphate, gold, iron, zinc, lead and others. These ores are still largely untapped but the diversification drive deployed by the government to reduce the country’s reliance on oil and gas and direct it towards more sustainable growth could lead to greater development of this heretofore marginal industry.

STRUCTURE & OVERSIGHT: In 2017 the mining sector had approximately 1380 active mines, 450 quarries being mined, and roughly 1350 active companies. The public sector is predominant in mining activities, accounting for 89% of the sector valued added added in 2017. Operations are carried out by the Algerian Mines Company (Manadjim Al Djazaïr, Manal), and its subsidiaries. These are Entreprise d’Exploitation des Mines d’Or, which is in charge of gold mining; Entreprise Nationale des Produits Miniers Non Ferreux, responsible for other non-ferrous metals; Somiphos, in charge of iron ore and phosphate; Enamarbre, marble; and Enasel, salt.

The sector was overseen by the Ministry of Energy until 2013, when the Ministry of Industry and Mining (Ministre de l’Industrie et des Mines, MIM), took over. The National Agency for Mining Activities is in charge of issuing mining permits, although permissions for some related activities, such as infrastructure, equipment and housing projects, can be issued by wilayas (provinces) – either by direct award or invitation to tender. Foreign mining companies are permitted to operate with an Algerian partner, following the 51:49 investment policy, in mining research, development and exploration.

STRATEGIC AIMS: Mining policy is geared towards expanding this marginal sector, in line with the government’s policy of diversification. Key minerals identified for development are phosphate, salt, marble, gold, diamond and non-metallic ores. Primary aims include modernising production and equipment, and attracting foreign investors, who would supply much-needed technical knowledge, capital and potential for export development. In February 2018 Youcef Yousfi, minister of industry and mining, announced an investment programme of AD9.4bn (€68.2m) between 2018 and 2028 to boost the mining sector, of which AD1.5bn (€11m) would be supplied in 2018.

CONTRIBUTION TO GDP: Notwithstanding sizeable reserves, Algeria’s mining potential is still largely untapped, and the sector has undergone successive periods of negative growth in recent years. Following a contraction of 6.1% in 2017, in the first and second quarters of 2018 mining posted negative growth of 9.2% and 8.4%, respectively, according to the National Statistics Office. Its value added amounted to AD26.3bn (€191m) in 2017. “The sector of mining and quarrying is in freefall since 2015. Oil prices dropped so everything has been put on hold,” Reda Radjradj, business line-manager of mining and rock excavation at Atlas Epiroc, a mining and infrastructure equipment firm, told OBG. “We are aiming more towards quarries than mines.”

In a sign of this slowdown, a total of 30 mining sites valued at AD513m (€3.7m) were awarded in 2017 compared to 58, valued at a total of AD2bn (€14.5m), in 2016. In 2017 exports of phosphate, Algeria’s best developed ore, amounted to 1m tonnes, a modest performance compared to the 40m tonnes exported by Morocco, which is also a large-scale producer of the mineral.

In spite of its considerable mining potential Algeria is a net importer of ores that could be locally procured, such as baryte. The MIM estimates that the total financial value of ore deposits in Algeria is around $2.6trn, while the investment required to unlock this potential is around $200bn. According to geological surveys undertaken to date, Algeria’s untapped mineral resources include approximately
Gold remains a largely untapped precious metal in the mining sector, with an estimated 100 tonnes of gold reserves and 1 tonne per annum of output. The main gold deposits so far identified are located in the wilaya of Tamanrasset in the south-west. The authorities are currently looking for a new foreign partner to relaunch operations at one of the Tamanrasset mines – Amesmessa – following the withdrawal of former operator GMA Resources. There are also gold deposits in Tiririne-Hanine, in Tamanrasset, and Tin Zekri in the wilaya of Illizi, but difficult climatic conditions have so far hindered exploitation. In late 2017 Ferhat Hamioud, director-general of mines at the MIM, told the press that negotiations with foreign partners to develop these deposits had been initiated.

THE WAY AHEAD: Although the mining sector’s potential is substantial, its performance in 2017 and into 2018 suggests that previous efforts to increase mining activity have largely failed to have any meaningful impact. However, while mining activity is currently muted, a number of projects in various segments have the potential to give a fillip to production if development goes ahead as planned.

These projects, coupled with the government’s recent large-scale investment programme and introduction in 2018 of new legislation to attract investment are expected to improve the sector’s economic performance in the coming years.

Top-10 countries by phosphate rock reserves, 2017 (000 tonnes)

<table>
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<tr>
<th>Country</th>
<th>Phosphate Rock Reserves (000 tonnes)</th>
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<tbody>
<tr>
<td>Australia</td>
<td>5,000,000</td>
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<tr>
<td>Jordan</td>
<td>3,000,000</td>
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<tr>
<td>Egypt</td>
<td>2,000,000</td>
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<tr>
<td>China</td>
<td>1,500,000</td>
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<tr>
<td>Morocco &amp; W Sahara</td>
<td>1,000,000</td>
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<tr>
<td>Algeria</td>
<td>700,000</td>
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<tr>
<td>Syria</td>
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<tr>
<td>Brazil</td>
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<td>South Africa</td>
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<td>Saudi Arabia</td>
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Source: USGS

2.2bn tonnes of phosphate, 3bn tonnes of iron, 1bn tonnes of salt, 100 tonnes of gold and 100m tonnes of lead and zinc. The country is also estimated to have considerable reserves of manganese and baryte, as well as rare mineral deposits, although these are largely unexplored. Even now, the quality and quantity of resources in Algeria, rare and otherwise, remains unknown, highlighting the need for additional geological surveys. These are also critical to attracting foreign investment, as a lack of knowledge regarding mineral potential increases the risk surrounding any long-term investment.

LEGISLATION: Algeria adopted a mining law in 2001 that opened the sector to private investment. However, experts considered the legislation more suitable to countries with mature mining activity as opposed to countries where mining is at the embryonic stage, like Algeria. In 2014 the authorities introduced Law No. 14-05 in another bid to revitalise the industry. Yet, many dispositions could not be implemented because of the absence of implementing decrees. In this regard, executive decree No. 18-202 of 2018 marks a step forward as it will allow the implementation of dispositions included in the 2014 law. Notably, the decree establishes the conditions and procedures for allocating mining permits. The National Agency of Investment Development expects that this decree will have a positive effect on mining activity.

ACTIVITY: Although mining activity is largely stagnant, projects in various segments are under way. In phosphates, for example, the Djerbel Onk mine in the wilaya of Tébessa, where most phosphate mining takes place, is expected to undergo expansion in the near future, while in May 2018 the press reported that construction of phosphate processing facilities at Oued Keberit in the wilaya of Souk Ahras would begin by the end of that year. This is significant because the bulk of phosphate mined in Algeria to date has been exported in raw form.

IRON: Plans for the development of a major iron ore deposit in Gara Djebil, in the country’s south-west, also moved forward in 2017, after feasibility and technical studies carried out by China’s Sinosteel Equipment & Engineering Company were announced to be successful. The project, which aims to develop estimated reserves of 1.5bn tonnes and has been in the works for several years, was in doubt due in part to the high level of phosphorus contained in the deposit, which threatened the project’s viability. While the final greenlight for the mine has yet to be given, if it enters into operation it could produce some 20m tonnes per annum (tpa).

GOLD: With an estimated 100 tonnes of gold reserves and 1 tpa of output, this precious metal remains largely untapped. The main gold deposits so far identified are located in the wilaya of Tamanrasset in the south-west. The authorities are currently looking for a new foreign partner to relaunch operations at one of the Tamanrasset mines – Amesmessa – following the withdrawal of former operator GMA Resources.
A steely performance

Algeria moves closer to its goal of becoming self-sufficient in steel

There are a large number of capacity-building projects under way in Algerian steel, which has become a thriving subsegment within the country’s industrial landscape. Forecasts indicate output will increase by 7m tonnes to 12m tonnes per annum (tpa) by the end of 2020. A milestone was reached in 2017 with the start of operations at the Algerian-Qatari Bellara steel complex in the wilaya (province) of Jijel. Valued at $2bn, the facility spans 200 ha and has the capacity to produce 2m tpa of steel products, including rebar and machine wire. Production is expected to scale up to 4m tpa once the facility, 80% complete as of September 2018, is fully operational.

**FACILITATING GROWTH:** The Bellara project and wider capacity expansion is expected to make Algeria largely self-sufficient in steel and, consequently, drastically downsize imports of it. “Developing capacities in the steel industry is very strategic,” Belmiro Torres Couto, managing director of metals producer Martimetal, told OBG.

The government’s protectionist policy, which included import quotas in 2016 – notably for rebar and wire rod – of 2m tonnes and 300,000 tonnes, respectively, helped stimulate investment in domestic steel facilities and also led to a five-fold increase in steel billet imports in 2017 to 1.8m tonnes, according to the International Steel Statistics Bureau. However, due to continuing expansion, billet imports are also expected to fall sharply by 2020. “Import restrictions have been a great opportunity to increase production,” Couto told OBG. “Algeria has the potential to become a steel industry leader.” Another factor giving Algeria a competitive advantage is low energy prices, as energy accounts for a large share of steel production costs.

**CAPACITY BUILDING:** Two major players in Algeria’s steel industry are the state-owned producer Imetal and Turkish firm Tosyalı. Both have major expansion projects under way or in the pipeline. In May 2018 Tosyalı inaugurated a new production unit at its steel plant in Béthioua, near Oran. First established in 2013, the plant is undergoing four expansion phases that will increase its capacity to 2.5m tpa. Meanwhile, Imetal is in the midst of a renovation programme at the El Hadjar steel complex in Annaba. Launched in 2015, the project aims to bring liquid steel production at the facility back up to 1.2m tpa. According to press reports, output was expected to reach 720,000 tpa by the end of 2018.

**ADDING VALUE:** The steel industry’s expansion is expected to benefit wider industrial development by supplying key segments, such as automotive manufacturing or construction, with raw materials which would otherwise be imported. In order for this to happen, Couto argues that the low energy prices the steel industry benefits from should be reflected in the domestic selling price to benefit steel processing industries down the chain. “Algeria can be a global steel processing power. All sectors should benefit from the steel industry’s competitiveness,” he told OBG. “The state should have a policy that gives processors the advantage.”

In addition to meeting domestic demand, which remains modest, Algerian steel could also have interesting export prospects, due to rising steel prices rise on the back of increased demand from China and India. For Bellara, however, the first export market will be Qatar, its main investment partner.

**CHALLENGES:** A key challenge facing the local steel industry is upgrading the quality of its output. Algeria mainly produces basic steel at present, which is unsuitable for some applications, such as metallic carpentry for major construction projects, like airports or football stadiums. “Carpenters are still waiting for the improvement of steel and more sophisticated products,” Couto told OBG. “Right now, diversifying production towards more complex products for construction materials is very important.”
Best medicine
Import replacement policy and strong fundamentals support pharmaceutical expansion

Pharmaceuticals is one of Algeria’s most dynamic manufacturing industries. The state-owned SAIDAL group is the main producer, and there were approximately 80 other local and foreign manufacturers operating in the segment in 2018.

Following the 2009 imposition of restrictions on the import of goods that can be produced locally, national output has grown rapidly, leading to rising levels of self-sufficiency. The market is currently the largest in Africa with an estimated value of $3.7bn. Factors such as an expanding middle class and growing population, which is covered by the public health system, has increased demand for pharmaceuticals and presents long-term investment opportunities.

INVESTMENT: According to a brochure produced for the Maghreb Pharma Expo, in 2018 around 47% of domestic pharmaceuticals demand in Algeria was supplied locally compared to 25% in 2008. With the government aiming to increase this to 70% by 2021, the sector is drawing more and more interest from among local and foreign investors.

According to official figures there were more than 110 projects to construct or expand pharmaceuticals facilities in 2018. Among them, a €20m oncological manufacturing plant in Sidi Abdellah, Algeria’s pharmaceuticals and biotech cluster. Carried out by French firm Ipsen and Algeria’s Isly Holding, the project was announced in early September 2018 and is pegged for completion in 2021. The facility will manufacture medicines for the domestic market in its first phase and for export in its second.

The following month the country also became home to the largest drug production and distribution facility on the continent, with the inauguration of the Sanofi Algérie complex, also located in Sidi Abdellah. At full capacity, the plant is expected to produce approximately 100m units per year, and its portfolio will cover a wide range of medicines in cardiology, neurology, diabetes and pain management.

Other notable projects include a partnership between Biopharm and UK-Swedish multinational AstraZeneca, formed in mid-2018, for a $125m facility dedicated to the production of cardiovascular, neurological and oncological medicines, and an agreement between French group Pierre Fabre Laboratories and a number of local firms for a €15m drugs manufacturing facility.

TREATING CANCER: The new projects dovetail with the government’s National Anti-Cancer Plan 2015-19, which aims to expand oncology infrastructure and promote training in cancer treatment, while also reducing risk through preventative campaigns. The plan is a response to the increasing prevalence in Algeria of cancer, linked to increased urbanisation and changing consumer lifestyles. Each incidence of cancer costs the state AD5m (€36,300) on average, according to official figures, and the cost of cancer medication accounts for approximately 60% of total expenditure at public pharmacies.

As part of efforts to address the disease, four new publicly owned cancer-treatment facilities are expected to open in Algeria by the end of 2018, adding to the 13 already established. The centres will be equipped with 12 new radiotherapy accelerators, bringing the total number up to 48, 10 of which are operated by the private sector.

CHALLENGES: Notwithstanding the sizeable investments, pharmaceuticals demand is still not entirely covered by local production. Imports of medicines increased by 37% year-on-year in the first five months of 2018 to $922m, although this figure is still significantly under the $2.02bn recorded in 2016. According to local press reports the situation is due to a tendency among companies to produce the same type of products, focusing mainly on syrups or antibiotics, and underinvesting in research and development of drugs to treat other non-communicable diseases, such as heart disease and diabetes.
Economies around the world are preparing for the opportunities and challenges brought about by the next industrial revolution.

The global economy is entering the Fourth Industrial Revolution (4IR), or Industry 4.0, based on the application of new digital and automated technologies in production processes and service delivery. These changes are presenting emerging markets with opportunities such as improved productivity, as well as risks, namely reshoring and the displacement of human labour by automation. Wealthier emerging markets, such as the Gulf states, that have the resources to invest in new technologies, and those with better established manufacturing sectors, such as countries in Southeast Asia, appear best placed to reap the benefits of the 4IR. Many of these economies are putting in place strategies to manage and encourage the transition towards Industry 4.0. Meanwhile, other regions have shown signs of so-called premature deindustrialisation. In particular, Latin America and Africa seem more vulnerable to threats arising from technological changes and at greater risk of being left behind. To avoid such a fate, they need to adopt new innovative strategies that will allow them to leapfrog existing stages of industrial and infrastructure development.

BACKGROUND: Klaus Schwab, founder and executive chairman of the World Economic Forum (WEF) and author of the book *The Fourth Industrial Revolution*, states that the world has already gone through three industrial revolutions. The first involved water- and steam-powered mechanisms, followed by electricity-powered mass production. The third industrial revolution is referred to as the digital revolution.

Schwab argues that the world is currently entering the fourth industrial revolution, which is “characterised by a fusion of technologies that is blurring the lines between the physical, digital and biological spheres”. There are a number of emerging technologies expected to play significant roles in the upcoming revolution, including robotics, artificial intelligence (AI), the internet of things (IoT), machine-to-machine (M2M) communication, virtual reality and 3D printing, among others.

ROBOTICS: Arguably the most consequential area of 4IR-related technology in terms of its impact on labour markets and manufacturing jobs is robotics and other automated processes. Klaus Prettner, professor of economics at the University of Hohenheim in Germany, told OBG that the use of robotics and automated processes in manufacturing started to take off in the 1990s and has been expanding rapidly, posting annual growth rates of around 12%. “Until recently robots were used largely for work that was too dangerous or difficult for humans, but now the technology is improving and becoming more cost-effective, allowing it to be used for an ever-wider range of applications,” Prettner said.

Use of the technology is generally concentrated in automotives, electronics and electrical equipment, and machinery production. While robots have generally struggled to work with smaller parts that made them less suitable for other industries, this is now starting to change, and so-called lights-out manufacturing factories that can operate without human presence are already in existence, namely in north-east Asia.

3D PRINTING: Also known as additive manufacturing, 3D printing is the computer-controlled production of three-dimensional objects from digital models. The technology is now widely used to create a range of products, from prototypes to highly customised mechanisms, in a manner that is more efficient and cost-effective. An example is the manufacturing of hearing aids, which need to be individually moulded to the ear of the wearer. “Hearing aids used to be produced manually, which was a complicated process, but now manufacturers can simply scan the ear and use a 3D printer to make the product,” Prettner told OBG. As a result of such useful applications, 3D printing has witnessed a significant boom since 2008. However, as the technology matures, growth rates will likely level off.

VIRTUAL REALITY: Similar to the use of 3D printing for prototype production, virtual reality is particularly useful for the process prior to actual production, allowing
designers to explore and interact with virtual renditions of their products and to identify any design flaws and safety issues. This is particularly valuable in industries producing large, complex and expensive goods. The technology is already being used for such purposes in the aviation manufacturing industry, for example.

AI, IOT & M2M: AI, IoT and M2M communication are at an earlier stage of development than robotics, making their impact on industry harder to gauge. AI is not as widely deployed in the service sector as anticipated; nonetheless, it could have numerous applications in manufacturing and related activities, such as in the field of autonomous vehicles, which combines AI and IoT technologies. "Autonomous vehicles, should they take off, have enormous potential to drastically change logistics and supply chains," Prettner told OBG. He forecast such vehicles to be available on a large scale within 10-15 years. IoT can also enable machine parts in both industrial components and in consumer products to automatically send alerts when they malfunction or need replacing, further improving industrial efficiency.

PACE OF CHANGE: While Schwab has argued that technological change is taking place at an exponential and unprecedented pace, other observers differ in opinion regarding the likely extent to which 4IR will transform the international industry and the speed at which this will happen. Prettner told OBG that the impact of 4IR-related technologies would be felt gradually. "There won’t be a real revolution in the foreseeable future," he said. "While such technologies may work to reverse the decline in productivity growth that has been witnessed in recent decades, this will probably not bring them back to the levels seen in the mid-20th century."

Some observers argue that change could be even slower. US economist Robert Gordon observed that there are major barriers to designing robots that can take over many roles currently performed by humans, and that the pace and impact of change was much higher between 1980 and 2005 than it is today.

Efforts to automate industrial processes have not always gone smoothly. In April 2018 Elon Musk, CEO of electric car manufacturer Tesla, told local media that the company had engaged in "excessive automation" at its facilities, and that this partly contributed to its failure to meet production targets. He added that salaries for engineers to maintain robots could sometimes outweigh the savings involved in their use.

RISKS: For emerging markets, one of the most prominent risks from automation is the reduced need for lower cost and unskilled labour, making it less attractive for industry to outsource production away from their main consumer bases. This risks exacerbating a trend already under way in some regions – notably in parts of Latin America and Africa – towards what economist Dani Rodrik has referred to as premature deindustrialisation. The process has been driven by various factors, including rising competition from China; however, increased automation in developed economies such as the US, which lessen the attractiveness of cheaper labour in developing countries, also appears to be a contributing factor. A March 2018 report by the Overseas Development Institute (ODI) found that even in the relatively low-tech furniture manufacturing industry, operating robots in the US could become cheaper than paying workers in Kenya by 2033. Prettner cited new highly automated production facilities built in Germany by Adidas for the manufacturing of trainers – a product generally produced by low-wage workers in Asia – as an example of Industry 4.0-enabled reshoring.

SOUTH-EAST ASIA: Of the emerging markets covered by OBG, Thailand is arguably leading the way in terms of technological development, thanks in large part to its already high level of industrial growth. For example, it is the sixth-largest vehicle producer in the world.

In 2016 the government launched the Thailand 4.0 strategy, with the goal of developing innovative and high value-added industries in order to achieve high-income status. The strategy includes the development of technology clusters and start-ups based around 4IR technologies such as robotics, IoT and biotechnology, and overlaps with the Eastern Economic Corridor strategy to create growth hubs in three eastern provinces.

4IR-type activity is already developing rapidly in Thailand. In 2014 it shipped 2646 multipurpose industrial robots, up 13% on the previous year, according to the "Executive Summary World Robotics 2017 Industrial Robots" report by the International Federation of Robotics. The figure is expected to increase to 5000 in 2020. A 2016 study by Citi GPS found that the payback period for investment in robotics in the country fell from around five years in 2013 to three years in 2017, further encouraging the trend. Thailand hosts at least four robotics research centres, and is home to the Institute of Field Robotics, which offers robotics and automation engineering degrees.

Although Thailand is actively working on its transition into an increasingly digitalised world, more still needs to be done to ensure that the country maximises its potential. "There will always be a threat from technological disruption, but as we move into Thailand 4.0, the manufacturing sector that has underpinned Thailand’s growth will benefit from a stronger competitive edge," Parametee Vimolsiri, former secretary-general at the National Economic and Social Development Board, told OBG. "However, in order for Thailand to upgrade its economy, further foreign direct investment is needed, which will require additional efforts to link multinationals with domestic innovators and local firms."

A key requirement for any country transitioning to the 4IR will be reforming education and training systems to provide workers with skills that are still valuable under the new paradigm, such as the ability to programme automated systems.

"We are pushing for change to education to develop digital manpower, such as AI and cybersecurity specialists, among others," Nuttapon Nimmanphatcharin, CEO of Thailand’s Digital Economic Promotion Agency, told OBG. "Universities are also developing curricula focused on topics such as AI, though there will also be a need for more informal and on-the-job forms of training, and an important step will be to encourage educational institutions to work with multinationals."

A key requirement for any country transitioning to the Fourth Industrial Revolution will be reforming education and training systems to provide workers with skills that are still valuable under the new paradigm, such as the ability to programme automated systems.
The Algerian Chamber of Commerce and Industry your partner in the business world.

OUR MISSIONS
- Bring the expectations and proposals of economic operators to the public authorities.
- Promote the economic potential of the territories.
- Train future managers of excellence.
- Support operators and project promoters to boost the growth of their businesses.
- Promote the Algerian economy internationally.

OUR ACTIONS
- Promotion of national and territorial development: organization of exhibitions, seminars, information days, events and meetings with diplomatic and business delegations abroad.
- Training: the development and improvement of skills as the spearhead of companies.
- Public service activities: issuance of ATA camets, certificates of origin visas for goods destined for export, certification of commercial documents, recommendations for Visa China.
- Conciliation, Mediation and Arbitration Center (CCMA).
- Publications.
Agriculture

Draft 2019 Finance Law budgets €1.9bn for the sector
Policies facilitate foreign investment across segments
Government goal to irrigate 25% of arable land by 2021
Initiatives to boost cereal output see harvest hit €1.6bn
National priority

The authorities work to lower the food import bill and attain self-sufficiency in key crops

A number of driving forces are behind Algeria’s efforts to boost domestic agricultural output and cut the food import bill. First, the country is looking to diversify away from its dependence on hydrocarbons revenue, given fluctuating international oil prices; second, the population is forecast to rise by 25% to nearly 50m people by 2030, thus substantially increasing food demands; and third, Algeria faces serious side effects from climate change – including heat waves – which means maintaining food security is a priority.

Food production improved between 2007 and 2018 thanks to efforts to clear some of the obstacles that have traditionally hindered the sector’s development, such as financing, legislation, insufficient infrastructure and land ownership. The authorities are currently enforcing strict new rules that allow for the re-appropriation of unused agricultural land and are investing heavily in irrigation to tackle water issues (see analysis).

POLICY: The Agricultural and Rural Renewal Policy has guided the growth of the agriculture sector since 2008. The strategy aims to deliver permanent support for national food security through “the intensification of production in strategic agri-food chains, and the development of rural areas”. Meanwhile, the National Investment Development Agency, designed to facilitate foreign direct investment in various sectors, has the following policy objectives for agriculture: develop agricultural land and integrated farming; encourage public-private partnerships (PPPs) in pilot farms; develop agricultural mechanisation, irrigation systems and fertilisation techniques; create modern nurseries; grow additional greenhouse crops and forage crops; increase production of sheep, cattle, goats, white meat, fruit, vegetables and milk; promote local dates, oils and grapes; improve storage and cold storage capacity; and invest in the agri-food industry.

The Felaha 2019 initiative, published in June 2016, has revitalised existing policy by prioritising research and knowledge transfer, establishing new businesses, building partnerships with global agri-business leaders, expanding irrigated area, boosting public spending and working towards self-sufficiency in key segments like durum wheat by 2020. The initiative targets annual sector growth of 5%, AD4.3trn (€35.2bn) of output value and 1.5m new agricultural jobs by the end of 2019.

The new model is based on private investment as the principal engine for growth, as well as a more integrated structuring of the sector that allows for an improved value chain. The government has also banned a number of food imports to stimulate domestic production, and is offering low-interest loans to farmers and free vaccinations for livestock. As of February 2018, 22,253 micro-enterprises had been established as part of the farm support scheme, although policy measures also aim to develop large-scale, intensive farming.

ECONOMIC CONTRIBUTION: Agriculture contributes over 10% to GDP and employs more than 25% of the working population. The value of the sector rose from AD359bn (€2.6bn) in 2000 to AD3.1trn (€22.5bn) in 2017, according to the Ministry of Agriculture, Rural Development and Fisheries (Ministère de l’Agriculture, du Développement Rural et de la Pêche, MADRP), an increase of 760%. The contribution of agriculture to GDP rose from 8% to 12.3% over those same years.

Algeria’s GDP as a whole grew by 1.6% in 2017, while agriculture grew by 4.2%. The sector continued to post impressive growth in 2018, at 8.9% in the second quarter, up from 0.7% in the same quarter of 2017. Some 1.2m jobs and 22,000 small and medium-sized enterprises have been created in the sector since 2000.

INVESTMENT: The state invested AD3trn (€21.8bn) in the sector between 2000 and 2017, according to Abdelkader Bouazghi, the minister of agriculture, rural development and fisheries. More than 12,000 proximity projects have been financed – which are rural community initiatives to develop techniques and supply chains – 1.2m rural housing units created and 500,000 farms revitalised. In addition, the draft 2019 Finance
Law allocated AD265.1bn (€1.9bn) to the sector for the year, an increase of 25.2% on 2018.

The authorities’ plans include creating livestock markets in various wilayas (provinces), with veterinarians in place to oversee meat harvesting, while PPPs are actively being sought in the domain of large-scale farming. For instance, public agricultural group Gvapro managed 74 new pilot farms as of late 2018, 35 of which were structured as PPPs with foreign firms, according to information provided by Gvapro.

Algeria has also begun to discuss the idea of offering foreign investors concessions for farmland. Under the plan, actors from abroad would need to work in partnership with the state or a private Algerian firm under the 51:49 investment law, which caps the foreign investor’s share at 49%. By November 2018 there was no specific information published about which farmland would be offered or how concessions would be granted. These details will be outlined in separate legislation, according to Reuters. The move comes within the context of a country known for inefficient bureaucracy and other hurdles to investment, such as the aforementioned 51:49 rule. Many local operators have expressed concern that the stipulation deters serious foreign investors, thus inhibiting technology and knowledge transfer to the domestic market.

In 2010 Algeria passed a law permitting local private firms to lease government-owned farmland for 40 years, and those companies could then enter into partnerships with foreign operators. Foreign investors were not allowed to directly hold a concession, however. The initiative has not yet provided a substantial boost to development, thus this new legislation is hoped to jump-start farming operations on the 3m ha of suitable land that lays vacant around the country.

LOCAL AID: In addition to efforts to bring in capable foreign players, Algerian farmers themselves benefit from various forms of state aid, such as the provision of quality seeds and other inputs, as well as support in times of natural catastrophe. During the 2017/18 harvest campaign, for example, some 13,500 farmers received credit totalling AD6bn (€43.6m), Bouazghi told local media in September 2018. Support is also coming in the form of government investment in agricultural programmes via the university system and other training avenues. Not only will this educate more citizens on the latest farming techniques and technologies, but it will also serve to attract a greater amount of young people to a sector whose participants are ageing.

LAND USE: The MADRP has issued 180,000 concessions for 219,406 registered farms between 2000 and early 2018, and is prioritising supporting producers based in the Hauts Plateaux and southern regions of the country. However, of the more than 8m ha that comprise Algeria’s arable land, 3m ha are going unused, and only 30,377 of the 830,600 recipients of state aid have added value to their lands, according to Bouazghi. The authorities are currently reclaiming unused land to address this issue. Committees at the wilaya level have been set up on an ad-hoc basis to supervise the reclamation process. Approximately 250,000 ha of 800,000 ha were recuperated by February 2018, with the plots to be redistributed to other, more serious investors who will develop the land in a substantial way.

INSURANCE: In addition to instances of underutilisation, Algeria’s farmland is especially vulnerable to heat waves. In the summer of 2018, for example, higher-than-normal temperatures caused heavy losses. Peach, melon, grape and lemon were among the crops worst affected, with poultry farms also taking a hit. The southern wilayas of Illizi and Ouargla registered record high temperatures of 51°C in July. The situation reopened debates about Algeria’s lack of insurance coverage for the agriculture sector. Farmers typically rely on government intervention to compensate for losses when natural disasters strike, which makes the state the sector’s de facto insurer. Of the country’s 900,000 farmers, only 75,000 have farm insurance, according to the General Federation of Algerian Farmers. This is mostly because insurance rates are expensive, with multi-hazard policies costing...
Algeria’s production of red meat varieties rose from 537,000 tonnes in 2016 to 544,000 tonnes in 2017, an increase of 78%. In value terms, these fell from $1.7bn, according to Reuters. To bridge this gap, the MADRP noted the effective mobilisation of material and human resources, rigorous monitoring carried out by sector managers at the central and local levels, and the involvement of wilaya leaders.

Average yield improved from 1.5 tonnes per ha in 2017 to 1.9 tonnes in 2018 across an estimated 3.5m ha engaged in cereals farming. In certain pilot farms, productivity reached 7 tonnes per ha. Tiaret was the most productive wilaya, with a harvest of 500,000 tonnes.

DOMESTIC PRODUCTION: Indeed, cereal varieties are among Algeria’s main crops, as are vegetables – in the form of both small-scale market gardening and industrial farms – and dates. Dates are among the country’s top-10 exports by value, and are largely bought by France, Russia, Senegal and Belgium.

According to figures released by the MADRP in April 2018, date production rose from 1.03m tonnes in 2016 to 1.06m tonnes in 2017. Market gardening output fell from 13.1m tonnes to 13m tonnes, and potatoes dropped from 4.78m tonnes to 4.61m tonnes. Production from the industrial tomato segment dipped slightly from 1.24m tonnes in 2016 to 1.21m tonnes in 2017. Livestock and related products, for their part, saw marginal changes in 2017. Red meat production rose from 537,000 tonnes to 544,000 tonnes, and white meat 520,000 tonnes to 530,000 tonnes. Milk production was 3.6bn litres in 2016 and 3.5bn litres in 2017. Published with cereal harvest figures in September 2018, dried vegetables – specifically chickpeas and lentils – saw production rise dramatically from 77,000 tonnes in 2017 to 130,000 tonnes in 2018. Output of this segment barely reached 40,000 tonnes in 2008. The government wants domestic production to account for 90% of cereals consumption in light of its hefty import bill, thus large private fields have been established for durum wheat in the southern part of the country. These plots have back-up irrigation and are supported technically and materially by the Algerian Interprofessional Cereal Office (Office Algérien Interprofessionnel des Céréales, OAIC) in conjunction with Mustapha Stambouli University. According to Mohamed Belabdi, CEO of the OAIC, self-sufficiency in durum wheat should be reached in 2021 or 2022. The government is also looking to support cultivation of a special variant of durum wheat that is adapted to the Algerian climate, the market value of which is twice that of ordinary durum wheat.

FOOD TRADE: In the first seven months of 2018 Algeria accumulated a food import bill worth $5.24bn, up slightly from the $5.19bn recorded in the same period of 2017, despite government-imposed restrictions on certain products beginning in January 2018. Large savings were seen in the sugar and confectionery products

The 2018 cereals harvest was the largest in Algeria’s history, with 6.05m tonnes collected across durum wheat, barley, soft wheat and oats. This equalled €1.6bn in value terms.
category, with a 25% year-on-year (y-o-y) reduction, and in meat, down 18%. However, imports of cereals, the target of intensive growing campaigns, rose by 11%

According to the report "Statistics of External Trade" for the year 2017 by the National Centre for Information and Statistics, food imports totalled $8.4bn in 2017 and $8.2bn in 2016. Both years saw this category account for roughly 18% of all imports. Cereals, semolina and flour made up the largest share of food purchases in 2017, costing $2.8bn, or one-third of the total, followed by milk and milk products at $1.4bn (16.7%), and sugars and sweets at $1bn (12.3%). Coffee and tea, dried vegetables and meat round out the categories that together sum 75% of all food imports.

While food exports as a whole is not a line item listed in the report, the top-10 export categories include sugarcane and sugar beet, and dates. Sugarcane and sugar beet exports fell from $231.2m in 2016 to $225.5m in 2017, while date exports grew from $37.5m to $51.4m. MECHANISATION: An emphasis on large-scale, intensive farming that utilises the latest machinery is a key axis in plans to boost domestic output and – in the long term – increase food exports. More than 10,000 combine harvesters were used in the 2018 cereals harvest, 1200 of which belonged to the Cereals and Dried Vegetable Co-operative, while transport cooperatives provided 800 trucks to ensure smooth movement from farm to storage or milling facilities. Permanent storage capacity was 3.1m tonnes, with additional sites available on an as-needed basis. Some 550 collection points located in and around production areas were equipped with handling and weighing machinery. Teams worked seven days per week to facilitate the collection of grain, with payment to producers to be sent within 72 hours of drop off. In addition, 109 seed milling stations were operational, 22 of which were newly acquired, allowing for a total daily machining capacity of 3400 tonnes.

To help speed up the mechanisation process nationwide, the government has called on bank executives to provide incentives and access to loans that will encourage farmers and investors to acquire modern machinery. The OAIC, for its part, has plans to purchase 1500 new combine harvesters, build 39 silo docks, improve the quality of seeds and inputs, and establish 22 specialised stations around the country to provide farmers with technical and financial assistance.

AGRO-INDUSTRY: Increased domestic output should naturally lead to an expansion of agri-business activity. The segment is already taking off, however, growing by 6.1% y-o-y in the first quarter of 2018. The government hopes to foster greater collaboration between farmers and the processing industry to reduce imports and strengthen the value chain, therefore officials have reserved acreage in the south for mega-projects geared towards cereals, potatoes and milk production. Some local experts have expressed concern over whether these projects are realistic, though, given their significant costs and the strained water supply (see analysis). In terms of value-added production, the domestic cereal industry is largely centred on flour and semolina. The dairy industry, for its part, focuses on pasteurised milk in bags – producing 1.8bn tonnes per year – milk processed by the ultra-high temperature technique packaged in cartons or bottles (300m tonnes annually), instant powdered milk (30,000 tonnes per year) and cheese (85,000 tonnes per year), according to a June 2017 trade report. Algeria is looking to invest more in food oils production, with current output standing at 69,000 tonnes of olive oil per year and 700,000 tonnes of seed oils. Investment opportunities primarily lie in supplying specialised equipment, such as refrigeration units and packaging machinery, and providing transport solutions. Knowledge transfer is also an area of need.

OUTLOOK: While the record cereals harvest was a high-light of 2018, Algeria is still quite a way off significantly reducing its import bill for food products. However, great gains wait to be made with the wider application of irrigation and mechanisation, in addition to ensuring underutilised land is reallocated to players who will develop it to its full potential. Climate change is another piece of the food security puzzle, with lessons likely to shape future sector strategy and farmer education.
Diverse growth

Nabil Assaf, Representative, Food and Agriculture Organisation of the UN, on agricultural potential and sustainable resources

How would you assess Algeria's achievements in the agricultural sector in recent years?

ASSAF: For several years Algeria has performed well in terms of food security, as confirmed by the 2017 "Near East and North Africa Regional Overview of Food Security and Nutrition" report, which indicates a sub-nutrition rate of 4.6%. This is lower than the regional average and is steadily declining. While imports certainly contribute to this security, agriculture has been increasing, and in 2018 local agriculture covered 75% of national needs. The country has made great progress and continues to improve, with the agriculture sector having the highest growth rate, at nearly 10% in 2018.

This is the result of several factors, including the development of irrigated perimeters. Irrigation has seen progress not only in terms of area – from 800,000 ha in 2008 to 1.3m in 2018 – but also in practice, with the widespread use of water-saving technologies. The FAO's regional initiative for water scarcity aims to increase both the mobilisation of water and water productivity, which is the amount of wealth produced per litre. Water mobilisation has allowed for the ongoing development of Saharan agriculture, as well as provided ongoing opportunities for El Oued and Biskra to become top national producers.

Aquaculture is another sector that was virtually non-existent years ago. In 2018 the Ministry of Agriculture, Rural Development and Fisheries (Ministère de l'Agriculture, du Développement Rural et de la Pêche, MADRP) awarded 145 concessions for marine aquaculture. The association of aquaculture with agriculture has given excellent results in the far south, which can now rely on this source for food security.

What sustainable and efficient models can be used to unlock Algeria's agriculture potential?

ASSAF: There are three main factors that will continue to improve performance. First, water must be made available for agriculture. The government aims to extend irrigated areas to 2.3m ha. The FAO has been working to improve water mobilisation mechanisms and to increase water productivity, which includes focusing on non-conventional water use in agriculture.

The second factor is sustainable mechanisation. A recent joint study by the FAO, MADRP, and the Ministry of Industry and Mining revealed that the park is ageing. We are working on a strategy to help equip small farmers, who strive to provide excellent quality food but have experienced low overall productivity.

The third component is diversification. Algerian agriculture has diversified, but there is still room to increase the contribution of natural resources. Forests, for example, are particularly rich in biodiversity, and offer a range of goods and services that have environmental, nutritional, medicinal or industrial value. Therefore, the FAO is developing a project for the integrated development of the Algerian cork oak forest ecosystems in order to preserve and enhance its value. We are also providing technical assistance to microenterprises focusing on non-timber forest products such as pine nuts, carob and rosemary.

To what extent do you foresee international investors increasing their footprint in Algeria?

ASSAF: Algeria has both large land area and significant water resources, especially in the south; however, these resources are not renewable. This is one of the factors that makes the region particularly attractive to international investors. Pilot farms in the highlands and in the north will also be open for investment.

With the emergence of major Algerian investors in agriculture, additional partnerships will continue to emerge in the coming years. Nevertheless, a national agency dedicated to the promotion of agricultural investments could help to orient international investors by offering them a platform for establishing exchange and partnerships.
Water works

Expanding irrigation infrastructure is high on the agenda

Agriculture in Algeria is primarily rain-fed and often suffers from droughts, which have worsened in recent years due to climate change. The government, therefore, has plans to expand irrigation networks to cover 2m ha, or 25% of arable land, by 2021 – 700,000 ha more than the 1.3m ha irrigated in 2018. This need was recognised some years ago, with the 2015-19 development plan allocating $18bn to improving water security – its single biggest investment area. Boosting storage capacity through new dams and desalination plants, as well as modernising irrigation infrastructure, are essential components of the strategy.

IRRIGATION: Algeria has about 8m ha of arable land, roughly 3.5% of its total area. According to the National Union of Algerian Farmers, this could be expanded to 30m ha over the long term if irrigation resources are developed, despite severe climate conditions. In the short term, however, local experts are worried that the country’s cumbersome bureaucracy will stymie the more modest effort to irrigate 2m ha by 2021.

Infrastructure upgrades must accompany plans to expand irrigation, as an estimated 30% of the country’s water is lost due to sub-par transportation and distribution networks, according to Hocine Necib, the minister of water resources and environment. Between 2000 and 2018, 439 foggaras – underground conduits that lead water from the interior of a hill – and a number of support systems, such as wells, pumps and canals, have been built or renovated with this in mind.

Success stories have been seen in cereal production, where certain pilot farms in the south have reached yields of 7 tonnes per ha thanks to modern watering techniques, Reda Hachelaf, director of private food group Couscous Mama, told OBG. The national average for cereal varieties is 1.9 tonnes per ha.

DAMS: Reaching 2m irrigated ha also requires capturing and storing 8m cu metres of rainfall every year, and this is where dams play a role. Some 80 dams were active in the country in April 2018, with five more under construction. When completed, the new dams will boost total capacity to 9bn cu metres, according to the Ministry of Water Resources, up from 6.5bn cu metres when 75 dams were in operation in mid-2017. Indeed, in the second half of 2017 five new dams came on-line: Ouldjet Mellegue dam in Tébessa, Soubella dam in M’sila, Béni Slimane dam in Médéa, Ettaha dam in Mascara and Seglabia dam in Laghouat. The longer-term vision is to have 139 dams operational by 2030, raising the country’s overall capacity to 12bn cu metres.

