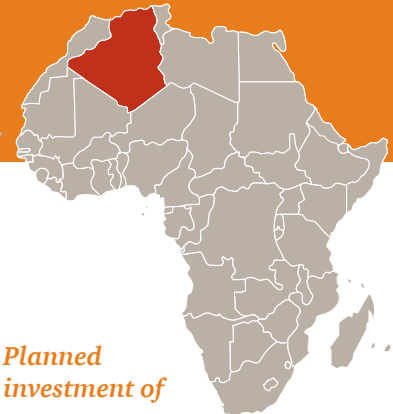




# Algeria



*Algeria is a big player on the African continent, not only because of its substantial land area, but also because of its sizeable GDP.*

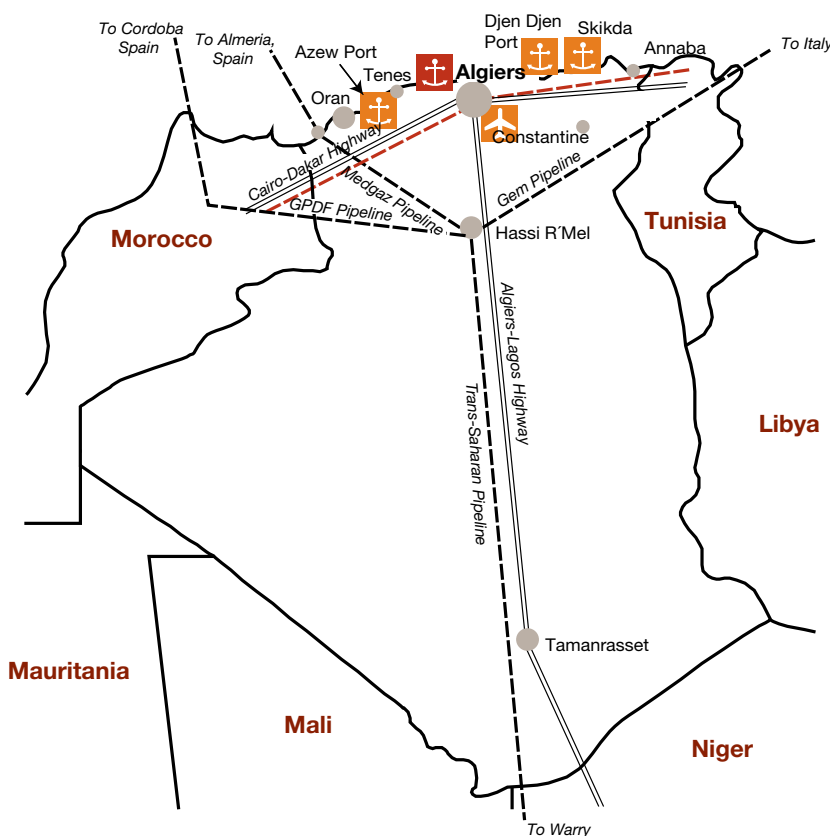
Planned investment of

**US\$286bn**  
on infrastructure

Foreign direct investment (FDI) inflows to Algeria tend to be below the country's potential considering its substantial natural resources, strong macroeconomic indicators and favourable demographic factors. This is amongst others due to a challenging business environment, new investment laws introduced by the complementary finance bill for 2009 and the existing tax regime.

**In its current five-year plan (2010-2014), the Government made commitments to invest US\$286 billion to improve the country's infrastructure and human development and to diversify the country's economy.<sup>i</sup>**

However, with declining oil demand from the US and decreasing oil and gas production affecting foreign earnings, the liberalisation of economic and investment policies is set to become an increasingly pressing issue.



● These bubbles represent the cities of Algeria and the size of the bubbles indicates the population size of the city  
 ✈ Airport   🚢 Port   🛫 Future Airport   🚢 Future Port   🚊 Future Railway   🛣 Future Road   🚊 Railway   🛣 Road



USA is the biggest  
export market of

20-25%



Less than 4%  
annual GDP growth  
projected

## Dimming prospects

Trade and economic activity is currently prosperous, but Algeria's prospects do not look good.

Algeria has substantial trade, but the external position is extremely reliant on hydrocarbon exports. Oil and gas exports account for slightly more than 98% of total export earnings. **Algeria's biggest export market is the US, which accounts for 20-25% of total exports.**

Rising shale gas potential in the US will impact negatively on Algeria's oil and gas exports and there is now a growing need for Algeria to find new destinations for its hydrocarbon products, presumably in emerging economies in Asia, Africa and South America.

This search for new markets will be given further impetus by Algeria's European trading partners, such as Italy, Spain and France. These countries are concerned about the stability of supplies and are considering cutting their imports from Algeria.

