

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing May 2015

---

#### Algeria Summary 27 May 2015

**President Abdelaziz Bouteflika (1999- present) reshuffles major cabinet positions including the key finance and energy portfolios. The president replaces political appointments with younger technocrats from within the civil service and from the private sector. Bouteflika also replaces the chief executives of the customs authority, Air Algérie, four state-owned banks, and two energy companies including state-owned oil and gas company Sonatrach. Sonatrach's board replaces 22 senior management positions following poor performance and a number of corruption scandals. Algeria's trade deficit increases to \$4.3 billion in Q1 of 2015 revealing the true cost of decreased oil revenues. The Algerian dinar falls 14% against the US dollar and inflation increases to 5.75% during the same period. The Algiers criminal court sentences fourteen people to jail time and fines seven international companies \$345m for their role in corrupt activities in the East-West Highway project that cost the state an estimated \$11 billion.**

---

#### Change at the top: Bouteflika reshuffles cabinet and SOE chief executives

President **Abdelaziz Bouteflika** (1999- present) has replaced a large number of senior figures in the cabinet and state-owned enterprises (SOEs). He reshuffled most major positions in his cabinet on 14 May including the key finance, interior and energy portfolios. The president replaced political figures with technocrats and appointments from SOEs as well as removing ministers involved with a number of recent corruption scandals.<sup>1</sup>

Bouteflika is known for his abrupt changes of senior figures. The last change was in September 2013 when Bouteflika filled the cabinet with his political allies.<sup>2</sup> In this latest reshuffle Bouteflika has appointed younger yet experienced technocrats to take on key roles and has drawn on outside expertise from the private sector. Sources in Algeria link the reshuffle to the country's poor economic performance. According to a member of the political opposition:

*"The situation is not improving...we have a record trade deficit and every week brings a new corruption scandal....he [Bouteflika] had to act to change the situation and, more importantly, to save face."<sup>3</sup>*

Other sources point to the hand of the president's younger brother and highly influential personal adviser, **Saïd Bouteflika**, in the reshuffle:

*"Saïd has driven this reshuffle...he knows how important it is to appear to act in a time of crisis."<sup>4</sup>*

#### Cabinet appointments bring in private sector expertise...

**Abderrahmane Benkhelfa** is the new finance minister. Benkhelfa was the general delegate of the **Association Professionnelle des Banques et des Etablissements Financiers (ABEF)** (professional association of banks and financial institutions) and the secretary general of the **Arab Maghreb Union Bank**, a regional infrastructure investment fund. He replaces **Mohammed Djellab** who is implicated

---

<sup>1</sup> Algeria Press Service, 14 May 2015

<sup>2</sup> FT, 16 Sep 2013

<sup>3</sup> La Croix, 27 May 2015

<sup>4</sup> Source: journalist, Algiers

(and will testify) in the corruption trial of the executives of **El Khalifa Bank** where he served as a director.<sup>5</sup>

*“Benkhelfa is an experienced technocrat and will probably embark on a wide programme of economic reforms to get the economy back on track...he is seen in Algeria as a safe pair of hands but will not challenge the political status quo.”<sup>6</sup>*

**Salah Khebri** is the new energy minister. Khebri is the former chairman and CEO of regulatory body **Institut Algérien du Pétrole (IAP)** and worked for 30 years at state-owned oil and gas company **Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach)**.<sup>7</sup> Khebri replaced **Youssef Yousfi** who was unable to sell the exploitation of shale gas to the population who have halted the government’s plans on his watch.<sup>8</sup> Yousfi’s dismissal is important – he has held a ministerial portfolio since 1999 – and represents a move away from some long-standing allies.<sup>9</sup>

- **Nouredine Bedoui** is the new interior minister. Bouteflika moved him from minister of vocational training and education to replace **Tayeb Belaiz** who has stepped aside due to illness.<sup>10</sup>
- **Boudjemaâ Talai** is the new transport minister; he was formerly the president of state-owned **Industries Métallurgiques et Sidérurgiques (IMETAL)** group.
- **Iman Houda Feraoun** is the new information and communication minister; he was formerly the managing director of the **Agence Thématique de Recherche en Sciences et Technologie (ATRST)** (Specialist research agency of science and technology).<sup>11</sup>
- **Tahar Hadjar** is the new higher education minister; he was formerly rector of the **Université d’Algérie**.
- **Abdelkader Ouali** is the new public works minister; he was formerly the secretary general of the interior ministry.<sup>12</sup>
- **Azzedine Mihoubi** is the new culture minister; he was formerly the director of education and research body **Haut Conseil de la langue Arabe** (Arabic language council). Mihoubi replaces **Leila Labidi** whom opposition members of parliament accused of corruption.<sup>13</sup>

The remainder of the cabinet kept their positions including prime minister **Abdelmalek Sellal**, a key ally of Bouteflika.<sup>14</sup>

*“Following on from his post-election cabinet which was very political, Bouteflika has moved in the opposite direction...experienced technocrats have the potential to introduce and oversee major state projects that have been plagued by corruption and inefficiency but they also represent a move away from democratic accountability.”<sup>15</sup>*

*...existing executives are promoted in state-owned enterprises...*

Bouteflika replaced the chief executives of seven state-owned enterprises on 24 May.<sup>16</sup> The changes in the customs, oil and banking sectors replace older managers with younger appointments, usually from within the same or similar companies.