SEAWATER DESALINATION: The authorities also aim to increase the capacity of desalination plants, which stood at 2.1m cu metres per day (cmpd) in August 2017, up from just 50,000 cmpd in 2002. The construction of 11 desalination facilities between 2000 and 2017 have allowed for the processing and reallocation of water for irrigation purposes. The largest of these is the Magtaa desalination plant in Oran, which has the capacity to process 500,000 cmpd, making it the largest such facility in Africa. The $443m plant was developed in 2015 as a public-private partnership with Singapore’s Hyflux.

TAKING ACTION: Algeria has less than half of the World Bank’s water scarcity threshold of 1000 cu metres per inhabitant per year, and the farming sector consumes 70% of the total water supply. More specialised methods, however, could reduce water use by 10-20%, or 700m-1.4bn cu metres, and permit the irrigation of an additional 300,000 ha of land. Proposed economising measures include promoting the practice of drip and spraying techniques. Areas irrigated by water-saving methods grew from 90,000 ha in 2000 to 600,000 ha in 2018, representing 50% of total irrigated land.

Furthermore, in August 2018 the Ministry of Agriculture, Rural Development and Fisheries moved to take action against farmers who use wastewater for irrigation. Those on public land will be evicted from their plots, while those on private land are to be legally prosecuted. The crops will then be disposed of.

The authorities aim to increase irrigated land from 1.3m ha in 2018 to 2m by 2021.
M’hamed Metidji, CEO, Metidji Group; and President, National Interprofessional Council for Cereals, on supporting agricultural modernisation and innovation

Room to grow

How would you evaluate the previous efforts made to support the agriculture sector?
METIDJI: In the 2000s the authorities established a comprehensive strategy for agricultural development. The strategy focused on reducing vulnerabilities, developing assets through strong involvement of private and public players, and promoting the emergence of new governance in agriculture and rural territories. In this context the new agricultural policy integrates socio-economic, territorial and cognitive dimensions based on three guidelines: agricultural renewal; rural renewal; and investment in human capacity. Cereal producers need to consolidate their know-how and their practices. They also need to organise themselves as well as the related associations, and to work for the same objective, which should be the development of cereals. Despite uncertainties resulting from climate change, cereal production has increased steadily since 2009. This is due to the measures that have been taken in the aim of supporting the sector.

Which segments have the greatest potential for development moving forward?
METIDJI: Segments with the greatest potential include those with structural deficits filled by imports, which highly impact our trade balance. Specifically, cereals, milk and meat, in addition to high value-added segments that represent good opportunities for exports and the emergence of a competitive processing industry. Considering our current consumption model, the cereals segment is essential for food security, and accounts for 59% of our total imports.

What can be done to further modernise the sector?
METIDJI: Modernisation of the sector is structured around new paradigms, which serve to put agriculture at the heart of growth and diversification of Algeria’s economy. These paradigms are highly dependent on labour improvement and soil productivity, as well as to the strength of agronomic research and innovation – two factors that will determine the future of food security in Algeria. There are many operational programmes, including research and development, promotion of public-private and private-private partnerships, and mobilisation of skills in strategic segments. Results are encouraging, however, emphasis must be placed on structural upgrades, focusing on physical and infrastructural modernisation through mechanisation, technical and scientific advances, modern farm management, and implementation of sectoral management for greater cohesion of associated efforts and activities.

What are some prominent challenges and advantages in the agro-industry today?
METIDJI: The authorities are focusing on building new dynamism in the agri-food industry with the private sector. In the future this sector will contribute vitally to Algeria’s strategy for food security and to supplying the national market. At 1.6m workers, the industry employs 40% of the agricultural workforce, accounting for around 55% of industrial GDP and 45% of said added value. The turnover generated by agri-food represents 40% of the total turnover of non-hydrocarbons industries. It has an export potential of over $3bn per year and is still growing steadily. The national agricultural production system could not satisfy demanded quality or quantity. It is creating dependence on external markets, and results in little integration with agricultural upstream. Therefore, the local products that are value added are negatively impacted. We need the competitiveness of the sector, and this overlooks a strong partnership between farmers and industrialists.
Transport

Road and rail projects prioritised in 2019 draft budget
New trade regulations serving to dampen imports
Intermodal transit network card unveiled in June 2018
Expansion of global aviation industry spurs investment
Présentation du Groupe SNTF

Missions principales
Transport de voyageurs
Transport de marchandises
Gestion et maintenance du réseau ferré national

Création
En mars 1976
En succession de la Société nationale des chemins de fer algériens (SNAFA)

Le Statut juridique
En tant qu’entreprise publique à caractère industriel et commercial (EPCI)
Réglementé depuis décembre 1989

Capital social
Un capital social de 23,7 milliards de DA

Activité
En 2017, 43 millions de voyageurs
4 millions de tonnes de marchandises
Chiffre d’affaires de 4,5 milliards de DA

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SNTF Spa - Membres du conseil : 45% - SNAFA, 29% - Société nationale des chemins de fer de la Tunisie (SCT), 26% - Société nationale des chemins de fer du Maroc (SNCB).
In the pipeline

Rail and road infrastructure developments forge ahead

Meeting the country’s growing transport needs remains a priority for the Algerian government. The national development plan 2015-19 allocates AD832.7bn (€6bn) to upgrade, modernise and expand the country’s air, rail, road and maritime capacity, with significant progress already made on each of these fronts. Foreign direct investment (FDI) is being actively sought as the authorities look to incorporate the latest technologies and know-how into the modernisation process.

However, efforts to expand the sector face three main challenges. The first is an expertise deficit that harks back to the 1990s, when the country was unable to invest in training programmes because of civil war. The second is a cumbersome and opaque bureaucracy, the effect of which is acutely felt in certain segments, such as logistics. The third is the drop in international oil prices, which has led to declining state revenues and a more restrictive budget. However, evidence suggests that the authorities are actively seeking solutions to overcome these issues. The transport and communications sector remains an important contributor to the economy, accounting for 14% of GDP in 2017, up from 13.4% in 2016, according to the National Statistics Office (Office National des Statistiques, ONS).

INFRASTRUCTURE DEVELOPMENT: In under two decades Algeria’s transport networks have developed significantly, thanks to notable investments in the sector. Between 1999 and 2017 the government spent over AD10,000bn (€72.6bn) in transport infrastructure. This resulted in the reparation of 73,000 km of the country’s 110,000-km road network. As for large-scale road projects, about 1130 km of the 1216-km East-West Highway and 1600 km of the Trans-Saharan Highway were built. The country has a total of 24 city thoroughfares, with 13 under construction, covering a total of 1009 km. The goal behind these road developments is to facilitate the transport of goods and private freights. Since 1999 approximately AD220bn (€1.6bn) has been allocated to security programmes along the country’s land borders in the south, securing a total length of 16,500 km, of which 9500 km is covered in asphalt.

Over the 1999-2017 period 10 cable car lines in Algiers, Tlemcen, Skikda and Constantine were refurnished, and the number of commercial ports remained at 10. In 2000 the rail network was under 1000 km, but after investments targeting its expansion, the total length of rail reached 4200 km in 2017, with plans to extend the network to 6500 km by 2021 and 12,500 km by 2030. The number of hoppers rose from seven to 20, with another 12 under construction as of late-2018.

In 2018 two metro line extensions were inaugurated, namely the Tafourah Grande Poste to Place des Martyrs and the Hai El Badr to Ain Naadja. In the same year two new tram lines were opened in Sétif and Ouargla. Algeria is home to 36 airports, with at least one designated for most of the country’s 48 wilayas (provinces), and the nation’s flag carrier, Air Algérie, expanded its fleet by 16 aircraft between 2014 and 2016. Four airfields and six airfield extensions have been constructed since 1999. The government plans to revive the national cargo fleet through the acquisition of 26 vessels, 10 of which were already delivered by March 2018.

GOVERNMENT EXPENDITURE: Though lower public spending was budgeted for the transport sector in 2019 than in the previous year, road and rail projects are nevertheless set to receive a financial boost. The 2018 budget allocated the sector AD380.8bn (€2.8bn), a 50% increase on 2017. These funds targeted large-scale projects such as the El Hamdania port (AD150bn, €1.1bn); the maintenance of roads, ports, airports and railways (AD65bn, €471.9m); the construction of new roads in remote areas (AD28bn, €203.3m); and transport upgrades in Algiers (AD6.5bn, €47.2m). An estimated AD178.2bn (€1.3bn) was earmarked for the completion of existing projects. In comparison, the draft budget for 2019 allocated the sector AD279bn (€2bn), a 26.6% decrease on 2018. The lion’s share of these funds (AD250bn, €1.8bn) is reserved for existing
projects, especially "strategic road and rail projects". Rail projects will receive AD76.1bn (€552.5m), Algiers metro extensions AD68.8bn (€499.5m) and roads AD100.3bn (€728.2m). Some AD29bn (€210.5m) will go towards new projects. The 2019 draft also exempts Customs duties from any spare parts or engine repair and aeronautical equipment required by national airlines. The aim is to reduce operating costs and make national airlines more competitive.

STRATEGIES: In addition to building infrastructure, the authorities are dedicated to improving equipment and human resources. In the rail segment, these programmes encompass electrification projects, the installation of new technologies and the training of staff at specialised academies (see analysis). In relation to urban transport, the focus is on intermodality, connectivity, high capacity and environmentally friendly solutions to congestion in major cities. The road segment is intent on upgrading and extending existing infrastructure and investing in projects designed to increase regional mobility, such as the East-West Highway and the Trans-Saharan Highway.

Regarding the air segment, the authorities have stressed increasing the flag carrier’s market share, renovating airports and boosting capacity through the construction of new terminals in Algiers and Oran. Algeria, together with neighbours Morocco and Tunisia, has opted out of the Single African Air Transport Market, which launched in January 2018 as part of the African Union’s Agenda 2063 and consists of 23 countries.

While the country is not yet fully prepared for open-skies agreements, some progress in this regard has been demonstrated through discussions for bilateral agreements, though many of these were on standby as of late 2018, according to local stakeholders.

INVESTMENT OPPORTUNITIES: Efforts to improve transport infrastructure across the country has presented exciting opportunities for investors to capitalise on. “Investment opportunities for foreign investors entail locating inefficiencies and shortcomings in the current infrastructure and providing solutions for them,” Yacine Bendjaballah, managing director of the state-owned National Rail Transport Company (Société Nationale des Transports Ferroviaires, SNFT), told OBG.

“In addition, surrounding each investment project are numerous tender calls for specific items.”

Many foreign firms have already signed deals with Algeria that will help expand its transport system. The Algiers Metro Company (Entreprise Métro d’Alger, EMA) has contracted numerous foreign firms, including France’s Colas Rail, which was awarded two contracts worth a combined €168m in 2016 for extension of the existing metro line and construction of five new stations. In early 2018 Algeria received the first of 17 Coradia Polyvalent trains from Alstom, following a €200m contract signed between the French rail transport company and SNFT in July 2015. The Coradia train began its maiden voyage in March 2018, and the other 16 trains are expected to be delivered over the course of the year. In February 2018 Spain’s technology company Indra signed a €42m contract to renew Algeria’s entire aviation traffic management system for local air navigation service provider Etablissement National de la Navigation Aérienne (ENNA).

Despite the attractive incentives offered by the country’s 2016 Investment Law, Algeria’s FDI inflows dropped from $1.6bn to $1.2bn in 2017. According to the UN Conference on Trade and Development, the decline was mainly due to the fact that FDI in Algeria is still very dependent on the oil and gas market, the prices of which dropped in 2017. Nonetheless, the government is committed to diversifying the country’s economy, and with numerous infrastructure projects in the pipeline, the transport sector is especially receptive to FDI.

PUBLIC-PRIVATE PARTNERSHIPS: In line with the objective of promoting investment in the sector, the government is also actively seeking to boost public-private partnerships (PPPs). It is hoped that foreign companies will contribute to improving Algeria’s know-how and technological capabilities. In early March 2009 DP World, the Dubai-based port management company, assumed control of the Port of Algiers’ container terminal in a joint partnership with the Algiers Port Authority.

Regarding the urban transport segment, the Algerian branch of France’s public transport operator Régie Autonome des Transports Parisiens (RATP), RATP El Djazair has been entrusted with the operation and maintenance of the Algiers metro system since the first line opened in 2011. On its website, the company cites “training employees to transfer skills and knowledge” as a key objective. Formed under a partnership between EMA, RATP and Transstev, Société d’Exploitation des Tramways maintains and has operations in six wilayas.

Some industry observers, however, have argued that partial privatisation is not enough. “The main challenge regarding PPPs is that public and private partners do not have the same mindset at all,” Hakim Aberkane, director of logistics company Anderson National Express, told OBG. “Public management has to shift its focus towards more efficiency and a cost management approach.” Additionally, the 51:49 rule that caps foreign companies’ stake in an investment at 49% may also be a deterrent to international investment.

URBAN TRANSIT: Thanks to Algeria’s oil resources, the price of petrol is very low. Therefore, cars remain popular as the cost of private transport is roughly equivalent to the cost of public transport. However, overdependence on motor vehicles creates traffic congestion, especially in Algiers, where there are now 300,000 vehicles on roads that were designed to handle 40,000. To tackle this issue, the government has prioritised urban transit solutions. Before 2011 Algeria lacked a single metro line. Now, Algiers has 17 metro stations, three of which opened in 2018, located along 18.5 km of track. As of January 2018 the average number of passengers using the Algiers metro was from 100,000 to 200,000 travellers daily, according to the Algerian Business Leaders’ Forum. Completion of extension works saw these figures jump from 2.8m passengers in January 2018 to 3.5m in May of that same year, according to data from the EMA. The extended line features 14 six-carriage trains from Spain’s Construcciones y

Algiers has 17 metro stations, three of which opened in 2018, located along a track totalling 18.5 km. A daily average of 100,000 to 200,000 passengers used the network in January 2018.
A Chinese company is overseeing construction of a new €580.8m terminal at the Houari Boumediene Airport, which is scheduled to commence operations at the beginning of 2019.

Algeria is also working to develop its tramway system, and in March 2018 a new 9.7-km line was inaugurated in the city of Ouargla. France’s Alstom and local Cital were contracted in 2013 to deliver the country’s tram system, which currently operates in six wilayas. According to local media in March 2018, before the Sétif line was completed, trams in Algiers received approximately 70,000 passengers daily. Oran (40,000); Sidi Bel Abbès (40,000); Constantine (26,000); and Ouargla (12,000).

The provision of public transport has vastly improved in recent years. In addition to metro and tramways operating in the major cities, Algeria also enjoys extensive road networks, with 80,000 buses carrying over 10m passengers daily. However, approximately half of these buses are old and due to be withdrawn from service in 2020. The government has created a fund to upgrade the bus fleet, though some local experts worry that the amount of aid allocated is insufficient. Abdelghani Zalene, minister of transport and public works, told local press in July 2018 that a total of 60 new Mercedes-Benz buses were delivered in the first half of 2018, while a further 40 are expected to arrive by 2019.

NEW TRADE RULES: Both 2017 and 2018 were difficult years for importers as the government introduced protectionist measures to stimulate national production in other sectors. These measures include imposing import restrictions on certain products, either by enforcing an outright ban, demanding licences or raising duties. A second, more indirect obstacle is the mandate launched by the Bank of Algeria in October 2017 that importers domicile all goods destined for resale in Algeria prior to shipping. According to the new regulations, importers must also establish a preliminary financial provision covering 120% of the amount of the import at the time of domiciliation at least 30 days before loading the merchandise for shipping. The intention behind the measure is to inhibit importers’ cash flow and thereby facilitate the government in reaching its macro-level import reduction targets.

Local operators have mentioned a lack of communication between the authorities and stakeholders as a further curtailment to import operations. “Nevertheless, the list of restricted goods for 2018 was published in January that year, which was an improvement on the previous year, when the list did not appear until the summer and importers struggled to adjust,” Adlane Belabelelouahab, director of local shipping agency Arkas, told OBG. In addition, slow disembarkation times also remain an obstacle, while the devaluation of the dinar has reduced the country’s purchasing power. Meanwhile, export operations have become easier, mostly thanks to agreements between companies and Customs regarding clearance procedures. While hindering imports, government policy has helped to improve exports, the effects of which can be demonstrated by statistical data provided by the ONS. In the first seven months of 2018 imports were down by 1.1% year-on-year, while exports increased by 17.1%.

According to local experts, physical equipment and infrastructure have also improved. “Customs-clearance procedures experienced significant progress in recent years thanks to the deployment of scanners, cranes and the opening of dry ports,” Mohammed Dib, CEO of Groupe Gema, told OBG. “However, extra costs remain due to clients who don’t get the merchandise in due time, and delays from the banks to provide the documentation.” A system informally known as a guichet unique, or one-stop shop, which aims to streamline port bureaucracy by countering fragmentation, is in the pipeline and should be on-line by 2020.

AIR: China State Construction Engineering Corporation was contracted to oversee construction of the new AD80bn (€580.8m) international terminal at the Houari Boumediene Airport, which is scheduled to commence operations at the beginning of 2019. The government welcomed cooperation between national and foreign
Algeria boasts one of the most modern road networks in Africa, and the national development plan aims to expand road infrastructure by 5600 km. businesses that sought to provide the necessary links to the new terminal, such as building a metro station, a train station, a four-star hotel, a control tower, and renovating the existing airstrip. The site occupies 20 ha and includes a car park with 4500 spaces, three airplane parking spots, 424,000 sq metres of runway, 120 registration banks and 84 control centres. The new terminal is expected to increase annual passenger-handling capacity by 10m to reach 16m.

ENNA, meanwhile, has conducted several projects to improve standards, including the construction of five new control towers adapted to International Civil Aviation Organisation requirements in Algiers, Oran, Constantine, Ghardaia and Tamanrasset. In line with these modernisation efforts, in February 2018 ENNA signed a contract with Spain’s Indra Sistemas to upgrade aerial navigation equipment in the south of the country.

With the enabling infrastructure and implementation of international standards in place, Algeria is now focused on improving the competitiveness of the sector to attract more airlines and open new destinations.

**FREIGHT:** Air freight is also seeing greater investment, following the January 2018 lifting of a ban on private investment in maritime and aerial freight. The following month Zalene announced that five companies had submitted proposals to invest in the segment. Among the current players is France’s Aigle Azur, which was allowed to start freight operations from Algiers’ airport to the European market in September 2018. This was followed by Air Algérie Cargo, which signed a framework convention with the Ministry of Commerce in November 2018 to develop a support base for local exporters.

**SEA:** Algeria’s major ports are located in Algiers, Oran, Béjaïa, Annaba and Skikda. The government has ambitious plans to increase the nation’s market share from 3-4% to 25% by 2025, starting with the acquisition of 26 new ships, 10 of which were received by November 2018. However, according to local operators, investment in skills and training to have the personnel to run the ships is needed, especially for the positions of seamen and managers. The other main challenge is the lack of deepwater ports. Currently, large cargo ships dock at foreign ports and transfer their cargo on to smaller ships before heading to Algeria. The proposed Port of El Hamdania, approved in early 2017 and expected to cost $3.3bn, is meant to address this shortfall, but construction has been delayed, mostly because China and Algeria have been unable to agree on the terms of the deal, such as interest rates and exclusivity, according to local media reports. While negotiations had yet to be concluded as of late 2018, investing in the Algerian terminal supports China’s Belt and Road Initiative, which the country joined in September 2018, is expected to significantly impact global trade. The port would provide an essential maritime link to the Trans-Saharan Highway.

**RAIL:** Algeria has outlined bold targets for rail development, aiming to increase annual capacity to 17m tonnes of goods and 60m passengers by 2021. Approximately 43m passengers travelled via train in the first 11 months of 2018, an increase from 29m in 2015. Bendjaballah told OBG. Meanwhile, total volume of cargo amounted to roughly 5m tonnes, up from 3.8m tonnes in 2017.

**ROAD:** Algeria boasts one of the most modern road networks in Africa, and the national development plan aims to expand road infrastructure by 5600 km. One main project is the 1216-km, six-lane East-West Highway, which crosses the northern part of the country from the Moroccan border to Tunisia. Launched in 2009, the project was mostly complete by 2015, at a cost of $11.2bn. China Railway Construction Corporation and CITIC Group constructed the central and western sections of the road, while Japan’s COJAAL built the eastern section. The other major road project is the 4500-km Trans-Saharan Highway, more than 2300 km of which lies within Algerian borders. As of November 2018, some 1600 km of the Algerian section was already complete, while another 200-km section in the southern part of the country was expected to be completed by the end of the year. The project’s overarching aim is to boost regional integration and intra-continental mobility. “Algeria has developed significant expertise in exceptional transport,” Abdelhamid Mazri, CEO of Transmex, a subsidiary of state-owned Sonelgaz and a local company for exceptional transport, told OBG.

“We should capitalise on this and enter new markets in Africa, such as Mauritania, Mali, Tunisia and Libya.”

**OUTLOOK:** Intermodal networks make transport systems more efficient and set international standards. Therefore, it is encouraging to see Algeria push ahead on advances in logistics, with a focus on further connecting key infrastructure across road, rail, air and sea to ensure the competitiveness of the logistics chain.

### Container traffic at the Port of Algiers, 2012-17 (TEUs)

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| Source: Port of Algiers

www.oxfordbusinessgroup.com/country/algeria
Global networking
Abdelghani Zalene, Minister of Public Works and Transport, on boosting intermodal connectivity and raising human capital

What strategy is being implemented to upgrade national transport infrastructure?
ZELENE: Over the past two decades the sector has been transformed through significant investment in infrastructure, equipment and human resources. These efforts include the expansion of the railway network from 4200 km to 12,500 km, coupled with the installation of up-to-date signal and telecommunications systems. Furthermore, the national rail company has implemented a development aimed at increasing transport capacity for passengers and freight.

With regards to urban transport, the strategy has been focused on introducing high-capacity, environmentally friendly solutions. These include the ongoing extension of the metro system in Algiers and the construction of new tramways in six cities, along with the expansion of the cable car, and public and private bus networks. In the aviation segment the state’s investment programmes are focused on the rehabilitation of airports and the construction of five new air traffic control towers. In addition, we are building new terminals in Algiers’ Houari Boumediene Airport (ALG) and Oran’s Ahmed Ben Bella Airport, bringing their capacity to 10m and 3.5m, respectively. Furthermore, a deal was signed in February 2018 with the Spanish ICT firm Indra Sistemas to build a new air traffic control centre in Tamanrasset. Efforts have also been made to modernise ports, and the construction of the Port of El Hamdania in Cherchell, located west of Algiers, is hoped to start in the coming months. This port is set to become a centre of trans-shipment on a regional and international scale. Lastly, the end of the freeze on private investment in maritime and aviation will boost local transport capacity through national operators and foreign investors eager to partner with a local players.

What projects are being put in place to improve intermodal connectivity?
ZELENE: Several coordination bodies have been created in nine wilayas (provinces), each under a single authority that supervises all transport components. In Algiers, for instance, this organisational authority is in charge of establishing interoperability between ticket systems as well as providing an integrated and multi-modal transport offering. Infrastructure projects are being built to facilitate multi-modal connectivity and create transport nodes in both urban and rural areas. For example, the new terminal at ALG will connect to the metro and national railway network. Furthermore, the development of new technologies and mobile apps will also play a decisive role in improving connectivity for both citizens and companies.

How can the international competitiveness of the logistics sector be improved?
ZELENE: A national strategy for logistics is currently being developed in collaboration with the World Bank. Our ambition is to improve integration in order to reduce logistics costs from an estimated 35% of the product price to 15% by 2025. This will ensure increased competitiveness through the improved handling of merchandise traffic. To achieve this, a programme for the development of logistics platforms has been finalised. This forms part of a broader national plan for land development, which also embraces industrial zones.
On track

Expanding rail capacity remains a national priority

Algeria has set ambitious targets for rail development, aiming to increase annual rail transport capacity to 17m tonnes of goods and 60m passengers by 2021. In 2017 annual capacity of cargo via rail reached 5m tonnes, while the number of passengers travelling via rail in the first 11 months of 2018 was 43m. Additionally, there are plans to extend the rail network from 4200 km in 2017 to 6500 km by 2021 and 12,500 km by 2030.

To help meet these targets, in 2018 the government allocated AD127bn (€922m) to the National Rail Transport Company (Société Nationale des Transports Ferroviaires, SNTF), the agency in charge of managing and operating the rail system, for its renovation and investment plans. Of that total, AD68bn (€493.7m) has already been used by the SNTF to cover the 2018-19 period, while AD59bn (€428.3) has been earmarked for investments in 2020 and beyond. Improving rail transport has been a priority for the government in successive national development plans, which have yielded positive results. In 2017 the SNTF recorded losses of AD1bn (€7.3m) compared to losses of AD6bn (€43.6m) in 2015. With the company focused on improving and expanding its fleet, coupled with a strategy to boost its media presence, SNTF is likely to see positive annual revenues in the near future.

RENOVATION & TRAINING: The 2015-19 national development plan has placed renewed emphasis on improving rail services through renovating existing infrastructure and enhancing staff training. “The renovation process entails refurbishing old trains locally and purchasing new trains from abroad,” Yacine Bendjaballah, managing director of SNTF, told OBG. To encourage technology transfer and ensure that the renovation process incorporates the most up-to-date practices, SNTF has enlisted the support of various foreign firms for a number of projects. In 2015 SNTF signed contracts with French companies Faiveley Transport and Compin to assist in the refurbishment of 202 carriages. Faiveley won a contract worth €75m to improve the interior design, while Compin won a €45m contract to upgrade the air conditioning onboard.

As for new trains, in July 2015 SNTF awarded France’s Alstom a contract worth approximately €200m to supply 17 dual-mode 25-KV alternating current trains, specially adapted to cope with extreme temperatures and wind-blown sand. Each 110-metre-long six-carriage set can seat 254 passengers, including 60 in first class. Assembly took place at Alstom’s Reichshoffen plant in eastern France, and the first train arrived in Algeria in January 2018. The fleet made its passenger debut on the Algiers-Oran service on March 3, 2018, serving as a testimony to Algeria’s ongoing commitment to modernise and extend its rail network.

Another area set to receive significant investment is customer service. In 2017 SNTF began recruiting personnel from specialised academies and working to educate the new staff members on ways to improve customer service on its trains. “As part of our customer service diagnostic operation, we created a feedback system,” Bendjaballah told OBG. “One area for improvement frequently mentioned by clients was meals. Thus, providing a quality meal has become especially important for us, and we are trying to address the issue.” Bendjaballah also told OBG that SNTF was looking to develop services beyond trains by giving clients special discounts on certain taxi services.

RAISED PROFILE: Approximately 43m passengers travelled on trains in the January-November 2018 period, up from 29m in 2015. According to SNTF, the target of 60m passengers annually by 2021 will become a reality once the 2300-km extension is complete, with a number of signs indicating growing interest. “Ongoing renovation works have boosted SNTF’s visibility, which has helped to increase passenger numbers,” he told OBG. “Many people are taking trains out of curiosity because they heard someone talk about recent improvements or because they read an article in the newspaper.” SNTF’s media strategy includes hosting events in public places.
TRANSPORT ANALYSIS

The $2bn Bellara steel plant is expected to produce 2m tonnes of steel products annually once it becomes fully operational by end-2018, which would help boost cargo capacity.

FREIGHT: In comparison to SNTF’s progress on increasing passenger capacity, the sector is awaiting efforts to boost annual cargo volumes. Though merchandise transported via rail rose by 31% from 3.8m tonnes in 2017 to 5m tonnes in 2018, this increase does not accurately reflect the reality on the ground. Production at the El Hadjar steel facility slowed down in 2016, before picking back up in the 2017-18 period, which suggests that the 31% increase would be more accurately viewed as a return to normality. “We are waiting for new industrial complexes to begin production so that we can start transporting more goods,” Bendjaballah told OBG. One such complex is the Bellara steel plant in the Jijel wilaya (province). The $2bn site is being built to meet national requirements for various steel products, such as bars for reinforcing concrete. Slated to go on-line by the end of 2018, Bellara is expected to produce around 2m tonnes of steel products annually, and SNTF is set to provide the site with rail freight services.

The Bellara rail link is part of a wider strategy to extend rail freight to major economic and industrial centres, and the company is investing in specialised equipment, such as 30 locomotives and 380 phosphate wagons. “Rail freight should take off in the medium term,” Abdelkrim Nait Ibrahim, director of local logistics group Universal Transit, told OBG. “The authorities are focusing on infrastructure, which is a great move, but it is also crucial to have the right equipment, such as specialised carriages.” SNTF also plans to improve connectivity between ports and rail. Containers account for 70% of freight transport, but containers are evolving constantly. For example, high-cube containers are increasingly replacing standard containers. Rail Link – a joint venture between SNTF and France-based global maritime leader CMA CGM – was set up partly to facilitate this transition. However, to transport high-cube containers in Algeria, the infrastructure would need to be adjusted, otherwise the trains cannot pass due to height restrictions. To overcome this barrier, SNTF decided to develop its own transport line for standard containers. Once larger cargo ships can dock at Algerian ports, SNTF’s long-term vision is to reorganise operations to create a “railway backbone” placing high cube containers at the centre of operations. The backbone aims to standardise rail and port facilities to be able to receive high-cube containers, and thereby make the most of Algeria’s location as a hub for Mediterranean-African trade. High-cube containers are slightly larger than standard containers and are generally considered more cost effective for large merchandise such as white goods. SNTF plans to introduce long double-decker trains stacked with high-cube containers and develop interconnectivity with other modes of transport to facilitate transnational transport. At the moment, ships need to make long journeys through potentially unsafe regions such as the Horn of Africa, but with interconnectivity being boosted, both journey times and risks are expected to decrease.

OPPORTUNITIES: The most obvious opportunities for investment lie in maintaining and upgrading existing infrastructure. The strategy for maintaining the rail network is based on outsourcing to private companies. “As part of our plan to improve services, we are currently at the stage where we are prioritising the assembly of locomotives and carriages locally. Surrounding these projects are tender calls for various items, such as windows, cables and electronic components. If private companies invest in these segments, they can participate in the process of assembling the trains,” Bendjaballah told OBG. There is considerable potential for growth in the rail segment if planned projects are carried out. Whether rail freight takes off in the near term mostly depends on the success of state efforts to boost industrial output. Though the 2019 draft budget reduced the public financing allocated to the sector by 26.6%, Abdelghani Zalene, minister of public works and transport, told local media in late 2018 that existing rail and road projects would remain top priorities.
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Modern travel

Ensuring intermodality becomes a standard feature of future transport projects

The rapid rate at which urban centres in Algeria are growing has put pressure on the country to develop an efficient and modern transport system. Although population growth rates have slowed slightly, from 2.2% in 2015 to 1.9% in 2017, the percentage of the population living in urban areas has risen steadily, from 72.1% in 2015 to 76% in 2018. Dealing with the increasing number of inhabitants has become a priority for the government, with the nationwide implementation of intermodal transport systems set to mark an important step forward in the modernisation process.

MULTIPURPOSE CARD: Algiers is the first and only Algerian city to possess a fully integrated, intermodal public transport system. The multi-modal transport network card (carte réseau de transport multi-modal, CTM) can be used on all bus, train, metro, tram and cable car services, including services that run to and from Houari Boumediene Airport. The card utilises a common information repository system called Refoco, which allows for the interoperability of ticketing systems. The same information system is also in place in various locations across France.

Before the card became operational in June 2018, an agreement protocol was signed by all public transport operators, as well as by Yacine Krim, director of the Urban Transport Authority of Algiers (Autorité Organisatrice des Transports Urbains d’Alger, AOTU-A) and director of the Urban and Suburban Transport Establishment of Algiers. As part of the multi-modal drive, the new terminal at Houari Boumediene Airport will include a metro and a railway station.

The CTM is available free of charge at every urban transport station in Algiers. The plan is to replicate the scheme in all the major cities, including Oran, Annaba, Constantine, Ouargla and Sidi Bel Abbès. A mobile application called Archidni, launched as a partnership project between the government and the university of Bab Ezzouar, allows transport users to look up information on traffic jams and delays. “The development of new technologies and mobile applications is set to play a decisive role in improving connections between citizens and companies,” Abdelghani Zalene, minister of transport and public works, told OBG.

The multi-modal transport map released alongside the new card provides an overview of the multi-modal transport system and features a layout of all available means of transport, the intersection points that connect them, and the location of designated parking areas in the capital. The maps can be found on display in public transport vehicles and stations, and are also distributed as leaflets free of charge across the network.

AUTONOMOUS GOVERNANCE: Established by executive decree in 2012, AOTU-A is an autonomous body that aims to increase the attractiveness of public transport, particularly by promoting multi-modality, simplifying access to information and modernising the network. As of January 2017 the organisation had 50 employees. “A single autonomous transport authority is needed to handle information and regulate the volume of public transport vehicles,” Yacine Bendjaballah, managing director of the National Rail Transport Company, told OBG. “The authority should also make the networks more efficient, help combat congestion, lower transport costs and reduce CO₂ emissions.” In addition to Algiers, autonomous public transport authorities now exist in eight other wilayas (provinces), and share the task of supervising all public transport services and promoting multi-modality.

NATIONAL VISION: The authorities are looking to make sure intermodality becomes a standard feature of future projects not just in urban transit, but at every level of the country’s transport infrastructure. “Infrastructure projects are now designed and constructed to facilitate multi-modal connectivity, and create exchange hubs in both urban and rural areas,” Zalene told OBG. Projects to enhance connectivity between port and rail links are especially important in helping bolster Algeria’s potential as a logistics hub.
Skybound

Rapid expansion of the global industry propels investment efforts

The aviation sector is experiencing rapid growth worldwide, propelled by booming tourism industries, lower air fares and the push for greater connectivity in an increasingly globalised economy. Middle-class expansion has also spurred growth in air travel, as more people are able to afford flights for holidays or business-related travel. According to Boeing, commercial airlines experienced annual average passenger growth of 6.2% between 2012 and 2017. The manufacturer also estimated that by 2036 an additional 41,000 plane deliveries will need to be fulfilled in order to meet service needs for both passengers and cargo. To accommodate these developments, civil aviation authorities and airlines are investing in airport infrastructure, route expansion and fleet capacity, among other efforts. However, the speed at which the industry is growing poses challenges, particularly in regard to human resource needs, safety and congestion, leading to reasonable concern that the industry is expanding too rapidly. Significant investment will be needed in all areas of aviation to ensure it will be ready to meet long-term demands.

**FULL THROTTLE:** The International Air Transport Association (IATA) estimated that the global commercial airline industry would see profits increase from $34.5bn in 2017 to $38.4bn in 2018. Growth in emerging markets will likely continue to be driven by the low-cost carrier (LCC) segment, which in recent years has transformed air travel from a luxury to an affordable means of transportation. Since 2008 fares have decreased by an approximate average of 0.9% per year, in large part due to the impact of LCCs on market competition. This has enabled a greater number of people to choose air travel, particularly those in growing middle-class economies where disposable income is on the rise.

The tourism and aviation industries continue to enjoy a symbiotic relationship. With record numbers of tourists travelling by air, the IATA projects that international flyers will spend $776bn on travel in 2018. Successful tourism promotion campaigns, growth in e-commerce and the development of niche markets have triggered greater demand for airline services, leading to improved connectivity for emerging destinations.

**CHALLENGES & POTENTIAL:** However, air travel remains cost prohibitive in some regions, namely Africa, where the LCC segment has yet to take hold and there are few options to fly between countries. As of February 2018 foreign airlines covered 80% of air travel throughout the continent. The largest African country by land coverage, Algeria has 36 airports, and between 2015 and 2016 it recorded an increase of 9.1% in commercial flights. Nevertheless, the sector remains challenged by the high costs of infrastructure upkeep and minimal investment in tourism. Similarly, Nigeria is experiencing significant increases in passenger numbers: its airports are expected to handle 33.7m travellers in 2035, up from 8.5m in 2016. To accommodate this growth, its aviation infrastructure will need to be modernised and expanded, which could ultimately help Nigeria reach its potential of becoming a hub for West Africa. There is great potential for growth throughout the continent, and a recent agreement signed by 23 African countries aims to give it the boost it needs. The Single African Air Transport Market, launched in January 2018, is expected to reduce bureaucratic intervention and air fares, and increase the number of direct flights between countries. It also provides a framework for easing visa requirements, which will likely trigger tourism growth in the signatory markets.

In South-east Asia, regional integration is fuelling growth in the aviation industry, which is expanding to meet the needs of business travellers, and trade and logistics operations. Dexter Comendador, president

www.oxfordbusinessgroup.com/country/algeria
and CEO of Philippines AirAsia, told OBG, “Aviation is leading the way when it comes to integrating ASEAN economies, creating links and demonstrating the benefits of regional partnerships.” In 2016 there were more than 230 commercial airlines in the Asia-Pacific region, making up an estimated 27% of the world’s commercial aircraft fleet.

While air travel has become more accessible, the rapid expansion in services has also led to air traffic congestion, delays and concerns about the industry’s impact on the environment. This has prompted new initiatives, including reforms to the regulatory framework for airplane carbon dioxide emissions and design solutions to improve fuel efficiency. To combat the rise of airspace congestion, the UAE recently launched a new air traffic control (ATC) system, which is an industry first. Developed by the General Civil Aviation Authority (GCAA), the Airspace Restructuring Project (ARP) was launched in December 2017. The new system adopts performance-based navigation, through which it relies on satellites and airplane computers to guide aircraft along their routes, rather than transmissions from terrestrial beacons. The GCAA hopes that this new system will improve efficiency and capacity, enabling the region to prepare for continued industry growth.

**FRIENDLIER SKIES:** May 2018 brought an end to long-standing tensions between US and Gulf carriers with the signing of the Partnership for Open and Fair Skies (POFS) policy. Previously, Gulf carriers faced pushback from US industry figures who have argued that they are at a disadvantage due to alleged government financial support for airlines like Emirates, Qatar and Etihad. According to the POFS, government subsidies for the Gulf carriers violated the open skies agreement with the US, and the carriers were unfairly benefitting from fifth freedom routes, which allow flights operated by Gulf carriers to depart from a foreign country.

However, governing bodies in the Gulf have denied the accusations, maintaining that their airlines do not receive unfair government subsidies. Representatives of various US carriers and aviation associations argued that these conditions could potentially threaten jobs in the US and afford the Gulf carriers an unlawful competitive advantage. Therefore, under the POFS agreement, UAE carriers will disclose their accounting records and refrain from adding fifth freedom routes to US airports in the future. It is unlikely that this will bring about any major changes; however, the end of the feud bodes well for the industry with business resuming as usual.

**BOEING ONCE, BOEING TWICE:** Aircraft manufacturers are set to enjoy sustained growth over the coming years as airlines around the world respond to rising demand for new routes and bigger fleets. Demand for narrow-body aircraft will primarily come from the LCC segment, while major carriers will continue to diversify their fleets with long-haul aircraft like the Airbus A380 and the Boeing 787 Dreamliner. In 2017 narrow-body aircraft comprised 64% of the global fleet; by 2036 it is forecast to be about 75%. Boeing estimated that 38% of orders for commercial aircraft will come from the Asia-Pacific region over the period 2017 to 2036.

In April 2018 Indonesian LCC Lion Air confirmed a purchase agreement with Boeing for $6.2bn. The deal will add 50 Boeing 737 MAX 10 aircraft to Lion Air’s fleet, with the first expected for delivery in 2020. For Airbus, business in the Gulf has sustained its A380 programme, with Emirates signing an order for 20 new aircraft in 2018. The deal could also see Emirates order an additional 16 craft, bringing the value of the transaction to roughly $16bn. Airbus’ biggest aircraft, the A380, has a passenger capacity of 575 and has become an increasingly popular choice for long-haul flights. However, only 13 airlines have purchased the A380, and many of the world’s airports don’t have runways that are long enough to accommodate it. New airport construction projects, including Istanbul’s third airport, will likely lead to further demand for the aircraft, and for similar types that are suited for long-haul travel.

Air cargo transport was forecast to increase yearly by an average of 4.2% until 2036, according to Boeing. This has triggered a demand for more dedicated freighters and passenger planes with larger cargo holds. With unprecedented numbers of aircraft orders on the books, the lead-up until then will see approximately $6trn in manufacturing deals. However, major Western companies may lose significant orders in the wake of US President Donald Trump’s decision on May 8, 2018 to pull out of the Joint Comprehensive Plan of Action, otherwise known as the Iran Nuclear Deal. Airbus and Boeing were among the manufacturers that previously signed a total of $38bn in orders from Iranian carriers, all of which will face cancellation if sanctions are reimposed. Regardless, aircraft manufacturers are poised to enjoy continued growth over the long term as the aviation industry continues its rapid expansion.

**NEW HEIGHTS:** Facing annual passenger increases and higher competition in global tourism and aviation markets, countries around the world are investing in air transport infrastructure to boost capacity and accommodate growing fleets. While many airports are refurbishing runways or extending them to accommodate wide-body aircraft, other countries are embarking on bigger feats, with some aiming to position themselves as regional hubs for passenger or freight transport.

