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INVESTING IN ALGERIA

In early 2014, Rafik Boussa, Managing Partner of Grant Thornton in Algeria, talked to *Finance Monthly* about investment opportunities and policies in Algeria. This is what he told us

Rafik Boussa is Financial Expert and Managing Partner of Grant Thornton in Algeria, a leading, advisory, audit accounting, legal and tax firm. Grant Thornton is the first Listing Sponsor in Algeria. Rafik has worked as a Financial & Accounting Consultant since 2002 and is a graduate of the prestigious High Banking School of Algiers. He is also a graduate in Corporate Governance by the IFC, subsidiary of the World Bank and a member of the board and General Secretary of the Algeria Corporate Governance Institute. In addition, Rafik is an active member of the Powerful Algerian Employer's organization "FCE". He is based in Algiers and has a deep knowledge of the local economy, markets, sectors and the Algerian key-decision-making circuits.

What more can you tell us about your specific practice?

Grant Thornton in Algeria provides a wide range of services to assist investors to realize their development and main business changes in their environment, including in the field of consulting services, auditing, outsourcing services, taxation and legal services.

As a team of talented local experts with an international background, we help dynamic organizations to unlock their potential for growth when doing business in Algeria, whatever their size. We exercise a tailored approach to support our customers to succeed in all the aspects of their growth: financial growth, the development of long-term relationships based on proximity and trust, growth of human capital, the growth of internal processes: we
support in the development of new methodologies and tools to operate effectively and efficiently all the levers of growth in an organization.

What makes Algeria an attractive investment/ business destination?

Algeria is still a relatively unknown market, despite being the largest country on the Mediterranean, MENA region and in Africa with population of 38 million.

Since 2001, Algeria has experienced a significant economic upturn, aided by strong oil & gas export revenues, which accounts for around 98% of the country's export revenues. The increase in export revenues has caused the country's foreign currency reserves to increase to over US$ 195 billion. External debt continues to decrease and it is under US $5 billion.

Algeria has a great potential as a market for companies with strong economic fundamentals and the important investment plans to diversify its economy.

The government has agreed a huge ten-year investing programme from 2005-2014 of US$436 billion, in context of austerity and debt crisis in other regions. It is largely focused on infrastructure projects including housing, schools, hospitals, water and sewerage systems, rail and road links and developing new port facilities.

The country's strength and opportunities are numerous. Algeria gives a strategic access to regional markets: it is a hub for Europe, the Maghreb, the Arab Market and sub- Saharan Africa (with many trade zone agreements). An East-West highway is built to improve trans-Maghreb links and a trans-Saharan highway is planned from Algiers to Lagos in Nigeria.

Domestic demand is important, more than US$ 95 billion of food, pharmacy, metallurgy, mechanical engineering etc. has been imported last two years.

The country a stable economic situation where the unemployment rate is less than 10% , non-oil growth 5.8% (2011), Low Risk country (A4) according to Coface, equal or better risk than many EU / G7 countries.

The investor benefits from a very competitive production factors costs (Energy, Water and Work force). Low Cost of Natural Gas energy electricity (less than 0.37 euro / therm and 1,14 € / kWh respectively) combined with a qualified, young and competitive labour force, 75% of the population is under 25 years old (the minim salary is 180 euros)

Many incentives are granted by the State to investors with important tax incentives, up to ten-years of exemption, concession land with huge opportunities for financing through local financial institution with subsidized debt interest rate with partial financial support from public funds.

What policies currently exist in Algeria that benefit business and investment?

The Government aims to diversify the economy; ambitious economic revival strategies and policies have been launched. The industrial development is led by policies of upgrading and competitive modernisation, ICT, innovation, national and foreign investment

promotion, development of human capital Targeted sectors and partnership opportunities are prioritized in petrochemicals, fertilizers, steel, textiles, ferrous metals (aluminium), cements, pharmaceutical products, motor industry, steel, metallurgical, mechanic and electronic industries and food processing industries.

Spatial development is planned with the transition from industrial zones to industrial centres and the creation of industrial integrated development zones in order to put in network synergies between companies.

How does Algeria's tax system fit into the business/investment equation?

All companies, except partnerships and joint ventures under the Commercial Code, are liable for Corporate Income Tax (CIT) on their profits arising from any business they carry on in Algeria. Companies are liable to CIT at the rate of 25% on trade activities and services and 19% on the production of goods, construction and public works and tourism activities. All economic activities conducted in Algeria are subject to 2% tax on sales and Value Add Tax.

Dividends paid by an Algerian company to another local company are exempt from tax in the hands of the recipient. Dividends and distributions of profit paid to a non-resident company are subject to a 15% withholding tax unless the rate may be reduced under a tax treaty.

Foreign companies not established in Algeria and foreign companies with no permanent establishment are subject to 24% withdrawal tax.

Revenues from a foreign source that are subject to tax payment in the country of origin are not subject to tax, only Algerian source incomes are taxable. Relief from foreign tax depends on whether a double tax treaty has been concluded. Algeria has concluded more than 20 non- double tax treaties.

What are the main considerations that a company should take when looking to invest or sustain investment in Algeria?

Algeria, with its strong economic fundamentals and growing demand for modern infrastructure and consumer products, is attracting interest from companies around the world. Despite the international financial crisis, multinational firms continue to consider Algeria as an emerging market that is expected to grow in the future.

However, the climate for foreign firms considering direct investments has worsened, particularly in the wake of restrictive foreign investment rules enacted in 2009 and 2010. These measures require 51% Algerian ownership of new foreign investment with no restriction in dividend transfer. It is required 30% Algerian ownership of foreign import companies, and use of letters of credit for the payment of import bills, with few restrictions on transferring dividends in such case.