<sup>5</sup> El Watan, 19 May 2015

<sup>6</sup> Source: economic journalist, Algiers

<sup>7</sup> Reuters, 14 May 2015

<sup>8</sup> North Africa Post, 15 May 2015

<sup>9</sup> Maghreb Emergent, 27 May 2015

<sup>10</sup> Algeria Press Service, 14 May 2015

<sup>11</sup> Algeria Press Service, 14 May 2015

<sup>12</sup> Liberté, 14 May 2015

<sup>13</sup> Reuters, 14 May 2015

<sup>14</sup> North Africa Post, 15 May 2015

<sup>15</sup> Source: political commentator, Algiers

<sup>16</sup> Algérie Presse Service, 24 May 2015

Bouteflika moved **Mohamed Abdou Bouderbala**, the director general of **Douanes Algériennes (DA)** (Algerian customs service) since 2006, to be chief executive officer (CEO) of state-owned airline **Air Algérie**. Bouderbala managed to introduce moderate yet successful reforms at the DA during his tenure.<sup>17</sup> He replaces **Salah Boultif** an airline expert appointed in 2011 to turn the airline around – a job Boultif did not complete.<sup>18</sup> **Kaddour Bentahar** replaces Bouderbala as DA director general. Prior to his appointment he was the DA's regulation and trade director (from 2008) and is a former managing director of the port of **Algiers**.<sup>19</sup>

The president also made a number of appointments in state-controlled banks.

- **Aboud Ramdane**, currently acting as CEO of the **Crédit Populaire d'Algérie (CPA)**, is the new CEO of the **Banque Nationale d'Algérie (BNA)**.
- **Boudiab Omar**, currently acting as CEO of BNA, is the new CEO of the CPA.
- **Metref M. Rachid**, currently the head of CPA leasing subsidiary **El Djazaïr Idjar**, is the new CEO of the national savings fund **Caisse Nationale d'Épargne et de Prvoyance-Banque (CNEP)**. He has held director level positions at CPA since 2007.<sup>20</sup> Rachid replaces **Djamel Bessa**.<sup>21</sup> Bessa and his senior management team were temporarily suspended in June 2014 for embezzling public funds.<sup>22</sup> CNEP settled the case after it agreed to repay some of the money, but employees continued to accuse Bessa of embezzlement.<sup>23</sup>
- **Mohamed Krim** is the new CEO of state development funder **Banque de Développement Locale (BNL)**. Krim is the current CEO of the **Société Nationale de Leasing (SNL)** a joint leasing subsidiary of BNA and BDL.<sup>24</sup> The SNL has yet to announce Krim's replacement.

The president made **Rizou Hocine** the new head of **Entreprise Nationale de Commercialisation et de Distribution des Produits Pétroliers (Naftal)**, the fuel retailing subsidiary of state-owned oil company **Sonatrach**. He replaces **Saïd Akretche** who was the target of widespread public anger over alleged manipulation of fuel stocks in the west of the country.<sup>25</sup> Hocine is the current CEO of **Inerga**, the infrastructure development subsidiary of state-owned electricity utility **Société Nationale de l'Électricité et du Gaz (Sonelgaz)**.<sup>26</sup> He was sacked as CEO of state transport company **Kanagaz** in 2005 after he sided with unions against a merger with Sonelgaz.<sup>27</sup>

### *...and Sonatrach gets completely new management.*

State-owned oil company Sonatrach appointed a new CEO and replaced figures in 22 other management positions on 24 May. The president ordered the replacement of the chief executive and was reportedly behind the shifts in other senior staff, although the company's board technically implemented the changes.<sup>28</sup>

**Amine Mazouzi** is the new chief executive of Sonatrach. Prior to his promotion he was director of strategy, planning and reporting for the company from 2008.<sup>29</sup> Company sources say he has a good reputation and describe him as *"a good strategist"*<sup>30</sup> and *"serious about his work"*.<sup>31</sup> At 50 years of age,