Guillermo Dietrich, the Argentine minister of transport, announced in April 2018 that 30 airports around the country had been upgraded or were slated for refurbishing or expansion. The country is seeing rapid growth in its aviation industry, driven by strong government support and increasing competition brought by new players aiming to capitalise on the country’s budding tourism industry.

Jordan’s King Hussain Airport has also received upgrades to its physical and digital infrastructure. Recent investment has been prompted by the target

While air travel has become more accessible, the rapid expansion in services has also led to air traffic congestion, delays and concerns about the industry’s impact on the environment.
of turning the facility into a regional cargo hub, which would be well positioned to serve re-emerging markets like Iraq. Ghana's Kotoka International Airport is subject to a $274m expansion project, which is expected to help boost the country's tourism industry. Carried out through a public-private partnership, the project is adding a third terminal to the airport – expected to be completed in late 2018 – which will enable it to increase its passenger capacity and encourage more foreign carriers to open routes to and from the facility.

In Asia, Thailand is looking to tap into the growing maintenance, repair and overhaul (MRO) industry as part of its $46bn plans to transform the Eastern Economic Corridor into an integrated hub for advanced services and manufacturing. In late 2017 Airbus signed a memorandum of understanding with Thai Airways to establish a $338m MRO hub at U-Tapao International Airport, where expansion works under a public-private partnership are expected to start in 2019, to increase annual passenger handling capacity from 3m to 15m. Already capable of handling a wide variety of aircraft, the airport is set to become the maintenance site for Airbus’ A380 in 2018. With the value of Asia’s MRO industry expected to reach $664bn by 2027, Thailand’s economy is poised for a significant boost on the back of this initiative.

SKY’S THE LIMIT: Istanbul’s third airport, which partially opened in October 2018, will host the world’s largest terminal under one roof. The facility will have an annual passenger capacity of 90m and take over the majority of commercial air traffic from Istanbul Atatürk Airport. Due to Turkey’s strategic geographic location, Istanbul has already positioned itself as a transit hub for passengers travelling between Europe and Asia. The new airport could likely establish itself as a gateway to Africa, due to its proximity as well as to the fact that it will be the new home of the flag carrier Turkish Airlines.

As of February 28, 2018 Turkish Airlines had opened 52 routes in Africa, maintaining a significant lead over competitor airlines. Emirates has the second-highest number of flight paths to Africa, with 22 destinations on offer.

In 2015 Mexico commenced construction of a new international airport near its capital city. The $13.3bn facility is the first major commercial airport to be constructed in North America since the mid 1990s, and it is expected to have an annual passenger capacity of 50m. Federico Patiño Márquez, CEO of Mexico City Airport Group, told OBG, “Since 2013 traffic at the Benito Juárez International Airport has grown an annual average of 9%, leaving it saturated and operating at almost 100% capacity.”

According to Patiño, the new international airport is the world’s second largest under construction, after Istanbul’s new airport, and will be six times the size of the one currently in use. Leveraging its geographical position between North and South America, the facility could fulfil Mexico’s potential for becoming a transport hub for the two continents.

Though the new airport promises to solve current capacity constraints, the project has not been without controversy. Funded 70% by the private sector and 30% by the public, the project has been the subject of contentious debate during the presidential campaign in Mexico, with some candidates promising to cancel it if elected. While many argue that the new airport is necessary to address capacity constraints at Benito Juárez International Airport, critics say the project carries an unnecessarily high cost and that the location was a poor choice given the difficult terrain and vulnerability to earthquakes. However, developers are confident that these hurdles can be overcome and that the application of innovative design solutions will solve the issues presented by the region’s challenging geography. While there is still much to be done to keep construction on track, the airport was slated to open in 2020.

TRAINING ZONE: As airlines continue to expand with new routes and growing fleets, the industry is struggling to meet demand for qualified personnel, particularly in positions that require meticulous training and adherence to strict international standards. According to 2017 Boeing estimates, the global commercial aviation industry will require an additional 2.1m pilots, maintenance staff, cabin crew, air traffic controllers and other workers by 2036. The highest demand for personnel is expected to come from the Asia-Pacific region, where the industry will need to fill approximately 817,000 positions. While this presents a positive opportunity for job growth, greater investment in education will be needed to ensure that emerging markets can meet these demands with local staff, instead of relying on international recruitment.

Latin America is also facing similar recruitment challenges. “There is a personnel shortage across the board, but particularly with pilots,” Abéar Muñoz-Martin, industry affairs director at Aeroméxico, told OBG. “Airlines can buy new planes, but if fleet growth happens faster than pilot training, they are not going to take off.” To meet this challenge, new joint initiatives between airlines and schools will be rolled out to create a sustainable environment for recruitment. In the third quarter of 2018 Aeroméxico Formacion will launch a new commercial pilot and crew member training programme aimed at meeting the demand for personnel. The programme will be a partnership between Canadian aviation training firm CAE, Aeroméxico and Universidad IEU.

Some airlines around the world are partnering with flight schools to funnel student pilots directly into jobs as first officers as soon as they meet their qualifications. In the UAE, Sharjah’s Air Arabia has begun sourcing its first officers from Alpha Aviation Academy, in which it has a 51% stake. Other UAE-based carriers, including Emirates and Etihad, have adopted this model to guarantee their recruitment needs are met amid a limited pool of personnel. Training costs can be prohibitive, but sponsorship could enable more individuals to enter the field.
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DIRECTION GÉNÉRALE
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Email: gemadg@gema-group.com
Site web: www.gema-group.com

DIRECTION DE L’EXPLOITATION COMMERCIALE ET MARKETING
Tél : +213(0)21 747-300/748-960
Fax +213(0)21 747-670
Mobile : +213 (0) 770 91 96 73
Email: commercial@gema-group.com
dcm-dir@gema-group.com

GEMAFORM
37, Rue Larbi Ben M’Hidi Alger-centre
(Place l’Emir Abdelkader)
Tél - Fax: +213(0)21 712 032
Mobile : +213 (0) 770 621 237 / 810 450 / 026 522
Email: gemaf orm@gema-group.com

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Scaling up

Domestic producers increase output of building materials, while infrastructure developments support export goals

In an effort to meet the infrastructure needs of a growing population and facilitate increasing exports of industrial and agricultural products and minerals, the government sees a robust and stable construction industry as a key component of their vision for the future. Even as the overall economy in the country has slowed, the sector has remained a consistent engine of growth. The building materials segment, which grew by 16.3% in the first quarter of 2018, is particularly promising as Algeria builds on recent investments in manufacturing plants and shifts its focus to scaling up exports.

Construction contributed 11.7% of total GDP and employed around 17.2% of the Algerian workforce in 2017, and is poised to grow further due to the expanding population and large-scale government operations to facilitate the development of the non-hydrocarbon sector in the wake of the market’s collapse in 2014. While officials are prioritising projects that will yield revenue to the state, such as those in oil and gas and power, public housing programmes and public works will continue being the recipients of consistent, large-scale investments through 2021, as stipulated in the five-year plan.

SIZE & PERFORMANCE: The sector maintained its position as a significant driver of overall economic growth for the country in 2017, expanding by 4.4% – nearly three times that of overall GDP, which grew by 1.6% during the same period. According to the National Statistics Office, construction, including oil and gas projects, stabilised over the two years leading up to 2017 at an annual growth rate of around 4.8%, after a period of strong performance backed by sizeable public investments that resulted in an average compound growth rate of approximately 7.5% per year between 2012 and 2014.

This slowdown, linked to the collapse of the hydrocarbons market, has consolidated the sector significantly in the past years. Industry analysts have told OBG that the general downturn has increased competition, sifting out the stronger firms from those that were only able to capitalise on the economic boom. This may make 2018 a turning point in which new companies need to decide what strategies to implement, while established players consider where to focus on and how much to diversify. “Competition is tight in the sector,” Marcel El Khoury, CEO of speciality construction chemicals firm Sika El Djazair, told OBG. “Therefore, companies are starting to look towards new and niche segments.” Construction is expected to expand through 2021, though at a relatively slower pace, aided by a significant annual investment budget of around €15bn, with 70% of this devoted to infrastructure development projects. Stakeholders estimate that the government will invest $50bn-$60bn in large-scale construction projects over the next five to seven years, helping to maintain consistent growth.

DRIVING DEMAND: There is significant potential for expansion in construction due to population growth, which increased at a rate of around 1.7% in 2017, necessitating the construction of not only housing, but also schools, hospitals, transportation networks and other public infrastructure. As the government has aimed to deliver 1.63m units between 2015 and 2019, housing developments account for the majority of construction projects in the country. In addition to ongoing demographic changes, demand is driven by the government’s efforts to diversify the economy, moving away from a reliance on hydrocarbon exports and relieving the national trade deficit. As industry and agricultural outputs rise, upgrades to transportation infrastructure will become increasingly important. Large public works projects aimed at maintaining and expanding national road and rail networks, as well as developing port facilities, ensure that construction will maintain its central status.

SECTOR STRUCTURE: According to the IMF, construction and public works made up 18% of the

construction

Overview

The building materials segment grew 16.3% in the first quarter of 2018

Construction is expected to expand through to 2021, aided by an annual investment budget of around €15bn, of which 70% is devoted to infrastructure-related developments.
value-added private sector in 2016, while in September 2018, Nacira Haddad, vice-president of the Algerian Business Leaders’ Forum, stated that the sector was 90% private. Despite this, the procurement structure of the industry is state dominated, with large housing and public works projects contracted by the government, while private initiatives are generally relegated to tourism and small-scale industry developments. Although the sector has historically relied on the expertise of foreign companies, officials have begun pivoting towards increasing the allotment of domestic contracts, which has had an impact on international firms operating in the country.

“The situation for foreign enterprises has been difficult since the oil crisis, and while the price of oil has increased in the past year, the government is prioritising its own reserves rather than initiating new investments in infrastructure,” Ricardo Acabado, director general of Teixeira Duarte, a Portugal-headquartered infrastructure development company, told OBG. “The reality is that there are no more international tenders. What foreign players are doing now is managing and completing previously held contracts and projects, with most new contracts and tenders being oriented towards Algerian firms,” he said.

RE-EVALUATION COSTS: Large public investment projects initiated by the state are relatively costly compared to other countries in the MENA region, which has motivated the government to spend considerable resources on the re-evaluation of ongoing programmes in each year’s public works budget. The cost of building roads, in particular, was 34% higher than the average regional cost between 2011 and 2017, a figure matched only by the UAE and over double that of Morocco and Tunisia. In addition to the difficult terrain and high cost of land, the large price differential is likely also due to a lack of efficiency in project management. In the way of addressing this situation, the state has allocated considerable resources to the reassessment of public projects in recent years. Reassessment costs reached an all-time high of AD760bn (€5.5bn) in 2015, which was nearly 40% of the public works budget. In more recent years, the figure has been closer to 25% of the budget, including the 2018 Finance Law, which allocated AD178bn (€1.3bn) to re-evaluation.

However, these measures have yielded results: according to the IMF, the efficiency of public investments has improved over the course of the 2010s to the extent that delays and cost overruns have been mitigated, despite remaining relatively high. While delays have been reduced by over 50% in the current decade compared to that of the 2000s, cost overruns for public projects have also been lowered and currently range between 10% for construction projects and 22% for territorial development, which is comparable to international standards.

MAJOR PLAYERS: Registering nearly AD425bn (€3.1bn) in contracts in 2017, the publicly operated Cosider Groupe is the largest construction firm in Algeria and the sixth largest in Africa in terms of revenue. The company, which is 100% owned by the Algerian National Investment Fund, employs over 28,500 workers and achieved a turnover of AD171bn (€1.2bn) in 2017, 45% of which was realised as added value. Public works and transport constituted AD175bn (€1.3bn), or 41% of its planned projects, while housing development accounted for AD95bn (€689m), or 22%. Among its ongoing and planned developments, state construction group Cosider has been contracted for the construction of 314 km of railway, 36 km of metro and tram lines – totalling 48 stations – and 350 km of hydrocarbon pipelines. The firm has also entered into a number of significant partnerships, including an agreement with LafargeHolcim for the manufacture of plaster and another with Banque Extérieure d’Algérie targeting real estate development. The largest private Algerian firm involved in building and public works is ETRHB Haddad, which handled over $2bn in construction between 1997 and 2018. In addition to the acquisition of large contracts for roads and railways, 2018 saw the company diversify into the building materials segment, announcing sizeable investments in two cement plants being developed in Djelfa and Relizane, and a steel production facility in Berrahal.

PUBLIC PROCUREMENT & HOUSING: In terms of public procurement, the state has prioritised the construction of housing units and the continuation of existing infrastructure projects. Ahead of the 2019 elections, the government announced its intention to provide 200,000 public housing units in 2019, though it is has been anticipated that the state will shift towards expanding the role of private developers in its policy after Algerians go to the polls.

While the state originally committed to building 3.24m housing units in the five-year plan running to 2019, the collapse of the hydrocarbons market led the authorities to cut this number by nearly half. According to the Ministry of Housing, Urban Planning...
In 2017 plans were announced to establish a framework to facilitate private investment in sea and air transport and the City (Ministre de l’Habitat, de l’Urbanisme et de la Ville, MHUV), 300,000 housing units are built per year, a rate of construction that necessitates the involvement of many firms and the mobilisation of significant amounts of materials.

Speaking in mid-2017, Abdelwahid Temmar, minister of housing and urban planning, said 70% of housing contracts were being carried out by foreign firms, mostly from China and Turkey, and announced intentions to institute preference for Algerian construction companies in future developments. In line with this, the MHUV stated that 85% of materials used in the building of state-funded residential units were locally produced in 2017. Apart from the vast resources mobilised for housing, the other main component of state planning in the sector is that of public works.

PUBLIC WORKS: After three years with a negligible budget, the 2018 Finance Law increased the public works’ equipment budget to AD380.8bn (€2.8bn), up from AD62.7bn (€455.2m) in 2017, a change of 507%. Several key infrastructure projects that promise economic returns have received funding, with the Ministry of Transport and Public Works (Ministère des Travaux Publics et des Transports, MTPT) stating that while the sector had made it through its most turbulent phase, for now projects would advance based on governmental priorities and efficiency.

The 2018 public works budget also allocates AD65bn (€471.9m) to the maintenance of 500 km of national roads, the East-West Highway, and further upkeep of the country’s ports, airports, bridges and rail lines. The budget also provides AD288bn (€203.3m) for the connection of remote areas by means of road expansion and rehabilitation. The largest public sector project is that of the new El Hamdania port and its corresponding transport and logistics infrastructure, which was approved in February 2017 after the announcement of a $900m loan from the African Development Bank. The government has mobilised AD150bn (€1.1bn) for the first phase of the project, which is being built by China Harbour Engineering Company and China State Construction Engineering Corporation, which jointly control a 49% stake in the project, with the remaining 51% being held by the Algerian Port Authority, and is expected to begin operations in 2024. The new commercial port, being developed at a total estimated cost of $3.3bn, will be one of the largest on the continent with an annual handling capacity of 6.5m twenty-foot equivalent units. In March 2018 the government announced that three new industrial zones and a rail line would also be built in conjunction with the project.

However, despite this progress, stakeholders are witnessing a shift away from new investments as the state works to restore its reserves, and transportation, dam and desalination infrastructure begins to meet the country’s basic needs. In late 2017 the MTPT stated that the sector was in the process of establishing a regulatory framework to open investment in maritime and air transport to the private sector.

ROADS: While the maintenance of existing transportation infrastructure is a key focus for authorities, two projects central to the country’s economic development – the Algerian portion of the Trans-Saharan Highway and the East-West Highway – have also been moving forward. In April 2018 it was reported that the 1800-km Algerian section of the Trans-Saharan Highway had reached nearly 90% completion. The project, which will pass through six African countries and connect Algiers to Lagos, will enhance regional connectivity and increase commercial exchange. In addition, the East-West Highway connecting Dréan to the Algerian-Tunisian border is expected to reach completion in the first half of 2019 as construction continues on the remaining 84 km. With a view to improving off-budget financing for infrastructure projects, the highway will require a set toll per km of travel in order to finance maintenance work. As of September 2018, 72% of the highway’s stations and toll points had been completed.

RAIL: The country’s rail network reached 4200 km in 2018, having grown substantially from a total of 1800 km of lines in 2000. While it was reported in April 2017 that the state-owned National Rail Transport Company had set a goal of expanding the network to 12,500 km by 2025, more recent statements from the government have scaled the target down to around 6300 km by 2030. The increased rail capacity is part of the government’s wider drive to diversify exports, while at the same time balancing trade. In the wilaya (province) of Tamanrasset in the south, AD2.4bn (€17.4m) was allocated in July 2018 for a project to lay 200 km of tracks between Tierek and Bordj Badji Mokhtar for the rapid transportation of gold from the considerable reserves in Tierek. In addition, in June 2018 the MTPT announced new targets of transporting more than 60m passengers and 17m tonnes of products per year by 2021.

DAMS & DESALINATION: As the government seeks to expand the country’s non-hydrocarbons exports,
boosting agricultural production is a key priority that necessitates significant water resources and hydraulics development. In June 2018 the government reported that 7bn cu metres, representing 66% of the 10.6m cu metres of water the country consumed per year, was used for agricultural purposes, while drinking water accounted for 3.2bn cu metres and 400m cu metres was used by industries. In order to meet demand, Algeria has been placing large investments in its dam infrastructure. As of September 2018, 26 out of the 80 large-scale dams operating in the country had been built since 2000, with the construction of five additional dams, set to open by 2020, in progress.

In June 2018 the authorities announced that two calls for tenders relating to seawater desalination plants in El Tarf and Zeralda would be launched in July 2019. These two projects, which will each treat 300,000 cu metres of water per day, have been slated since 2010 under a presidential programme for the construction of 13 desalination plants. These developments will contribute to reaching the MTPT’s goal of increasing the percentage of water supplied by seawater desalination plants from the 17% reported in May 2018 to 20% by 2020.

**BUILDING MATERIALS**: During the first quarter of 2018, the building materials industry grew by 16.3%, continuing the positive trend seen over the previous two quarters when the segment increased by 8% and 10.2%, respectively, averaging an expansion of 5.5% for all of 2017. This is due in part to government-imposed import restrictions, including a move to not issue import licences for grey cement in 2017, as well as significant increases in local production. The authorities are also looking to limit the import of steel products in the medium term. The most consistent demand for building materials comes from the development of state-funded housing programmes and the prioritisation of locally manufactured products. According to the MHUV, the rate of integration of domestic building materials into public housing projects surpassed 85% in 2017. Between mid-2018 and 2019, it is estimated that the state housing programme alone will need 30m tonnes of cement, 30m tonnes of bricks, 3m tonnes of iron and 110m sq metres of tiles. Continuing demographic changes mean that in the future there will continue to be a need for housing programmes, ensuring demand in this segment will remain high in the coming years.

**CEMENT**: The country’s cement industry has expanded rapidly in recent years to the extent that not only has self-sufficiency been achieved – exceeding the annual domestic demand of 24m tonnes to reach 25m tonnes in May 2018 – but in December 2017 the first cement export operations began. The industry has grown so quickly that in 2017 then-Prime Minister Abdelmalek Sellal warned of overproduction given that many Algerian plants have had to operate at less than 50% capacity. By 2020 the country’s production capacity is expected to have reached around 40.6m tonnes per year with publicly owned Groupe Industriel des Ciments d’Algerie supplying 20m tonnes, LafargeHolcim Algérie – a unit of French construction materials firm LafargeHolcim – accounting for approximately 11.1m tonnes and the remaining 9.5m tonnes coming from smaller private operators. A key focus is infrastructure. “On the domestic market, the renovation of the road network based on new technology cements is the highest potential outlet in the short to medium term,” Serge Dubois, Public Affairs Director, LafargeHolcim Algérie, told OBG.

In terms of notable new developments in the segment, ETRHB Haddad has contracted Danish engineering firm FLSmidth in partnership with Beijing Triumph International Engineering Company to construct a new cement plant capable of producing 3m tonnes per year in Relizane. The deal for the project, expected to be operational by 2020, is worth over €100m. Additionally, in March 2018 the local Ministry of Environment in Bellara announced that the construction of an environmentally friendly cement plant was commencing in the new industrial zone in...
CONSTRUCTION OVERVIEW

Between 2010 and 2017 steel production increased by 108%.

The government is increasingly choosing to authorise projects that have 70-75% domestic workers for similar projects in different regions. Only when certain competences cannot be found locally are firms allowed to source their workforce from outside of the province. Industry stakeholders have told OBG that a lack of expertise has necessitated bringing in foreigners to implement training programmes and build teams, investing in workforces that can hopefully be used again in the future.

The ratio of foreign to local labour has changed in recent years, with the state increasingly choosing to authorise projects that have 70-75% domestic workers. In order to help address the sectoral shortage in skilled labour, the Ministry of Training and Professional Education committed 12.41% of its vocational programmes to the construction sector in 2018, the equivalent of training approximately 49,600 individuals. Between 2015 and 2017 over 100,000 Algerians were trained by government-run, specialised programs related to construction. The ministry also began offering three new diplomas related to buildings restoration in 2018.

ILLEGAL SITES: The government has been identifying and demolishing sites built without authorisations or deeds of ownership, focusing especially on farmland and the wilayas along the Mediterranean coast. In the first quarter of 2018 the state registered around 3490 construction-related offences across the country, mostly due to buildings being developed with insufficient permits. While the Ministry of Interior, Local Authorities and Territorial Planning announced in May 2018 that the deadline to address permit-related offences would be postponed until August 2019, it was emphasised that illegal buildings on farmland and along the coast would not have the opportunity to receive authorisation. Demolitions along the coast will free up land for the development of tourism infrastructure and agricultural projects. More than 1700 illegal sites were demolished in Algiers in 2017 and over 570 during the first half of 2018.

The wilaya of Oran is incorporating ICT into its fight against illegal sites by working with the satellite development centre of Bir El Djer to monitor the proliferation of developments. Addressing this issue is of particular importance to the region as Oran prepares to host the Mediterranean Games in 2021.

OUTLOOK: Given Algeria’s vast geography, growing population, and the government’s strategic pivot towards non-hydrocarbons exports and the subsequent need for supporting transportation and utilities networks, the potential for the construction sector is significant. As the sector regains a strong dynamic, the restoration of a sizeable public works budget and the country’s thriving building materials segment suggest a particularly positive outlook.

While the level of demand will remain high in the medium term, the role played by foreign companies will have to shift if they are to reap the benefits of the market given the shift in policy in favour of domestic firms and products. As such, partnerships with local entities, which are gaining a more privileged position, may become a greater priority over the long term.
Modern advantage

Abdelwahid Temmar, Minister of Housing and Urban Planning, on the sustainable development of public housing

How can the housing and urban planning strategy be adapted to address a fast-growing population?

TEMMAR: Expanding and diversifying the offering of public housing represents a significant challenge to us due to the country’s constantly rising population. To achieve this goal Algeria has implemented a comprehensive strategy throughout the last two decades, and housing has been being elevated as one of the pillars of national development.

As a result, between 1999 and 2018 more than 3.6m housing units were built, representing AD5.8bn (€42.1m) either invested or engaged. The five-year plan for housing, spanning from 2015 to 2019, set a goal for another 2m units to be built. This would utilise some of the diverse programmes run by the authorities, which aim to provide all citizens with appropriate accommodations.

As part of Algeria’s strategy for the sector, authorities have led the creation of a number of housing programmes, which will address the needs of the population in both rural and urban areas. Through these tailored programmes, which are adapted to various income levels, all citizens are able to comfortably and affordably access the housing market.

In addition, a new urbanism code is being established that will help further develop the sector. One key element of this adapted framework will be the enhancement of the rental market, which remains underdeveloped in Algeria. This is especially evident when compared on a global scale, where approximately 50-60% of real estate demand is for rental.

What measures are in place in the sector to ensure the implementation of international standards?

TEMMAR: Lately, Algeria has established very strict regulations for the construction and housing sector. We aim to guarantee the appropriate application of international standards throughout all stages of our projects, and in all segments, including conception, realisation and building materials. The monitoring of projects is also crucial in order to avoid delays, and therefore controls have also been strengthened.

The housing sector must also be seen as a driver for economic growth. This is why it is a priority to encourage the emergence of competitive players with value-adding innovations in construction techniques and building materials. Modernised housing results in significant economic gains in both the medium and long-term due to less need for rehabilitation and a lower consumption of energy. Thus, we invite national and international investors to pursue their objective to develop and offer competitive technologies for the construction sector.

What are some steps that can be taken to improve energy efficiency in housing facilities?

TEMMAR: In regard to older housing, rehabilitation and renovation programmes are currently taking place in the country’s larger cities, including in Algiers, Oran and Constantine. For new housing, Algeria has taken steps to promote greener housing facilities. The 1997 technical regulation for housing facilities was revised in 2016 to further take into account the need to rationalise costs and save energy. Flat roof isolation, systematic double-glazing and low-consumption lighting are now prerequisites for every housing project. On a larger scale, new cities such as Sidi Abdallah are also equipped with efficiency-based technologies. The expected increase in renewable energy will complement these efforts.

The Great Mosque of Algiers is an example of the authorities’ focus on this goal, with efficiency of water management and energy systems being at the project’s core. Implementation of the appropriate technologies is ensured through partnerships with international companies. These partnerships give us the opportunity to gather the experience and knowledge to boost Algeria’s capacity in the sector.
Sustainable urbanisation

As urban populations undergo rapid growth around the globe, planners are striving to create efficient spaces

In 2008, for the first time in history, more than half of humanity was living in urban areas. Perhaps the most remarkable observation about this trend is the speed at which it has happened: as recently as 1900 urban areas accounted for 13% of the global population. Towns and cities are seen as the crucibles of opportunity for many rural dwellers. The UN estimates that by 2030 urban areas will host 60% of the world’s population – up from 54.5% in 2016 – with the pace of urban growth especially rapid across Africa and parts of Asia. Urban areas are home to more than 470m people in Africa, accounting for 40% of the continent’s population, up from 14% in the middle of the 20th century.

GROWING PAINS: In 2016 there were 512 cities around the world with at least 1m inhabitants, more than 100 of which were in China. By 2030 this number is set to increase to 660, with around 40 being categorised as mega-cities home to more than 10m inhabitants, including Bogotá, Bangkok, Dar es Salaam and Ho Chi Minh City.

All cities, even those in prosperous and stable countries, face challenges, from providing adequate housing, sanitation, transport and energy, to combating pollution and inequality. Not surprisingly, however, these issues are magnified in developing and emerging countries, where limited resources and weak institutions can struggle to cope with eventualities such as waves of migrants or the effects of climate change. Nonetheless, opportunities abound for municipal authorities and the construction industry to create urban areas that are sustainable, dynamic, healthy and safe.

BUILDING INNOVATIONS: The construction sector is not generally considered a frontrunner in embracing innovation. The basic techniques of constructing brick and timber buildings date back centuries and – often for sound economic or aesthetic reasons – they have tended not to evolve dramatically. However, this tendency is changing, spearheaded by the advent of lighter, stronger and more flexible materials, along with innovative techniques such as modular construction and 3D printing. While large projects are increasingly complex, industry players can use tools like building information modelling (BIM), robotics and the internet of things to ease their undertaking. These can improve efficiency and bring down costs, while also enhancing quality and sustainability, which will be important considerations as many urban areas need to be resilient against earthquakes and extreme weather, such as tropical storms, flash floods and heatwaves.

TECHNOLOGY & PROJECT MANAGEMENT: The process by which buildings are constructed and woven into wider infrastructure is of the utmost importance, with projects becoming increasingly complex and challenging to deliver.

The IHS Herold Global Projects Database estimates that some productivity has declined since the early 2000s; large infrastructure projects, for example, cost on average 80% more than the original budget and run more than 20 months late. Many are also delivered with defects, which suggests project management teams have failed to cope with rising complexity and external risks.

Technology can play a role in developing more streamlined construction and infrastructure schemes, and in recent years BIM has been at the forefront. It combines 3D-modelling software with layers of data on every detail along a project’s timeline, providing architects and engineers with a relatively simple way of rigorously testing and analysing designs. BIM has been widely adopted across Europe, the US, South Korea, Singapore and the Gulf. In the UK the government requires all centrally procured contracts to achieve BIM Level 2.

Take-up has unsurprisingly been slower in emerging markets, but in 2017 Dubai became the first...
public authority to mandate the use of BIM for most of its large-scale building projects. The neighbouring emirate of Abu Dhabi also uses BIM, which has notably been employed on the $3bn Midfield Terminal Building by Abu Dhabi Airports Company.

SMART CITIES: The miniaturisation of sensors and the evolution of the internet means that information on almost all aspects of urban life - from air and water quality, to the movement of people and objects, weather, road and rail traffic, and energy generation and consumption - can be measured in real time. By linking houses, public buildings, factories, vehicles, power stations, traffic signals and street lighting, cities can be smart and responsive to the needs of residents. Developments in smart metering, solar photovoltaic technology and battery storage are leading to more local energy generation, which should facilitate the shift to cleaner, more efficient and quieter electric vehicles.

Qatar has embraced the smart city concept as it prepares to host the 2022 FIFA World Cup in Lusail. On the outskirts of Doha, the city is being developed with smart technology, incorporating sustainability measures to enhance residents' quality of life. "Lusail City was the first in Qatar to endorse the Global Sustainability Assessment System principles, and to rate all buildings according to their sustainability and performance," Nabeel Mohammed Al Buenain, group CEO of real estate developer Qatari Diar, told OBG. The city will offer residents and visitors integrated smart transport and communications services, overseen by a central management facility.

Meanwhile, in the renovated Msheireb area of Doha, several services offer a smart experience. "These include navigation, people counting, help desks, online payments, CCTV, fire alarms and infrastructure network applications," Ahmad Mohamed Al Kuwari, CEO of IT firm MEEZA, told OBG.

In the face of a rapidly urbanising population, the concept of smart cities is also being developed in numerous African nations, including Kenya's Konza Technological City, 60 km outside of Nairobi and extending over 2020 ha of land. Dubbed "Silicon Savannah", the project is part of Vision 2030, the country's national development strategy, and is slated to see a combined $15.5bn in investment. Due for completion after 2030, the project is expected to create 100,000 jobs and generate $1bn annually, according to the Konza Development Authority.

Another example is the Eko Atlantic project in Nigeria, bordering Lagos's Bar Beach coastline and spanning 10 sq km. Though the pace of work has been slowed by the domestic economic climate, the project is expected to attract 150,000 daily commuters and host a range of amenities upon completion, including high-end housing that will accommodate up to 250,000 residents.

The New Administrative Capital, Egypt's new capital unveiled in 2016, is also working to integrate smart networks. Expected to be delivered by 2022, the city is located 50 km from Cairo and will extend over 700 sq km. It aims to help alleviate congestion, provide homes to 5m people and host some of the country's main public institutions. In late 2017 another smart city was announced in Aswan, near Egypt's Western Desert, to help accommodate the city's growing population. The development will extend over 1620 ha and will include housing, recreational facilities and green areas.

CHALLENGED URBANISATION: Smart cities are now firmly on the radar around the world, but older metropolises are also embracing digital technology to improve service delivery and quality of life. Buenos Aires, for example, has recently surveyed its infrastructure and developed an application - the SAP HANA platform - to speed up administrative processes. The city of 16m inhabitants has 372,625 trees, 91,000 street lights, 50,700 pavements, 30,000 storm drains and 27,000 roads. Previously, certifying maintenance and repair work was very time-consuming and tedious, requiring thousands of sheets of paper to be printed and filed.

For other cities in emerging markets, however, talk of big data for urban planning and smart infrastructure may seem far removed from the reality of urban sprawl, traffic congestion, air pollution, flooding and sanitation problems.

Yangon, Myanmar's largest city, illustrates these challenges. Following six decades of military rule and international isolation, the city lacks an effective public transport system and suffers from chronic congestion. "During the last decades the expansion of the city was not followed by the modernisation of its infrastructure, and this is now putting pressure on both city management and public services," U Phyo Min Thein, chief minister of the Regional Government of Yangon, told OBG.

MISALIGNED DRIVER: Housing construction has been a key growth driver in Yangon since reforms began in 2011, but developers have focused on the upper-tier segments, due to the paucity of accommodation and Myanmar's position as a frontier market in a dynamic region. In 2013 rents in central areas soared above those in Bangkok and even parts of Manhattan. However, this resulted in an oversupply of high-end units and not enough affordable housing for average families.

Similarly, rapid urbanisation and the adoption of smart networks has been challenging across Africa. At 4.5%, the continent has the world's highest urban growth rate, and by 2050 more than half of the population is set to be living in cities, representing an important demographic shift.

While there has been progress in developing some of the main urban centres, infrastructure works often lag behind on the back of slow structural transformation, a historical dependence on natural resources and weak levels of industrialisation. Inadequate urban planning and underinvestment in infrastructure has seen informal settlements proliferate, as is the case in Lagos, Africa's most populous city. With over 21m people and growing

Africa has the highest urban growth rate in the world, at 4.5%
at 3.2% per year, Lagos has experienced unprecedented urbanisation, leading to the development of slums. However, as the government aims to turn the city into the “Dubai of Africa”, settlements are gradually being cleared, as was the case for Ijebu and Otedo-Gbame, bordering the waterfront, in 2016. Despite challenges brought by population growth and the lack of accommodating infrastructure, the city acts as an economic engine, accounting for over 35% of GDP and 62.3% of non-oil GDP in 2010, per the UN Economic Commission for Africa.

**GROWTH POTENTIAL:** This is a testament to the potential cities have as drivers of transformation and economic growth. In addition to developing infrastructure, promoting economic efficiency, improving urban density and ensuring social inclusion, the success of Africa’s urban centres will depend on their ability to create employment for the continent’s ever-growing youth population. With more than half of Africans under the age of 18.5, and 19% between 15 and 24 years old, this represents both a significant challenge and a potential opportunity should it be tapped effectively.

A report produced by the African Development Bank, the OECD and the UN Development Programme in 2016 calls for policy reforms to make the most of the “urbanisation dividend”, and for African countries to spend the equivalent of 5-7% of GDP per year on infrastructure. According to the report, two-thirds of the investment needed in urban infrastructure through to 2050 has yet to be made, suggesting substantial opportunities lie ahead. The future of Africa certainly hinges on the ability to efficiently manage and develop city landscapes, and the capacity to turn major centres into engines of sustainable growth.

**MASTER PLANS:** Experiences show that creating a sustainable city requires more than a dynamic construction sector. In Myanmar’s case, the municipal authorities are developing a master plan drawing on lessons from other regional cities, but progress could be constrained by a lack of skills, weak institutions, legal uncertainty and limited financing.

Plans are also afoot for the Yangon New City Project, a 12,140-ha development to alleviate congestion and reduce informal settlements. The project is supported by multilateral organisations and is expected to make extensive use of public-private partnerships. However, sustained work is required to strengthen the tax system and replicate international best practices in harnessing private finance to improve public services.

**CURBING SPRAWL:** In devising plans for the sustainable development of Yangon, Abidjan, São Paulo, or smart cities on the outskirts of Cairo and Jeddah, a significant challenge is sprawl. Architects and urban planners have come to recognise a key distinction between expansion and sprawl: cities have expanded throughout history and will continue to do so, but sprawl is a fairly recent and undesirable phenomenon. It refers not only to low-density suburbs, but also to the development of sterile apartment blocks, which have sprouted up in large numbers.

In her seminal text, _The Death and Life of Great American Cities_, the writer and activist Jane Jacobs argued that the dramatic growth of car traffic separates city dwellers from each other and the natural environment. This, she claims, creates cities that lack the cross-fertilisation and interactions that allow humanity to thrive. In addition to facilitating sprawl, private cars have brought traffic congestion and a resultant loss in productivity and increase in stress, mental illness and non-communicable diseases stemming from inactivity, and other health conditions linked to air pollution.

Jan Gehl, an urban architect, wrote about the importance of providing safe places to walk or cycle and enjoy outdoor spaces. Others refer to the “Goldilocks density”, at which buildings are densely populated enough to provide retail and services to vibrant main streets, but are not built so tall that people are removed from the streetscape. Buildings of six or seven storeys allow the sun to penetrate to street level, making it easier for ground-floor cafes to spill out onto the street, creating a sense of community and vibrant street life. Such buildings can also accommodate a large number of people: traditional Parisian districts house up to 26,000 people per sq km, while Barcelona’s Eixample district reaches 36,000 inhabitants in the same surface area.

**URBAN PRINCIPLES:** Some of the principles for solving sprawl and building sustainable cities that are likely to be taken up as city authorities work to manage their expanding populations include the preservation of natural ecologies, historical sites and architecture as a way to imbue urban communities with a sense of identity. The benefits of creating opportunities for mixed-use infrastructure as well as mixed-income communities to prevent monolithic neighbourhoods divided by wealth is also likely to shape urban planning in cities across the globe.

In terms of urban transport, investment in high-quality and affordable mass transit systems, and a focus on matching city density with transport capacity, is key to keeping cities moving.

The model of urban planning that extended from modernism and its vision of the city as a machine has proved extremely popular throughout the past half century – and it endures. But there is now a growing realisation that if urban areas are to be lively, safe, healthy and truly sustainable, they will need to develop a different form and complexion.
CONSTRUCTION INTERVIEW

The ability to use their experience in the market and potential assistance from the government to overcome this constraint.

As a foreign construction company, how well would you assess Algeria’s ability to compete with other emerging markets in the region?

LI: Algeria has developed policies in line with its potential and has more natural resources than its neighbours in the region, as well as an effective legal framework. This allows the country to launch ambitious programmes, particularly in the construction and civil engineering sector.

CSCEC has been established for more than 36 years in Algeria, and has carried out numerous projects and gained in-depth knowledge of the Algerian economy. Indeed, Chinese companies have become more experienced and trusted in the country’s construction sector. Going forward, the continued involvement and pursuit of new investment opportunities will strengthen their presence even more.

How can Chinese companies assist with the development of Algeria’s infrastructure?

LI: Chinese companies have demonstrated their skills and valuable knowledge in the construction sector through a range of previous high-level achievements. These companies have numerous favourable assets that they can use to benefit Algerian construction projects, such as their experience in the field and understanding of local demand.

More specifically, Chinese companies have proven themselves to be both efficient and competitive, and will continue to develop further concrete contributions to the upgrade of infrastructure in Algeria.

In addition, Chinese companies, with the support of their government, can work as an appropriate interlocutor for both the execution and financing of Algerian infrastructure development.

What is Algeria’s potential for the construction sector in the short and medium term, and what challenges do you see arising?

LI: Despite this construction sector’s achievements in recent decades, Algeria’s need for housing and infrastructure remains a priority. The authorities have regularly confirmed their dedication to social development and the improvement of their citizens’ quality of life. To this end, it is important that the infrastructure and construction sectors continue in their current momentum.

Diversification efforts and the improvement of Algeria’s business climate have also generated new needs for the sector, such as the construction of high-end facilities and complex infrastructure projects. The drop of public resources due to lower hydrocarbons revenues since 2014, which supply around 50% of the state budget, does not change the fact that the construction sector is a great source of potential. However, these challenges, which have impacted many other sectors of the economy, have made it necessary for construction operators to adapt to temporary difficulties.

To what extent is the availability of construction materials a challenge for companies carrying out complex infrastructure projects?

LI: Companies carrying out complex construction projects have often been faced with insufficient or unavailable essential materials. In order to eliminate these difficulties in supply, Algeria has favoured productive investments in infrastructure projects, and in the construction sector in general.

There will always be areas in which Algerian industrial and manufacturing plants are unable to meet the demand for supplies needed for the development of complex infrastructure projects in the country – as is the case in most economies around the world. However, construction companies have the ability to use their experience in the market and potential assistance from the government to overcome this constraint.

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REAL ESTATE OVERVIEW

In 2017 the average sale price for an apartment in Algiers was £1600 per sq metre.

Home run

The state continues its housing drive, providing support for financing and addressing the informal market.

After a decade of rising prices, the Algerian real estate market experienced a gradual slowdown in 2017 and through most of 2018. While a growing population and a high rate of urbanisation have kept demand high for affordable state-provided housing, the provision of new units at a rate of 300,000 per year has begun to impact private market prices.

Although there are some inherent challenges in the operating environment, such as strong government control over much of the property in the country and a large informal market, there are significant opportunities for private developers in terms of commercial and industrial real estate, particularly given the current drive to diversify the economy away from a reliance on hydrocarbons exports by encouraging the development of industrial and leisure infrastructure.

SIZE & STRUCTURE: The Algerian real estate markets most prominent player is the state, which is committed to providing housing for all citizens, a right provided in the country’s constitution. According to the World Bank, total housing stock reached 8.9m units in 2017, approximately half of which is government owned. It is estimated that 20% of the national supply is empty, kept as either second homes or investment properties for the upper class.