Gas production has decreased over the past few years, contributing to the contraction of the hydrocarbon sector, and oil production declined for a fourth consecutive year in 2011. Since prospects for these sectors are not very promising, Algeria faces an urgent challenge to diversify its economy.

An Association Agreement with the European Union presents a glimmer of hope for Algeria. According to the agreement, a free trade area will be established by 2017. Despite the trade agreement, fostering trade in Africa could be fairly problematic, as Algeria is not a member of any African trade agreement.

Algeria has the fourth-largest economy in Africa and currently enjoys a solid financial position with very low debt levels. **Still, growth prospects seem to be quite limited with the IMF projecting an average annual GDP growth below 4% through to 2017.**

Public investment has been the principal driver of economic growth in recent years and the IMF has warned that the public investment programme has now reached a plateau in terms of the execution of large projects.<sup>ii</sup> The programme will therefore contribute less and less to real GDP growth over the next few years. Meanwhile, the current Government's plan of action has essentially not moved beyond the previous programme, a model of state-driven development, paid for with petrodollars.

## Business environment

Algeria's challenging business environment and other risk factors further constrain economic prospects.

Weaknesses within Algeria's institutional framework continue to undermine prospects for sustained long-term economic development. Structural problems include a low level of competitiveness and a challenging business environment.

Algeria has set forth restrictive regulations for foreign investors. Specifically, for businesses created after August 2009, foreign companies are obliged to have a local partner for 51% of their investment in Algeria and a 30% local partner in their import companies.

Tax exemptions are granted to foreign investors. Nevertheless, there is an obligation to reinvest profits generated by tax exemptions locally. Additionally, the Government uses price ceilings, tariffs and redistribution schemes to control prices for some large-consumption products.

Terrorism continues to pose a threat to safety and security. According to the Bureau of Consular Affairs at the US State Department, terrorist activities are commonplace. These include bombings, false roadblocks, kidnappings and ambushes, which occur often, particularly in the Kabylie region east of Algiers and in the southern part of the country.<sup>iii</sup>

## Labour

The well-developed workforce is hamstrung by the inefficient labour market.

Algeria has a large labour force and enjoys high levels of human development. It also performs quite well in terms of healthcare indicators, with Algerians having high life expectancy and low prevalence of HIV/Aids.

The labour force is productive. Algeria ranks second only to South Africa in terms of GDP per person employed among all countries surveyed in this study. On the other hand, poverty remains widespread – despite a relatively high per capita GDP – and unemployment rates are high, which is one of the fundamental socio-economic challenges facing the country.



Plans to boost capacity by  
**8 000MW**  
by 2016



High per capita GDP and  
middle-class income levels  
present growth opportunities in  
consumer goods industries



The labour market is inefficient, ranking last globally in the 2013 Global Competitiveness Index, and the wage determination regime is highly inflexible.<sup>iv</sup>

## Electricity

**Big energy projects will address current power supply problems.**

Electricity consumption increased by an average of 6% per year during the 2000–2010 period, but in 2010 grew by almost 20% compared to the previous year. Electricity consumption is expected to reach more than 11 000MW in 2013 and 20 000MW by 2020. The Government has brought additional capacity on line to keep up with demand, but it has also imposed rationing, leading to public protest in 2012.<sup>v</sup>

Frequent power interruptions have also negatively affected productivity and growth in recent years. **In response, the country's public power company has announced plans to boost capacity by 8 000MW by 2016 through the construction of nine gas-fired power plants.**<sup>vi</sup>

Although Algeria is heavily reliant on fossil fuels for power generation, the Government recently unveiled plans to develop the country's renewable energy industry and has aims to produce 5% of the country's electricity needs from solar energy by 2017.<sup>vii</sup> In particular, the country will expand its solar power capabilities by investing in the Desertec project, eventually also exporting electricity to Europe.

## Growth industries

Given that most of the country's land is arid, agriculture currently plays a minor role in Algeria's economy and there is a growing need to import food. However, the Government is investing heavily in programmes to increase local food production capacity. Logistics services businesses should therefore plan to adapt to imminent changes to the country's import basket in the future.

While the oil and gas sector is the most important to Algeria's economy, the mining industry also shows strong growth potential. The industry is small and has been neglected in favour of the hydrocarbons sector, but newly discovered mineral resource deposits are close to coming into production, with the extraction of lead and zinc due to commence in 2013. Algeria has significant gold reserves, but gold mining is largely unexploited and gold production remains limited.

**High per capita GDP and upper-middle-class income levels present significant growth opportunities for diversified growth in consumer goods industries.** Approximately 27.3% of the total population is classified as being middle class.