<sup>17</sup> Huffpost Maghreb, 25 May 2015

<sup>18</sup> Jeune Afrique, 7 Jul 2011

<sup>19</sup> Liberté, 25 May 2015

<sup>20</sup> Huffpost Maghreb, 25 May 2015

<sup>21</sup> Maghreb Emergent, 24 May 2015

<sup>22</sup> Yahoo, 8 Jun 2014

<sup>23</sup> Journal de CNEP, 12 May 2015

<sup>24</sup> Liberté 25 May 2015

<sup>25</sup> Liberté, 18 Apr 2015

<sup>26</sup> Algérie Presse Service, 24 May 2015

<sup>27</sup> Africa Energy Intelligence, 9 Nov 2005

<sup>28</sup> Algérie Presse Service, 24 May 2015

<sup>29</sup> Liberté, 25 May 2015

<sup>30</sup> Liberté, 25 May 2015

<sup>31</sup> Liberté, 25 May 2015

he is also younger than previous appointments (his predecessors were 59 and 62). Mazouzi has spent his whole career at Sonatrach and has served as director of the **Hassi Messaoud** oil fields. He is the company's senior technical expert in exploration and production division. He holds a doctorate in engineering from the **French Université d'Etat Paris IV**.<sup>32</sup> Mazouzi is part of the Algerian elite. His father, **Mohamed Saïd Mazouzi**, was labour minister under the third government of president **Houari Boumediène** (1965-1978).<sup>33</sup> He is a supporter of shale gas extraction, a \$70 billion project which has stalled due to popular unrest at the first drilling site at **In Salah, Tamanrasset** province.<sup>34</sup> Bouteflika reportedly attaches great importance to the project as he sees it as key to Algeria's energy security.<sup>35</sup>

*"I have heard some good things about Mazouzi, but he has a major task ahead to pull Sonatrach out of the fire...[president] Bouteflika will demand progress on shale gas [extraction], a rapid turnaround in financial performance and no more corruption scandals...he may not last longer than his predecessors."*<sup>36</sup>

Mazouzi replaces **Saïd Sahnoun** who Sonatrach appointed interim chief executive in July 2014 after the president fired the previous chief executive **Abdelhamid Zerguine**. The company has had five chief executives in the last four years (and nine in the past fifteen). A number of management and corruption scandals have also damaged the company's reputation in recent years.<sup>37</sup> It is currently under pressure due to the decreased price of oil that has significantly decreased its revenues (see below).

### Trade deficit increases to \$4.3 billion

Algeria's trade deficit has increased to \$4.3 billion over the first quarter of 2015. The DA released the new figures on 23 May. Algeria posted a \$3.4 billion trade surplus in 2014; this represents a 144% (\$7.7 billion) decrease in trade revenues across fifteen months.<sup>38</sup> In the first quarter of 2015 exports totaled \$13.4 billion compared to \$22.72 billion in the same period last year. This is a year-on-year decrease of 41%, attributed to the fall in oil price. Oil and gas exports accounted for 93.5% of exports in 2014; in the first quarter of 2015 this halved to 42.8%.<sup>39</sup> Economic observers predicted a large decrease in export revenues but this is the first official government report confirming the extent of Algeria's economic problems.<sup>40</sup> The oil price has appreciated nearly 40% since its low in March but fell 1% on 26 May to \$57.<sup>41</sup>

The poor macroeconomic performance linked to the oil and gas sector increasingly affects the general population and businesses in other sectors. The dinar has fallen over 14% against the **United States (US)** dollar in 2015. At time of writing the currency was D99.73 to the dollar. The currency has depreciated 24.5% against the dollar year on year.<sup>42</sup> Algeria's inflation rate has also steadily increased across this period. Consumer price index (CPI) inflation has increased across 2015 to reach 5.75% in April from 4.65% in January 2015 and 1.71% in April 2014.<sup>43</sup> The annual inflation rate (i.e. annualised average CPI inflation) has increased from 1.8% in April 2014 to 4.5% in April 2015. This is higher

<sup>32</sup> Huffpost Maghreb, 25 May 2015

<sup>33</sup> Le Monde, 25 May 2015

<sup>34</sup> Liberté, 25 May 2015

<sup>35</sup> Source: oil executive with Algeria experience, London

<sup>36</sup> Source: oil executive with Algeria experience, London

<sup>37</sup> Le Monde, 24 May 2015

<sup>38</sup> Press TV, 26 May 2015

<sup>39</sup> Algérie Presse Service, 23 May 2015

<sup>40</sup> Reuters, 23 May 2015

<sup>41</sup> Reuters, 26 May 2015

<sup>42</sup> XE.com

<sup>43</sup> CEIC data, 2015

than the government forecast of 3% average inflation for 2015.<sup>44</sup> Lower international oil prices will have a significant effect on everyday life:

*"Prices in the supermarkets of certain imported goods have been getting more expensive, and it is now quite noticeable that the cost of living has risen."*<sup>45</sup>

### Court jails 14 individuals and fines seven companies over highway corruption

The Algiers criminal court sentenced 14 officials and advisers with jail time and fined seven foreign companies a total of \$354m over corruption in the **East-West Highway** project on 8 May.<sup>46</sup> The case is a major anti-corruption verdict in Algeria and the country stands to benefit from appearing strong on corruption as it seeks to attract more investment. It is also likely that political pressure was applied to the ruling in order to achieve this, as the country's corruption and poor governance issues remain.