The substantial price differential between public and private units make this a unique market. Residential properties are sold for up to five times their true value on the private market, a phenomenon that can largely be explained by the widespread prevalence of informal brokers and speculators who control an estimated 80% of this segment. Consequently, reliable figures on the sector are difficult to pin down given the predominance of the informal real estate market in tandem with widespread under-reporting of prices and transactions as well as the absence of regulation in regards to pricing.

TRENDS & PERFORMANCE: Real estate in Algeria is in a transitional phase as prices on the private market adjust to the development and distribution of large-scale public housing projects. Property values in Algeria are still high. According to the Centre for Affordable Housing Finance in Africa (CAHFA), in 2017 the average sale price per sq metre for an apartment in Algiers was about AD220,000 (£1600), a 20% increase over 2016, while the figure for secondary cities was around AD130,000 (£944). A moderately priced apartment in the capital costs approximately AD10m ($72,600), which is 15 times the average annual income of a two-salary household, a ratio six times larger than the upper limit of accessibility. Consequently, homes available on the private real estate market is beyond the means of most Algerians, and as such state initiatives that assist home buying have taken on new significance.

While ownership on the private market is prohibitively expensive for most citizens, the private rental market is expanding as average rents are decreasing for the first time in nearly a decade in some wilayas (provinces). Figures on the Algerian rental market in 2017 released by Algerian real estate company Lkeria indicate that at least 10 wilayas experienced a decrease in average rent compared to 2016. The wilayas of Boumerdès and Tizi Ouzou experienced recorded decreases of over 20% in average rent, while the major cities of Algiers, Oran and Tlemcen all had negligible decreases of 0.2%, 2.0% and 1.7%, respectively, amounting to a stabilisation in prices. The majority of wilayas recorded average rents between AD30,000 (£217) and AD40,000 (£290) per month, while those of major cities were higher. For instance, in Algiers rents ranged from AD38,300 (£278) for a 50-sq-metre apartment to AD76,500 (£555) for 100 sq metres. National housing programmes in addition to successful relocation strategies have contributed to the general decrease in rents across the country.

HELPING HAND: The government provided 3.6m units between 1999 and 2018, making substantial
progress in addressing the housing crisis and reducing the average number of occupants per household from 6.8 to 4.3. However, according to the World Bank, in 2017 the country’s total and urban population grew at rates of 1.7% and 2.6%, respectively. This trend continues to put pressure on the government to increase supply each year, a situation that is reflected in the size of the budget allocated to housing. The state’s financial commitment to the sector is one of the highest in the world, with public housing programmes representing 5% of total government spending, or 2.2% of GDP. Between 2010 and 2014, the state spent 17.4% of its budget on provision of housing. The Ministry of Housing, Urban Planning and the City (Ministre de l’Habitat, de l’Urbanisme et de la Ville, MHUV), has emphasised that its financial commitment to provide housing for its citizens will continue unaffected by recent economic difficulties related to the collapse of the hydrocarbons market.

**INFORMAL MARKET:** According to CAHFA, as the state only makes a very small amount of land accessible to private entities, little room remains for the formal market to expand. The informal market is estimated to constitute 80% of the country’s real estate sector, a reality that, in combination with the inadequate supply, has led to a comparatively expensive market. There are massive gaps between the prices paid on the private market and those of publicly developed housing units, enabling informal brokers to mark up property values by as much as 40%. The pervasiveness of informal real estate limits the availability of accurate information about the market itself as well as about transactions and buyers.

In a move towards greater transparency, in October 2017 Djamel Khaznadji, the head of the Directorate General of State Property, announced the government’s intentions to abandon the system that allows the identities of property holders to remain anonymous. In hopes of establishing a national property registry and bringing transparency to the market, as of January 2018 anonymously registered accounts were no longer accepted and properties whose owners do not present deeds establishing ownership after 15 years will be transferred to the state.

**MAIN DEVELOPERS:** The government’s 2015-19 investment plan outlined the construction of some 1.63m residential units, 54% of which were to be built by domestic private companies, 39% by foreign entities and 8% by local public firms. However, in practice the preference for Algerian firms has not been the reality; according to the MHUV, in June 2017 it was revealed that 70% of housing contracts had been awarded to foreign firms, the majority of which were Chinese and Turkish. However, in October 2017 Abdelwahid Temmar, minister of housing and urban planning, announced the government’s aim to contract future housing projects from local construction companies and property developers, in addition to using only domestically produced materials.

The Mutual Guarantee Fund for Property Development, a non-profit with a mandate to cover the payments buyers make towards developments that fail to come to fruition, has registered more than 5700 developers, around 1000 more than in 2017, the majority of which are privately financed. However, according to the National Organisation of Real Estate Developers, only around 1000 to 1200 developers are involved in the private market, while the remaining firms rely on state-sponsored projects.

**RESIDENTIAL:** The five-year investment plan originally aimed to build 3.18m homes; although, due to fiscal issues related to the collapse of hydrocarbons market in 2014, the figure was essentially halved. However, the government has continued its housing drive, announcing in April 2018 an allocation of AD33bn (€239.6m) to finance the completion and delivery of 375,000 homes of various types.

In an effort to stave off increasing urbanisation, the state also provides subsidies ranging between AD700,000 (£5080) and AD1m (£7260), which is disbursed gradually as progress is made, for citizens who wish to build or rehabilitate dwellings in rural areas. Between 2000 and 2017, 48% of the 3.1m housing units delivered by the state were built in rural areas through this programme. The remaining 52% were constructed in urban areas with 35% being public rental units and 17% constructed under other housing programmes for middle-income Algerians.

In addition, the National Agency for Housing Improvement and Development offers a lease-to-own model by which 120,000 homes will be registered by the end of 2018. The MHUV has stated that one of its main priorities is to accelerate the pace of completion and delivery of these units, which is aimed at families without the capacity to make a down payment. The programme requires an upfront payment of between AD700,000 (£5080) and AD1m (£7260), after which the state guarantees 100% of the lease on a zero interest basis. Regulators are leveraging the potential of this programme to both

![Image](https://example.com/image.jpg)

**OVERVIEW**

**REAL ESTATE**

**Algeria 2018**

In 2010-14 the state budget allocation for housing was 17.4% of the total.
The state runs a number of different programmes for low- and middle-income brackets to help make renting and buying housing units more affordable.

In 2017 the number of mortgaged households in Algeria was up 16.3% payments, and subsidised interest rates of 1-3% on loans. This initiative was revived in part to ease the demand on other state schemes, though it has been refined since its previous iteration to reduce the state budget and provide developers with new incentives to encourage participation. Through the end of 2018, the government is slated to provide 70,000 people with access to this programme.

Additionally, in January 2018 officials established the terms of an assisted housing offer for citizens that have moved abroad in what can be seen as an attempt to attract skilled labour, investment and capital back to the country. Subscribers to this programme benefit from the ability to claim a loan of up to 90% of the property value at a subsidised interest rate of 3%. In April 2018 the MHUV announced that over 16,000 applications had been received for 2250 residences across 24 wilayas. Some 84% of this demand came from citizens living in France.

DEVELOPMENTS: One of the main developments evolving in the sector is the new city of Hassi Messaoud. Located 80 km equidistant from Ouargla and Touggourt, the project is planned to incorporate four large neighbourhoods accommodating approximately 20,000 people each by completion in 2030. In February 2018 a call was placed for both public and private property developers interested in the concession of land within the city and its logistics zone, hoping to bring in investments for a series of commercial, retail, residential and leisure projects. The first phase of Hassi Messaoud is under way, which plans to complete infrastructural and residential capacity for 45,000 inhabitants by the end of 2018.

INFORMAL HOUSING: Since 2014 the state has launched a series of slum eradication programmes in Algiers. As of March 2018 over 80,000 families, totalling nearly 400,000 citizens, have been relocated from slums into state-run accommodation, allowing the recovery of more than 530 ha of land for the construction of additional developments. Zena Ali Ahmad, director of UN-Habitat for the Arab Region, indicated in July 2018 that the processes surrounding slum eradication in Algiers had fundamentally been successful, and that the same methods would be treated as best practices and implemented in other countries. Similar operations are expected to carry on to 2035 with the intention of eliminating dangerous, illegal housing in the capital city entirely.

MORTGAGES: State-owned banks make up the majority of all home loans, which are offered at a rate of 8% for periods of 20-40 years, according to the CAHF. While government initiatives are improving by offering varying forms of assistance, such as subsidies on interest rates in rural areas and down payment assistance for qualified households, the lack of institutions remains an issue. In addition, the majority of credit in the country is provided to commercial real estate rather than retail housing.

Nevertheless, in 2017 the number of mortgaged households in Algeria grew by 16.3%, the second-fastest expansion in the world after Egypt at
18.9%, according to market research firm Euromonitor. The loan recovery rate in Algeria has improved significantly since 2009 when 21% of loans were non-performing, compared to 11.4% in 2016. The national mortgage payment rate is currently 98%. Despite these improvements in mortgage financing, the market is still relatively underdeveloped. In 2015 mortgages amounted to $31.4m, accounting for approximately 1% of GDP.

**COMMERCIAL REAL ESTATE:** Latest available official statistics from late-2016 indicate that some 18.4% of the Algerian real estate market is composed of commercial and industrial properties. Prime office space have remained concentrated in Algiers, and rents have remained largely stable at an average of $30 per sq metre per month, due to a general lack of properties for foreign firms, according to Knight Frank’s “Africa Report 2017/18”. Many international companies, especially firms in the banking sector, are moving out of the capital’s Hydra and city centre districts and are heading east towards the new commercial districts of Bab Ezzouar and Alger Medina.

**LEISURE & RETAIL:** As the country seeks to develop its tourism sector, it has paid particular attention to addressing its comparatively underdeveloped accommodation industry. The country is estimated to have 0.1 hotel rooms per 100 people, which places it 111th out of 136 countries worldwide in this measurement. In September 2017 the Ministry of Tourism and Handicrafts announced the approval of over 1810 hotel projects, which will collectively increase total capacity to 240,000 beds, up from 100,000 at the time of the announcement.

In the retail sector the predominance of an informal market has left substantial opportunity for the development of modern sales infrastructure. French distributor Carrefour, for instance, announced in November 2017 its intention to open the doors of two more shopping centres in Sétif and Oran after its successful re-entry into the country in 2015 with a supermarket in Algiers. Although the 51:49 rule necessitates that foreign players must enter into joint ventures with domestic partners, preventing foreign companies from having a majority stake and presenting a barrier to entry, the prospects for developments in this sector are significant.

**CLEARING LAND:** In March 2018 the Ministry of Energy and Mining announced the establishment of a commission intended to develop standards for the granting of industrial land. Pending an executive decree to further articulate the criteria, the commission determined that the type of activity, potential job count and value of investment would all be factors considered. This effort to facilitate and clarify the process of granting industrial land comes as part of a nationwide programme championed by the presidency that aims to develop 12,000 ha across 39 wilayas for industrial purposes.

In addition, the government has made moves to ensure that existing industrial real estate is developed by serious and motivated buyers. In June 2017 officials issued 330 formal notices to investors with projects in the wilaya of Ouargla that had failed to deliver what was promised. In April 2018 in the wilaya of Medea 84 investors who failed to move forward with stated plans after a statutory period of three years had their concession decrees cancelled. This clean-up operation of industrial property aims to stimulate new and productive investment by making these lands available for new development.

In November 2017 the state also announced its intention to recover undeveloped farmland. Commissions at the wilaya level have been vested with the power to withdraw land allocations for unexploited farmland, which will be made available to new investors with dynamic development plans.

**OUTLOOK:** In September 2018 the MHUV announced intentions to construct 200,000 new public housing units in the following year, showing its commitment to sustaining a high level of funding for social housing in the short to medium term. However, in July 2017 the state had articulated its desire to shift away from direct provision of housing units and towards a model that incorporates private developers at the level of affordable housing to a greater extent. After the elections in 2019, the state is likely to pursue this policy with more rigour. As the government has also stated its intention to begin a shift away from foreign contractors to instead favour local construction firms in housing development, it will necessitate alternative forms of investment from international players.

The World Bank’s “Doing Business Report 2018” ranked Algeria in the categories of “dealing with construction permits” and “registering property” 129th and 165th, respectively, out of 190 countries, pointing to challenges in the sector. Nevertheless, the continued commitment to liberalise the economy and attract foreign investment into the country’s under-developed sectors such as retail and tourism, while improving financing options bode well for the future.
Creating the smart cities of the future
ICT

Telecoms providers operate in a competitive market
Digitisation allows companies to be customer-centric
E-commerce improves consumer shopping experience
Cybersecurity regulations provide digital framework
Increased competition

Alongside digitisation and cybersecurity efforts, the arrival of new players has galvanised the market

Algeria has witnessed significant progress in the development of its ICT sector in recent years. Following strong investment in the recent rollout of key ICT infrastructure, the country has also updated its legal framework and introduced a series of new regulations to accompany sectoral growth. As the sector has continued to mature in recent years, telecoms companies have gradually joined by a myriad of actors, creating new value-added activities. In a historic move, the mobile subsidiary of the state-owned Algérie Télécom (AT) – Mobilis – put an international bid forwards in 2018, with the aim of expanding its operations to neighbouring Mali after the latter opened a tender for the acquisition of a fourth telecoms licence. The authorities have stated that they are confident that Mobilis has both the technical and financial ability to enter the Malian market.

TELECOMS: The telecoms sector is made up of three operators which brought in a combined revenue of AD429.4bn (€3.1bn) in 2017, down from AD444.5bn (€3.2bn) in 2016. The market leader, Mobilis, held 40.1% of the mobile market in 2017, increasing by more than three percentage points from the previous year. Orascom Telecom Algérie (OTA), known as Djezzy, was second with 32.6%. OTA is the local subsidiary of VEON, the Amsterdam-based telecoms group. In 2015 the government of Algeria, through its state investment fund Fonds National d’Investissement, acquired 51% of OTA for $2.64bn while leaving total control to VEON over the company’s management until 2022. The third operator, Wataniya Telecom Algérie, known as Ooredoo, is the local subsidiary of the Doha-based Ooredoo Group. In 2017 Ooredoo had a 27.3% market share.

MOBILE MARKET: The mobile market is reaching saturation, with the penetration rate decreasing by two percentage points to 109% in 2017, an evolution explained by a slight population increase. However, subscriptions did register a marginal increase to hover around 45.8m, with over nine in 10 being pre-paid subscriptions. In terms of mobile income, Mobilis generated AD126bn (€914.8m) in revenue in 2017. Its competitors Ooredoo and Djezzy registered AD104.2bn (€756.5m) and AD101bn (€733.3m), respectively. The latter’s revenues fell by 9.9% with a decrease in its subscription base of 8% to 15m customers in 2017, the most recent period for which figures were available for the company. Ooredoo saw its income erode in the first half of 2018, experiencing a 20.5% decrease coupled with a 3% year-on-year decrease in subscriptions to 13.6m.

In line with global trends, mobile network operators (MNOs) saw their average revenue per user decrease by 7.5% in 2017 to reach AD603 (€4.38). This dynamic is explained by consumers’ preference for data over voice consumption, as data typically offers more services and is cheaper. Additionally, there are a large number of promotional offers following the introduction of 4G and fierce competition among operators to gain market share.

Furthermore, new taxes levied on MNOs’ revenues continue to erode profits. In 2017 value-added tax on services increased from 7% to 19%, and taxes on voice over internet protocol services gained two points to reach 19%. The following year, a 0.5% tax on recharges of pre-paid SIM cards was introduced by the budget law to finance the Universal Service Telecommunications programme and was raised to 1.5% by the complementary budget law. Altogether, MNOs saw the tariffs levied by authorities increase by nearly 30% in two years – a reduction in their earnings before interest, tax, depreciation and amortisation that may hamper investments in infrastructure.

FIXED LINE: Fixed-line internet continued its expansion in 2017, reaching 3.17m subscribers at the end of the year, up 10.7% from the previous year. However, internet speed lags behind international levels. In October 2018 the website Speedtest.net ranked Algeria 129th out of 130 countries on fixed-line internet...
speed with a 3.84 Mbps broadband download speed, far behind the world average of 50.88 Mbps.

To improve connectivity in the country, AT launched the Idoom Fibre package in 2018, a high-speed internet product which is part of the Fibre To The Home/ Businesses (FTTx) project. In a contentious bilateral agreement, AT and Chinese ICT provider Huawei signed a AD38bn (€275.9m) contract in October 2017 for the rollout of the infrastructure. It is expected to deliver high-speed internet of up to 100 Mbps to households and 1 Gbps to private businesses. The plan is to connect around 1.5m homes located in 725 municipalities across the 48 wilayas (provinces) to the network. However, critics pointed out Article 20 of the contract that puts no obligation on Huawei for technological transfers to AT or other parties.

**FIBRE-OPTIC NETWORK**: According to the Ministry of Post, Telecommunications and Digital Technologies (MPTDT), Algeria had 123,000 km of fibre optics installed in 2017, making it the largest network in Africa, with an additional 7000 km planned to connect the southern wilayas. However, Ali Kahlane, a senior consultant in digital transformation and maturation, told OBG that Algeria has taken into consideration the intra-city metro fibre connections, with traditionally only long inter-city or intercontinental connections taken into account. The MPTDT has the overarching aim to improve bandwidth capacity, as well as navigate the challenges surrounding the introduction of two fibre-optic cables expected to connect Algeria to international connection points. The submarine fibre-optic cable Medex, connecting the eastern city of Annaba to the US west coast will have a capacity of 4.4 TB. In addition to Medex, the cable Orval will connect the west Mediterranean city of Oran to Valencia, on the east coast of Spain. The new connections, expected to be operational by the beginning of 2019, add to two pre-existing international cables, increasing Algeria’s internet bandwidth 10-fold to 6.4 TB. This increase will improve connectivity as little domestic content is available or stored in data centres.

**E-COMMERCE**: The widespread use of new technologies has supported the development of e-commerce companies such as pan-African leader Jumia or the Algerian equivalent of eBay, Ouedkniss, a virtual classifieds shopping website. In addition to these, a myriad of micro-entrepreneurs are appearing and have brought a need for increased regulation. It is in this light that Parliament passed a major set of regulations, putting in place a legal framework to accompany the development of online commerce.

**NEW REGULATIONS**: In June 2018 Parliament adopted Law No. 18-04, another major law for postal and telecoms services. The main measure was the unbundling of internet infrastructure that brings the monopoly of AT to an end and allows any telecoms operator to request a licence from the Regulatory Authority of Posts and Electronic Communications and use AT infrastructure to offer internet services to customers. However, AT still keeps the monopoly for the installation of fibre-optic infrastructure.

Another major aspect of Law No. 18-04 concerns the double obligation imposed upon e-commerce owners to register their businesses both at the trade register and to host their website in Algerian servers with the domain name extension.com.dz. The law gives the sector’s players six months in which to comply. Failure to do so leads to fees ranging from AD50,000 (€363) to AD2m (€14,520). The sector is still waiting for decrees related to applications to evaluate the impact of the unbundling. However, the heavily anticipated privatisation of AT was ruled out by the ministry in January 2018. “The non-opening of AT’s capital and the consecration of its monopoly over the national bandwidth are a drawback for a sector that requires competition to thrive and grow,” Kahlane told OBG.

Furthermore, reflecting recent developments in the sector, Law No. 18-04 changes the name of the governing regulatory authority. The Post and Telecommunications Regulatory Authority becomes the Regulatory Authority of Posts and Electronic Communications, giving the institution rights that now go beyond the activities of infrastructure deployment to cover services delivered through these infrastructure nodes, such as e-payments.

**E-PAYMENT**: Another long-expected regulation included in the post and electronic communications law was in relation to electronic payments. E-commerce owners are now obliged to allow their customers to pay electronically or by cash on delivery. According to the law, online financial transactions must exclusively go through Algérie Poste and be connected to AT payment terminals. Regarding transactions with a party that is established abroad, the law provides an exemption from foreign trade limitations for all products and services in which the transaction value in Algerian dinars does not exceed the current limits of the Bank of Algeria. Besides, e-consumers need to use their foreign currency accounts to perform transactions while proceeds from any goods or services delivered to Algeria are allowed only in Algerian dinars.

Consumers have a preference for data over voice as it is typically less expensive and offers more services.
ICT OVERVIEW

Algerian banks have an operating domestic interoperability system that facilitates electronic transactions, and are working towards obtaining certifications from Visa and Mastercard to be able to offer international transactions. In addition to online transactions, the new regulation pushes for the widespread adoption of electronic payments. The law makes it obligatory for shop owners to have electronic payment terminals (EPTs) by the end of 2018, or face financial penalties. The EPTs will allow customers to pay with their debit or credit cards. In this regard, it is the National Enterprise of Electronic Industries (Entreprise Nationale des Industries Electroniques, ENIE) that was selected for the production of EPTs for a sale price ranging between AD40,000 (€290) to AD50,000 (€363) per unit.

The Groupe d’Intérêt Economique de Monétique was created in June 2014 to regulate the interbank electronic banking system. The authority was conceived by the Interbank and Automated Transactions Automation Company (Société d’Automatisation des Transactions Interbancaires et de Monétique, SATIM). SATIM accompanies the development of e-payment solutions and platform interoperability between Algerian banks, steadily making e-payment a reality.

Algerian banks now have an operating domestic interoperability system facilitating electronic transactions, and are working towards obtaining certifications from Visa and Mastercard to be able to offer international transactions. However, they find themselves competing with AT, whose operating system is independent. In mid-2018 SATIM had over 16,000 EPTs in circulation. The main challenge to the widespread use of electronic payments remains the interoperability between the SATIM and Algérie Poste systems.

DIGITISATION: A significant development in 2018 came from Djezzy, when it migrated all of its customers to a digital business support system overnight. This digital transformation, in partnership with Sweden’s Ericsson, allows the telecoms operator to realise most of its customer services such as billing, pricing and personalised promotions, digitally. “The successful evolution of Djezzy comes from a more holistic digital culture that the company has engaged upon since 2015. This new system allows us to address a higher number of customers’ needs,” Salim Tamani, head of PR and media at Djezzy, told OBG.

Public companies are engaging in the digitisation of their operations as well. At the smart city summit held in June 2018 in Algiers, some companies such as SEAAL presented their investments in digitisation. For example, the public water distribution company showcased its ICT applications to enhance the management, control and maintenance of its networks. “Our estimates show that about 15% of Algerian companies have engaged in a digital transformation. Besides, between 10% and 15% of professional investments are IT investments. Digitisation is costly and will only come with the opening of the country. Only companies competing in the global field feel the need for such an investment,” Kahlane told OBG.

CYBERSECURITY: With numerous businesses working to ramp up their digital presence, cybersecurity is increasingly seen as a topic of interest. In April 2018 the western city of Oran hosted the 6th African Cyber Security Summit. The opening ceremony of the summit was an occasion for Xcom Agency to present the findings of its barometer on cybersecurity in institutions and companies. Although most of the respondents to Xcom’s survey understood the importance of cybersecurity, the majority of users remain unprotected, with little knowledge of possible threats and data protection. Nevertheless, over half of the respondents plan to increase their cybersecurity budgets in 2019, an increase from 21% in a study conducted in 2016.

At an institutional level, the government recognises the potential dangers that are inherent to new technologies and vows to develop legal and technical tools against cybercrimes. Since the adoption of the first legal text outlining cybercrimes in 2009, the government created a national organisation for prevention, leading the fight against ICT-related infractions in 2015. The latter, placed under the Ministry of Justice, centralises online information and coordinates the

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Individuals using the internet, 2007-17 (%)

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Source: ITU
actions of the different institutions involved in their collective fight against the reach of cybercrimes.

In July 2017 the International Telecommunication Union placed Algeria 67th out of 193 countries in its updated “Global Cybersecurity Index 2017”. The country largely owes its score to the legal framework that has been put in place. The sub-indexes of the survey show that there still remains a lot to be achieved regarding both human skills development and the creation of technical institutions for cybersecurity.

In 2018 the topic was brought back into the public debate arena with the preparation of a legal framework and the establishment of a new institution for the protection of personal data. This newly established body, comprised of representatives of different institutions, is placed under the authority of the president. The upcoming legal text will cover a broad set of measures, such as the protection of citizens against the commercial abuse of their online data and the creation of recourse mechanisms against online fraud, as well as copyright infringements.

**DIGITAL GOVERNANCE:** In the July 2018 “UN E-Government Survey 2018” Algeria moved up 20 positions to 130th compared to 2016 in the e-government development index measuring online service, telecommunications infrastructure and human capital for the 193 UN member states. This gain was driven by an increase in the density of services pillar by 10 spots and the telecommunications infrastructure development pillar by 30 positions. Research for the latter pillar identified that 43% of Algerians use the internet, while there were 65.7 active mobile broadband subscriptions per 100 people. “The country performs well naturally in this index, considering the weight given to investments in infrastructure and quality of higher education in the final score,” Kahlane told OBG. “However, let’s not forget that where the value added to citizens is; that is, digital content and online services offered. In that regard, there is still large room for improvement.” Kahlane added that he realised that there was a lack of coordination between the digitisation efforts of the MPTDT and other ministries, and the absence of interoperability of their platforms that would allow them to enjoy important productivity gains.

**NATIONAL PRODUCTION:** Manufacturing of ICT products has begun to attract foreign investment in 2018. To rationalise the use of foreign exchange (forex) eroded by the slump in oil prices, the Parliament restricted imports on over 1000 products, including technological ones. In 2017 imports of smartphones alone represented $600m of forex. This limitation, coupled with the 2014 generous tax exemptions for products with at least a 40% integration rate, supported the expansion of local manufacturing and incentivised foreign companies to set up production facilities and assembly lines in the country. In 2018 Condor Electronics, which launched the first smartphone in Algeria in 2013, had an annual production capacity of 30m units of smartphones and offered over 30 different models. According to Statcounter, as of October 2018, Condor held 24.6% of the smartphone market for its 22nd month of presence in the segment, behind only Samsung at 29.5%. The company, already present in various regional markets, is now expanding to France, Italy and Spain, as well as the US where it just signed memoranda of understanding with local distributors.

An additional recent entrant in the segment is ENIE, which is engaged in the commercialisation of entry-level products sold under €100 per unit. ENIE plans to sell 200,000-500,000 units in 2018 and produce up to 1m units in 2019 with an integration rate of 5-7%, with forecasts to reach 15% by 2020.

Samsung opened its second international smartphone assembly factory in Algeria in December 2017. It is set to produce 1.5m units in 2018 and increase its output to 2.5m the following year. These companies are being joined by France’s Wiko, which intends to serve the African market with its Algerian production, as well as Huawei and OPPO, which announced in March 2018 the future opening of assembly lines.

The government is establishing an appropriate environment to support the development and growth of an ICT manufacturing industry, witnessed in part by foreign trade of the sector. Although marginal compared to imports, the exports of ICT products increased more than five-fold from 2011-16 to AD267bn (€1.9m) in 2016.

**OUTLOOK:** While telecoms still dominate the ICT sector, signs of diversification, digitisation and cybersecurity efforts are combining for a positive outlook. In a large market that is ideally located between developed and developing countries, with ample opportunities for growth for new players, increased competition and an educated workforce, policies taken by the government can turn the country into a regional leader.
In 2018 the National Agency for the Promotion and Development of Technoparks secured a €108.9m loan from the National Investment Fund for the improvement of its technoparks in Algiers, Annaba, Oran and Ouargla. Entrepreneurs have often had to rely on their personal circles for funding.

As ambitions to transition to some extent from an oil-driven economy to a tech-driven one, there is an effort to grow a culture of innovation. In January 2017 the Parliament adopted the orientation law for the development of small and medium-sized enterprises (SMEs), aimed at supporting the financing of start-ups and the development of an entrepreneurial culture. In addition to public initiatives, private companies, including telecoms operators, are working towards the establishment of an enabling ecosystem for start-ups. The expansion of incubators and an entrepreneurial culture supports Algeria’s diversification plans, with a particular focus on the development of projects in the capital and around the smart city project. However, the absence of capital-risk financing and hard access to finance need to be addressed to tap existing potential.

GLOBAL RANKING: The US-based Global Entrepreneurship and Development Institute ranks Algeria 80th out of 137 countries in its “2018 Global Entrepreneurship Index”, measuring its entrepreneurial ecosystem. The evaluation is based on 14 pillars covering entrepreneurial attitudes, abilities and aspirations. In 2017 the country ranked 73rd, outpacing the regional average in each pillar, save for risk acceptance.

REGULATION: The January 2017 law includes a comprehensive framework to support the growth of SMEs in the country. It covers financing, financial backing, support for finding market opportunities as well as measures to foster innovation. However, the application decree of the orientation law consolidates the agencies of the sector, putting all responsibilities under one institution, and created the Agency for the Development of SMEs and Promotion of Innovation (Agence de Développement de la PME et de Promotion de l’Innovation, ADPIPME) in July 2018. The newly established agency is tasked with supporting the growth of SMEs in the country by offering them training and incubation; ensuring technological transfer; providing them with the support to reach foreign markets; helping integrate them in public contracts; and support their financing with banks. Funds backing SMEs loans and financing SMEs growth are put under the ADPIPME as well. According to the Ministry of Industry and Mining, there were just over 1m SMEs were operating in the country as of the end of 2017.

TECHNOPARKS: To support the apparition of an innovative ecosystem, the government created the National Agency for the Promotion and Development of Technoparks (Agence Nationale de Promotion et de Développement des Parcs Technologiques, ANPT) in 2004. This agency, placed under the authority of the sectoral ministry, is tasked with creating and managing centres for the development of activities with an ICT focus. It registered profits of AD38m (€276,000) in 2017, its first year since its establishment, generating revenues from its data hosting, IT consulting and solutions services. In 2018 the ANPT secured a AD15bn (€108.9m) loan from the National Investment Fund for the improvement of its technoparks in Algiers, Annaba, Oran and Ouargla. The loan, to be paid back by 2030, is expected to increase both their physical and technical capacity.

The technopark of Sidi Abdellah, 30 km from Algiers, will receive AD6bn (€43.6m) of the loan, of which AD2bn (€14.5m) will be used for the construction of two towers and a second data centre. Annaba will receive AD4bn (€29m) for an infrastructure upgrade, the creation of an incubator, and physical space for SMEs. Oran, which already has its incubation centre, will receive AD2.5bn (€18.2m) for the start of the construction of its technopark. And Ouargla, a technopark which is still in an early phase, will be allocated AD2bn (€14.5m).

GROWING ECOSYSTEM: Although functioning under different models, incubators aim at providing a co-working space to start-ups for one to two years, along with personalised training programmes, access to professional networks and potential clients, as well as financing. Accelerators are similar to incubators in terms of the services that are offered, however,

www.oxfordbusinessgroup.com/country/algeria
they typically operate over a shorter period of time. In addition, training tends to be more focused on revenue models and profitability, and there is a greater level of participation in the start-ups they support.

Sidi Abdelah hosted the first incubator, opening in 2011. By 2018 over 350 projects had matured within its confines, with at least 27 start-ups originating there. Ouargla created an incubator programme and companies such as Sylabs, TechnoBridge and IncubMe populated the landscape. Mobile operators, traditionally pioneers in incubation programmes that boost local content, later joined with the incubators ENP for Djezzy and tStart for Ooredoo, beginning in 2016. In spite of recent growth, the number of such programmes remains limited, with under 12 as of early 2018, compared to South Africa, Egypt and Tunisia which had 59, 34 and 17 programmes, respectively.

A major supporter of entrepreneurs in Algeria is INJAZ El Djazair, which has trained over 10,000 entrepreneurs since its creation in 2010. The programme enrols participants from high schools to business schools for training that lasts from a few hours to six months. “INJAZ El Djazair shows the commitment of the private sector to the development of Algerian entrepreneurs. However, it lacks the necessary mentorship and follow-up to have a long-lasting impact,” Ali Kahlane, a senior consultant in digital transformation and maturation, told OBG.

One programme addressing the lack of coaching to entrepreneurs is the first pan-African incubator in Algeria, IncubMe. The incubator, of which OBG is a partner, was launched in May 2018 by the private sector. It coaches 20-30 entrepreneurs per year for six to 18 months, providing them with housing and a stipend. The programme partners with schools, consulting firms and businesses to provide adequate training and help participants identify opportunities. IncubMe supports its beneficiaries throughout their entrepreneurial journey, from developing prototypes to seeking funding, to turning their projects into operating businesses.

SUCCESS STORIES: Since 2011 Algeria has organised the Global Entrepreneurship Week, and in 2017, 38 out of the country’s 48 wilayas (provinces) participated with seminars, training and start-up weekends. Such initiatives have helped to foster a number of local innovation success stories. In March 2018 the Algerian start-up Safe Sahara won the Global Start-up Weekend Women with its product of a connected bracelet that allows underserved networks to be geolocated. The same month, an Algerian woman, Naïma Mahrez, won first prize at the UN International Telecommunication Union’s World Summit on the Information Society with a trans-Saharan fibre-optic project. In June 2018 the Algerian Digital Cluster accompanied start-ups to VivaTech, an international event in Paris. The results show the strength of start-ups lie in their attitude towards entrepreneurship. Still, the pursuit of innovation remains to be fostered and financing of start-ups is underdeveloped.

PUBLIC FUNDING: In a country where financial markets and equity funds are not yet mature, entrepreneurs in Algeria often have to fund themselves or resort to their personal circles. However, there are state-funded forms of support. One of the most significant public avenues available to them is the National Youth Employment Support Agency (Agence Nationale de Soutien à l’Emploi des Jeunes, ANSEJ). The agency provides loans ranging from AD100,000 (€726) to AD300,000 (€2180) to young entrepreneurs. However, funds are often dedicated to non-productive investments by beneficiaries and impact studies have yet to assess their success or shortcomings.

Although less popular than the ANSEJ, the Fund for Appropriation of Users and the Development of Information and Communication, established in 2008, was created to fund activities that promote ICT use. From an initial donation of ADS5bn (€36.3m), its budget increased to AD10.2bn (€2180) in 2016, and the 2018 Finance Law funnelled it taxes levied on mobile network operators. However, although the fund is dedicated to tech start-ups, it has mostly funded projects of the public administration, such as the digitisation of the Ministry of Higher Education and Scientific Research.

PRIVATE FUNDING: Adding to the funds channelled through incubators, the private sector is luring start-ups. Since 2016 the Casbah Business Angels, a local angel investor, has supported start-ups with seed funding. In 2018 the network of angel investors vowed to put together a fund of AD10bn-15bn (€726m-1.08bn). The same year, private insurance company Macir Vie entered the equity of established start-ups such as Nbatou.com, a local version of Airbnb, or Nkheyar.com, which is a comparison site for mobile packages and insurance products. The Oulmi Brothers, owners of the auto company SOVAC, invested in SSI Smartest Algeria, an IT solutions start-up. In September 2018 the Algerian Business Leaders Forum announced the creation of an incubator in its office, stating it would allocate €10m to finance 40 entrepreneurial projects worth up to €100,000 by the end of 2018, which could help more start-ups launch their products into the market.
What is being done to implement new technologies and know-how into industrial processes?
TZIKAKIS: Algerian companies today are playing on a global stage. To compete, they must continually improve both productivity and efficiency. The good news is that they can now take advantage of the increasing accessibility of innovative technologies.

The combination of powerful industrial and information capabilities promotes efficiency, which translates into profitability. Algerian business leaders are aware of this, as evidenced by the evolution of the technology-inclined mindset. It is therefore up to leading technology firms to promote this awareness among all Algerian stakeholders by advising them on the simplest and most robust transformative technologies available to enhance their competitiveness.

It is critical that business leaders, and especially those of large companies, become aware of the strategic importance and the implications of their technological choices. These are not technical issues, but strategic considerations that often involve a complete transformation of a company business model, as well as the organisational and cultural effects thereof.

How can African firms use the tools of the Fourth Industrial Revolution to leverage their advantages?
TZIKAKIS: Forward-looking African companies are simplifying their operations and reacting quickly to both customer expectations and market changes, including to the price volatility of oil and gas, by improving revenue protection with smart utility grids, while manufacturers are integrating IT and operational technologies.

The digital era has brought with it a set of mature technologies, such as big data, real-time analytics and in-memory platforms, that can reduce complexity for African firms. Running operations simply, with business models that can be reimagined based on insights, not trends, matters more than ever in a digital economy, as it ultimately serves the customers, not the processes.

Paradoxically, Africa’s biggest opportunity comes from the low rate of technology adoption, as businesses have the ability to look ahead and innovate without constraint. In addition, young and connected populations will act as catalysts for digital transformation and accelerate the adoption of new capabilities, which will drive growth and change across the entire continent.

What challenges do African states face in implementing comprehensive digitalisation strategies?
TZIKAKIS: Many African states face huge challenges. Urbanisation is happening at an unprecedented rate, demographics are changing, economies are being disrupted and the public’s trust is shaky. Expectations for what governments can and should do are rising, but budgets are shrinking. It is challenging for governments to serve and protect all. The potential for improving lives has never been higher, while the risks of social exclusion and deteriorating livelihoods, health and security have never been so great.

Every market is driven by a relentless wave of change. For businesses and organisations, superior experience is key with consumers demanding more personalised, proactive and faster services. This is happening as businesses seek to make better choices with scarce capital, understand growing data volumes and innovate rapidly.

A generational shift in thinking has created a more purpose-driven society than ever before, and citizens and businesses are making choices to improve outcomes for their communities. While this is increasingly reflected in state strategies and policies, African governments need to do more to improve access to services, cater to those with special needs and provide a safety net to protect the most vulnerable in society.

In many places, structures, processes, models and data gathering and analysis do not yet support digital realities. We are well into an era of perpetual disruption, and it will be states that need to plan for, adapt to and manage the impacts of change on economies and jobs.
Expanding network

A rapid increase in 4G, backed by expanding subscribership

Introduced to the market in 2016, 4G services have enjoyed significant expansion in Algeria, growing by 573% in 2017. As market competition drove down prices, 4G has been adopted by 9.87m subscribers as of end-2017, up from 1.46m subscribers a year earlier, according to the Post and Telecommunications Regulatory Authority, which became the Regulatory Authority of Posts and Electronic Communications (Autorité de Régulation de la Poste et des Communications Electroniques, ARPCE) in July 2018. About one in three mobile internet users are currently on the 4G network, with this expected to increase further in 2019. The boom is a natural process, as 3G subscribers equipped with compatible smartphones have tended to migrate to 4G packages.

SHIFT TO DATA: Mobile data revenue is making up an increasing share of operators’ income. Djezzy, for example, saw a surge in data services, increasing from AD6bn (€43.6m) to AD10.8bn (€78.4m), an 80.7% year-on-year increase in the first six months of 2018. However, as is the norm in the sector, the shift in consumption habits has continued to erode operators’ revenues as the cost of data decreases.

“In 2013, 1 GB of data used to cost AD800 (€5.81) to AD1000 (€7.26). Five years later, the price hovers around AD60 (€0.44),” Salim Tamani, head of PR and media at Djezzy, told OBG.

NATIONAL COVERAGE: Mobile network operators have made a pronounced effort to increase users’ access to the internet. The three major operators – Ooredoo, Djezzy and Mobilis – invested AD1.2bn (€9m) in infrastructure development from 2001 to 2017. In the first six months of 2018 Ooredoo invested AD7.8bn (€56.6m) into the reinforcement, expansion and modernisation of its network, while Djezzy invested some AD4.9bn (€35.6m).

In September 2016, after the ARPCE delivered licences for the deployment of 4G, a roadmap to its rollout was adopted. By September 2018 Ooredoo covered the country’s 48 wilayas (provinces). Djezzy had networks in 28 wilayas; and Mobilis in 32.

However, these figures hide disparities in population coverage of each of the operators. As Ooredoo has maintained a presence in each wilaya, Djezzy and Mobilis have established coverage within selected wilayas, but with higher coverage rates. In Algiers, for example, Ooredoo covers 15% of the population, while Djezzy and Mobilis cover 40% and 90%, respectively.

GLOBAL RANKING: In the International Telecommunication Union’s “ICT Development Index 2017”, Algeria jumped four places from 2016 to reach 102nd out of 176 countries, in large part due to the expansion of its network. The index indicated improved performance in all three categories: access, use and skills. Furthermore, Algeria’s average international internet bandwidth per user increased by 33% in 2017 to reach 40 Mbps. Comparatively, international bandwidth per user stood at 31.2 Mbps in Tunisia (99th) and 25.7 Mbps in Morocco (100th) that same year.

UNIVERSAL SERVICE: The new law regulating telecoms, Law No. 18-04, adopted in June 2018, draws general guidelines on the development of the infrastructure and includes measures to support connectivity to the network. The law reiterates the principle of universal service by establishing a new fund for the sector, used to connect 560 white zones that are not profitable for network operators, including 193 zones in the south that have populations under 500 people. Furthermore, the unbundling of the network is expected to increase competition in the sector with the sharing of infrastructure, potentially attracting virtual network and mobile operators to the market.