Algeria has one of the highest rates of urbanisation in Africa, which further contributes to growth potential in the consumer goods industries. Urbanisation is currently at 73% and projected to rise to above 83% by 2030.

## Logistics

### Logistics Performance Index



Source: World Bank

**Improvements in logistics infrastructure promote Algeria's Logistics Performance Index rating.**

Algeria's logistics infrastructure is poor. It rates particularly badly for its logistics infrastructure and quality as well as for having bureaucratic/inefficient customs procedures. Encouragingly, the country has managed to improve its performance in areas such as customs, track and trace and timeliness over the past few years.

According to the latest Logistics Performance Index (LPI), Algeria has improved its overall ranking from 140th in 2007, to 130th in 2010 and 125th in 2012.

Still, indicators such as infrastructure, international shipments and logistics competence show a slightly declining performance.

## Transport infrastructure

Civil war in the 1990s left Algeria with a substantial infrastructure backlog.

Investment in infrastructure came to a virtual standstill in Algeria between 1991 and 2001, due to civil war. This led to a significant backlog in infrastructure maintenance and improvement. Meanwhile, the country's vast desert geography poses a permanent challenge to infrastructure developments.

In addressing these problems, the Government has made transport a priority with major upgrades and expansions in progress as part of its extensive public investment programme.

Most of the population, and hence the bulk of economic activity, is located along the northern coastal strip. Road connections focus primarily on long-distance connectivity on both the east-west and north-south axis.

In addition to the four main modes of regional and international transport – air, shipping, roads and railways – pipelines are of special importance in Algeria, as they connect the Algerian oil and gas industry to Europe.

The country has three transcontinental export gas pipelines; two transporting natural gas to Spain and one to Italy. The largest pipeline runs from Algeria via Tunisia to Italy. One to Spain passes through Morocco and the newest pipeline to Spain, which came online in 2011, stretches across the Mediterranean.<sup>ix</sup>

## Ports

Algeria's economy depends on its congested Mediterranean ports.

Shipping is essential to the national economy with the vast majority of Algeria's commercial trade moving through the national port network. The most significant port in terms of traffic is Arzew in Oran, followed by Skikda. Arzew has been developed with a special focus on petrochemical exports.

For container traffic, Algiers is the most important port after Arzew, handling almost 60% of the country's container traffic. Algiers is a congested port and congestion surcharges are regularly implemented by shipping lines. Delays are common.

In general it would appear that port congestion is problematic at most major Algerian ports. Although there are significant levels of private sector involvement at some ports, reports on physical constraints at ports such as Algiers imply that private sector involvement is unlikely to resolve the issues. An example of private sector involvement would be the landlord port model in Algeria, where DP World (Dubai Ports World) is responsible for port operations in Algiers as well as Djen Djen.

In October 2011, the Algerian Transport Ministry announced plans for a new port to be located between Algiers and Tenes. This will be built to relieve congestion at ports such as Tenes, Bejaia and Oran.

## Key indicators

Population size (million, 2012)	38.5
Population growth (2012-2020, avg p.a.)	1.6%
GDP (US\$ billion, 2012)	209.3
GDP growth forecast 2012-2017 (avg, y/y rate)	3.6%
GDP per capita (US\$, 2012)	5 582
Global competitiveness index 2012 (global rank/144 (score 1-7))	110 (3.72)
Corp. Income Tax (CIT) rate	25.0%
Top exports	Petroleum oils and oils obtained from bituminous minerals, crude (45.0%); Natural gas, in gaseous state (20.0%); Natural gas, liquefied (8.7%)
Logistics Performance Index 2012 (global rank/155 (score 1-5))	125 (2.41)
Global Competitiveness Index 2012 – Infrastructure (global rank/144 (score 1-7))	100 (3.16)



**US\$520m**  
committed to airport  
infrastructure & technology



**US\$87bn**  
investment in high-speed  
line crossing the country  
from Tunisia to Morocco



## Air transport

**Airports and air transport are on the Government's agenda for further expansion projects.**

Algeria has 52 airports with paved runways. The primary airport is Houari Boumediene Airport in Algiers and Air Algérie is the national flag carrier. The domestic market is served primarily by Air Algérie, although there are also other airlines.

The international air transport market is well served with regular scheduled flights to Europe (mainly France). The Middle East and other hubs in Africa are also served with regular flights.

The amount of funding earmarked for airport infrastructure and technology indicates that there will be a considerable focus on airport investment in the near future. The Government is currently committed to spending US\$520 million on airport infrastructure and technology modernisation.