*"Algeria is trying hard to rebrand itself as a safe place for foreign investors but this rings hollow when Bouteflika has systematically amended the constitution to allow for further electoral terms."*<sup>47</sup>

However, some view the court verdict as a move against Bouteflika as the East-West Highway was one of his flagship cases:

*"Bouteflika's power isn't what it once was which allows the courts to take action against those who benefitted from the culture of poor governance he fostered...however they can't touch any senior figures."*<sup>48</sup>

Judge **Tayeb Hallali** ruled that seven international firms involved with the construction pay \$56.4m each in damages. These include **Chinese, Japanese, Canadian, Swiss** and **Spanish** contractors.<sup>49</sup> He also sentenced financial consultant **Chani Mejdoub** and former ministry of public works official **Mohamed Khelladi** to 10 years each in prison. The judge handed three-year jail sentences to two other defendants, including a former secret service colonel who worked for the justice ministry. Eight other defendants were given a one-year suspended sentence each.<sup>50</sup> Work on the highway began in 2006 with a budget of \$6 billion. The cost had nearly tripled to \$17 billion when it was completed in 2010. The prosecution accused the defendants of paying bribes of up to \$5 billion during the process, and of embezzling the remainder. The prosecution accused former public works minister **Amar Ghoul** of pocketing over \$2 billion in bribes, but dropped their case against him.<sup>51</sup>

### Implications

Bouteflika's major shake-up of the ruling elite has the potential for positive change. On paper many of the appointments are highly competent with the relevant experience to address the problems of their varied portfolios. But the inertia of Bouteflika's fourth term undermines the potential for reform. The president has only held two cabinet meetings in eight months since re-election. Ministers are bound to the direction that he, and his brother, dictate and are given little leeway to develop their own policy. Without a regular forum for dialogue, ministers are left reacting to events rather than implementing coherent legislative plans. While the new appointments are all experienced and qualified, none of them are from outside of the president's carefully cultivated sphere of influence.

<sup>44</sup> Algérie Presse Service, 25 May 2015

<sup>45</sup> Source: journalist, Algiers

<sup>46</sup> Middle East Eye, 8 May 2015

<sup>47</sup> Source: transparency think-tank, London

<sup>48</sup> Source: Algeria analyst, Algiers

<sup>49</sup> Reuters, 8 May 2015

<sup>50</sup> Middle East Eye, 8 May 2015

<sup>51</sup> Reuters, 8 May 2015

Most sources in Algeria do not believe that the shifts will bring about any improvement in the economic situation. They assert the new appointments will be given a few years to try to change the system and will then get reshuffled themselves. This view is unsurprising given that Algeria's economic policy has shifted little in the last fifteen years. The government uses oil revenues to subsidise the price of food staples and has no incentive to cut down on waste or improve efficiency. However, the economic situation is forcing the government to radically rethink its economic policy and the new appointments reflect that. Private sector appointments such as Benkhelifa will bring new experience into play – the new finance minister has publicly stated his intention to take on some of the country's vested economic interests. Ambitious younger appointments such as Mazouzi may bring new energy to one of the country's most precarious positions. If Bouteflika gives his new appointments the leeway to make serious changes the country could turn around.

In order to effect change they will need to act fast to prevent a slump of the currency and a sharp rise in inflation. Combined, these two factors can severely damage the economy and GDP growth in the medium term. Long-term factors, such as an abundant oil supply, are likely to keep the oil price below \$80 per barrel and well below the \$131 per barrel that Algeria needs to balance its budget. A US-based **Goldman Sachs** investment bank report forecasts \$45 per barrel to the end of 2015.<sup>52</sup> The government needs to take decisive action to cut its costs and diversify its revenue generation in order to prevent an economic downturn that threatens other sectors of the economy as well.

Decreasing the corruption risk associated with business in Algeria is an important part of turning the economy around and attracting more foreign direct investment. Corrupt and inefficient officials and processes are a drain on the economy, and corruption risk deters investors. The numerous corruption cases that have passed through Algerian courts point to some willingness to improve the situation. However, the scale of the illicit enrichment in the East-West Highway case shows how large the problem is, especially on infrastructure projects. As long as courts are unable to pursue senior government figures for their role in corruption, it is unlikely that the culture of poor governance will change. The court cases are positive developments but investors should still approach projects in Algeria, especially those with political exposure, with caution.

---

<sup>52</sup> The Economist, 26 May 2015

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.briefing.africariskconsulting.com](http://www.briefing.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)