As international rankings have indicated, Algeria continues to improve and expand its network connectivity, despite its large size and dispersed population. Efforts should continue to focus on growing local content, shifting international bandwidth to a national one and reducing the cost of the internet.
Building blocks

Blockchain technology has applications that could revolutionise trade and provide opportunities for the developing world.

A blockchain is a cryptographically protected, distributed and decentralised ledger of transactions. The ledger is replicated across numerous locations, all of which are interlinked so that a change by one user is copied across the entire ledger.

Blockchain – the distributed-ledger technology that underpins cryptocurrencies such as Bitcoin – appears set to transform a wide variety of industries and perhaps fundamentally change the way business is conducted across the globe. While the technology is still taking off and its potential is not fully known, many emerging markets are hoping that it will allow them to leapfrog older infrastructure and tackle a range of challenges, including centralised database development, corruption and fraud, and persistently high transaction costs for electronic payments.

**BLOCKCHAIN EXPLAINED:** A blockchain is a cryptographically protected, distributed and decentralised ledger of transactions. Rather than existing on a single computer, the ledger is replicated across locations, all of which are interlinked so that a change by one user – validated by his or her public key or password – is copied across the entire ledger. No individual user controls the blockchain, but each can change it to the extent that their own key allows, for example, by spending their units of cryptocurrency. Changes cannot be reversed unless a majority of users agree to a so-called fork of the blockchain, which essentially restores it to the version before the alteration being rescinded was made.

The technology is named after its structure: the ledger is made up of a series of files called “blocks” that each record transactions within the network, with every new block invalidating the previous one. For example, a Bitcoin block contains around 500 transactions. The technology rests upon various foundational elements, including the decades-old mathematical concepts of a Merkle tree and elliptical cryptography. However, the arrival of blockchain dates from the publication of a paper under the name Satoshi Nakamoto in 2008, which allowed for the creation of Bitcoin, with the cryptocurrency made publicly available the following year.

**NEW APPLICATIONS:** While blockchain remains associated with cryptocurrencies, proponents argue that it has potential for considerably broader applications. The technology can be employed in any field that involves the recording of changing information – such as transactions – as well as the use of contracts. Interest in such non-cryptocurrency applications has spiked since 2015, when blockchain operator Ethereum released a platform allowing coders to build their own smart contracts without having to design one from scratch.

A potential example of such a smart contract is a self-executing agreement that sees payment automatically made to a supplier when a good – tracked by a technology such as GPS – arrives at the purchasers’ warehouse. Proponents argue that this ability could allow for the reduction or elimination of various intermediaries that currently act as guarantors for transactions, including banks or notaries providing escrow services or letters of credit. This is because payment is effectively guaranteed by the technology, eliminating the need for trusted third parties to underwrite a transaction, which could substantially reduce costs and time. It could also lower the potential for errors as multiple players work to reconcile their versions of a ledger.

Another advantage of blockchain is less potential for fraud, as the technology does not allow the retroactive alteration of records. Blockchain also arguably boosts transparency, as it contains a record of all transactions made on it. This is generally accessible – in anonymised form – to all users on the network, making them easy to audit. These features could help transform many sectors of the global economy: automated payment on delivery, for example, could prove revolutionary for trade, logistics and supply chain management.

In finance, supporters similarly suggest that blockchain could eliminate the need for intermediaries involved in the settlement of share purchases. David Shrier, associate fellow at the Said Business School, University of Oxford, and CEO of psychometric business profiling firm Distilled Analytics, described digital identity as potentially the most important application for blockchain. “Over 1bn people in the world lack an official identity: they are living in the shadows.”
identity, and the recent hacking of government databases shows the potential perils of creating old-fashioned centralised electronic identity registries,” Shrier told OBG. He went on to argue that blockchain-based databases, though not automatically secure, could be made to be more secure than centralised databases.

Many view health care as another fruitful domain. “Sharing data between different health care institutions and practitioners is a struggle in general for health care systems,” Casper Winther-Hansen, blockchain PhD fellow at Copenhagen Business School, told OBG. “Due to its interoperable nature, blockchain may provide infrastructure that makes this much easier. In the field of clinical trials, blockchain could also enable pharmaceutical companies to gather and share data, and could help with tracking and tracing the movement of drugs.” Blockchain-enabled sharing of clinical trial data could halve the costs and time to bring a new drug to market.

Proponents also argue that blockchain can help solve data ownership issues, as highlighted in controversies regarding social media data transfer. “Blockchain-based social media options allow the user not only to own and control their own data, which is on an independent blockchain rather than controlled by a third party such as Google or Facebook, but also to easily monetise it,” Pandu Sastrowardojo, spokesperson and member of the board of directors of Blockchain Zoo, an association of distributed ledger practitioners, told OBG.

In light of such advantages, many see the technology as having the potential to transform the global economy. For example, a 2017 article in the Harvard Business Review compared blockchain and its potential to that of the transmission control protocol/internet protocol technology, which laid the groundwork for the internet’s development, stating that it “has the potential to become the system of record for all transactions”.

CRITICISMS: Nevertheless, not all are convinced by the claims of the technology’s applications. Aspects cited as benefits have also been criticised, including the lack of intermediaries and difficulties in reversing transactions. While a credit card company can, for example, reverse a fraudulent payment, it could be much harder to reverse a blockchain-based payment. Furthermore, while it could increase efficiency, some argue that blockchain is highly inefficient in some respects: a given ledger is fully replicated across the computers of many or all users, with each instance taking up storage and requiring energy to process. Furthermore, the technology, for the time being at least, is slower than some centralised transaction processing technologies. According to international media, the Ethereum blockchain platform can process around 15 transactions per second, while credit card operator VISA can process 2000.

Another common criticism is that blockchain can be a solution in search of a problem. “In health care there is always a drive towards promising progress in care and casting about for solutions,” Winther-Hansen told OBG. “However, some features of blockchain such as full transparency do not always benefit patients, and we need to ask ourselves detailed questions about what kind of problems we are trying to solve before treating it as the ultimate solution to data-sharing issues,” he said, adding that pharmaceuticals players would likely be reluctant to open their systems.

Others argue that the technology does not need to replace existing institutions and infrastructure, but rather can be used as a supplement. “Blockchain is not a panacea; it is good for some things and not for others,” Shrier told OBG. “However, in instances where there is no trusted authority, blockchain can deliver trust.”

DEVELOPMENT: To date, the technology has yet to become widespread. According to “The 2018 Chief Investment Officer (CIO) Agenda”, published by business research and advisory firm Gartner, less than 1% of 3000 CIOs interviewed invested in or used a blockchain-based solution. However, many think it will take off soon. “The year 2018 is when everyone says blockchain will pass from proof of concept and experimental technology to actual deployment,” Shrier told OBG, though he added that the most interesting applications were still three to five years from widespread commercial adoption.

Nevertheless, there are indications that the technology may be on the verge of a breakthrough, particularly in financial services. In May 2018 HSBC announced that it had carried out the world’s first commercially viable trade finance deal using blockchain, namely a credit letter for a soybean shipment. Furthermore, because of the technology’s connection with cryptocurrency, the blockchain development community has access to substantial amounts of liquidity, which could help finance the implementation of the technology in other areas.

IMPLICATIONS FOR EMERGING ECONOMIES: It is hoped that blockchain technology will enable emerging economies to leapfrog infrastructure and institutions in developed countries, allowing them to reach similar levels of development at lower costs and higher speeds. Of particular relevance to many emerging markets is the potential application of blockchain technology to track resources, as well as combat corruption and fraud. “In developing countries in particular, benefits meant to flow to the needy are sometimes misappropriated,” Shrier told OBG. “Therefore, having an immutable transparent digital record becomes an attractive solution.” Additionally, the adoption of blockchain could also be faster in emerging markets than in developed ones, because there are often fewer existing technologies in place with established institutions using them.

MIDDLE EAST: Of the emerging markets exploring the applications of the technology, the UAE and Dubai in particular have arguably taken one of the most proactive approaches. In late 2016 the public bodies Smart Dubai and the Dubai Future Foundation launched the Dubai Blockchain Strategy to support take up. Following the strategy, in June 2017 Smart Dubai office announced plans for every government service and transaction that can be conducted on the blockchain to be moved to it by 2020, making it the first blockchain-powered government in the world. In addition, the emirate’s Department of Tourism and Commerce Marketing launched Tourism 2.0, a blockchain-based marketplace, in April 2018. The application allows local hotels and tour operators to connect directly with...
The blockchain solutions market is set to grow by more than 125% in Latin America by 2021. A key selling point of blockchain is its ability to rigorously manage and process information. “Blockchain technology can change this through its potential uses for the technology. Also in April 2018 the government and blockchain design studio ConsenSys held a blockchain-focused “boot camp”, offering training on building decentralised applications and smart contracts. That same month ConsenSys signed a memorandum of understanding (MoU) with Saudi Telecom Company to develop blockchain in sectors such as financial services, health care and real estate.

LATIN AMERICA: The technology is also seeing wider use in Latin America. According to IBM-cited research, the blockchain solutions market is set to grow by more than 125% by 2021. In Mexico the authorities are working to leverage the increased accountability that blockchain can provide. In April 2018 the government announced the Blockchain HACKMX project, which will use the technology to track bids on public contracts. The initiative could boost transparency in the bidding process and facilitate the later auditing of bids.

Health care applications could also play a significant role in Mexico. “In the distribution of pharmaceutical products, there have been inefficiencies in the value chain, especially involving a lack of transparency and visibility,” Carlos de la Fuente, president and CEO of domestic firm Medistik, told OBG. “Even though technologies exist to optimise these processes, they are still in their infancy. However, over the medium term new technologies will drastically change the system, allowing for greater efficiency, transparency and real-time tracking of products.” Similar sentiments were echoed by other players. “Compared to many other OECD countries, transparency in Mexico’s health care sector is low,” Jorge Moran, CEO of Genetics & Health, told OBG. “Blockchain technology can change this through its ability to rigorously manage and process information.”

Nonetheless, the country faces potential bottlenecks in health care solutions, as the technology remains too advanced for institutions outside major urban centres. Moreover, with five different health care systems operating in the country, it would be difficult to manage the health data of all customers through one blockchain.

SOUTH-EAST ASIA: One region that appears ripe for application of the technology, particularly in terms of digital identity, is South-east Asia. “Some countries such as Singapore have centralised government identity and health databases, but overall there is a great deal of data fragmentation in the region,” Sastrowardoyo told OBG. “Blockchain will be able to solve this without the need to build centralised data repositories,” she added, stating that this would likely occur before 2019 or 2020.

Blockchain-related commercial activities are starting to take off in financial services. In April 2018 Indonesian start-up Online Pajak launched a blockchain-based mobile app enabling people to securely share data with institutions such as the tax office and central bank, providing advantages including clear proof of tax payments. In addition, the Financial Services Authority is examining ways in which blockchain could be used to improve the functioning of the country’s finance sector.

Financial services are also acting as a driver of blockchain-related activity in Thailand. In February 2018 the country’s Ministry of Digital Economy and Society signed an MoU with Asian financial inclusion-focused start-up Omise to develop a national blockchain-based payment and digital identity system.

AFRICA: The African continent has arguably led the world in the development of mobile payments, particularly micropayments. Unsurprisingly, such transactions have become a main focus of applications for blockchain. Kenya has emerged as a leading player in this, building on its previous success in mobile payments through M-Pesa to launch BitPesa in 2013, a platform that uses blockchain to settle business payments within sub-Saharan Africa and between the continent and the rest of the world. Furthermore, the country hosts Bitsoko, a blockchain-based mobile platform for merchants and services that won a $100,000 grant from the Bill and Melinda Gates Foundation in 2015. A key selling point of blockchain is its ability to reduce costs, with it lowering remittances in Africa from 10-15% of the transaction value to 0.1-0.2%. Kenya is also home to BitHub Africa, a private sector accelerator for start-ups using blockchain technology, established in 2015.

The authorities are working to support further development of this. In April 2018 the country’s Capital Markets Authority sponsored the World Blockchain Summit, a regional conference on the technology. This move followed an announcement in early 2018 that it was setting up a blockchain task force headed by Joe Mucheru, the ICT Cabinet secretary, to establish a roadmap for potential uses of the technology, with education and land ownership earmarked as promising areas.

Indeed, the use of blockchain as an alternative to centralised land registries has been touted as a prime application. Proving title to land is a global issue, but land fraud is a particular problem in less-developed countries with poorer record-keeping. This makes the security of blockchain particularly appealing.

In Ghana the government is piloting a project with Bitland to record title deeds in the Kumasi region using blockchain to reduce fraud and allow for more efficient mortgage lending. Addressing these issues could be key to Africa’s sustained development. “Blockchain can increase confidence in real estate transactions, opening up a significant asset class,” Schrier told OBG.
Algiers Smart City

Internet penetration rate climbing quickly since 2014
An alternative model for cities in emerging markets
Securing funds and keeping talent pose key challenges
Partnerships intended to prompt technology transfer
Concerted efforts are under way to diversify the Algerian economy, especially since the fall in global oil prices in 2014. The industry, agriculture, tourism and ICT sectors have been prioritised to reach this target, and digitalisation and entrepreneurship should play major roles in their development. “Building entrepreneurial ecosystems is core to the growth of any economy, and Algeria is positioning itself at the forefront of that movement in the MENA region,” Issa Aghabi, head of investments for MENA at the World Bank Group’s International Finance Corporation, told OBG.

As more IT innovations come to market, the country will have to adapt its models and build an ecosystem to assimilate and exploit these technologies. This is expected to positively affect various sectors, including transport and logistics, financial services, industry and manufacturing, health and customer service.

**DIGITAL ERA:** Collaborative and open-source technology development models and data-centric products have become mainstream, while the cloud and internet era has led to globally disruptive change and rapid product innovation during the last decade. Among these are blockchain for distributed data management, unlicensed wireless as a complement to internet connectivity and open-source artificial intelligence (AI) as a service. The sector is dominated by a few large players, such as Google, Amazon, Netflix and Uber, which all aim to continuously challenge their competitors in adjacent markets by rolling out alternative technologies.

It is this specific context – and the leapfrog technologies that emerge from it – that the developers of the Algiers Smart City are seeking to leverage to drive growth. “The Algiers Smart City project is a demonstration of our commitment to develop our city based on the principles of durability, sustainability and innovation,” Fatiha Slimani, the project’s head, told OBG. To that end, Algeria has already made significant progress in developing its ICT infrastructure, highlighted by the large-scale fibre projects undertaken in recent years.

However, the new and aggressive dynamic of the global tech industry transcends ICT infrastructure, as exemplified by the rapid emergence of a robust start-up ecosystem in Algiers. While this only occurred fairly recently, the milieu is already in the process of re-conceiving incubators and early-stage ventures in a variety of sectors. It features projects such as the Algiers Experimental Laboratory and Innovation Hub, as well as technology development initiatives, mostly driven by bottom-up engineering and business approaches. The knock-on benefits of this undertaking are expected to be wide-reaching, with public services, energy, agriculture, transport and other sectors adopting innovations that improve productivity and performance.

**ACHIEVEMENTS & OPPORTUNITIES:** The country has enjoyed numerous ICT development milestones of late, and a select few examples could outline a roadmap for future development. According to the Post and Telecommunications Regulatory Authority, Algeria had an internet penetration rate of 85.2% at the end of 2017, a significant improvement from 71.2% in 2016, 46.9% in 2015 and 25.6% in 2014.

**www.oxfordbusinessgroup.com/country/algeria**
As the country has sought to become a regional leader on technology – particularly regarding internet capability and connectivity – significant public investment has been channelled into the requisite infrastructure, and results are starting to materialise. The Algiers Smart City project reflects local authorities’ efforts to capture and accelerate the technological revolution to improve the quality of life of the city’s residents. Developers aim to unlock this potential by using recent, open-source and locally mastered technologies.

**SMART CITY:** The Algiers Smart City project represents a local continuation of broader ICT measures, including infrastructure investment to boost connectivity and development of a more favourable regulatory framework. Building upon this, the structure of the Algiers Smart City project is expected to create opportunities for local and international stakeholders to engage in various start-up ventures and partnerships. This, in turn, will allow Algiers to tackle some of the most significant obstacles to the emergence of a start-up ecosystem, including new revenue models and alternative means of funding, both of which are essential to smart cities.

**CASCADING TECH TRAP:** While many cities around the world are looking to use ICT to improve their operational efficiency and the lives of their residents, technological development is also at the forefront of the challenges facing many cities. Technologies are coming to market at a rapid rate, making it challenging even for industry players to decide which ones to endorse. This is the so-called cascading technology trap, which is amplified for cities. The proliferation and fragmentation of technologies with different market strategies presents a complex mix of choices for urban planners. For example, myriad technologies are available for internet-of-things connectivity applications, with a new protocol coming to market approximately every two years.

Moreover, leading internet and cloud companies driving innovation in IT, like Google and Amazon, develop and deploy technologies in a way that can make it difficult for the rest of the industry to absorb and adopt. Smart cities experience an even greater challenge in doing so, as the rapidity of IT evolution exceeds their ability to assimilate knowledge, plan and implement a technology at scale. This results in strong competition between multiple technology camps and little stability.

The speed and complexity of technological turnover requires sophisticated skills that come at a high cost to those that employ them. Commercial entities have been battling to acquire those rare skill sets, making it more difficult for smart city developers to compete. Cities plan for the long term, and therefore rely on mature technologies and validated business cases, whereas modern technologies have a short lifespan and often do not provide models that have been validated for wide-scale deployment. Determining returns on investment is a time-consuming activity, and the organisational structure of cities, from decision-making cycles to evaluation and deployment, is slow to assimilate complex tools that cut across vertical silos of city functions.

**TRADE-OFFS:** The Algiers Smart City project has therefore had to look carefully at how to implement and modify its most fundamental IT decisions while negotiating the pitfalls of the cascading technology trap. It is seeking to deploy these tools while working with technology players and regulators within the broader ecosystem to ensure harmonisation and scale. “Technology can bring together and orchestrate diverse networks, devices, sensors and other data, and augment it with AI to create new forms of actionable intelligence,” Shervin Bakhtiar, member of the AngelVest Group, told OBG.

Various dimensions have been taken into consideration in the overall decision-making process when it comes to evolving internet-of-things solutions, Industry 4.0 frameworks and upcoming 5G connectivity models. The most fundamental considerations for the various ICT design and architecture choices include:

- Proliferation of connectivity standards, which can be categorised depending on fundamental characteristics and strategically implemented;
- Commoditisation of devices and connectivity, which continue to become more affordable with the development of supporting technologies, and will increase the competitiveness of smart cities;
- Emergence of more efficient wireless technologies, allowing wireless technologies that are low power, low cost and long range;
- Competition and harmonisation of connectivity standards, which will address the challenge of competing and complementary standards;
- Partnerships and alliances among industry players to scale platforms around offered solutions;
- Emergence of new service models, deriving value from innovative applications of data; and
- Extracting value through data sciences, allowing businesses to leverage the data made available through mining and learning, as well as optimising communication channels between those producing and utilising the relevant data.

At the macro level the convergence of various trends, including innovations in network and application technologies; scaleable network connectivity; mainstream cloud and big data processing models; and policies encouraging mass adoption throughout the industrial sector, have opened new opportunities for the emergence of smart city applications based on value-added services and functioned as a guiding principle throughout the Algiers Smart City project.

**OUTLOOK:** Although the country has had to face up to the same set of challenges that confront many other emerging markets, the Algiers Smart City initiative demonstrates the benefit of approaching development from a less conventional perspective. Players in IT and other contingent sectors are increasingly aware of the opportunities created by adopting an approach to progress predicated on the adoption of leapfrog technologies and experimentation with new development models. However, the foundations for an ambitious and multidimensional project like this are only partially set, and Algeria will need to continue making conventional progress, particularly regarding its regulatory environment and economic policy strategies.

The success of the Algiers Smart City project will depend on the ability to adopt a different approach to progress based on leapfrog technologies and new development models.
Central to the objectives of the Algiers Smart City project is the retention and leveraging of talent and expertise in important technology segments.

The design of the Algiers Smart City project was tailored to address industrial isolation, dependence on technology transfer and a lack of entrepreneurial confidence.

The goal of smart city design is to improve the standards of living for citizens by optimising resources through digital solutions. In addition to advancing the wilaya (province) of Algiers, the Algiers Smart City envisions setting a new baseline for technology development in other cities in Algeria and further abroad. Although the strategies used by each smart city vary, as they draw on a location’s specific assets and constraints, there are some common challenges, such as retaining local talent and accessing finance for expensive and fast-evolving technological innovations. Faced with these obstacles, the Algiers Smart City team has been empowered by the wilaya to create a framework that provides Algiers and other developing cities with adapted solutions.

**NOVEL APPROACH:** Technology has continued to evolve at a rapid pace, which places financial pressures on aspiring smart cities. However, smart city solutions can contribute to alleviating existing problems. “Cities are attempting to transform in the face of rapid urbanisation, pollution, transportation bottlenecks and the growing need for energy, among other things. A smart city approach can be an efficient way for cities to make use of technologies and find solutions to those major challenges,” Peter Lyons, partnership development lead at the World Economic Forum, told OBG.

Against this backdrop, the Algiers Smart City project is based on a framework that accounts for the challenges of building a smart city within an emerging country. This is identified as the isolation, dependency and lack of confidence (IDC) framework, upon which the Algiers “talent leverage model” is based. The first challenge is isolation. Leading technologies are usually created and developed by global corporations working in prominent tech clusters in advanced economies. This is rarely done in cities such as Algiers, which leads to an acute isolation of the tech industry in cities in emerging markets. Second, there is the issue of dependency, as the absence of technology transfer from global clusters to local initiatives triggers technological dependency vis-à-vis foreign advancements. The third issue relates to a lack of confidence. Domestic tech firms and start-ups often lack the confidence necessary to build and scale advanced commercial solutions, which applies, to some extent, to the majority of emerging economies.

These areas have been focal points of the Algiers Smart City project. “In Algeria we face the IDC challenge first hand, and that is directly linked to not being able to retain and leverage talent. This project aims to fix this via new talent mobilisation models,” Riad Hartani, strategic advisor for the Algiers Smart City, told OBG.

**TECH CYCLE:** The speed and disruption of technological innovation makes it difficult for innovators and authorities to master and deploy them quickly enough to develop viable business models. “This challenge can only be amplified for cities, as public administrations usually prefer implementing technologies with long life cycles. In fact, the business case often mandates that, as it would be difficult to break even with a short cycle,” Frank Rayal, founding partner of the advisory services firm Xona Partners in San Francisco, told OBG. “Evaluating new technologies is a time-consuming process, and cities don’t move fast in making those evaluations.”

In other words, the pace of technological evolution in recent years has tended to exceed the time it takes for the relevant authorities to assimilate the requisite knowledge to evaluate it, make decisions, plan, design and deploy a particular technology at scale. “We aim to find a solution to what we call the cascading technology trap, where technology moves faster than policymakers,” Fatiha Slimani, head of Algiers Smart City, told OBG.

While constantly assessing new technologies is laborious, its disruptive nature can also present leapfrog opportunities. “Timing is unique. It’s the chance of a lifetime to exploit such discontinuities,” Rayal added.

**MODELS:** Cities around the world have adopted a range of approaches to smart city development, but there are some fundamental steps common to most of these, such as prioritising problems by urgency, determining...
what industries will benefit the most from new technology, and ensuring that knowledge sharing takes place between stakeholders and across sectors. A study on global smart city activities by advisory firm Xona Partners identified four main types of strategies.

One approach is to award contracts to start-ups and other parties to address problems with project-driven solutions. For example, the Startupbootcamp Smart City Dubai programme, launched in May 2017, selects start-ups that work towards the emirate’s smart city goals and supports them through intensive three-month mentorship programmes. While this strategy has the advantage of developing the local start-up ecosystem, there are also risks inherent to working with early-stage ventures, which often face difficulties accessing finance, securing customers and setting up stable revenue streams. In Dubai’s case, the stringent selection process is designed to mitigate these issues.

Under the second strategy, major internet and cloud technology players are involved in the smart city design, disrupting the existing data and IT industries in order to spark progress. Seoul, for example, utilised this approach by having the national telecoms company, SK Telecom, lead development. While this approach ensures that the latest technologies are deployed, it is worth noting that competition within the ICT sector can make this option politically sensitive under some circumstances, especially regarding data residency.

The third approach – adopted by cities such as Hong Kong, Paris and London – follows an incremental smart city roadmap based on proven business cases. The blueprint is then led by various government groups within the city. This strategy has the benefit of optimising the cost of deployment, but making decisions on a technology before it has moved into its next development iteration has proven difficult in some cases.

Lastly, Barcelona illustrates the fourth strategy the study identified, where a consortium of government bodies, technology players, research and development labs, telecoms operators, start-ups and universities is involved in the decision-making process. Solutions are chosen based on a cooperative model that involves all these parties in order to share experiences and minimise risk. While this model can encourage synergies along the smart city value chain, it can be inefficient if streamlined governance practices are not in place. **UNIQUE METHOD:** The Algiers talent mobilisation model is unique in that it combines elements of all four of these four outlined strategies with new tactics that account for the IDC framework and other challenges specific to Algiers. While it is designed to deal with Algiers’ needs and constraints, the model could also be applied to other cities in emerging markets that face IDC issues. Its strategy is based on four guiding principles: start-up involvement; global benchmarking; linkage to technology leaders; and local talent mobilisation.

To encourage and enable start-ups and innovative companies to engage in the design of smart city solutions, the Algiers Smart City team is working to improve its processes, become more innovation-friendly and prioritise the incentivisation of start-up engagement.

Global benchmarking of other smart city models is helping to create partnerships and exchanges with cities around the world. Importantly, it optimises learning from other cities and allows Algiers to adapt this knowledge. Even though Algiers faces unique challenges, solutions to many smart city problems have already been developed elsewhere, and solutions that have worked effectively can help to inspire local initiatives.

Involving global technology leaders – starting with Facebook, Apple, Microsoft, Google and Amazon – will be essential to tackle the issues of isolation and dependency in Algiers. To this end, the authorities are introducing incentives, such as more favourable regulatory regimes, for these firms to dedicate resources to smart city experimentation models. Lastly, accessing talent will continue to be crucial to solving IDC problems. The success of a smart city project depends on the quality of its experts, and thus relies on the project’s ability to leverage local and diaspora talent. Aware of this need, the talent mobilisation model hinges on encouraging targeted members of the diaspora to participate in smart city projects. In the past it has been difficult to stem the emigration of talent, but now, with much of the work being done online, there is a chance to tap a global talent pool. Under the talent mobilisation model, a quality core team leads a project and rapidly scales it, using human resources abroad if needed. Policymakers play a prime role in identifying diaspora talent and defining projects for them to lead and develop. According to Hartani, effective leadership is imperative in both areas. “These projects could leverage technology shifts to bypass the linear nature of technology evolution and, as such, technology dependency,” he explained to OBG.

**BUILDING AN ECOSYSTEM:** The project aims to foster synergies by bringing together domestic and foreign players. Leading global institutions, including the World Bank, the World Economic Forum, the African Development Bank, the OECD and the UN, have been involved in the Algiers talent mobilisation model aims to secure the right expertise in order to overcome challenges. The online nature of much of the work integral to the smart city project has prompted its designers to try to mobilise talent in the Algerian diaspora. The project’s designers hope that their model can function as a global benchmark, and be exported to smart city initiatives in emerging markets that face similar challenges.
The project’s model relies on successfully fostering partnerships between local start-ups and multinational firms engaged in the development of leapfrog technologies.
Leapfrog to the lead

Algeria is at the crossroads of its very own technological revolution. While there are several challenges to address – including the development of supporting infrastructure – there is clear momentum to create a much-needed innovation ecosystem. In particular, the country has a unique opportunity to shape a new model for smart cities that is adaptable to emerging markets.

The opportunity to transform Algiers into a smart city is there, due to the rise of technological disruptions that offer significant potential to leapfrog development stages. The Algiers Smart City project was established to leverage these opportunities and advance multiple aspects of the industry, such as technology transfer, talent mobilisation and cross-sector synergies, among others. This inclusive strategy will serve as a template for other developing smart cities around the world and help reposition Algeria as a regional tech leader.

INTERNET OF THINGS: Among the main pillars of the Algiers Smart City project are the internet of things (IoT), cloud computing and an analysis model framed around advances in AI. “We are on the cusp of several major technological innovations in the areas of ubiquitous connectivity, including IoT, smart transport and renewable energy,” Sirovica told OBG. “These will be

LEVERAGING TECHNOLOGIES: While infrastructure is a major subject to address in devising smart city solutions, it also presents an opportunity for creative design. Algiers is starting from a blank slate in terms of smart solutions, which is likely to spur innovation and invite new design and deployment patterns. In particular, it is looking to leverage so-called leapfrog technologies, which are new and disruptive technologies based on cooperative and open-source models with the potential to fast-track innovation.

“I am very excited about the Algiers Smart City project,” Chu told OBG. “When I look at a place like Algiers, I see opportunities to leverage leapfrog technologies without having to worry about existing infrastructure, which can act as an obstacle in many other places. In Toronto, for instance, it will be a very expensive process to switch everyone over to a common technology platform because of what is already out there.” Along the same lines, Riad Hartani, a strategic technology adviser to the Algiers Smart City project, explained, “One can leverage the lack of legacy technologies within a city to assist its successful transition into a smart one.” Hartani views the deployment of such technologies as the fundamental advantage and key to success of the Algiers Smart City project.

In other words, a perceived hurdle may turn out to be an advantage, as an underdeveloped landscape does not restrict which or how new technologies will be integrated into society. “The Algiers Smart City project is our approach to proactively centralise the technological ecosystem and speed up innovation,” Fatiha Slimani, head of the Algiers Smart City project, told OBG. BUILDING UP: Algiers is a city formed by centuries of traditions and cultures. “When we talk about putting in new infrastructure in a historic city, one of the biggest challenges is respecting its history,” Terri Chu, technology lead at Canadian artificial intelligence (AI) start-up MOAI Solutions and member of the Algiers Smart City Leapfrog Hack jury, told OBG. Abderrahman Ait Said, founder of the local start-up Ursinia and the leader of the Algeria team that came in second place at the 2018 Robotics World Championship in May, agreed that the Algiers Smart City project must fast-track the rollout of infrastructure as a key enabler of multi-dimensional industry development. However, adequate infrastructure is crucial for attracting investment.

“The efforts to develop and deploy smart city infrastructure will draw talent and investment into the cities, which will further drive innovation in a positive feedback loop,” Dean Sirovica, chair of the Oakland East Bay Silicon Valley IEEE Society chapter, told OBG. Though Ait Said considers infrastructure development a key area of focus, he also emphasises the importance of keeping the spirit, fabric and heritage of the city intact.

The Algiers Smart City project was established to advance multiple aspects of the tech industry, such as technology transfer, talent mobilisation and cross-sector synergies.
Algiers is developing a regulatory framework that will incentivise leading global technology firms to share resources with local Algerian start-ups.

Data management and digitisation will benefit both government and economic operators by providing solutions to enhance their access to information, inform their decision-making and increase productivity.

START-UP SCENE: The Algiers Smart City initiative seeks to bring technology and business leaders under the same roof to increase productivity, decision-making and access to information, inform their enhancement of access to resources. The Algiers Smart City project has a very clear goal: to fast-track technological development by leveraging local talent. To do so, it aims to catalyse investment from leading global tech companies, such as Google, Apple, Facebook, Amazon and Microsoft. The project offers these firms various opportunities for investment in the wilaya (province), and it is seen as a driver of technological development that will boost technology transfer and help to close the technology gap. "Through innovative technology and investment strategic partnerships, Africa now has the possibility – and the responsibility – to bridge its infrastructure gap, which should be seen as a huge business opportunity," Emery Rubagenga, CEO of Rwandan mining company ROKA Global Resources and founder of Ishango Consulting, told OBG. Data management and digitisation will benefit both government and economic operators by providing solutions to enhance their access to information, inform their decision-making, increase productivity and ultimately improve the quality of life for all citizens.

GROWING ECOSYSTEM: International investors can also help the local tech economy to flourish, particularly by nurturing and scaling tech start-ups. Algeria’s start-up scene remains in its early stages, due in part to the limited number of functional incubators and accelerators that have the required critical mass of start-ups, funding and entrepreneurs. Myriad initiatives exist, however, including the Sidi Abdellah technology park near Algiers, the Sylabs agency, private tech accelerator Haba Institute and, more recently, the first pan-African incubator, IncubMe, which was launched in April 2018.

Other initiatives include alternative coding schools, new angel and venture capital funds, and other developments aimed at strengthening the tech and business landscape. These efforts seem to be a step in the right direction, and with the right timing and execution, positive outcomes can be expected. "One position held by the Algiers Smart City project is that the existing incubation and acceleration models – not only in Algiers, but all around the world – have run into some obstacles," Hartani told OBG. "These models are in fact shifting and evolving, which allows for new technology and acceleration models to emerge."

A knowledge-based economy depends on the existence of funding structures, such as angel and venture capital investors, and private equity and sovereign funds, as well as a regulatory framework that enables start-ups and investors to test new business models and technologies within a more flexible – and thus less risky – environment. The Algiers Smart City team has been working to develop new funding models with both the public and the private sectors. It launched a new experimental lab and technology hub in April 2018, where start-ups and investors will be able to meet in a melting pot of creativity and innovation.

MODEL CITY: Amid the challenges faced by developing countries in a context of increasingly complex and costly technological advancements, the Algiers Smart City project aims to create a template for future initiatives of this kind. Most smart city projects launched in Africa and the Middle East focus on providing turnkey solutions to specific challenges. For example, Egypt is planning to build a completely new capital city to ease pressure on Cairo. The purpose of the Algiers Smart City project, however, is to support the emergence of a global ecosystem that builds on the heritage of the city, leverages leapfrog technologies and focuses on developing local talent. These targets are key to enhancing innovation across multiple sectors. By building up a wide structure of competitive and disruptive operators, Algeria aims to provide tailored solutions to local challenges, thus enhancing development in the long term. "The project will be the start of a new Algeria," Ait Said told OBG. "Involving students, engineers and entrepreneurs is a good strategy – that’s where the skilled and innovative minds are. The key to success will be working hard and working together," he added.

TIMELY CHOICES: The Algiers Smart City project is looking to leverage opportune timing, as well as leapfrog technologies, in order to facilitate its success. The right choice of technologies, as well as their timely implementation, the acquisition and training of local talent, and the development of cross-sector synergies are all essential to transforming the city and the country.
Roadmap in action

Development of full project implementation model gets under way following the release of blueprint plans

The Algiers Smart City project was launched in mid-2017 and has spearheaded a number of innovative projects, including a local start-up's development of cloud and big data platform that secured global customers within its first year. Several other projects involving over 50 local engineers from are also in motion. Meanwhile, partnerships with four multinational firms were announced and executed in the project’s first eight to nine months, which is an indicator of the project’s fast pace.

In July 2017 the Algiers Smart City team issued a call for proposals to collaborate according to the project framework. By the end of February 2018 more than 150 proposals had been received from an array of global technology corporations, start-ups, research and development (R&D) labs, law firms, financial institutions and advisory groups based in 15 countries. The team said that it has been their highest priority to link leaders from the tech industry to the project, and even listed it as one of the goals of the call for proposals. Work with these actors is central to the development of the project’s technological aspects.

PARTNERSHIPS: As of early June 2018 some of these partnerships had already materialised, while others were under way or under discussion. In the first nine months of the initiative over 20 start-ups and more than five multinationals confirmed their participation, with a target of increasing this number three-fold in the project’s second 12-month phase. April 2018 saw the launch of the Experimental Laboratory and the Technology Innovation Hub, which marked two important achievements in the project’s early stages.

The laboratory will act as a live environment where chosen proposals will be tested before being launched at scale. As a key venture enabled by the smart city project, the lab is open to innovations from a wide range of sectors, including telecommunications, health and financial technologies. Global technology firms will work with the local value chain amid relaxed regulations to test their solutions. This will in turn support the efforts of policymakers to craft an optimal regulatory framework on the basis of evidence from research findings.

The innovation centre will be a focused physical space where actors from global and local technology value chains can interact, create synergies and develop a culture of innovation. The hub offers other benefits, such as mentoring for new firms in their adaptation to the global market, business advice, funding and support for new companies seeking to establish themselves locally.

“Both the Experimental Laboratory and the Technology Innovation Hub represent unique tools to support the technology development roadmap that Algiers Smart City is implementing,” Riad Hartani, strategic advisor for the Algiers Smart City project, told OBG. “They will stimulate innovation by selecting the best technologies, leveraging talent and optimising R&D, as well as adapting global solutions to locally specific needs with a long-term perspective.”

ROADMAP: The coming months will be crucial to the realisation of a comprehensive roadmap. Several decisions on key issues have been announced, including the realisation of new start-up models, the internationalisation of the programme and the integration of the diaspora. Governance will also be key, especially in establishing appropriate regulations, such as those that help start-ups to quickly become operational and investors to secure financing efficiently, and the innovation hub should help to cement best practices in this regard. By creating an enabling environment and taking the long view, the Algiers Smart City roadmap seeks to define a new way to conceive of and promote strategies for inclusive socio-economic development. Algiers faces constraints similar to those of many cities in emerging markets, including difficulty accessing capital for small and medium-sized enterprises, limited private funding and a lack of economic diversity. Thus, the smart city project represents a global and alternative approach to innovation, based on opportunite timing, that its developers may export to Algiers’ peer cities going forward.

The call for proposals issued by the Smart City project attracted applications from a large and diverse pool businesses from around the world.

With the assistance of the Experimental Laboratory and the Technology Innovation Hub, the project’s designers hope to create a regulatory framework and governance structure that make it easier to secure financing and launch new start-ups.
The World Luxury Hotel Awards est une organisation mondiale reconnue, qui distingue les meilleurs hôtels du monde depuis déjà douze ans. Cet événement est l’un des plus importants du secteur hôtelier. Il fournit aux hôtels de luxe, une reconnaissance pour la qualité des installations et des services offerts à leurs clients, et cela au niveau mondial.

En effet, Lamacaz Arts Hotel est le premier hôtel en Algérie à avoir eu le privilège d’être nommé aux World Luxury Awards. Ce dernier possède une politique interne très rigoureuse qui met l’accent sur le confort et les besoins des clients. Et pour réussir cela tous les moyens sont mis en œuvre, notamment en matière de formation des ressources humaines.

Lors de la cérémonie des World Luxury Hotel Awards, Lamacaz Arts Hotel a obtenu le premier prix dans la catégorie Meilleur Nouvel Hotel de Luxe au monde - Luxury New Hotel, Global Winner - de l’année 2018. Cette honorable victoire a permis à l’hôtel de se démarquer des autres participants de sa catégorie et de faire partie des leaders mondiaux du secteur hôtelier.
Tourism

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TOURISM OVERVIEW

One of the sector’s natural assets is the country’s unspoilt coastline.

A diverse land of thermal springs, mountains, historic sites, vast desert and unspoilt Mediterranean coastline, Algeria offers a remarkable variety of activities for travellers. However, a decade-long civil war ending in 2002 and an antiquated transport infrastructure network has curtailed growth in the tourism sector, alongside negative perceptions abroad and a cumbersome visa regime.

These challenges are reflected in the World Economic Forum’s “Travel and Tourism Competitiveness Report 2017”, which ranked Algeria 118th out of 136 countries, lagging far behind its Maghreb neighbours Morocco and Tunisia, which placed 65th and 87th, respectively. The flip side of underdevelopment is that the sector has massive potential to grow with the right sort of political will in place.

As evidence of the latter, the government is currently implementing its long-term development blueprint for the sector. Known as the Tourism Development Masterplan (le Schéma Directeur d’Aménagement Touristique, SDAT) 2030, it seeks to increase the sector’s share of GDP to 10%.

ECONOMIC CONTRIBUTION: According to the National Statistics Office (Office National des Statistiques, ONS), tourism accounted for 1.6% of non-oil GDP in 2017, up from 1.4% in 2016 and 1.3% in 2015. In terms of the sector’s direct contribution to the economy, the World Travel & Tourism Council (WTTC) put it at AD610.4bn (£4.43bn) in 2017 – the equivalent of 3.3% of GDP. This was down from AD599.7bn (£4.35bn), or 3.6% of total GDP, in 2016.

The WTTC forecasts the sector’s contribution to grow by 2.9% in 2018 to AD627.8bn (£4.56bn); however, it does not predict any substantial leaps in the next decade, with an average expansion rate of 2.4% per year estimated for the 2018-28 period. If achieved, this would bring the sector’s direct contribution to 3.4% of total GDP in 2028 – still some way behind the global average of 10.4%. When including indirect contributions, the figure rises to AD1.3trn (£9.4bn), or 6.8% of GDP, for 2017. Meanwhile, in terms of employment, tourism directly supported 320,000 jobs – equal to 2.8% of total employment – which grew to 678,500 jobs and 6% of the total when indirect contributions were taken into account.