The Business climate suffers from a heavy bureaucratic system and unwieldy judicial processes, making setting up a business in Algeria a potentially complicated process. It requires a detailed knowledge of the local rules and regulations. Companies planning to do business in Algeria are strongly advised to get up to- date tax and legal advice from local professionals in order to avoid the risk of non-compliance which can be very damaging.

It's also recommended to have a physical presence in the market and to be patient, it will take time to build the working relationships necessary to do business, but persevere; there are huge opportunities to be captured.

What are the main potential liabilities that arise when investing in Algeria and how can these be mitigated or avoided entirely?

The Algerian dinar is convertible for all commercial transactions. All operators can access foreign currency to make payments, without pre-authorization. Operators must possess a clean audit report and a certificate from the tax authority in order to repatriate funds.

Foreign investors can repatriate dividends, profits, and real net income out of their assets through transfers or liquidation. It is important to notice, in case of dispute, that Algeria is a signatory to the convention on the Paris-based International Centre for the Settlement of Investment Dispute. Algeria ratified its accession to the New York Convention on Arbitration, and is a member of the Multilateral Investment Guarantee Agency. The code of civil procedure allows private and public sector companies, full recourse to international arbitration.

Is there anything else you would like to add?

As mentioned, the Algerian market offers huge opportunities but also presents some risks. It' recommended to be advised by professional experts to secure their business in Algeria. This is why we focus our attention and efforts on the delivery of tailored services, using all the necessary resources enabling us to analyse the projected investment with a pragmatic and professional approach in order to help investors to achieve their ambitions.

From our office of Algiers, the country's capital and main business centre, our team of experts services dynamic organizations throughout all the national territory and internationally through our powerful and integrated global organization

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ALGERIA'S ECONOMIC REFORM

Rafik Boussa, Managing Partner of Grant Thornton in Algeria, updates us on the 2014 Finance Bill, major economic reforms, and the establishment of development zones

Last time we spoke, Algeria had just passed its 2014 Finance Bill. How has that been received and how has it changed the finance sector in the country?

The Algerian government accelerated major economic reforms during 2014, in order to enhance a significant growth. The concrete and positive effects of these reforms were rewarded with a sustained growth registered in the country in 2014. Thanks to a consistent 3.5% growth, the GDP reached a record $227 billion (€198 billion), thereby raising the country among the four strongest economies in Africa. This exceptional result exceeds the cumulated GDP of both ECOWAS(8 countries) and CEMAC(6 countries), two major African economic unions. It is important to highlight that the growth rate for non-hydrocarbon sector reached 7.1% in 2014, whereas the oil and gas sector registered a 2.8 % growth.

The Algerian economic growth is still mainly driven by the oil and gas industry and by increased public expenditures. The Algerian authorities and development actors are aware of this situation; therefore, significant efforts are being made in order to diversify development. Several economic measures and an ambitious investment plan were recently implemented in order to meet these objectives. Simultaneously, the government is pursuing of its efforts for Algeria's accession to the WTO in 2015.

At the start of 2014, Algeria's external debt was still in decline. Is that still the case? What more can you tell us about this?

According to the Algerian Central Bank the external debt curbed below $3.8 billion (€3.3 billion) in 2014 (around 1.7% GDP), which represents one of the lowest external debt to GDP ratio in the word for a state. The country's reserves are still considerable since they exceed $190 billion (€165 billion, excluding gold.

How has the recent drop in oil prices affected Algeria and what could be the long-term implications of this?

Oil and gas represents more than 32% of the Algerian GDP. Oil and gas production has been constantly decreasing since 2006, recording an average loss of 14% of the total production since 2003.

The Algerian economy will certainly be impacted with the recent changes in the international oil prices, and the decline of its production. However, with its strong economic fundamentals, the Algerian Economy may benefit from this slowdown, as the authorities promote a 15-year indicative investment and development plan (2005-2019), for which $700 billion (€610 billion) has been allocated.

Algerian exports are mainly driven by the oil and gas products, which account for 96 % of the country's total exports. In this context and in order to sustain hydrocarbon exports and cater to the increasing national energy consumption, the Government has committed $100 billion (€114 billion) to the exploration of conventional and nonconventional (shale gas) reserves. Significant efforts are also being made to increase the share of renewables (solar, wind) in the energy mix, with the objective to reach one-third of total energy consumption by 2030

2014 saw the Government's 10-year Investment Programme come to an end. What were the key developments to materialise from this?

Following the end of this plan, Algeria launched a new five-year investment plan worth $262 billion (€228 billion) to boost and diversify the domestic production and move its economy away from reliance on oil and gas.

The economic growth will mainly be based on increased public expenditures. The new five-year public investment programme will focus on housing, healthcare, education/vocational training, hydraulic and energy sectors. It intends to "develop a productive and diversified economy".

In early 2014, you mentioned that Algeria was looking to establish Development Zones. How has that progressed?

As mentioned earlier an ambitious investment plan is being deployed(2005-2019) and the Development Zones are one of the milestones of this project. More than 42 industrial zones have been launched in 34 different regions throughout all the country, and should all be effective and operational by 2017 as substantial drivers of the Algerian growth and wealth. This project is a priority for the Algerian Ministry of Investment in order to diversify its economy.

We also talked about Restrictive Foreign Investment Rules. What have been the changes, if any, to these?

The Algerian government is keen to attract Foreign Direct Investments and the government is working on promoting an attractive business climate in Algeria. However the 51 /49 rule is still effective since 2009: foreign shareholders cannot own more than 49% of an Algerian company and this applies to all the economic sectors. On the other hand, there is an open window to foreign investors to have a legal presence in Algeria under 100 % ownership, for example through a Liaison Office.