## Rail

**A future rail line will connect Africa's northern coast and link Tunisia to Morocco.**

The decade-long civil war in the 1990s left the rail network in ruins. Today, rail network upgrading, renewal and expansion are major priorities and there is a strong focus on the alleviation of congestion in urban areas. Algeria's railways are heavily concentrated along the country's northern coast.

The last year has seen a significant investment in rail infrastructure with a number of major routes being commissioned or upgraded. This is part of the Government's long-term railway development and modernisation plan for the state-owned rail company, *Société Nationale des Transports Ferroviaires* (SNTF).

Long-distance connectivity along the north coast is also high on the agenda with the Algerian Government investing US\$87 billion to develop a 1 300-km high-speed east-west line that will cross the country from Tunisia to Morocco.<sup>x</sup> The line will include branches that will connect with major ports and cities.

## Roads

**Road corridor priorities could change in the future from east-west to north-south.**

Roads are the main mode of transport in Algeria. It is estimated that 85% of goods and passengers use road as their primary mode of transport. Road development essentially follows human settlement patterns and the network is much more developed in the northern coastal region where economic activities and population concentrations are heaviest.

The south is served by a limited number of national roads linking the few densely populated areas. Road conditions can be variable, particularly in the south on the trans-Saharan corridor, as even newly paved portions of the road often disappear under immense

drifts of sand that block the route for days at a time.

The east-west highway project, which is partly under completion at the moment, is vastly changing the highway profile in the country. It is Algeria's most important road project and is now near completion.

The only pending section is a 150-km stretch of highway between Constantine and Skikda. The 1 216-km highway, which runs between Morocco and Tunisia, will connect Algeria's major coastal cities.






Construction of the US\$11-billion highway began in 2009, with completion scheduled for the fourth quarter of 2013. However, deadline delays led to urgent calls by the Algerian Government in May 2013 for the Japanese construction consortium, COJAAL, to finish the project as soon as possible.<sup>xi</sup> It is considered one of the largest public works projects in the world and it is envisaged that the project will contribute significantly to alleviating the isolation of the eastern and western provinces as well as facilitating better connections with Morocco and Tunisia.

The other major axis in the country, the Trans-Saharan Highway, passes through Algeria, Niger and Nigeria. Development has been strong in the north of the country, with the focus on the east-west highway. Future development will, however, focus on the north-south highway in an attempt to realise greater connectivity for the more remotely situated populations in the south.

## Conclusion

Based upon our analysis, we have assessed the investment potential for Algeria's transportation and logistics sector as shown in the graphic alongside.

### Algeria – Investment potential assessment

1. Demographics and resources	
2. Economics	
3. Business environment	
4. Trade and logistics	
5. Transport infrastructure	

<b>Key:</b>	 Attractive	 Strong improvement expected
	 Average	 Some improvement expected
	 Unattractive	 Stagnation/marginal change expected

## End notes

- <sup>i</sup> “Dialogue Note 2011-2012”, African Development Bank Group, [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Algeria-%20Dialogue%20Note%202011-2012%20\(01%20juin%202011\)%20Revised%20English%20final.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Algeria-%20Dialogue%20Note%202011-2012%20(01%20juin%202011)%20Revised%20English%20final.pdf)
- <sup>ii</sup> “Algeria: 2011 Article IV Consultation—Staff Report; Public Information Notice”, International Monetary Fund, <http://www.imf.org/external/pubs/ft/scr/2012/cr1220.pdf>
- <sup>iii</sup> “Algeria: Country Specific Information”, Bureau of Consular Affairs, US State Department, [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1087.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1087.html)
- <sup>iv</sup> “Africa Competitiveness Report 2013”, World Economic Forum, [http://www3.weforum.org/docs/WEF\\_Africa\\_Competitiveness\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_Africa_Competitiveness_Report_2013.pdf)
- <sup>v</sup> “Algeria analysis brief”, US Energy Information Administration, <http://www.eia.gov/countries/cab.cfm?fips=AG>
- <sup>vi</sup> “Algeria analysis brief”, US Energy Information Administration, <http://www.eia.gov/countries/cab.cfm?fips=AG>
- <sup>vii</sup> “Algeria business forecast report”, Business Monitor International (BMI) (2013)
- <sup>viii</sup> “Trade Logistics in the Global Economy 2012”, World Bank, [http://siteresources.worldbank.org/TRADE/Resources/239070-1336654966193/LPI\\_2012\\_final.pdf](http://siteresources.worldbank.org/TRADE/Resources/239070-1336654966193/LPI_2012_final.pdf)
- <sup>ix</sup> “Algeria analysis brief”, US Energy Information Administration, <http://www.eia.gov/countries/cab.cfm?fips=AG>