International tourism currently plays a relatively minor role in the sector, with the WTTC reporting that in 2017 foreign visitor spending and international tourism receipts made up just 3.1% of visitor exports, while domestic spending accounted for the rest. In 2016 the World Bank put the value of international tourism receipts at $243m, the equivalent of 0.2% of total GDP that year.

This was significantly less than the $357m recorded in 2015, and lower than receipts of $7.9bn in Morocco (7.6% of GDP) and $1.7bn for Tunisia (4% of GDP). While receipts increased rapidly in the years following the end of the civil war – from $112m in 2003 to $477m just two years later – Algeria has not registered any major improvement since.

Although domestic tourism dominates the industry, tourism expenditure by Algerians holidaying abroad is much higher than in-country tourist spending. In 2016, for example, residents spent $475m abroad, while domestic tourism receipts stood at $209m, according to the ONS. The gap widened further in 2017, when outbound spending hit $580m and tourism receipts dropped to $140.5m.

VISITOR NUMBERS: Despite lower revenue in 2017, there was a 20% increase in the number of international travellers, which almost hit 2.5m, according to figures from the Ministry of Tourism and Handicrafts (Ministère du Tourisme et de l’Artisanat, MTA). Foreign tourists comprised 1.7m of the total, while visits made by Algerians living abroad numbered 742,410 – up from 1.32m and 716,732, respectively in 2016.

Tunisian tourists accounted for 60.7% of all foreign arrivals at 1.04m – 27.5% more than in 2016.

Sights set high

Long-term development plan seeks to improve international perception and support hotel growth

The sector contributed 1.6% to non-oil GDP in 2017

International arrivals rose by 20% to nearly 2.5m in 2017, with foreign tourists accounting for 1.7m of the total and visits from Algerians living abroad making up the remainder.
TOURISM OVERVIEW

Algeria’s public hotel sector. Affirming this focus in July 2018, Abdelkader Benmessaud, minister of tourism and handicrafts, told press that plans for 60–70 state-owned hotels providing a combined total of 7000 beds were in the pipeline. This is on top of the ongoing modernisation of facilities operated by of public hotel company Groupe Hôtellerie, Tourisme et Thermalisme (Groupe HTT).

The company operates some 66 hotels across the country and is currently pursuing a AD70bn (€508.2m) project to renovate its assets and expand capacity from 30,000 beds to 32,500 by end-2018. While the rate of the rehabilitation programme’s progress has been slower than expected, Benmessaud told media in July 2018 that the planned creation of a national commission to monitor the roll out of hotel developments would help prevent such inefficiencies in future.

Limited hotel capacity has been a significant and persistent constraint to development in the past, with Algeria estimated to have only 0.1 hotel rooms for every 100 people, according to the “Travel and TourismCompetitiveness Report 2017”. Nonetheless, the portfolio of accommodation is expanding notably, having risen from 1231 hotels and 107,420 beds in 2016 to 1289 hotels and 112,264 beds the following year. The authorities have set a target of having 300,000 beds by 2030.

PRIVATE HOTELS: While private hotels currently account for 90% of these beds, for many years Algeria hosted only a handful of accommodation options operated by international chains. The second-largest source market was France with 198,856, followed by Morocco (73,104), Spain (47,075) and China (39,929). The latter overtook Turkey as the fifth-largest source market in 2017, with Chinese arrivals growing 33.3% that year. Indeed, growth of between 18% and 51% was recorded among all source markets, and the MTA will be hoping that the pattern is maintained as it seeks to attract 4.4m visitors per year by 2027.

SECTOR PLAN: To help achieve this goal, and as part of wider efforts to diversify the economy away from hydrocarbons, the MTA is following the framework set by the SDAT. The blueprint has five objectives: to make tourism one of the main engines of economic growth; to provide training; to reconcile the promotion of tourism and the environment; to enhance historical, cultural and religious heritage; and to improve international perceptions of Algeria. In the pursuit of these broad goals the MTA has established 225 so-called Touristic Expansion Zones (Zone d’Expansion Touristiques, ZET). The ZETs allow the ministry to focus efforts on bespoke developmental efforts at locations with a high potential for tourism spread across 56,472 ha and 34 wilayas (provinces). The first 174 ZETs were created in 1988 via executive decree, while two more were established in 2009, 31 in 2010 and 20 in late-2016. With two of the original ZETs decommissioned in 2004, the total now stands at 225, 116 of which are seaside resorts. A total of 36 ZETs are thermal spring areas in 12 wilayas of the highlands and the remaining 23 are in the Sahara, in eight southern wilayas. As of the end of 2017, there were 64 potential ZETs under consideration.

Some observers have called for greater engagement with international expertise in order to improve the outcome of these programmes.

STATE-OWNED HOTELS: As part of the SDAT, the state is also committed to finalising large-scale investment projects geared towards renovating

There are 59 hotels in the Sahara, for a total of 4928 beds, 150 of which are in the Tassili n’Ajjer national park

While privately owned hotels currently account for 90% of total beds, for many years Algeria hosted only a handful of accommodation options operated by international chains.

Two key targets of the Tourism Development Masterplan 2030 are to make the sector one of the main engines of economic growth and improve international perceptions.

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in Morocco. "Airlines and tour operators have a
LCCs account for 8.6% of seats in Tunisia and 43.4% no domestic LCCs. By comparison, international
of 2018, according to CAPA, in Algeria there are
impact in either the international or domestic
etration in both tourism and the one of the world’s largest exporters
large role to play in developing both domestic and international tourism," Bounafaa told OBG. "Tassili Airlines recently launched its first charter flights from Algiers to the south of the country as part of an all-inclusive package of six nights for €300, and this model could be used by other domestic carriers."

CHALLENGES: With most foreign visitors needing to apply for visas ahead of arrival, and foreign travel warnings and restrictions on the movement of overseas travellers still in effect across large parts of Algeria, it is perhaps unsurprising that domestic tourism dominates the industry to the extent it does.

To address the visa issue, in July 2016 the authorities announced that moves to reduce the burden imposed by the country’s visa process on visitors were being considered. However, there have been several Cabinet reshuffles since then, meaning the status of the initiative is currently unclear.

In terms of travel advisories, the MTA called on France to reassess its travel warning for Algeria in September 2017. The French Foreign Office appeared to respond by downgrading the classification “not recommended unless for imperative reasons” it designated to much of the central and northern areas of the country in August 2018 to “reinforced vigilance”. The rest of the country appeared to respond by downgrading the classification “not recommended unless for imperative purposes or “not recommended” under the French rating scheme due to the threat of terrorist activity.

Meanwhile, the UK advises against travelling within 30 km of the borders with Libya, Mauritania, Mali and Niger, and warns travellers to all regions to be vigilant. The US also recommends exercising increased caution when travelling in Algeria, advising against travel to border areas.

Unfortunately, these types of warnings play to the negative perceptions of Algeria as a dangerous country. Tunisia is both a popular tourism destination and the one of the world’s largest exporters

TOURISM OVERVIEW

Sofitel and Mercure hotels,” Lazhar Bounafaa, CEO of Groupe HTT, told OBG.

DISTRIBUTION OF ACCOMMODATION: Urban areas have the largest number of accommodation options, with 949 hotels providing a total of 69,861 beds, followed by coastal areas (239 hotels, 31,326 beds), then the Sahara (59 hotels, 4928 beds), thermal springs (23 hotels, 4266 beds) and other natural areas (19 hotels, 1883 beds).

The region with the largest number of beds is the north-central region with 45,585, followed by the north-east (13,343), the north-west (6852), the south-east (2092), the south-west (1605), the Hoggar Mountains (225) and Tassili n’Ajjer national park (150). Given the natural beauty of Tassili and Hoggar, as well as the popularity of Algerian desert tourism in 1970s and 1980s, these last two regions are particularly underdeveloped.

TRANSPORT LINKS: One reason for this could be a dearth of quality transport infrastructure in those areas. Algeria scored 39.3 out of 100 for transport infrastructure in the World Economic Forum’s “Global Competitiveness Report 2018”, putting it 88th out of the 140 economies assessed in this category. Nevertheless, the country has been making improvements – most notably in terms of the quality and capacity of its air transport infrastructure.

Spearheading this is the expansion of Houari Boumediene International Airport (HBIA) at the cost of around $1bn. The project has been in development since 2014, with China State Construction Engineering Corporation responsible for much of the building work, including a new terminal.

The project will also include a new apron, runway and parking area, as well as a Hyatt Regency hotel, and it is scheduled to come on-stream in early 2019, with phased development to continue through to 2032. Through the work the airport will raise its passenger capacity by an extra 10m per year, up from an estimated 8m, according to market intelligence firm CAPA Centre for Aviation.

With the Algerian population standing at around 42.2m and HBIA’s passenger traffic at roughly 8m in 2017, the airport is relatively under-utilised when compared with footfall at Tunis Carthage International Airport in Tunisia and Casablanca Mohammed V International Airport. These airports recorded passenger footfall of 5.9m and 9.4m in 2017, respectively, despite serving smaller national populations of 11.3m and 35.8m. Therefore, while the expansion work in Algiers will boost capacity, ancillary efforts to attract tourists will be key to seeing this utilised.

One potentially limiting factor is a lack of penetration in either the international or domestic flight market by low-cost carriers (LCCs). Although international low cost seats have risen from 0.02% of the total in 2011 to 7% in the first eight months of 2018, according to CAPA, in Algeria there are no domestic LCCs. By comparison, international LCCs account for 8.6% of seats in Tunisia and 43.4% in Morocco. “Airlines and tour operators have a

8m

in 2017

Tunisian tourists accounted for 60.7% of foreign arrivals in 2017 at 1.04m, up 27.5% on the previous year
A €508.2m strategy is under way to renovate the 66 state-owned hotels of foreign fighters to per capita. While Algeria does not even place among the list of countries with high levels of foreign fighters, travel warning about the country make the country’s reputation as a dangerous location even more emblematic of the need to transform its image to secure growth.

**MARKETING STRATEGY:** Indeed, the state has acknowledged that promoting Algeria as an international tourism destination par excellence is key to galvanising the sector, and there is evidence to show some progress is being made in this regard.

As part of this, a new web portal was set up on the MTA website to provide information on the top destinations, travel agencies, hotels, restaurants and transport services, as well as culinary arts and crafts. The portal is available in three languages – English, Arabic and French – with Benmessaoud announcing shortly after its launch in mid-2018 that the interface would also be made available in the Amazigh language of the Berber people.

A digital guide to Algiers in the form of a mobile app was also launched in 2018, with the aim of promoting tourism in the capital and providing information on services such as hotels, restaurants and museums. The MTA has also been working to improve the reputation of travel and tourism agencies, conducting 295 inspections of Algiers-based agencies in 2017, which resulted in 152 formal actions against companies engaged in some form of malpractice. There were 2378 travel agencies and 44 local tourism offices were in operation in 2017, up from 2041 agencies and 35 offices in 2016.

**EVENTS:** Exhibitions and events have the potential to raise Algeria’s profile on the international tourism stage as well. One such event is the annual Salon International du Tourisme et des Voyages (SITEV) held in Algiers. The 19th edition of the SITEV took place between October 17 and 20, 2018 and was attended by 300 national and foreign operators – a 50% increase on the previous year. Speaking at the exhibition, minister Benmessaoud encouraged the signing of bilateral and collective agreements between conference participants under the slogan “Algeria, a land of peace and hospitality”.

In addition, the port city of Oran has been chosen as host of the 2021 Mediterranean Games, which is held once every four years. The city is expected to benefit from the creation of more than 9600 jobs as it makes preparations for the event (see analysis).

**OUTLOOK:** The Finance and Budget Committee has moved to support the MTA’s efforts to grow the industry, announcing that the sector’s budget for 2019 will be AD5.62bn (€40.8m), representing a 1.4% increase on the previous year. Of the total, AD2.42bn (€17.6m) will be made available for capital spending, while the remainder will be used to finance ongoing projects related to tourism.

Four new hotels are to be opened in the wilaya of Algiers in 2017, bringing the total there to 182, and growth in room numbers has been recorded across the country. In short, Algeria seems to be making the right moves to ensure that the capacity is there to support rising guest numbers.

However, securing this increase over the medium to long term, particularly among foreign visitors, will likely require a multi-pronged approach. Part of this means will involve overcoming the negative perception of the security situation, especially when a challenging visa regime persists as an obstacle to travellers with an interest in visiting North Africa.

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**Travel & tourism’s contribution to GDP by segment, 2017 (%)**

![Graph showing travel & tourism's contribution to GDP by segment, 2017.](image)

22.4
Leisure

77.6
Domestic

3.1
Business

96.9
Foreign

Source: WTTC
Alternative destination

Abdelkader Benmessaoud, Minister of Tourism and Handicrafts, on facilitating a training development programme

How is the national strategy for 2030 being implemented in order to further develop tourism?

**BENMESSAOUD:** Algerian authorities have the firm intention to make the tourism sector a driver for economic growth. In 2018 all the conditions are in place for take-off. First, stability and security are strong factors of attractiveness. In addition, within a Mediterranean space that is saturated and running out of steam in terms of the variety of offerings, Algeria remains well preserved and could become an alternative destination.

In December 2018 the National Conference for Tourism, which reviewed the implementation of the national strategy up to 2030, took place. The conference concluded with an exhaustive evaluation of this scheme and has drawn, based on the insufficiencies and strengths observed, the necessary adjustments to reach the objectives traced for 2030.

There has been a sizeable reduction in the deficit of the number of beds found in the country’s various accommodations. From only 60,000 beds in 2008, there are now 120,000 beds and we aim to reach 270,000 beds by 2030. Progress has also been made with regard to the attractiveness of investment.

There are currently around 800 tourism projects under way in various segments, which indicates the effectiveness of these efforts in order to facilitate and incentivise investment. Considerable improvements have been made in customer service and infrastructure, due to the modernisation of specialised training centres and the increased support provided to operators under the national quality plan for tourism.

What has been done to encourage increasing private investment within the sector?

**BENMESSAOUD:** Investment is the cornerstone of the tourism development programme within the country. That is why, in order to arouse the interest of national and international investors, the government has set up a broad number of incentives and facilitators, such as the access to land and project financing. In addition, project lenders benefit from personalised support from the ministry until the project operations commence.

Algeria is a virgin destination, and as such, all niches and segments of activity are potential drivers, which is why I tell investors that they have plenty of reasons to enter the tourism sector. Key among those reasons is the undersaturated nature of the destination, the high dynamism of internal tourism in the region and Algeria’s geographical position.

To what extent have efforts been made in developing and improving local talent?

**BENMESSAOUD:** Investment in human resources is even more important than infrastructure, as the competitiveness of the destination depends on it to a large extent. The training development programme is based on: modernising training facilities, both in terms of infrastructure and programme content; realising new, high-quality training institutions; strengthening the partnership between the sectors that are involved in training, such as higher education and vocational training; encouraging the private sector to invest in training; and strengthening international cooperation, in order to benefit from the experience and know-how of countries with more developed tourism sectors.

What initiatives have been taken to strengthen Saharan and thermal tourism?

**BENMESSAOUD:** Thermal tourism, an alternative health tourism, could interest international clientele, due to its medical and therapeutic properties. The quality of the infrastructure currently being built has been aided by an initiative being undertaken with the concessioning of thermal springs and specific training for this segment. With respect to Saharan tourism, it is for many reasons a major asset for Algeria, especially internationally. Tourism will be developed within a framework of sustainability and respect of local culture.
Skills and development

Hotel and tourism upgrades provide a broad range of job opportunities from Algiers to Oran

With new hotel and tourism developments in the pipeline, Algeria is looking to boost job growth in the industry while developing the skills needed in the labour force. In addition, the 2021 Mediterranean Games are set to give training programmes a timely boost as host city Oran prepares to take centre stage. Indeed, the July 2018 opening of a branch of the Algiers Higher School of Hotel and Restaurant Management (Ecole Supérieure d’Hôtellerie et de Restauration d’Alger, ESHRA) in Oran is set to provide Algeria with a solid foundation from which to develop its human capital with respect to tourism, and is the second hospitality school in the country to receive accreditation from the prestigious Ecole Hôtelière de Lausanne of Switzerland.

EMPLOYMENT: Tourism sector jobs have seen modest growth in the last decade. When the Tourism Development Masterplan (le Schéma Directeur d’Aménagement Touristique, SDAT) 2030 was launched in 2008, the industry accounted for approximately 200,000 jobs (both direct and indirect), according to the National Statistics Office. This figure has slowly climbed to 275,000, with plenty of growth required for the official target of 900,000 jobs to be reached by 2030.

INFRASTRUCTURE UPGRADES: As the Ministry of Tourism and Handicrafts (Ministère du Tourisme et de l’Artisanat, MTA) strives to increase the number of hotels and tourism sites in the country, the concomitant infrastructure upgrades being conducted under the SDAT 2030 accounted for 4476 direct jobs at the end of 2017. Projects currently under construction are set to create a further 44,840 direct jobs, according to the “SDAT 2008-18 Evaluation Report”, and those in the planning stages were estimated to be able to provide 47,812 jobs, while 6978 jobs could come from those on standby.

HOSPITALITY WORK: In terms of the employment opportunities in the hospitality sector itself, the wilaya (province) of Algiers currently possesses a total of 182 hotels with 11,743 employees and a combined capacity of 20,924 beds.

Meanwhile, there are 82 hotel projects currently under development in the province, which, when complete, are expected to create approximately 60,000 new jobs, as well as 14,000 extra beds. Some 18,000 of these new employment opportunities are expected to come from the large-scale hotel projects under construction in the Algiers suburb of Bab Ezzouar and the nearby seaside town of Sidi Fredj by January 2019, while other works in the pipeline will provide the remaining 40,000 jobs.

Adding to the employment opportunities in the wilaya are 669 tourism and travel agencies, which accounted for more than 2700 jobs in 2017.

ORAN PREPARES: The Mediterranean Games are usually held every four years and are open to nations in and around the Mediterranean Sea. As the host city for the 19th edition of the event in 2021, the seaside town of Oran is expected to see a boost in its employment rate as numerous new accommodation options come on-stream.

The summer of 2018 saw the coastal city open seven private hotels, generating 836 beds and 341 jobs and bringing the total number of hotels and associated employees in the wilaya to 186 and 3000, respectively. Meanwhile, another eight private-sector hotels are scheduled to come into service in December 2019, according to press statements made by Abdelkader Bennouzouaou, minister of tourism and handicrafts, creating 850 beds and 300 jobs.

The strategy ahead of the games dictates that at least four hotels should be present in each of the communes of the wilaya by 2021. As of September 2018, some 173 projects were under construction, with progress ranging from 57% to 95% complete. Once in place, these new sites should provide 24,395 beds and 7463 direct jobs, according to the MTA.

www.oxfordbusinessgroup.com/country/algeria
TRAINING PROGRAMMES: With the tourism sector in Algeria accounting for a relatively small percentage of GDP by regional and global standards, stakeholders have highlighted the need to develop a stronger hospitality culture if the SDAT’s goals for foreign visitor arrival growth are to be realised.

For this reason, there is a distinct need for large-scale training programmes to ensure the availability of a skilled labour force able to provide high levels of service in the growing accommodation market.

Fortunately, the will to improve is evident, with the government-owned hotel operator Groupe Hôtellerie, Tourisme et Thermalisme (Groupe HTT) keen to develop pedagogical partnerships between the public and private sectors. To this end, in September 2017 the group signed an agreement with the National Apprenticeship and Continuing Training Development Fund – an initiative designed by the Ministry of Training and Professional Teaching (Ministère de la Formation et de l’Enseignement Professionnel, MFEP) – establishing a training programme for instructors of apprentices working for Groupe HTT in 14 key areas of activity, including cooking and restaurant services, human resources, and reception and hospitality.

While the collaboration is no doubt a positive for the industry, challenges persist in terms of human capital, including achieving consistently high standards nationwide and retaining talent. “Human resources are fairly well trained. The main problem is maintaining consistency across the national territory. The relatively low salaries do not help keep human resources in the public sector, so they tend to lean towards the private,” Lazhar Bounafaa, CEO of Groupe HTT, told OBG.

More recently, in July 2018 the MTA unveiled an education programme designed to improve the skills of more than 3800 tourism workers, emphasising human resources as a key component of tourism policy under the SDAT. The programme is the result of an agreement between the MTA and the MFEP. In addition to training employees, the initiative aims to grow the number of teaching positions dedicated to tourism within relevant education establishments and enhance the quality of tuition. “This programme is about rehabilitating the tourism sector by improving the quality of service and dispelling the negative perceptions that have dogged the sector,” Bennessaoud told local media.

EDUCATION: A number of schools exist for students with the skills for a career in hospitality. One of these is the publicly funded National School of Tourism in Algiers, which was created in 1994 to train future managers in the sector. With capacity for 230 students, 108 graduated in the 2017/18 academic year. The institute employs 15 permanent teachers and offers a master’s and undergraduate programme.

Also established in 1994, the Institute of Hotel and Tourism Techniques (Institut des Techniques Hôtelières et Touristiques, INHT) runs a two-year course and has two branches – one in Tizi Ouzou in the north-central region and the other in Boussaâda 245 km south of Algiers. Both branches train senior technicians in the fields of cooking, hospitality and tourism, with Tizi Ouzou seeing 96 students graduate in the 2017/18 year and Boussaâda 84. The INHT accepts students between the ages of 18 and 27 with competencies in French, Arabic and English, and as of the end of the 2017/18 academic year, 5027 students had graduated since its inception.

A more recent addition to the portfolio of education centres is the Algiers branch of ESHRA, which opened its doors in 2016. Located in the commune of Ain Benian, the school offers a four-year degree in hotel and restaurant management accredited by the Algerian government and the prestigious Ecole Hôtelière de Lausanne of Switzerland. In addition to classrooms the campus has a sports centre, swimming pool, beach club and restaurant. Situated close to Le Méridien hotel, the Oran branch of ESHRA – which opened in July 2018 – has 130 places and offers the change to specialise in one of three fields: cuisine and high gastronomy; service and restaurants; and accommodation. It also has a large outdoor space with restaurants and cafés where members of the public can sample dishes prepared by students. As well as offering a standard two-year degree, the school provides short courses.

Although the existence of these schools represents an important step forward, Algeria’s Maghreb neighbour Morocco is still a long way ahead, with at least 12 education centres dedicated to tourism distributed relatively evenly across the country. Moreover, while most of the Algerian educational institutes provide dormitory facilities, there is a distinct absence of training centres in the south. Nonetheless, the hosting of the 2021 Mediterranean Games in Oran should provide Algeria with an excellent opportunity to showcase a revamped hotel sector and hospitality culture to the world.

Ensuring the availability of a skilled labour force able to provide high levels of service is a key sector goal. In July 2018 the Ministry of Tourism and Handicrafts unveiled an education programme designed to improve the skills of more than 3800 workers.
Advances in medicine are only meaningful when they reach the people who need them

Roche, a global leader in biotechnology and diagnostic tests, has a long-term vision based on strong partnerships with the different healthcare actors to enhance the life of patients and facilitate access to medical innovations in Algeria.

Our medicines are transforming medical practices in difficult-to-treat diseases since 1896, offering patients new options for treatments.
Health & Education

Expansion of private health care to meet rising demand
Significant growth in pharmaceuticals manufacturing
Modernisation of curriculum and teacher training
Enrolment in higher education continues to increase
HEALTH OVERVIEW

Committed to care

Working to meet growing demand through increased partnership between the public and private sectors

Opportunities to invest in the health care sector continue to increase as the population grows at an annual rate of 2.1%, applying pressure on existing hospital infrastructure, especially in the urban centres where 72% of the population resides. As life expectancy, currently averaging at 76.3, steadily increases and the young population grows in tandem with changing consumer lifestyles, the rise of non-communicable diseases (NCDs) has become a priority for the state.

The health infrastructure has made considerable strides in recent years in a number of important areas, particularly the treatment of cancer. Nevertheless, there are still challenges in providing equal access to care across Algeria’s vast territory and overcoming the shortage of medicines. In line with a sustained government budget allocated to health, attracting new investment from the private sector will be critical for meeting the growing demand for health care.

PUBLIC & PRIVATE STRUCTURE: The infrastructure of the health care system reflects the state’s commitment to the provision of free care for all citizens. The system has come under strain, however, due to rising birth rates and urbanisation causing an increase in demand for treatment and medication. This has led to the state welcoming greater private sector activity. According to the most recent figures from the Ministry of Health, Population and Hospital Reform (Ministère de la Santé, de la Population et de la Réforme Hospitalière, MSPRH) there were 71,770 beds in 580 public hospitals, compared to 5475 beds in 187 private hospitals, as of 2015. The 2017 report by the National Statistics Office recorded that there were 74,937 doctors, 13,747 dentists and 11,888 pharmacists operating in Algeria in the public and private sectors. The public sector employs the majority of doctors, whereas pharmacists predominately belong to the private sector. Before doctors can work in the private sector, they are required to fulfill civil service obligations in public institutions. As part of the five-year investment plan (2015-19) the state has committed to spending €4.85bn on the construction of new hospitals and the renovation of existing facilities, but the hydrocarbons crisis of 2014 has limited these ambitious objectives. Instead, Mokhtar Hassellaoui, minister for health, population and hospital reform, has stated that plans to expand medical infrastructure will advance based on the needs and requirements of each wilaya (province). To this end, four hospitals are expected to open their doors in the wilaya of Oran before the end of 2018 to reduce the strain on university hospitals in the region and a number of polyclinic projects and cancer treatment centres are also planned to be established.

BUDGET: Despite the decline in oil prices that has led to a contraction in the government’s fiscal resources since 2014, the state has reiterated its commitment to expanding the health care system even further. The plan for the 2019 Finance Law, drafted in September 2018, is consistent in its allocation of AD399bn (€2.9bn) to the MSPRH, a very slight increase of 0.9% over its 2018 budget. This figure represents approximately 8.1% of the state’s drafted operating budget for 2019 of AD4.9trn (€35.6bn).

NEW HEALTH CARE LAW: In August 2018 a 450-article bill was passed to update Algeria’s 33-year-old health care system. The legislation definitively maintains doctors’ civil service requirements, although this was a point of contention with some doctors and has led to ongoing strikes since November 2017, and reiterates the state’s emphasis on health care as a fundamental right. Far from shying away from cooperating with businesses, Article 13 of the law stipulates that the state organise an “effective complementarity” between the public and private sectors so as to work towards greater equality in access to health services. The 2019 Finance Law, drafted in September 2018, is consistent in its allocation of AD399bn (€2.9bn) to the MSPRH, a very slight increase of 0.9% over its 2018 budget. This figure represents approximately 8.1% of the state’s drafted operating budget for 2019 of AD4.9trn (€35.6bn).
population is simultaneously growing older while the birth rate is also increasing. The government’s commitment to health care provision has allowed life expectancy to increase to 76.3 years, an improvement of 29 years since the country’s independence in 1962.

This commitment has required the expansion of programmes and treatment options for NCDs such as cardiovascular diseases, diabetes and cancer. In addition to this, the population has been growing by nearly 1m people each year, making improvements to maternity care and child health services urgently needed. In order to provide care to the whole of Algeria’s vast territory, the state has pursued the expansion of ICT networks that allow for remote diagnostics, and the MSPRH plans to introduce a system of medical caravans to address shortfalls in remote regions.

**NCDs**: The spread of NCDs has been described by the MSPRH as an “ever-increasing burden on the national health system”. The state is facing the challenges of increasing rates of cardiovascular diseases, cancer, diabetes and chronic respiratory illnesses. While prevention campaigns emerged to encourage good nutritional practices and warn of the side effects of tobacco, the state also seeks to promote early diagnosis and diversify treatment options. In 2016 the leading causes of death among citizens were ischaemic heart disease and cerebrovascular disease. A recent change in regulation allows citizens to now be reimbursed for certain cardiac operations conducted at private clinics. “Under the new health care law, specialised private clinics will be responsible for treating certain diseases through contracts with the public sector,” Dr Toufik Hamadache, director of the private Fatema Al Azhar Oncology and Radiotherapy Clinic, told OBG. However, currently only cardiac operations can be financed by the state; any other procedures are still paid for by the patient.

**ONCOLOGY**: The second-most-common cause of death after cardiovascular diseases, cancer has remained at the forefront of government policy. The National Network of Cancer Registries predicts that the number of new cancer diagnoses per year in Algeria will increase from 41,870 in 2015 to reach around 49,000 in 2020 and 61,000 in 2025. In order to deal with this expected increase in demand for treatment services, the government’s 2015-19 Cancer Plan emphasises the need for collaboration with the private sector to ease the strain placed on public services. Four new anti-cancer centres were due to have opened in 2018; bringing the national total to 17. At these four centre locations, 12 new radiotherapy accelerators will be installed, which will bring the national total to 48. "Radiotherapy is one of the priorities of the Cancer Plan because it was one of the weakest segments in Algeria. While it represents heavy investments, this is crucial since around 70% of people with cancer need radiotherapy services for their treatment,” Mourad Belkheyar, interim director-general of Varian Medical Systems, told OBG. As of February 2018, there were 36 radiotherapy accelerators in Algeria, including 10 in the private sector, an increase of 29 since December 2013.

The state has also been proactive in implementing the Cancer Plan by increasing the capacity of general practitioners to identify and treat cancer, as well as by investing in the local manufacture of pharmaceutical products related to cancer treatment.

**MATERNAL & CHILD HEALTH**: With the population increasing at a rate of 2.1%, the state aims to improve maternal and child health to support this. The rate of infant mortality has declined significantly since 2000, from 36.9 deaths during the first year of life per 1000 live births to 21 in 2017. While these figures indicate improvement, the numbers are high compared to what would be expected of a country with Algeria’s GDP and income level as upper-middle-income countries had an average rate of 11.6 per 1000 live births in 2017.

Algeria’s maternal mortality has declined by more than 50% since 1999, from a 117.4 per 100,000 live births to 57.7 in 2016. However, this figure is also higher than the upper-middle-income country average, which was 41 as of 2015. These relatively high rates can be attributed in part to Algeria’s vast territory and the difficulty in providing access to quality health care for the 28% of the population that resides in rural areas.

In order to address maternal and infant health, the government has implemented a number of projects such as the establishment of a care plan for pregnant women in Algiers in April 2018. Under the plan, pregnant women are classified in one of four categories, ranging from simple to complicated delivery, and are then provided with the necessary care.

**EXPANDING ACCESS**: The government has prioritised improving health care access in remote locations, particularly among those populations living in the Hauts Plateaux and the southern wilayas. The health care system is looking to incorporate ICT into its daily operations to modernise the sector and extend access to care across more remote areas. In November 2017 the Algerian Business School hosted the Health Digital Days conference, bringing together sector Leaders from the public and private sectors, municipalities, and the NGO community to discuss the implementation of digital solutions in the health sector.

The government’s commitment to health care provision has allowed life expectancy to increase to 76.3, an improvement of 29 years since the country’s independence in 1962.
Health facilities in Algeria's most remote territories are expanding experts who discussed the extent that digitisation could address the challenge of universal health coverage without heavy investment. The potential of mobilising digital technologies to establish coverage in remote areas through telemedicine networks was introduced in the 2018 Health Law. The legislation also provides for the creation of a national health information system, along the lines of the SIHATIC system that was launched in February 2017, which integrates all health data and ensures secure connections to the information systems of other sectors to which all institutions and structures, both public and private, are obligated to join. In July 2018 the MSPRH also announced its collaboration with the Ministry of Post, Telecommunications, Technology and Digital Economy to interconnect 4000 health facilities across Algeria, specifically targeting the most remote locations to improve the quality of their care. This project is an extension of the telemedicine network launched in April 2016, which has connected five university health centres with 12 public hospitals in its pilot phase. The MSPRH has worked with local officials to implement a strategy of medical caravans offering mobile health services to improve analogue access to health care in rural regions. In October 2018, 100 specialists started a three-week caravan tour through the border wilaya of Tebessa providing free consultations.

HUMAN RESOURCES: As of 2018, the World Health Organisation estimated the number of physicians per 1000 people to be 1.2 and nurses and midwives to be 1.9. Both of these statistics are below the MENA region averages of 2 physicians and 3.7 nurses and midwives per 1000 people. These figures are also lower than what Algeria's GDP and income level would suggest – at 1.9 and 3.3 respectively – which can partly be explained by the “brain drain” that draws Algerian doctors to work abroad. A study published in October 2017 by the National Council of the Order of Physicians (Conseil National de l'ordre des Médecins d'Algérie, CNOM) identified nearly 5000 doctors in France with Algerian diplomas, representing an increase of 56% since 2007. If Algerian-born graduates of French institutions are taken into account, this figure increases nearly threefold to 14,305 physicians.

HEALTH INSURANCE: The rise of private sector activity has inspired a move towards health insurance in financial markets. While there is currently no product on the Algerian market specifically dedicated to health insurance, government initiatives are aiming to encourage developments in this sector. In November 2017 it was announced that 2018 would see the creation of a paying third-party administrator (TPA) for health insurance, allowing customers of insurance companies to access private medical care without paying beforehand. The Central Reinsurance Company, in tandem with the four main non-specialised public insurance companies in the Algerian market, plan to launch the pilot programme for this scheme in 2018. The TPA will grant patients an advance for medical expenses provided by private operators. The project is expected to strengthen the market for both health insurance and life insurance, which currently comprises 11.93% of the insurance sector, and is growing at an annual average rate of 11%.

PHARMACEUTICALS: The pharmaceuticals industry is currently experiencing a period of significant growth, fuelled by growing demand across Africa as a whole. Algeria is the largest market in the continent, worth an estimated $3.7bn, making it an attractive location for foreign investment. As the country increases pharmaceutical production to cater to the population's growing medicinal needs, which rose by an average of nearly 9.3% per year between 2007 and 2017, the industry is also positioning itself to pursue the export of locally manufactured products.

The government has worked to forge partnerships with international players who have invested in a number of manufacturing plants. Since 2008 Algeria has restricted the importation of all drugs that can be manufactured locally, and thanks to this incentive has successfully orchestrated the development of

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Health budget, 2014-18

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Source: MoF

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Algeria has the largest pharmaceuticals market in Africa, worth an estimated $3.7bn, making it an attractive location for foreign investment.
domestic pharmaceuticals. As of May 2017, there were 80 production units located across the country. “As digitalisation transforms the industry on a global level, the country can count on a health care sector that is robust enough to incorporate and take advantage of these new technologies,” Haissam Chraiteh, director general of the France-based pharmaceutical manufacturer Sanofi Algeria, told OBG.

**LOCAL PRODUCTION:** Pharmaceutical production remains one of Algeria’s most successful industries. Output has increased fivefold between 2012-17, and imports of finished and bulk goods have declined by 14.5% during the same period. While the government aims to meet 70% of national demand for medicine with locally produced products by 2019, Algeria still relies heavily on imported pharmaceuticals, which cost more than $2bn per year. However, the domestic pharmaceutical industry is improving and working towards its goal of meeting 70% of national demand, having reached 45% in 2015 and 60% in 2017.

In May 2017 Hamou Hafed, pharmacy director of the MSPRH, stated that over 140 new pharmaceutical investment projects had been registered since 2014 and that an average of three to four manufacturing establishments are being developed annually. A number of plans for new pharmaceutical plants have recently come to fruition. Most recently, the largest drug production and distribution complex in Africa was completed in October 2018. The new production facility, which received an investment of AD10.6bn (€77m), is operated by Sanofi Algeria and located in Sidi Abdellah. The plant has an annual production capacity of 100m units, covering around 100 products.

Larger projects announced in recent times include a joint venture between the French company Ipsen Pharmaceutical and local firm Isly Holding to establish an oncology drug production facility, and an agreement between state-owned pharmaceuticals manufacturer Saida and France-headquartered Sanofi for a vaccine production facility, both of which were signed in December 2017. Construction also began on an insulin production plant in Boufarik as part of a partnership between Danish firm Novo Nordisk and Saida in March 2018, accompanied by the announcement of two new pharmaceutical plants in Constantine and Tizi Ouzou.

**DRUG SHORTAGES:** While the local pharmaceutical industry is manufacturing more and more medications, patient access to medication remains an issue in recent years due to import restrictions on certain drugs. As of September 2018, over 240 medicines were unavailable in Algerian pharmacies, a situation that CNOM has attributed to bureaucratic delays and growing demand. In addition, the Algerian Federation of Medicines maintains that the root cause of the crisis is poorly calibrated import restrictions that have been applied by the government since 2006 in order to stimulate local pharmaceutical production.

MSPRH officials held a meeting in August 2018 in order to formulate an effective plan of action and emergency licences have been issued to relieve the supply tensions regarding essential drugs for the treatment of chronic illness. According to Article 216 of the 2018 Law on Health, the state assumes responsibility for ensuring the availability of pharmaceuticals and medical devices. Towards this end, on an institutional level, the legislation created two new regulatory bodies that suggest greater supervision and improved management of sector supply: a National Agency of Pharmaceutical Producers that will have a public service mission to register, approve and control pharmaceutical products and medical devices, and a cross-sector economic committee for medical products that will set drug prices.

**R&D:** There is significant potential in Algeria for clinical trials given the strength of the pharmaceutical industry. The state is working to encourage and support research and development (R&D) to develop these capacities. “There is willingness on behalf of the health authorities to develop clinical trials. A biotech cluster was initiated by the MSPRH in collaboration with the sector and we are starting to work together to create a dedicated website for research and related events,” Dr Amine Sekhri, country manager for Algeria at Swiss pharmaceutical firm Roche, told OBG. “The vision is changing towards considering and valuing R&D, and that in itself is a key development.”

**OUTLOOK:** Updates to the legal framework of the health care system confirm the state’s commitment to the provision of free care, which will become increasingly challenging to deliver in the face of demographic changes. As the state works in partnership with the private sector to ensure the provision of sufficient treatment facilities for its entire population, especially in the realm of NCDs, health indicators are poised to improve. The pharmaceutical industry is also set to experience significant growth in the short term, as international players recognise the sizeable potential of the domestic market and the state seeks to increase manufacturing, with a view towards capitalising on the industry’s opportunities to export on a larger scale.

Algeria is now home to the largest drug production and distribution facility in Africa, which was completed in October 2018. The plant has a production capacity of 100m units per year.
Access to innovations

Amine Sekhri, Country Manager, Roche Algérie, on boosting capacity and improving the regulatory framework

How are health care authorities developing partnerships with private entities to develop a stronger and more competent sector?

SEKHRI: Algeria has a rather unique health care system in the region, supported by adequate health care policies that take into consideration the evolution of local epidemiology and the growing burden of non-communicable diseases. Recently, we have perceived with great satisfaction more openness from health care authorities towards various stakeholders, particularly the pharmaceutical industry. This was evident with the launch of several national plans, the signing of several memoranda of understanding and the implementation of a public-private partnership (PPP) framework. With respect to cancer, it is necessary to strengthen the national network of registries, producing more comprehensive and reliable local data.

There is also a clear willingness on the part of the government to develop a stronger pharmaceutical industry. Incentives already in place led to a substantial increase in commercial and industrial capacity, securing drug availability and reducing imports. These efforts should continue with the aim of further developing the pharmaceutical sector. One of the main considerations is to set up a framework that ensures predictability and visibility for companies, unleashing the sector’s potential, securing its sustainability and making it a key contributor to patients’ health.

In what ways can Algeria enhance its research and development (R&D) capacities?

SEKHRI: R&D in health care is valued not only from a scientific and medical perspective but also as an economic lever. R&D relies on political willingness, qualified human resources and infrastructure. Investments usually follow once these fundamentals are in place, some of which are already present in Algeria. Therefore, the country has the potential to become a regional centre of R&D. However, more focus must be made on strengthening the research governance model, as well as local competencies in different research areas. We need to continue investing in training and education initiatives, embedding the culture of research not only in Algerian academic and medical institutions but also in public and private companies. It is also important to connect these institutions, mutualising their resources and expertise, while also supporting research projects in line with health care priorities, such as cancer, diabetes and cardiovascular disease. This can also be achieved using the PPP model.

As clinical research is one of the most regulated activities in the industry, it is critical that regulations are harmonised with international standards and implemented in an efficient manner, thereby removing unnecessary administrative barriers to starting clinical trials. This will enhance the standing of Algeria in clinical research programmes at a global level.

How would you assess prices and the regulation of competition within the pharmaceuticals market?

SEKHRI: Pricing of medicine is strongly debated, especially in the current economic environment. A recent mechanism implemented by the authorities, based on multiple countries’ benchmarks, led to drug prices in Algeria being among the lowest in the region, with many pharmaceutical companies reacting positively. Regulations on pricing need to also take into consideration that access is a multi-dimensional challenge; decreasing prices or delaying registration has a limited impact over time considering an ageing population’s increasing health care needs. We may need to be more flexible with our pricing and regulations in order to offer more suitable access solutions. It is also vital that all stakeholders collaborate together to establish health care technology assessment mechanisms, with dedicated resources to ensure an objective and transparent value determination of innovations, thereby ensuring that patients are treated with up-to-date technologies.
Global Perspective

Promoting pharmaceuticals

As health care provision expands, demand for both local and imported pharmaceutical products is rising

In recent decades, the pharmaceutical market has expanded its geographical reach. This trend appears to be here to stay; in a survey of major pharmaceutical firms conducted by global consulting firm PwC’s Strategy& team, more than half of respondents anticipated that over 30% of their global sales would originate in emerging markets by 2018.

Even in the most newly opened markets, drug companies have seen growth: forecasts for Myanmar, for instance, indicate that pharmaceuticals could quickly grow into a $1bn industry.

As governments and companies continue to take note of this high-potential sector, both are pursuing development in the face of cross-cutting challenges, particularly with regard to the resources required to develop new products and the accompanying intellectual property protection concerns.

**STRONG DEMAND:** As economies grow, and health care provision and insurance mechanisms expand, demand for local and imported pharmaceutical products is on the rise. Research from consulting firm McKinsey & Company highlights that emerging markets have been outspending Germany, France, Italy, the UK and Spain (the EU5) on pharmaceuticals for several years, with a total market size of $281bn compared with the EU5’s $196bn in 2014.

Estimates from the research also indicate that between 2015 and 2020, emerging market spending is expected to account for $190bn in sales growth. On the African continent alone, the pharmaceutical industry expanded in value from $4.7bn in 2003 to $20.8bn in 2013, with projections that the need for medicines and medical equipment will rise by between 6% and 11% by 2020. The Strategy& survey highlighted that between 2015 and 2020, fast-growing markets like Turkey and Mexico were expected to see a 9.3% increase in sales.

Not only is demand on the rise, but the diversity of pharmaceutical needs is growing as emerging markets increasingly deal with non-communicable diseases already prevalent in wealthier economies, including diabetes and hypertension, while communicable diseases that afflict many emerging markets – such as AIDS, malaria and tuberculosis – persist.

The incidence of diabetes in particular is expected to accelerate in many emerging markets and drive demand for pharmaceutical products. According to the World Health Organisation (WHO), the global prevalence of diabetes has nearly doubled since 1980 from 4.7% to 8.5%, growing most rapidly in low- and middle-income countries. On top of this, people are living longer, with estimates that the global population over 65 years old will increase by 8% between 2015 and 2020, from 559m to 604m.

**INTELLECTUAL PROPERTY & RESEARCH:** Despite this rising demand for products, local production and innovation in less-developed markets is still limited, due in large part to the human and other resources required to establish and enforce intellectual property rights (IPR).

Innovation does not come cheaply or quickly; McKinsey estimates that large-scale biotech manufacturing facilities require $200m-500m and take four to five years to build, with high annual operating costs. The International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) notes that it takes 10-15 years to develop a new medicine or vaccine, and the cost can exceed $2.6bn. In established markets, governments typically grant IPR as an incentive to incur the costs of developing innovative products that can save lives and generate a return. As noted by the IFPMA, the pharmaceutical industry invests more in research and development (R&D) than any other industrial sector.

In contrast, in many emerging markets the written law and enforcement of it has often left major players wary of entering. If patent protection is not guaranteed, the anticipated returns for undertaking innovation do not justify the high investment costs involved.

Governments and private companies are pursuing pharmaceutical development in the face of challenges, particularly regarding the resources required for the creation of new products.
The Trade-Related Aspects of Intellectual Property Rights Agreement regulates intellectual property issues for members of the World Trade Organisation.

According to a 2017 WHO report, one in 10 medical products in low- and middle-income countries is either fake or substandard, resulting in a 10.5% failure rate of medications.

According to a November 2017 WHO report, an estimated one in 10 medical products in low- and middle-income countries is either fake or substandard, which results in an estimated 10.5% failure rate of medications. Another issue when it comes to implementing written regulations is unreliable dispute resolution mechanisms; even if counterfeits are properly identified, the resolution process for companies can be long and unwieldy. In Nigeria, for example, drug producers still complain of a long and bureaucratic adjudication process, and global consulting firm PwC describes the “lack of meaningful patent legislation or pricing and reimbursement” as one of the key challenges for the development of the country’s pharmaceutical industry.

However, there have been some signs of progress. Jordan, for one, has seen intellectual property protection improve in recent years, according to the World Economic Forum’s 2016 Global Information Technology Report, which places the country 35th out of 139 nations on this metric. Furthermore, as highlighted by the ITA, Jordan’s drug industry generally abides by its TRIPS-consistent Patent Law and shows commitment to even stronger enforcement of IPR, particularly in the pharmaceutical sector.

Elsewhere, in Myanmar, “counterfeit products represent a massive issue for firms selling premium or original products,” Girish Wadhwa, president of the Myanmar office of Thailand-headquartered Mega Lifesciences, told OBG. “However, in 2015-17 companies saw improvement because of the Ministry of Health’s involvement, and the increased strength of the Food and Drug Administration.”

Côte d’Ivoire has also been making efforts to more effectively manage its pharmaceutical sector, reducing fraud and illegal sales. With reforms to government office the Public Health Pharmacy (Pharmacie de la Santé Publique, PSP), now known as the N-PSP, the agency manages the purchase and distribution of all pharmaceutical products, and has put in place software that tracks the flow of medications with the help of identification codes. The government is hopeful that this system will enable the authorities to track all pharmaceutical products from purchase to receipt. In Mexico firms have also seen increasingly strong enforcement of regulations.
Gurulinga Konanur, CEO of Hetero Drugs Mexico, told OBG, “Transparency is continuously gaining importance in Mexico, and enforcement has improved in recent years in previously unregulated areas, which is giving companies a higher comfort level when it comes to investing in the pharmaceutical sector or pharmaceutical research here.”

PUBLIC SUPPORT: In addition to drafting and enforcing strong pharmaceutical-related legislation, governments have taken a range of policy steps to promote drug production and research.

Cristóbal Thompson, executive director of the Mexican Association of Pharmaceutical Research Industries (Asociación Mexicana de Industrias de Investigación Farmacéutica, AMIF), told OBG that the country employs a model of building bio-clusters that create government-industry alliances and bring jobs to various parts of the country.

“In the state of Querétaro, for example, AMIF signed an agreement in December 2017 to further increase Mexico’s clinical research in the state and support an exchange of information that will help increase local investment there,” said Thompson.

On a national level, the Mexican National Council on Science and Technology administers incentive programmes that refund a percentage of company R&D-related expenses, including wages for staff involved in research, new studies, patents or copyrights, and tuition reimbursement for master’s and doctorate degrees relevant to R&D. Filed projects are now evaluated by state and local jurisdictions, and funds are allocated based on the technical value of the project and the local jurisdiction’s priorities.

In Saudi Arabia, developing the pharmaceutical industry is part of a series of efforts to diversify the economy, particularly in light of lower oil prices. As such, in February 2017 the minister of health, Tawfiq Al Rabiah, announced the government’s intention to support the industry under the National Transformation Programme 2020, and to increase the proportion of local pharmaceuticals manufacturing in the domestic market from 18% to 40%.

Ghana has been using tax incentives to support the sector. The Value-Added Tax Amendment Law, Act 590 implemented in 2015 increased the number of active pharmaceutical ingredients on the exemption list from 66 to more than 510 to facilitate domestic production and consumption, and make trade more competitive. Vietnam aims to raise activity in pharmaceutical R&D by liberalising its investment policy. Changes introduced in 2017 lifted the previous cap of 49% foreign ownership to attract interest from multinationals, which has already resulted in several mergers and acquisitions.

RESOURCES: In addition to establishing and implementing legal and policy measures that stimulate drug production and research, aspiring research centres need further support from public and private entities that encourage R&D.

According to the WHO, only 4% of all global spending on health research is by low- or middle-income countries, funded primarily by public sectors. Emerging market players have long recognised this. A 2010 paper by the African Union, Council on Health Research for Development and the New Partnership for Africa’s Development Agency of the African Union provided implementation approaches that could lead to further R&D, arguing that states should be encouraged to allocate 2% of their national budget to research. Some markets have taken this approach. Kenya, for example, has one of the highest R&D spending rates as a percentage of GDP for a lower-middle-income country (0.22%, compared to 0.07% for Africa overall and 0.02% for lower-middle-income countries).

In addition to a lack of physical resources to incentivise pharmaceutical innovation and growth, there is often a shortage of skilled labour. The WHO estimates that there are 352 times more health researchers in high-income countries than in low-income countries, and neither multinational nor local companies will have success in R&D without a team of highly skilled experts to oversee operations.

Indeed, the Strategy& survey found that sourcing and keeping strong local talent remains a key concern for pharmaceutical firms conducting research or looking to break into a new market. This is another area where Mexico has made strides. Konanur told OBG, “Mexico’s public universities are developing courses or diplomas in more specific sub-specialties in biotechnology, pharmaceutical chemistry and bioengineering that were not previously offered in order to meet market needs, and grow a professional pool of people who can do this work.”

CLINICAL TRIALS: Developing markets are also increasingly focusing on clinical trials, which can serve as an entryway into R&D. According to a 2015 Deloitte Access Economics report, an estimated $320m was spent on clinical trials in Thailand in 2015, with more than 111,000 participants. Pharmaceutical companies sponsored 38% of the trials.

“Thailand’s growth in R&D is mainly in clinical trials, which contribute 0.05% of GDP and allow firms to go further in the upstream with drug discovery know-how and in the downstream from registration to the manufacturing global supply chain,” Busakorn Lerswatanasivalee, president of the Pharmaceutical Research & Manufacturers Association in Thailand, told OBG. “Particularly given the health issues of Thailand’s ageing population, clinical trials can be the starting point for tropical disease clinical research and innovative drugs.”

In 2015 the Pharmaceutical Manufacturers Association of Turkey cited local law firm Firat Izgi’s prediction that “clinical trials may increase in Turkey, as investments in R&D are on the rise among both multinationals and local companies alike. Universities are investing heavily in R&D as well, and they will receive support from the Turkish government.”

Mexico has also made clinical trials a key component of its pharmaceutical development strategy, with current investment levels of around $250m...
Conducting clinical research in emerging markets offers companies lower operational costs and the ability to work with previously untested populations on diseases specific to a certain market. Expected to triple in the next three to five years. "Three years ago, when we worked on the strategic plan with the government, we highlighted clinical trials as key to capitalising on the global annual $140bn in investment in the health care sector, given that eight out of every 10 dollars spent is on clinical research," Thompson told OBG. "One of our studies even showed that for every additional dollar spent on research there is $1.64 in added value, and every new job in clinical research adds more than four jobs in the market. So when we saw that there were delays in getting clinical research protocols approved, we started working with authorities to see how we could accelerate this, and have achieved huge progress. We have cut down approval time to 60-70 days, and within one year Mexico hopes to be in line with the top clinical trial hubs in the world."

Konanur also highlighted how efficient the Mexican government has made the process for conducting clinical research, telling OBG, "Mexico has been opened to R&D by the government, which is highly supportive of any pharmaceutical company seeking to invest in research. This includes approval systems that provide the required permissions within an established and relatively short time frame."

Provided the trials are conducted in an ethical and scientifically rigorous way, the potential benefits for companies conducting their clinical research in emerging markets are vast. Not only are operational costs lower, but the ability to work with previously untested populations on diseases specific to a certain market could provide life-saving results and products that are in high demand.

GENERICS: The burgeoning generics industry can provide lower-cost alternatives for desperately needed medications, and production is on the rise. For example, it is estimated that between 2013 and 2020, Africa’s generics market will have expanded at a compound annual growth rate of 9%. While generally comprising the same active ingredients as their branded predecessors, generics do not bear the same development costs, ultimately allowing for lower sales prices and greater sales volumes.

In Nigeria, for instance, currency fluctuations in 2017 made consumers more price sensitive, increasing the market for lower-cost, generic drugs. Similarly, in Tunisia, efforts to reduce health care expenditures and improve access to medicines have led to a rise in the production of generic drugs, which account for two-thirds of local output.

Some markets also see the long-term opportunities for local pharmaceutical players as cost-effective producers of generics for export as well as local consumption. Several Egyptian pharmaceutical companies, for instance, are looking to export to less-developed markets in sub-Saharan Africa, as well as Yemen, Iraq, Sudan and Libya.

While increased access to medication is clearly positive, the expansion of generics, including those produced legally – modelled on drugs for which patients have expired or those that were never patented, for example – their use presents a challenge in that it reduces the incentive for pharmaceutical companies to invest in R&D for new products. Thailand, which implemented its sweeping Universal Coverage Scheme in 2001, has been pursuing the production of generics. However, although affordable generics are appealing to customers in the short term, this slowdown in the development of innovative products will be a future issue, particularly in countries like Thailand with large, ageing populations.

STRIKING A BALANCE: Ultimately, markets are likely to work towards a balance between supporting the development of generics to ensure short-term access to products while still providing incentives for much-needed medical innovation in the longer term.

There have been some success stories on this front. In Egypt, which has the highest incidence of Hepatitis C infections in the world, according to WHO estimates, health officials first reached a deal with US company Gilead in 2014 to purchase its patented treatment at a discounted price. Today, 18 Egyptian companies have a licence from the US innovator to locally produce the drug Sofosbuvir, which allowed for the treatment of more than 1m patients from mid-2015 to the beginning of 2017.

Similarly, in Kenya, with the aim of improving local access to essential AIDS medications, local companies Cosmos and Universal Corporation were granted voluntary licences under TRIPS provisions to manufacture treatments developed by patent holders GlaxoSmithKline and Boehringer Ingelheim.

Industry experts have also highlighted branded generics as a sound strategy to ensure high-quality products are developed, but at a price where they have a local market. These off-patent products, which include the same ingredients as the brand-name version, often fetch higher prices than unbranded generics because consumers will pay to buy the product from a trusted manufacturer, even if they cannot afford the full price of the branded version. For instance, EastPharma, a Turkish pharmaceutical firm, acquired the rights to manufacture eight Roche-branded generics registered in Turkey.

As emerging markets and companies both increasingly recognise the rapid growth in demand for pharmaceuticals, and the value that can be gained from conducting pharmaceutical R&D locally, interest in entering these markets is likely to continue rising. According to the Strategy& survey, 60% of the multinational respondents were considering investment in local R&D activities in emerging markets.

At the same time, domestic pharmaceutical companies are becoming interested in competing with these multinational firms, capitalising on their knowledge of consumer preferences, the price points for particular segments of the population and the availability of health insurance products. As the resources and legislation that govern more developed markets are put in place, the opportunities to gain knowledge of previously untested populations at a competitive price will be too great to ignore.
Contemporary tutelage
Transforming the education system to expand capacity and prepare students for the modern age

Algeria has maintained a high level of investment in education in recent years, despite the general economic contraction caused by the collapse of the hydrocarbons market in 2014. While the Ministry of National Education (Ministère de l’Education Nationale, MEN) continues to focus on improving education practices and reforming teacher training, the Ministry of Higher Education and Scientific Research (Ministère de l’Enseignement Supérieur et de la Recherche Scientifique, MESRS) is concentrating on extending existing networks and institutions in order to meet rising demand, including opening up the tertiary sector to private and foreign investors.

STRUCTURE & OVERSIGHT: There are nearly 9.3m students enrolled across more than 27,000 educational establishments monitored by 749,232 officials (89.9% of whom are educational supervisors). Enrollment figures have increased by 6.8% since 2000; as of 2018, there were over 1m students enrolled at the lower education level. Education is compulsory until the age of 16, at the end of lower secondary school, when students take the Middle School Certificate (Brevet d’Enseignement Moyen, BEM) exam to determine whether or not they can continue on to upper secondary education. The pass rate for both the BEM and the baccalaureate, which is taken at the end of upper secondary school, hovers close to 60%.

The higher education system oversees 1.7m students across 106 institutions, including 50 universities, 13 university centres and 43 additional establishments. For the 2018/19 academic year, approximately 63,000 teaching staff will supervise the studies of students across the country. At both the primary and secondary level, private education is relatively underdeveloped, with only approximately 100,000 students (1%) attending around 380 nationally accredited private lower education institutions. The authorities also only recently approved the establishment of private universities. As of August 2018, nine private higher education institutions have been officially recognised. “The state imposes the same curriculum on both public and private institutions,” Lazhar Hani, chairman of Berlitz Algeria, told OBG. “However, the bottom line is that the quality of private education is much better.”

POLICY: The current lower education policy follows the three pillars for educational development established in July 2014 and June 2015. These three policies focus on a pedagogical overhaul that seeks to move beyond rote memorisation techniques, improve in governance linked to self-regulation, and update and modernise teacher training. To address these areas, the MEN has created a strategic framework for primary education until 2030, which promotes these three pillars while also maintaining a general commitment to improving the quality of teaching. According to the IMF, the quality of public education in Algeria is below average for emerging economies in terms of results in international standardised tests. UNESCO’s 2017 report placed Algeria 119 out of 140 countries in terms of quality of education. However, the number of children out of school has fallen from 100,344 in 2008 to 21,362 in 2018.

BUDGET: Although austerity has caused budgetary contractions since the hydrocarbons crisis in 2014, education has continued to be a well-funded department in the past few years. The state has prioritised the education sector and maintained a consistent level of funding for the MEN and MESRS. According to figures from the draft 2019 Finance Law, the MEN will receive the second-largest budget allocation, after national defence, at AD709.6bn (€5.2bn). While the amount of funding going to the sector has fallen compared to previous years, this is not a unique occurrence; local authorities and health care have also experienced a decrease in budget for 2019. Nevertheless, the education sector is allocated over AD300bn (€2.2bn) more than these departments.
In the 2018/19 academic year, 48.8% of students in lower education belonged to the primary level, and this is set to increase.

**PUBLIC SCHOOLS:** In 2014 the state embarked upon a programme to build 733 new schools and, as of September 2018, 641 of these were under construction, with 162 set to be completed before the end of the year. Algiers, which has been particularly affected by the growing population and urbanisation rates, will benefit from over 250 new schools, with 202 of these already under construction, and 53 expected to be completed by the end of 2018.

According to the Algerian League for the Defence of Human Rights, some classrooms can reach up to 48 students. In order to address such overcrowding, the MEN has set up pre-fabricated classrooms as a short-term solution to the lack of classroom space, particularly in primary schools. The state has also sought to address this issue by converting social housing units to classrooms in Algiers.

**PRIMARY SCHOOLS:** Primary education has been at the forefront of the lower education policy since 2014, when former researcher Nouria Benghabrit was appointed as minister of national education. The net enrolment rate at the primary level meets international standards at 97.6% in 2016, while the portion of privately educated primary school students stands at only 0.9%. In the 2018/19 academic year, 48.8% of students in lower education belong to the primary level, representing over 4.5m pupils. While 19.31% of the 27,000 public schools in the country are already devoted to primary education, increasing numbers of students have put pressure on the existing infrastructure. The MEN has sought to reduce the number of students per class, which averaged 24.2 nationally in 2016 but can be much higher. The state has also been particularly active in improving school canteen facilities, spending AD26.5bn (€192.4m) annually on the provision of meals to 3.7m primary school students.

**SECONDARY SCHOOLS:** In the 2018/19 academic year lower and higher secondary students make up 31.7% and 13.7% respectively of the total enrolment rate for the lower education sector. For lower secondary education, the registration rate is above 95%.

After completing both lower and higher secondary school programmes, students are obligated to take an exam that determines whether or not they can complete further studies. Of the approximately 596,000 students taking the BEM in 2018 which advances students to higher secondary school, 56.9% passed compared to 56.3% in 2017, while the best scores in the past decade were recorded in 2012 when there was a pass rate of 72.1%. The passage rate of the baccalaureate, meanwhile, has improved significantly in the past two decades, from a success rate of 32.3% in 2000 to 55.9% in 2018. The highest pass rate was in the subject of mathematics, at 78.6%, while the wilaya (province) of Tizi Ouzou achieved the highest average score in the country at 69.2%.

**HIGHER EDUCATION:** It is significant to note that students’ grades determine their field of study in higher education, so they may not be able to pursue their first choice of subject if they do not gain the grades required to do so. In 2018 the MESRS stated that 69.51% of tertiary education enrollees were able to register for their first-choice subject. This system has been criticised for its rigidity and the inability to alter one’s educational path in higher education has led to a growing market for private education.

Higher education in Algeria has undergone a trend of expansion over the past two decades. Between 1999 and 2018 enrolment in tertiary education increased by 270%, with the number of staff correspondingly rising by 340%. While the public higher education system, overseen by the MESRS, was limited to 53 institutions in 1999, including 18 universities, large-scale investment has brought this number up to 106 higher education institutions, including 50 universities and 13 university centres.

In October 2016 the MESRS issued a decree that outlined the process of authorisation for private higher education institutions, and the first universities of this kind were officially recognised in October 2017. The standards for authorisation are high; of the 30 institutions reviewed in this first year, only three applications were granted. The first approval went to the Institut de Management Algéro-Américain, which has operated in partnership with the American Leadership University since 2013. As of August 2018, the MESRS stated that there are nine officially recognised private higher education institutions, which suggests there are significant opportunities for more private investors to enter this sector.

**ENROLMENT:** According to the Algerian League for the Defence of Human Rights, it is estimated that at the lower education level 400,000 students drop out of school per year. Officials have attributed this problem to a lack of support for children with learning difficulties, to the extent that the state has mobilised training programmes for teachers geared towards improving support for these students by placing the most experienced teachers at the first and second grade levels. In September 2018 the MEN announced

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The state has embarked upon a programme to build 733 new schools. As of September 2018, 641 were under construction with 162 set to be completed by the end of the year.
that it was working on a national strategy to address low enrolment and high dropout rates.

Enrolment rates for higher education are very high due to the government’s focus on sending every upper secondary graduate to university. As of August 2018, 96.2% of students who passed the baccalaureate that year had registered at a university. From its current enrolment figure of 1.7m, the MESRS projected that higher education institutions should expect to support 2m students in 2019/20 and 3.5m by 2030. In the 2017/18 academic year, there were 400 students for every 10,000 members of the Algerian population. This is likely to increase in coming years due to the recent baby boom. According to the MESRS, women accounted for 62.5% of registered students in higher education institutions and made up 65.6% of graduates in 2017. However, high levels of attainment do not necessarily translate into joining the workforce, which was only 18% female as of September 2018.

**SCHOLARSHIP:** All university students can benefit from a scholarship for the duration of their studies, paid each term, calculated relative to their annual parental income, with three fixed categories of AD4050 (£29.40), AD3600 (£26.14) or AD2700 (£19.60). In 2018 AD64.5bn (£468.3m) was spent on scholarships in addition to the provision of free meals and transportation for university students, amounting to 12.6% of the MESRS budget in 2018.

The state runs the National Exceptional Programme, which provides a scholarship for doctoral students to be sent abroad in order to advance their studies. Since 2014 the MESRS has awarded scholarships to 1600 Algerian students for 18-month terms to allow them to develop new skills at foreign institutions. Algeria has also been active in establishing international partnerships in the higher education sector, particularly in the area of scientific research. Agreements have recently been made with Mauritania, Italy and Romania that foster international exchange and provide scholarships for students wishing to study abroad.

**ACADEMIC AFFILIATIONS:** In December 2017 the MESRS officially joined the Erasmus Plus programme, which facilitates study abroad opportunities for members of the partner countries. With a budget of €14.7bn for the 2014-20 period, Erasmus Plus, organised by the EU, aims to fund the international learning and teaching experiences of over 4m individuals, with hopes to extend this to 12m for the subsequent 2021-27 period. This academic affiliation will allow Algerian students increased opportunities to study abroad in the coming years as well as bolster Algerian relationships with foreign institutions. Every individual higher education establishment in Algeria has its own relationships with foreign universities or institutes of higher learning.

**WORKFORCE:** While hiring freezes have been implemented in most areas in the public sector, education has benefitted from a series of recruitment waves in recent years. The MEN announced the recruitment of 11,487 teaching and administrative positions for the 2018/19 school year. This number is significantly lower than that of last year’s hiring cycle, for which 28,000 teachers were recruited, but this is to be expected in a period of hiring freezes.

The MESRS also announced that 3000 supervising teachers will be recruited in higher education institutions in 2018/19, bringing the total to nearly 63,000. This is almost four times more than the number of teachers employed in 1999, which was around 17,000. Despite the recruitment wave, the educational workforce has challenged the government since 2017 by demanding improved wages and pension plans. Officials have recognised trade unions to the extent that teachers have now gained collective bargaining power. As of September 2018, Benghabrit announced that 67% of union concerns had been addressed, 11% were in the process of negotiation and 21% were outside the MEN’s jurisdiction. The MEN emphasised the need for the provision of quality education and seeks to remedy the challenges raised by the trade unions to continue to improve education services.

With the number of students in higher education set to increase from 1.7m in 2018 to 3.5m by 2030, there is potential for the number of private universities to increase to meet the growing demand.

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The state has sought to reduce the number of students per class, which averaged 24.2 nationally in 2016.

TEACHER TRAINING: As one of the three areas of focus for government policy, Benghabrit stated that the 2018/19 academic year would emphasise the importance of educational training. The current training programme, which supported nearly 80,000 teachers in the 2017/18 cycle, is part of the national training plan that is expected to run until 2020. The programme is geared towards creating a more professional approach to education, with an emphasis on training on every level, as well as updating the curriculum for the technological age.

VOCATIONAL TRAINING: The state cites vocational training as one of its key strategies in combatting youth unemployment, which reached 26.4% in April 2018, according to the National Statistics Office. The September 2018 cycle of vocational training offered 400,000 posts across 478 specialisations. The ministry has focused on diversifying and expanding its establishments to the extent that the 2018/19 cycle saw the addition of 54 new specialisations and 67 new establishments for vocational training.

In order to bring the training of education staff up to an international standard, Algerian officials and Swiss entrepreneurs met in June 2018 regarding the development of professional training in Algeria. The newly created Algerian-Swiss Business Club, established in April 2018, aims to combine the Swiss model of vocational training, which contributes to the low unemployment rate of 3%, with Algerian stakeholders to support companies from both nations in expanding and improving teacher training.

FOREIGN PRIVATE INSTITUTIONS: In the lower education segment, of the 380 nationally accredited private schools, a small number of international schools have started to emerge in urban centres. This emerging international education offering include the American International School of Algiers, which opened in 2016, as well as two French schools that have been recognised by the Agency for French Education Abroad, Lycée International Alexandre Dumas (LIAD) and the Hydra School, both of which are in Algiers. The LIAD has expanded its operations in recent years, opening two new satellite campuses, one in Oran in December 2017 and one in Annaba in May 2018. In addition, a range of unofficial private institutions have emerged in both the lower and higher segments of the education sector as a result of the growing demand for marketable skills that the public structures do not accommodate for.

“There are 100 new private educational institutions opening every year, both schools themselves and private institutions to help students after school,” Flora Stienne, country director of EF Education First, an international education company, told OBG. “This is starting to become a lucrative trend as people are losing confidence in public schools; however, there are no official private school standards, so quality can be very different from one to another.”

The lack of a regulatory framework for private lower education institutions has been addressed to a certain extent at the higher education level. Nine private institutes of higher education have been officially recognised by the MESRS so far, though not all of these establishments are currently open to students. However, private tertiary education establishments can only be legally authorised by Algerian nationals holding a doctorate or assistant professorship and with 10 or more years experience in the higher education sector. These private institutions must also abide by the 51:49 capital share rule required for joint-stock companies. Foreign direct investment has also been restricted to the extent that the establishment of a foreign institute of higher education must be ratified by an accord between the Algerian government and officials from the country in question.

E-LEARNING: E-learning initiatives have advanced significantly as institutions and companies seek to overcome budgetary constraints while providing Algerian students now have more opportunities to study abroad.
quality education and training services for students and employees. On the public side, the National Centre for Professional Distance Education (Centre National de la Formation et de l’Enseignement Professionnels à Distance, CNEPD) became one of the first public institutions in the country to set up an e-learning platform in January 2018. Aimed at individuals seeking to expand their professional and technical competences, the CNEPD e-learning platform expands educational opportunities to individuals with physical or geographical constraints.

The Algerian e-learning platform BeeForm launched in November 2017 with the aim of providing companies and public institutions with digital tools for training on a mass level. Among the first signatories of agreements with BeeForm were institutions from both the public and private sectors including the public universities School of Commercial High Studies and Research Centre for Scientific and Technical Information, as well as local IT consultancy COSOF Group and Algerian cloud services provider ISSAL, among other private firms. The Tipaza Smart City project has also signed an agreement with BeeForm.

INDUSTRY-ACADEMIA COLLABORATION: The state has also sought to collaborate with private industrial players in order to reinforce and complement public programmes in vocational training. In the last decade over 13,000 agreements between industry and academic institutions have been signed, resulting in the training of 650,000 new workers. In October 2018 Huawei Algeria signed cooperation agreements with the MESRS and two public universities to establish an academy of excellence, which is scheduled to commence operations in November 2019. Huawei Algeria seeks to foster the development of the country’s ICT ecosystem and intends to build 30 further academies of excellence in the next three years in collaboration with the MESRS to train university students in the latest technological innovations.

OUTLOOK: As the MEN reforms the underpinnings of the education system, increasing population and urbanisation rates are poised to continue to put pressure on the public education system for the foreseeable future. With 29.3% of the population currently under the age of 14, providing quality teaching to rising numbers of students will challenge the educational infrastructure in the coming decades.

The state is beginning to officially authorise the establishment of private higher education institutions. As they grow they will likely become increasingly important in relieving public resources as enrolment numbers increase in line with the growing younger population. If investors are willing to go through the accreditation procedure enforced by the state, there are significant opportunities to be had in the private sector. In the short term the arena of vocational education is also particularly promising as the state seeks to forge relationships with local industry players to create training programmes to improve youth unemployment rates and address pressing market needs.

With 29.3% of the population under the age of 14, providing quality teaching to rising numbers of students presents both challenges and significant opportunities.
Encouraging moves

Tahar Hadjar, Minister of Higher Education and Scientific Research, on partnerships, innovation and entrepreneurship

How is the sector meeting the challenge of a fast-growing student population?
HADJAR: The sector is in charge of more students every year, with almost 710,000 new enrolments in 2018. For the 2018/19 academic year Algerian universities expect to have more than 1.8m students. Numerous efforts have been taken to expand the university network, and create new infrastructure and training centres. The network now covers the 48 wilayas (provinces), and the number of educational institutions in Algeria reached 106, including 50 universities. A national policy on the mutualisation of human and material resources has been implemented in order to ensure that every student has a place at a higher education institution.

What has been done to encourage partnerships and academic exchanges with foreign universities?
HADJAR: Three instruments are already in place to promote such partnerships: an intergovernmental commission on economic and trade cooperation; sectoral agreements between the ministry and its foreign counterparts; and informal exchanges between teachers and PhD students. These PhD students contribute to the development of previous agreements signed with laboratories into global inter-university partnerships. The focus of these agreements include the modernisation of curricula, the professionalisation of training, the employability of graduates and the development of soft skills in order to better ensure integration of students into the economy. It is also important that we participate in international scientific symposia, as well as propose joint solutions together with African universities for large-scale projects launched by international institutions, such as the Intra-Africa Academic Mobility Scheme established under the strategic partnership between the African Union and the EU. Partnerships with African universities will contribute to increasing the number of students who come to study in Algeria, sending Algerian teachers to other countries across the region, and increasing common postgraduate programmes and scientific cooperation.

In what ways is research and development (R&D) being heralded as a national priority?
HADJAR: R&D was noted by the 2015 Law of Orientation on Scientific Research and Technological Development as an area that required more attention, and is now a prioritised segment within the national development strategy. About 90% of research potential is located in universities, while in developed and developing countries 80% of this potential is found in the private sector. Companies in Algeria cannot only import licences and make the same products forever; they have to promote innovation and adapt their products to keep pace with competition, which requires efficient industrial research structures. Thus, the 2015 law introduced the possibility of developing PhDs within a company, helping to address the needs of the economy.

It is also important to mention that, in accordance with the national diversification policy, specific sectors such as energy, industry, ICT and agriculture receive particular attention, namely the implementation of tailored measures to boost education and research in line with the needs of economic operators.

How could entrepreneurship be further promoted?
HADJAR: One key objective is to shift the focus from “teaching for teaching” to “teaching for integration”. In other words, universities have to train job creators, not job seekers, and thereby improve competence and develop high-level courses capable of facilitating the labour market. This strategy implements modules based on the International Labour Organisation, which teaches both technical and management skills to students to help them start their own business. Additionally, the ministry has been developing courses and programmes with universities in order to adapt to the needs of the economy and promote entrepreneurship.
Global Perspective

On the job

Development and promotion of technical and vocational training key to improving employment rates

Although priorities vary when it comes to economic development, the increasing need for skilled labour is both a cause of and a requirement for accelerated growth across markets. This demand for technical specialists is often most concentrated in the sectors that are vital to economic advancement, including infrastructure, oil and gas exploration and extraction, and value-add processes for agricultural commodities. Efforts to expand this expertise locally, rather than relying on international organisations or expatriate leadership, have come to the fore in recent years, both as part of individual country schemes and multinational efforts. As a result, markets around the world are using a range of strategies to overcome common challenges and align legal frameworks, policies, and education and training systems with industry needs.

SKILLS MISMATCH: On average, global unemployment remains an ongoing challenge, particularly in developing economies. According to the “World Employment and Social Outlook: Trends 2018” report by the International Labour Organisation, the number of unemployed people around the world is expected to fall by 400,000 in 2018 to just over 192m, compared to an increase of 2.6m in 2017. The report credits the stabilisation of unemployment to growth in developed markets where numbers will dip to pre-crisis levels. Developing countries, on the other hand, will continue to see unemployment rise. Job creation is acknowledged as a global need by international entities like UNESCO, which estimates that at least 475m new jobs need to be created over the next decade to absorb the 73m currently unemployed youth population, as well as the influx of 40m new entrants to the labour market per year.

It is not the case that high unemployment rates result from a lack of jobs, but rather from the mismatch of market needs and skills that people bring to industries. A 2014 World Bank report on Ghana’s demand and supply of labour, for example, estimated that over 1m jobs could become available in the country’s booming construction sector between 2015 and 2020. However, this demand remains unmet by the local supply, resulting in a deficit of 60,000-70,000 skilled workers.

Furthermore, required skill sets are constantly shifting as industries change more rapidly. The World Economic Forum reports that the top-10 skills required by companies will change between 2015 and 2020.

PRACTICAL TRAINING: Technical and vocational education and training (TVET) programmes provide a solution to this mismatch, assuming they are directly linked to market needs. To this end, TVET provision is increasingly focused on apprentice-style training to prepare students for the work they will eventually do. This has been championed as the way forward by numerous international organisations. As noted in the 2017 Inter-American Development Bank report, “On-the-job training helps develop specific skills that can boost workers’ productivity. Thus, while preparedness is important, the intensity and quality of the training received in the workplace is crucial. This is even more true in a fast-changing world, where updating skills is the key to workers’ relevance and longevity.”

Markets like Nigeria have started working on improving the links between education and employment with the 2015 establishment of Vocational Enterprise Institutions (VEIs) and Innovation Enterprise Institutions (IEIs). These schools – 82 approved VEIs and 154 IEIs as of April 2018, according to the National Board of Technical Education – are directly partnered with businesses to provide tailored technical training.

REGULATORY ENVIRONMENTS: In addition to training, international knowledge transfer on technical subjects can be highly valuable, but can be made difficult by local content regulations that set quotas for the use of local staff and resources. According to a 2016 paper from the OECD, local content regulations can cause notable losses and inefficiencies. For example, when Ghana discovered offshore oil fields in 2007, there was a definite skill gap in the local market as Ghanaians were

Global Perspective

One of the main causes of unemployment around the globe is the mismatch that often exists between the needs of the market and the skills of the workforce.
newcomers to the highly technical industry, making it difficult to adhere to regulations to locally staff many jobs. In the GCC, nationalisation policies that prioritise the bulk of jobs to citizens as opposed to foreigners have been adopted in Saudi Arabia, the UAE and Oman. This is intended to raise local employment, but these policies can result in high costs for private firms, as local salaries are usually higher than expatriate salaries, and training is often required for specific positions.

Some industry players are optimistic that a thoughtful revision of policies could achieve both objectives of increasing local employment while maintaining global competitiveness. Shaheen Al Balushi, CEO of the Oman Society of Contractors, explained this would involve revising local content policies to more realistic targets. “Obtaining a 30% Omanisation rate in a sector like construction that employs over 750,000 people means we would need to employ 225,000 Omanis in the sector alone, when the entire Omani workforce in the private sector is 230,000,” he told OBG. “The current reality is we stand below 8%, around 55,000, in the sector, so it would make more sense to establish a target of 10%, gradually going up to 15% by 2020.”

International knowledge transfer can also come from local employees who worked overseas and have returned to their home countries. For example, Mirna Arif, regional sales director in Cairo for Baker Hughes, a global oil field services company, explained that with Egypt’s recent oil and gas discoveries, Egyptian engineers who have gained highly technical expertise in the Gulf are returning to Egypt for work. “We have a huge labour pool and now we also have a lot of mid-career hires who bring exposure and experience from abroad to support the Egyptian industry,” she told OBG.

Universities provide another avenue for building globally competitive skill sets. Qatar, for example, relies on international consultants for deep technical expertise in the oil and gas business, according to Mike Bowman, who served as chair of the Petroleum Engineering Programme at Texas A&M University at Qatar from 2015 to 2017. “A next step could be using international campuses as vehicles to create that technical expertise by establishing PhD programmes that will make Qatar less dependent on external players,” he said.

**Government initiatives to incorporate vocational programmes into their national education and economic strategies have been largely well received, though further efforts to streamline oversight are often needed.**

**Government initiatives to incorporate vocational programmes into their national education and economic strategies have been largely well received, though further efforts to streamline oversight are often needed.**

In South Africa the establishment of the Department of Higher Education and Training (DHET) in 2009 was a key step in integrating and consolidating TVET policy, according to the OECD. Rather than dividing responsibilities between the Department of Education and the Department of Labour, the DHET now bears responsibility for an integrated “post-school” system consisting of universities, colleges, the Sector Education and Training Authority, the National Skills Fund, and regulatory bodies that oversee quality.

Increased public investment in TVET programming is also being witnessed. The Asian Development Bank notes that many economically successful countries in Asia, including Singapore and South Korea, have invested public funds in skills development as a growth strategy, and others in the region are following suit. In Indonesia, for example, vocational training is increasingly seen as a way to tackle the skills shortage, particularly in manufacturing. Airlangga Hartarto, the minister of industry, told OBG, “Our main goal is to improve workers’ capabilities by developing technical skills through vocational training. The ministry is pushing for linkages between the needs of industrial development and the availability of education. Therefore, technical training and vocational schools are at the centre of our policy to develop our people’s capabilities, as well as push for new entrepreneurship. The ministry runs nine vocational schools, nine polytechnics and a community college.”

Rosan Roeslani, chairman of the Indonesian Chamber of Industry and Commerce (KADIN), has also observed this push. “The government has made one of its primary targets to boost vocational training education. If you look at the structure of Indonesian labour, out of 122m people, slightly more than 50% have an elementary school education, 21% have completed junior high school and about 19% have senior high school qualifications. Only 10-12% have a university background. Therefore, vocational training is important to improve workforce skills and increase competitiveness.”

**Public-private partnerships:** As highlighted by the World Economic Forum, the World Bank and markets with long-standing successful vocational training programmes, such as Germany and Austria, when government strategies directly align with and support the on-the-job training provided by private companies, economies have the most to gain. This model of cooperation is becoming more articulated around the globe.

“Both public and private institutions must collaborate, as the private sector alone should not be pushing reforms. The private sector should be responsible under the law for telling the government what work skills they require, similar to the annual consultations provided by the Sector Skills Councils in the UK,” Virachai Techavijit, the chairman and founder of the private Regent’s International School in Thailand, told OBG.

Efforts to reduce the supply-demand gap are under way. Governments, in conjunction with private companies, are working to equip graduates with skills to bring to the workplace. Promoting this cooperation and commitment will produce a stronger pool of talent to help economies grow throughout the 21st century.
Tax

Draft 2019 Finance Act maintains the same tax rates
Corporate tax remains one of the lowest in the region
Tax exemptions conditional on reinvestment of profits
Free trade deals see reduction of Customs duties
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Construction activities benefit from a 25% reduction in turnover tax

Terms of payment

A breakdown and analysis of the tax system

The Algerian tax system is structured and governed among 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; and
- The code of stamp duties.

Another code, the fiscal procedures code, governs the relation 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 on a yearly basis through finance acts, which amend 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 gained in substance and applicability, and have been adapted to the economic context of each coming year. This reflects the government’s aim of implementing the most appropriate and feasible tax system for the stakeholders of the Algerian economy.

On reviewing these reforms, it can be concluded that the Algerian tax system has adapted well to changes in the economic environment and remains stable.

The draft version of the 2019 Finance Act is not expected to add any new taxes or change tax rates. For individuals, direct taxes have been stable in terms of substance and procedure, as the climbing scale of rates for personal income tax has not changed for the last decade and is unlikely to change in the next fiscal year.

Corporate income tax in Algeria remains consistently among the lowest tax rates in the region, while the recent introduction of several rates based on business type can be seen as an attempt to fine tune the taxation of corporate entities. Aside from direct taxes, Algeria also applies indirect taxes such as VAT and taxes on the consumption of designated products.

The forecast of total tax collection in 2019 still keeps a high proportion of taxes related to the hydrocarbons sector, expected at 41.5% of the total resources. Hydrocarbons sector taxes are specific and regulated by the hydrocarbons law, which supersedes domestic common tax law as it is considered as 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, DGE). Since 2018 the DGE has also handled taxes from the following:
- Algerian entities with an annual turnover of AD2bn (€14.5m); and
- Permanent establishments of foreign entities operating in contracts, the value of which exceeds AD1bn (€7.3m).

Other tax payers are now dealing with decentralised departments, who are offering similar electronic services as the one proposed by the DGE for reporting and paying taxes online.

GENERAL TAX REGIME: The general tax regime applies to the taxation of individuals doing business, residents of Algeria and resident corporate entities, no matter whether these entities are owned by Algerian nationals or by foreign direct investors. It also applies to permanent establishments of foreign companies present in Algeria, by the performance of a contract, or to those foreign companies electing for the general tax regime instead of the withholding regime.

The general tax regime may also apply to registered branches which were set up before 2009 and are not allowed to perform business anymore. The general regime, which is also applicable to foreign companies incorporated outside of Algeria with standalone permanent establishment or as members of consortia in Algeria, includes two main taxes:
- The turnover tax; and
- The corporate income tax.
Furthermore, some foreign companies with a permanent establishment may pay a branch tax.

**TAP:** The turnover tax (taxe sur l’activité professionnelle, TAP) is a tax dedicated to the financing of provinces and districts. It applies to total sales and ends as an expense for the tax payer. Unlike VAT, the TAP is a direct tax and is paid by the individual or the company performing the business. It shall not be collected from the clients as an indirect tax.

Therefore, the TAP shall be included in the pricing of any good 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 up 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 includes a commitment to reinvest 30% of 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 the benefit of any further reduction, while a reduction of 25% is granted to the activities of construction and civil and hydraulics works.

Construction activities, and 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 constructions sector, while it is due upon billing for other businesses.

**CORPORATE INCOME TAX:** The filing of corporate income tax for corporate bodies takes place at the location at which the company is headquartered in Algeria or at the location of the main establishment. The annual tax return is due by April 30 of the following year. Tax payers registered at the DGE pay the balance after the deduction of instalments within the next 20 days following the deadline mentioned above, i.e. May 20 of the following year.

For Algerian companies, instalments are based on profits from the previous year. Three instalments at 30% of the previous year’s profits 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 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;
- 23% for construction activities, civil and hydraulics, thermal activities, and tourism excluding travel agencies; and
- 26% for the other activities.

In case of joint activities, tax payers are asked to keep separate bookkeeping and are exposed to the highest rate of 26% when they do not maintain separate accounting by rate of taxation. For the purpose of enjoying the rate of 23%, construction companies, and civil and hydraulics works must meet the requirement of contributing to social security funds of the sector, such CACOBATPH and OPREBATPH.

For the purpose of calculating the taxable profit, expenses incurred for the direct interest of the business are allowed for deduction, provided that they be effective and properly documented. A few restrictions are stated by the tax law, which:

- Limits the deduction of passengers’ cars depreciation to AD1m (€7260) in reference to the purchase price;
- Disallows the deduction of lease charge, and maintenance and repairs expenses for passengers’ cars; and
- Imposes a threshold for the deduction of overheads limited to 1% of the annual turnover (unless a tax treaty states differently), bearing in mind that these costs shall be supported in full with appropriate evidence.

In addition to these restrictions, for the purpose of corporate income tax calculation, the Algerian tax regulation disallows:

- The deduction of fines and penalties charged for non-compliance with laws and regulations;
- Rent charges that are not related to premises used for the operations; and
- Both apprenticeship and training tax, while losses can be carried forward for four years.

Algerian companies may also benefit from a corporate income tax holiday, based on the same criteria and with the same conditions as the TAP tax holiday.

**MANDATORY REINVESTMENT OF PROFITS:** Taxpayers who benefit from the exemption or reductions of taxes, granted in the operating phase as incentives to their investment, are required to reinvest 30% of the profits corresponding to these exemptions or reductions within a period of four years from the date of closing of the fiscal year. The related exemption or reductions are those applicable to corporate income tax and to the TAP.

Reinvestment may consist of acquisitions of assets needed for:

- Creating new activities;
- The extension of existing production capacities; or
- For the rehabilitation of their capacities.

Investment may also take place through stakeholding in other companies. The reinvestment must be carried out in respect of each fiscal year or several consecutive years.

In the instance of combined fiscal years, the period of four years mentioned above 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.

**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 the rate of 15%.

**TAXATION OF DIVIDENDS:** Dividends paid to Algerian corporate bodies are exempt from taxation, provided that the company which 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 from 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 141 of the Direct Tax Code.

Under the wording of these regulations, companies are considered to be related parties in the following situations:
- When one company based in Algeria, or outside of Algeria, is directly or indirectly involved in the management, the control or the share capital of an entity operated in Algeria or outside of Algeria.
- If in a company operated in Algeria or outside of Algeria, the same persons participate directly or indirectly in the management, the control or the share capital of a company operated in Algeria or outside of Algeria.

**STANDARD DOCUMENTATION SHALL INCLUDE:**

- Global documentation including: The global information about the activity of the company, its organizational structure and the kinds of transactions between the related entities, together with a description of the group transfer pricing policy.
- 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, including 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;
  - The list of key owned intangible assets such as licences, trademarks, trade name and knowledge;
  - Copies of the contracts between related companies;
  - Financial information, information about overhead and administration costs, and research and development costs; and
  - 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 (€14,500) with the reinstatement of the transferred benefits, increased by 25%.

**WITHHOLDING TAX REGIME:** There is 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 regime.

Foreign services providers may exercise the option to elect for the common law regime. In this case, foreign services providers become responsible for their own taxes and have to meet the same compliance required under the general tax regime.

When the withholding tax system applies, the tax regulation does not impose the set up of a formal entity. The client paying the fee is responsible for withholding the tax and for remitting it to the tax collector.

In practice, the withholding tax applies only to revenues made by foreign companies for services or management contracts. Under service contracts, the withholding tax is 24%, while management contracts
Both Algerian and expat employers must comply with the filing and payment of income tax for employees.

- are subject to 20% withholding. The tax withheld is inclusive of all taxes and clears accordingly corporate income tax, the TAP and the VAT with a full discharge of any further taxation.

The withholding tax, which is taken from the gross amount of the collected turnover, is reduced by 60% when the amount is paid as a lease charge under an international lease agreement, when the lesee is not established in Algeria.

Contracts related to the use of computer software enjoy a reduction of 80% on the amount of the royalties due for the use of the software. The foreign company has to provide a return at the end of every year, summarising the revenues and the related withholdings, together with a summary of payments to third parties (total of payments by vendor).

WHERE TAX TREATIES APPLY: Tax treaties are bilateral agreements concluded between two countries to avoid or limit double taxation. A tax treaty generally determines the taxation and the tax rates that a country can apply to a taxpayer’s income and wealth. Most of the tax treaties concluded by Algeria are under the OECD model and would very often define the presence of different kinds of businesses that qualify for a permanent establishment.

Most of the treaties would generally define the following as “permanent establishments”:

- A place of management;
- A branch;
- An office;
- A factory;
- A workshop;
- A mine, an oil or gas well, a quarry or any other place of the extraction of natural resources; or
- A worksite for the construction of a building or for assembling – such as for an engineering, procurement and construction contract – including supervision activities which last more than a given period, generally defined as three to six months.

Since Algerian common law considers that construction works shall be taxed under the general regime, the country of origin does not matter for construction companies from non-tax treaty countries.

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 apply for the taxation of individuals, as in most of the cases individuals may keep their taxation in their home country provided that they meet the following criteria:

- Spend less than 183 days in Algeria;
- That their salary is paid by an employer who is non-resident in 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 states. In addition, Algeria has also concluded tax treaties with Russia, Turkey, China, Indonesia, South Korea, South Africa and Canada.

VAT: 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 a few items and transactions relating to construction activity and to a number of specific goods that the state aims to deliver to the market at affordable prices.

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 engaged in taxable transactions in the Algerian territory but with no place of business in Algeria 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.

The refund of input VAT is only admitted in some specific cases. For example, 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 from their client a certificate of exemption for every invoice issued and paid.

The vendor on his side has to apply for VAT exemption annually in order to receive 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 ranging...
from 5% to 30%. Algeria has concluded a free trade treaty with the EU, one of the main objectives 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.

Furthermore, any change of location should be declared to the Customs authorities, as they may charge heavy fines for not complying with this requirement.

PERSONAL INCOME TAX ON SALARIES: Any employer in Algeria, no matter whether 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 all their revenue. However, those whose fiscal domicile is outside Algeria are taxed in Algeria for their revenue earned from an Algerian source.

Individuals are considered to be a tax resident in Algeria when:
- They have there a usual home, either through ownership of a house in Algeria or they have rented a house for a minimum of one year;
- Individuals for whom Algeria is the main place of residence or the main place of their interests; and
- They undertake a professional activity in the country via some form of employment or as a freelancer.

For employees, the revenue is defined as all wages, salaries and pensions.

However, 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 social security payments).

The rates displayed in the table below apply to personal income tax. Salaries stated in foreign currency – such as those paid to expatriates – should be converted at the exchange rate of the day on which the payment is made.

**Personal income tax**

<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>

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 delivered by a government-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 35% social security contributions. All employers are liable to social security by remitting the employees’ contribution withheld at the source at the rate of 9%, together with the employers’ contribution at the rate of 26%. There is an exception for those contributing to a social security scheme in a country that has a social security treaty with Algeria, under a secondment scheme.

However, the payment of contributions outside of Algeria’s overseas contribution does not exempt an individual from paying social security contributions 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 in order to receive medical coverage for sickness and maternity, subject to a monthly payment of a 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 – namely 10 days from first day of employment – is punishable with a fine of between AD100,000 (€726) and AD200,000 (€1450) 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 between AD200,000 (€1450) and AD500,000 (€3630) per worker not affiliated, and a term of imprisonment of between two and 24 months.

PAID LEAVE & WORK INTERRUPTED BY INCLEMENT WEATHER IN THE CONSTRUCTION SECTOR: Companies performing an activity related to the construction sector, civil works and hydraulic works are also required to contribute to a special fund – the CACOBATPH – to cover vacation pay.

Employers contribute to this fund at the rate of 12.21% for the paid vacation period, with an additional contribution at the rate of 0.75%, with half of the amount paid by the employee and half of the amount paid by the employer, to cover the paid days for interruption of works under bad weather conditions.

OBG would like to thank Mazars Algeria for its contribution to THE REPORT Algeria 2018
Launching businesses

Samir Hadj Ali, Chartered Accountant and Managing Partner, Mazars Algeria, on the staying power of representative offices

Foreign business partners frequently ask whether representative offices will continue to be allowed in Algeria. Typically, this is asked when they plan to set up such an entity or when the time comes to renew its licence, which is valid for only two years.

Representative offices, generally addressed as liaison offices, have an historical purpose that no longer applies in the current context of the economy. From the late 1960s until the early 1990s, this kind of entity was required during the time of state monopoly on foreign trade, when the import of goods and services was exclusively performed by state-owned companies.

Based on the principle that intermediaries would not be allowed for the supply of goods and services, foreign partners were asked to have representative offices as unique interlocutors in this context. This explains why, until now, the Ministry of Commerce has been in charge of delivering agreements, allowing these offices to operate, except for financial institutions, for which the Bank of Algeria exercises authority.

For more than five decades, representative offices have been allowed to exist, subject to the prevailing economic environment, leading to speculation from time to time that these entities will be closed. From the standpoint of foreign direct investment, these entities tend to not be the best tool, as they do not directly result in productive capital expenditure. Additionally, they are not tax payers either, apart from personal income tax withheld from employees’ salaries. However, in some cases representative offices have been the first step for observing and learning local business practices and adapting to the local environment, before the launch of effective business in the country.

Under Algerian regulations, a representative office does not have any right to perform any kind of business or commercial transaction, and has no share capital, as it is not a corporate entity. Therefore, it cannot have any kind of revenue, apart from the funding provided by its mother company. No trading documents, such as invoices and delivery vouchers should be made under the name of the representative office. The representative office can only represent the mother company that has applied for such an installation, in order to promote products and services and liaise with the customers who directly deal with the offshore trading point.

The order from the Ministry of Commerce issued on August 9, 2015 defines representative offices and their role without ambiguity. Under the order, representative offices are temporary entities of representation in charge of exploring the market for the organisation of contacts, collecting information, promoting products and conducting administrative formalities to benefit foreign commercial companies.

The order has brought stricter requirements such as paying a registration duty of AD1.5m (€10,900), a bond deposit of $30,000, a minimum starting deposit of $5000 and a two-year lease agreement aligned with the duration of the agreement. Lastly, the legal representative of the foreign commercial company has to provide a commitment of compliance with laws and regulations in force, including not to exercise direct or indirect economic activities in Algerian territory.

These provisions do not discourage foreign commercial companies that continue to file their application for approval. This kind of entity continues to be attractive, even if in some cases the processing time is longer than usual. Some foreign commercial companies have instead started to establish a presence through corporate entities formed under the current conditions, where a majority stake is held by Algerian nationals and residents of Algeria.

The corporate entity plays a similar role to the representative office, with information and marketing services as the company’s key purpose. This model leads to the development of services based on billing rates, commissions or re-billing on a cost-plus basis, which develops a taxable basis for corporate income tax.
Legal Framework

New legislation on e-commerce and data protection
Import of specific foreign goods temporarily suspended
Rules for private entity involvement in public services
Laws provide for a range of investment incentives
Firmly established in North Africa, Gide is an ideal partner in Algeria

For many years, Gide has enjoyed close ties with leading economic and business stakeholders around the Mediterranean basin. It has several offices in the region: Algiers, Cairo, Casablanca, Tunis and Istanbul.

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- Projects (Finance & Infrastructure) - Energy
- Tax
- Exchange Control
- Competition & International Trade - Merger Control
- Banking & Finance - Capital Markets - Insurance
- International Arbitration
- Employment
- Real Estate Transactions & Financing
- Public Law

Contact Partner: Samy Laghouati | laghouati@gide.com

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Legal landscape

A summary of laws and regulations for investors in Algeria

The Algerian authorities have made significant efforts to improve and secure the business and investment climate, particularly through the following measures:

- The implementation of new legislation for e-commerce, including electronic advertising, through Law No. 18-05 (Law 18-05) of May 10, 2018 on e-commerce, demonstrating a major step forward by introducing a legal regime to a field that had been previously unregulated;
- The implementation of a new legal framework for the protection of personal data through Law No. 18-07 (Law 18-07) of June 10, 2018 on the protection of natural persons with regard to the processing of personal data has recently been passed.

The latter confirms the willingness of the authorities to improve the investment climate and to secure personal data through the dedication of this new legal framework.

INVESTMENT INCENTIVES: Decree No. 17-101 implementing Law No. 16-09 on the promotion of investment (the Investment Law) specifies the arrangements for implementing investment incentives, namely:

- The advantages applicable to the extension and rehabilitation investments;
- The exceptional advantages;
- Other advantages granted depending on the investment’s location;
- The other advantages for any investment exceeding AD5bn (€36.3m); and
- The advantages for projects of particular interest to the national economy.

51:49 RULE: Since the 2009 Complementary Finance Law (2009 CFL), Algerian foreign investment regulations provide for the limitation of foreign ownership to 49% in any investment made in the sectors pertaining to the production of goods and services, as well as in the imports sector – so the 51:49 rule ensures the creation of joint ventures in which Algerian partners hold the majority stake.

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 to benefit Algerian shareholders, such as Resolution No. 10-154 of October 12, 2017.

As a reminder, Article 30 of the Investment Law states that any sale of shares in a Algerian company by or to foreign investors is subject to the state preemption right. However, the CPE, through this resolution immediately implemented, devotes a new principle, namely the CPE would not intend to exercise this preemption right in the following cases:

- The transfer of shares from a foreign shareholder to the benefit of other foreign shareholders, provided that the transfer does not affect the 51:49 rule;
- The transfer of shares by Algerian resident shareholders owning 100% of an Algerian entity provided that such a transfer would not exceed the maximum limit of 49% of the share capital; and
- The transfer of shares by foreign shareholders to the benefit of Algerian resident shareholders under companies that were established before the 2009 CFL came into effect.

REPURCHASE RIGHTS: Article 47 of the 2010 CFL introduced the Algerian state’s right to repurchase; however, there were a certain number of uncertainties regarding the implementation of this right. Article 31 of the Investment Law clarified that any sale of 10% or more of shares of a foreign company owning an interest in an Algerian entity provided that such a transfer would not exceed the maximum limit of 49% of the share capital; and
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The Algerian authorities have made significant efforts to improve the business and investment legal framework – which, in the absence of further specifications, may include tax and Customs exemptions by the current investment agency, the National Agency of Investment Development (Agence Nationale de Développement de l’Investissement, ANDI), or by the country’s former investment agency, the Investment Promotion Agency.

**LOCAL FINANCING:** The obligation to resort to local financing for investments (excluding the constitution of social capital for companies), which has been relaxed since Article 55 of the 2016 Finance Law (2016 FL), enables Algerian businesses to resort to outside financing essential to the completion of strategic investment and is subject government approval on a case-by-case basis. Shareholders’ loans granted by the foreign partners of an Algerian company are possible on the condition that no remuneration is paid to the shareholder in this respect, and to the extent that the funds do not remain available to the company for more than three years. After the three-year period, the balance of the shareholders’ loans would have to be capitalised in the share capital of the company.

**REINVESTMENT:** Article 142 of the Direct Tax Code, as modified by Article 5 of the 2014 FL and Article 2 of the 2016 FL, provides that a company benefitting from exemptions or reductions granted during the exploitation period as a result of the ANDI regime must reinvest at least 30% of their profit in Algeria. The time frame for these exemptions or reductions is within four years of the end of the fiscal year during which the favourable regime is applied.

**PUBLIC PROCUREMENT CONTRACTS:** The newly established Public Procurement Code 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.” 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.

**PUBLIC SERVICE DELEGATION:** The first implementation of the legal framework regarding the territorial communities – Decree No. 15-247, dated September 16, 2015 – has introduced a new legal framework allowing legal entities responsible for public services to delegate the management of this services by agreement. The remuneration of the delegate is mainly ensured by the exploitation of the public service.

Decree No. 15-247 provides several forms of delegation, concession, aftermage (leasing), public service management or management contracts. The form of delegation employed is determined by a number of factors, which include the risk taken by the delegate, the level of control over of the delegating authority and the level of complexity of the public service. At the end of the delegation agreement, all investments and goods relating to the delegated public service become the property of the delegating public legal entity.

Within this framework, the modalities of the public service delegation have been defined by Decree No. 18-199 of August 2, 2018, relating to the public services delegation, regarding the territorial community and the attached administrative public establishments.

Decree No. 18-199 defines the public service delegation as the transfer of certain missions – but not the sovereign missions – to a delegate for the purpose of the public interest, being specified that the delegate has to be a legal entity (public or private) governed by Algerian law. Thus, for such delegations by territorial communities, no delegation to a foreign company would be possible.

The delegation agreement is entered into according to the following procedures:

- Competitive tendering which is the common procedure and aims at obtaining the best offer, i.e., the offer with the best professional, technical and financial guarantees according to the rating scale defined by the specification. It can be noted that the competitive tendering has for the first phase a preselection of candidates; only the selected candidates can submit an offer.
- Non-competitive procedure, (“gré à gré”), which is a derogatory procedure only possible in case of emergency or a monopolistic position.
- A conclusion procedure with a consultation of only three candidates is also possible in case of unsuccessful competitive procedure or for public services for which such a competitive procedure
is not necessary (these public services have to be legally defined).
To ensure quality of the service, performance and good public service management, the delegating authority has to implement a priori and posteriori control of the public service delegation process and its performance.
This control carried out by the delegating authority ensures rigorous, continuous, sustainable and efficient management. Within this framework, the delegating authority has to notably hold with the delegate at least quarterly meetings to evaluate the management of the public service by the delegate.

IMPLEMENTATION OF A LEGAL DATA PROTECTION FRAMEWORK: In 2018 Algeria implemented a legal framework for the protection of personal data by Law No. 18-07 of June 10, 2018, relating to the protection of individuals in personal data processing.
Law 18-07 is applicable when:
• Personal data processing is performed by an Algerian resident or a legal entity for which the representative is established on the Algerian territory;
• Personal data processing is performed by an individual or a legal entity for which the representative is established on the territory of a state which has legal rules considered as similar to Algerian law; and
• The representative of the legal entity is established outside of Algeria but his/her uses for the personal data processing means are localised on the Algerian territory (excluding the means used for the simple transit of data).
Law 18-07 defines personal data as any information, regardless of the support, that directly or indirectly relates to an identified or identifiable person (named “concerned person”). For example, an identification number or any physical, physiological, genetic, economic or biometric elements.
Any responsible or subcontracting of personal data processing, i.e., any operation or set of operations performed by automatised or non-automatised means, applies to personal data (e.g., collection, registration, retention modification or adaptation). The responsible party of such a processing must inform individuals on the processing of their personal data, but also guarantee to the latter a right of access and correction of their data as well as an opposition right to this processing. The compliance with this new regulation requires the accomplishment of formalities before the Algerian Authority of Personal Data Protection as well as the implementation of technical and organisational measures for the protection of this data. More broadly, the said Algerian Authority of Personal Data Protection will control implementation of this new regulation.
The breach of these rules is punished by administrative and criminal sanctions (fines and imprisonment).
Law No. 18-07 will be applicable within one year from the implementation of the Algerian Authority of Personal Data Protection. As of late 2018, the authority does not yet exist.

NEW E-COMMERCE LEGISLATION: Algeria has established the general rules for e-commerce of goods and services by implementing Law 18-05 of May 10, 2018. The law defines e-commerce as any “activity by which an e-supplier proposes or provides, to an e-consumer, remotely and by means of electronic communication, the supply of goods and services”.
The purpose of this new framework is to organise e-commerce activity, with a focus on protecting the consumer.
The scope of Law 18-05 is broad since its provisions are applicable to any e-commerce transactions for which one of the parties:
• Has Algerian nationality; or
• Legally resides in Algeria; or
• Is an Algerian legal entity; or
• The contract is entered into or performed in Algeria.
E-commerce is submitted to the general Algerian law and notably to the foreign exchanges control regulations.
In January 2018 an executive decree was passed that temporarily suspended the importation of 877 products on imported goods until the balance of payments states that restraint measures can be introduced the importation of goods. The finance law for 2018

LEGAL FRAMEWORK OVERVIEW

However, Law 18-05 prohibits e-commerce for certain activities, notably gambling games, bets and lotteries, alcoholic beverages and tobacco, pharmaceutical products, or goods and services for which an authentic instrument is required.

Law 18-05 also strictly organises e-commerce transactions, which have to be:

- Preceded by an electronic offer: this offer has to be visible, readable and understandable, and provide mandatory information as to the delivery modalities, the general conditions of sale (notably information relating to the protection of personal data), the price and payment modalities or the commercial warranty; and

- Formalised by an electronic contract duly validated by the e-consumer: this contract must provide the specifications of the sold good or service, the delivery modalities, the warranty conditions, the payment modalities, the duration, the conditions for termination and claim or the competent jurisdiction. The e-supplier must send the e-consumer an electronic copy of the contract as well as the invoice issued in accordance with Algerian law. It should be specified that the e-consumer can require a hard copy of the invoice.

Regarding personal data, Law 18-05 provides that the e-supplier must notably obtain the approval of the e-consumer's consent before any collection of data, and guarantee the security of the systems and the confidentiality of their data.

Law 18-05 also regulates electronic advertising and notably prohibits commercial prospection by sending emails without the individual's prior agreement.

MEASURES REGARDING IMPORTS: Since the end of 2017, several measures have been adopted by the Algerian authorities in order to regulate and restrict the importation of goods. The finance law for 2018 states that restraint measures can be introduced on imported goods until the balance of payments is restored. The main and latest measures regarding import regulations are listed below.

IMPORT LICENCES: Law No. 15-15 of July 15, 2015 (Law 15-15), which amends and adds to order No. 03-04 of July 19, 2003 (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 falling oil revenues in mind, this system aims to 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 classifications made by the World Trade Organisation, the abovementioned system distinguishes between two types of import licence that may be imposed on operators:

- Automatic licences: these 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 distortive effects on imports or exports, which add to those caused by the imposition of the restriction.

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; and

- 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 mentioned above “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.

Please note that a recent interministerial order dated on January 8, 2018 has approved a specification setting
out the conditions and the rules of access by auction to the quota or contingent.

**TEMPORARY SUSPENSION ON IMPORTATION OF 877 PRODUCTS:** Executive Decree No. 18-02 of January 7, 2018 – amended and completed by Executive Decree No. 18-139 of May 7, 2018 – provides a list of 877 products subject to temporary import suspension. The concerned products are, notably, foodstuffs, household appliances and electronic products.

**BANKING DOMICILIATION OF IMPORT OPERATIONS:** An instruction 05-2017 of October 22, 2017 sets out the specific conditions relating to the domiciliation of goods imports for resale in the same conditions. It provides that the domiciliation of import operations of goods intended for resale in the same conditions shall be made at least 30 days prior to the shipment of such goods, and that the importer shall constitute a provision of at least 120% of the value of the import transaction.

In addition, a press release issued by the Ministry of Commerce on March 1, 2018 requires that a certificate of free marketing in the country of origin and/or provenance shall be provided at the time of the banking domiciliation for the importation of goods for resale.

**VALIDITY LIMITATIONS OF IMPORTERS’ TRADE REGISTER EXTRACT:** An order of the Ministry of Commerce dated November 2, 2017 specifies that the period of validity of trade register extracts that are issued to operators importing raw materials, products and goods for resale as such is limited to two years (renewable).

Import operations that are carried out by any economic operator as part of its production, processing and/or performance activities, within the limits of its own needs, are not subject to such provisions.

**CERTIFICATE OF CONFORMITY FOR IMPORTERS OF GOODS FOR RESALE:** Executive Decree No. 18-51 dated January 30, 2018 has amended and completed the Executive Decree No. 05-458 of November 30, 2005, setting out the rules for the exercise of imports of products for resale as such. Companies having an activity of import of products for resale as such shall obtain from the Ministry of Commerce a certificate of conformity demonstrating compliance with the following requirements:

- Be an Algerian commercial company subject to the supervision of a statutory auditor;
- Have appropriate storage and distribution infrastructures that are properly equipped and can be checked by the competent authorities, and which shall be used solely for operations related to its import activities;
- Use of transport methods suited to the characteristics of their activities; and
- Implement the necessary measures to check the compliance of imported products before their entry into Algeria.

This certificate shall be requested before the exercise of the import activity and is valid for two years (renewable).

**TAX MEASURES APPLICABLE TO IMPORT OPERATIONS:** The 2018 FL and 2018 CFL have toughened the tax and regime applicable to import operations, notably with the following measures:

- A solidarity contribution of 1% applicable to the import operations of goods released for consumption in Algeria. This tax concerns all import operations and notably the imports of goods intended for resale in the same conditions and other imports;
- The creation of a new Customs duty rate of 60%; and
- The creation of an additional temporary duty applicable to import operations of goods released for consumption in Algeria with rates between 30% and 200%. The list of concerned goods and the applicable rates are fixed by regulations.

The management of public services can be delegated to private entities when this is in the public interest.
Firm basis

Samy Laghouati, Partner, Gide Loyrette Nouel, on consolidating the role of the local and international private sector

Does the Organic Law for Finance Laws indicate progress in implementing a comprehensive framework for public-private partnerships (PPPs)?

LAGHOUATI: Even if we cannot yet talk in terms of a new legal framework dedicated to PPPs, the steps being taken already represent a recognition on the part of the legal system of the principles behind these partnerships, and of how the state can activate them to support public investments. They can be seen, too, as embedding within Algerian law the three-party charter that was signed in December 2017 by the government, business leaders’ associations and the General Workers’ Union of Algeria, Algeria’s main trade union.

Article 37 of the Organic Law for Finance Laws makes very clear that the state can invite public or private entities to finance public investment projects within the framework of a partnership or a contractual relationship. This does not entail the state surrendering any prerogative, however, but rather enables it to delegate a public or private entity to finance and conduct public investment projects.

By itself this recognition constitutes a positive evolution, since there have been numerous debates around this topic, and often some confusion has arisen regarding the concept of privatisation as opposed to PPPs. Privatisation is about opening a public entity’s capital to private investors, while PPPs are contracts tailored to specific projects through which public and private bodies can share both risks and revenues in order to better finance and complete a project.

PPPs could become an important source of partnerships between Algerian and foreign companies, as well as of the transfer of know-how to local companies. However, beyond debates over their efficiency, the structuring and management of PPP projects are complex and require a certain degree of expertise, whatever the sector. In order to clarify this framework, it would be necessary to implement a more extensive law on PPPs, such as exists in many countries, and in particular in our close neighbours Tunisia and Morocco. This regulation should be based on international best practices in this area, in order to encourage both national and foreign investors.

What are the top priorities for improving business conditions, and facilitating both foreign and local private investment in Algeria?

LAGHOUATI: Confidence must be strengthened. However, trust cannot be decreed, of course, and thus fostering it must remain a constant priority for all actors, among them the authorities and administrations, and also economic entities themselves, in their daily operations. The ease of doing business reflects a combination of factors, such as the ease of investment, efficient infrastructures and administration, transparency and fair competition, among others.

On an international scale the countries that attract the most foreign direct investment today are continually striving to be ever more attractive in the face of global competition. Algeria cannot stay on the sidelines, and it has to deploy mechanisms to value its assets internationally and encourage investors to come here. The first thing an investor seeks is, naturally, a market, but also, and above all, predictability over the medium and long term. In short, investors need to have visibility not only up to the time they make the investment, but much beyond it.

We must offer stability by avoiding changing the rules. In other words, it is essential that we have clear legislation and apply it in a transparent and consistent manner in order to avoid legal uncertainties, which are the main obstacles for both national and international investors. Besides this, and contrary to popular belief, significant tax benefits do not play as key a role in investment decision-making as one might imagine. They may have an impact in terms of profitability, but they remain a temporary measure, while productive investments bring in revenues over the long term.
The Guide

Details on leading hotels throughout the country
Essential information for all first-time visitors
Helpful tips for leisure and business travellers
Phone listings for embassies and emergency services
Luxury stays

**ALGIERS**

**EL DJAZAÎR (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, jogging track, spa, massage, jacuzzi and botanical garden.

Guest Services: Currency exchange, travel agency, car hire, concierge, laundry, dry-cleaning, gift shop and minibuses.

Wining & Dining: La Pagode, Saint George, Dey lounge, Snack El Yasmine, banquet hall and Ebony nightclub.

**SOFITEL ALGER HAMMA GARDEN**
172 Hassiba Ben Bouali 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 hire, 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.

**LAMARAZ ARTS HÔTEL**
1 Rue Rabia Mohamed, Kouba
Algiers 16000
T: 021 772 793
F: 021 778 778
www.lamarazarthotel.com
booking@lamarazhotels.com

Rooms: 70 rooms and suites.

Business & Conference Facilities: VIP room and meeting room.

Health & Leisure Facilities: Sauna and jacuzzi.

Guest Services: Parking, gift shop, 24-hour room service and 24-hour concierge.

Wining & Dining: Restaurant La Baie (International and Mediterranean cuisine) and Lounge Fusion (cafe).

**SHERATON CLUB DES PINES 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: Secretarial support, boardroom, business centre, facilities for 10 to 700 people, 700-seat auditorium, 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 and jogging path.

Guest Services: 24-hour room service, concierge, dry-cleaning, laundry, bank, shopping, indoor parking, transport services.

Wining & Dining: Le Tassili, La Trattoria, Le Nautilus, Le Petit Bleu, PanAsia, La Brasserie, 1001 Nuits, La Terrasse, Le Café and Stars Studio.

www.oxfordbusinessgroup.com/country/algeria
AZ HÔTEL 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.

HILTON ALGER
Pins Maritimes, El Mohammadia
Algiers 16000
T: 021 21 96 96
F: 021 21 97 97
www.hilton.com

Rooms: 410 rooms, including 51 suites, a dedicated executive floor and executive lounge.
Business & Conference Facilities: Business centre, audio-visual equipment, secretarial service, and meeting rooms with capacity for up to 1500 people.
Health & Leisure Facilities: Tennis courts, fitness centre, sauna, jogging track and walking trail.
Guest Services: 24-hour room service and concierge, laundry, car hire, airport shuttle and florist.
Wining & Dining: Sara, the Pool House, Casbah, the Crystal Lounge, Tamina and Kantara lobby lounge.

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 suites and an apartment.
Business & Conference Facilities: Two fully equipped meeting and conference rooms.
Guest Services: Parking, laundry facilities, transfer service to the airport, car hire and currency exchange.
Wining & Dining: Restaurant and room service.

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 executive rooms, 16 comfort suites, 14 prestige suites, a presidential suite and eight 120-sq-metre apartments.

Business & Conference Facilities: Three conference rooms with combined capacity of 1200 people, four smaller rooms and a business centre.
Health & Leisure Facilities: Fitness centre, squash court, hamam, sauna, outdoor swimming pool, tennis courts and a variety of shops.
Guest Services: Airport shuttle and Wi-Fi in all rooms.
Wining & Dining: Four restaurants.

SETIF
BEST WESTERN HOTEL SETIF
Cite El Alia la Gare
Sétif 19000
T: 036 53 84 48
F: 036 53 84 30
www.setifhotel.com

Rooms: 70 single and double rooms, and 13 modern and spacious suites.
Business & Conference Facilities: Seminar room and two modular rooms located on the second floor of the hotel, with capacity to host up to 180 people.
Guest Services: Free shuttle service, free private parking available, free Wi-Fi, concierge, dry-cleaning, laundry and a variety of shops on site.
Wining & Dining: Djemila restaurant.

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 with air conditioning and plasma TV.
Business & Conference Facilities: Conference room with capacity for 60 people.
Guest Services: Airport shuttle, car rental, free Wi-Fi, guarded parking and 24-hour reception.
Dining: A gourmet restaurant offering Algerian and continental cuisine and a cafeteria.

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 with LED TV.
Business & Conference Facilities: Three spacious meeting facilities.
Health & Leisure Facilities: Spa with a variety of luxury treatments, extensive massage menu and fitness room.
Guest Services: 24-hour room service, in-room coffee makers and free Wi-Fi.
Wining & Dining: Les Ambassadeurs and Le Pacha.
LE MÉRIDIEN ORAN HOTEL & CONVENTION CENTRE
Les Genets
Chemin de la Wilaya, Route 75
Oran 31000
T: 041 98 40 00
F: 041 98 40 01
www.lemeridienoran.com
Reservation.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 with capacity for up to 1900 people, auditorium with 3000 seats, Wi-Fi, translation rooms and secretarial services.
Health & Leisure Facilities: Swimming pool, spa, hammam, sauna, jacuzzi, beauty salon and fitness centre.
Guest Services: 24-hour room service, laundry, concierge, airport shuttle, car hire, Wi-Fi and electronic safe.
Wining & Dining: Favola (Italian cuisine), Latitude 35 bar with terrace, Le Chai coffee shop and Club Lounge area.

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.
Wining & Dining: Restaurant and cafeteria.

CONSTANTINE
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 with LED TV.
Business & Conference Facilities: Various accommodations for hosting business meetings, conferences and social events.
Health & Leisure Facilities: Saray Spa with luxury treatments, extensive massage menu, indoor and outdoor pools, fitness classes and separate men’s and women’s lounges.
Guest Services: 24-hour room service, in-room coffee makers and free Wi-Fi.
Wining & Dining: Qasar restaurant (Arab and Mediterranean cuisine), Jannah (Italian cuisine), Malouf Lobby Bar and Touareg Lounge Bar.

TLEMČEN
HOTEL IBIS TLEMČEN
Boulevard El Kiffane
Tlemcen 13000
T: 043 98 10 10
F: 043 38 12 12
h6583@accor.com
Rooms: 120 spacious rooms with one or two beds.
Business & Conference Facilities: Two 51-sq-metre meeting rooms with capacity for 42 people.
Guest Services: Wi-Fi, satellite TV, connectivity panel, free on-site parking, disabled access and facilities.
Wining & Dining: SUD ET CIE restaurant, Bar rendez-vous and all-you-can-eat breakfast buffet.

BOU-SAĀDA
HOTEL CAID BOU-SAĀDA
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 Tougourt
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, botanical garden, 4x4 and quad desert excursions, carriage rides, traditional regional activities and 2500-sq-metre spa.
Wining & Dining: Four different restaurants.

www.oxfordbusinessgroup.com/country/algeria
Algeria is well served by air travel from destinations across Europe, and many international carriers fly to major cities around the country. Additionally, domestic routes are operated by Air Algérie and Tassili Airlines, which offer flights between the nation’s main airports.

Despite some recent progress, payment terminals remain rare, and most day-to-day transactions are completed using cash. Although there are few ATMs for international cards in Algeria, they can be found in most high-end hotels in Algiers and other main cities.
Facts for visitors
Useful tips for new business and leisure 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. Though its use remains limited, English is becoming more widely studied among young Algerians.

BUSINESS HOURS: Business hours are from 8.00am to 5.00pm with a one-hour lunch break, usually taken around 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.

ATM: Although there are few ATMs for international cards in Algeria, they can be found in most high-end hotels in Algiers and other main cities. In big cities, few international bank offices have ATMs compatible with VISA cards. Despite some recent progress, payment terminals remain rare, and most day-to-day transactions are completed using cash.

NATIONAL CHARACTER: Algeria is a diverse society with roots in Arab, Mediterranean and African cultures. Regional identities are very strong and each possesses its own unique traditions and character.

ETIQUETTE: Algerians place high value on hospitality. It is customary to say “salam” or “as-salamu alaykum” (peace be upon you) when entering a store, business or meeting. Rituals vary based on the region, but generally people greet each other with two kisses on the cheeks and a handshake. Many, though not all, women will shake hands with both men and women, so men should wait for women to first initiate a handshake. Conversations are traditionally oriented around personal life, family and pertinent professional projects.

TIPPING: Tipping is not deeply engrained in the culture and generally it is not expected. Nevertheless, should you decide to tip, it will be greatly appreciated by locals.

VISAS: Applications for visas are usually completed by visitors in their home countries of residence prior to arrival in Algeria. Business visas require a letter of invitation and proof of accommodation. With valid travel insurance, this is typically enough to receive a visa for up to three months.

TRANSPORT: Tram and metro systems have been introduced in recent years to ease congestion and improve the public transport network in Algiers. The metro extension to El Harrach was completed in mid-2015, and in 2018 the line was extended to Place des Martyrs in the centre of the capital. Another extension to Houari Boumediene’s international airport is anticipated to open in 2019. Tramway projects are still ongoing in other cities and two lines were opened in Sétif and Ouargla during the first half of 2018.

Other forms of public transport are popular, including buses, which are operated by private and public companies and offer affordable fares. Efforts have also been made to improve comfort, and at the beginning of 2015 buses operated by the public transport authority of Algiers began offering free Wi-Fi to users.

Taxis remain the most common mode of public transportation; they are easily found in big cities and operate longer trips on certain routes. While rides are relatively inexpensive, negotiation on longer journeys may be beneficial. Road congestion remains an issue in big cities, and traffic can cause significant delays in arrival times. Trips during rush hours need to be carefully planned prior to departure. The East-West Highway is one of the largest infrastructure projects ever completed in Algeria, and has drastically improved connections across the country, crossing the northern part of Algeria from Morocco to Tunisia. Some sections are being revamped, however, causing small delays.

Algeria is well served with air travel from Europe, and many carriers fly to its major cities. Additionally, domestic routes are run by Air Algérie and Tassili Airlines, which offer flights between the main airports.
CRÉATION DE RICHESSES.
SOLUTIONS INNOVANTES ET DURABLES.
VISION ET VALEURS PARTAGÉES.
ETHIQUE, RESPECT ET SOLIDARITÉ.
ŒUVRER EN FAVEUR DU CADRE DE VIE

ALGER
Cité des 56 logements, Rue des frères CHIKIROUS 16101 Staoueli
Tel: +213 21 393211
Email: al@cseec.dz

BEIJING
Room 800, Sunflower Tower, 37 Matildan St, Chaoyang District
Tel: +8610 85599667
Email: beijing_office@cseec.dz

PARIS
38 rue du Louvre, 75001
Paris, France
Tel: +331 42 36 94 63
Email: bcc@cseec.fr