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President Abdelaziz Bouteflika (1999-present) dismisses Mohamed 'Toufik' Mediène, the powerful head of the Département du Renseignement et de la Sécurité (DRS), Algeria's intelligence service. This is a major shift in Algeria's power dynamics as local sources considered Mediène beyond the president's control and even a potential successor. Algeria's foreign currency reserves fell 11% from January to June 2015 to \$159 billion. The government promises a 9% decrease in public spending and tax increases on electricity, 3G internet and other electronic goods in the 2016 budget. State-controlled electricity and gas company Société Nationale de l'Electricité et du Gaz (Sonelgaz) announces plans to issue a bond in 2016 on the Bourse d'Algérie to fund its \$15 billion investment programme.

Bouteflika dismisses Mediène in coup de grace against DRS

President **Abdelaziz Bouteflika** (1999-present) "retired"¹ **Mohamed 'Toufik' Mediène**, the powerful head of **Algeria's** intelligence service, the **Département du Renseignement et de la Sécurité (DRS)**, on 13 September.² This is a highly significant shift in power in Algeria where Mediène was considered an untouchable figure sitting beyond the president's sphere of influence.

Mediène was one of the world's longest serving intelligence chiefs.³ He had been head of the DRS since 1990. He ran the government's counter-terrorism campaigns during the **Algerian Civil War** (1991-2002) and built the DRS into a powerful military and political force. Observers often described the DRS under Mediène as a "state within a state".⁴ He reportedly started his career in intelligence in 1962 when he left Algeria's **Armée de Libération Nationale (ALN)** and went to **Russia** to train with the **KGB**.⁵ He is secretive, has never appeared in public and there are no verified images of him in the public domain. However, his influence stretched across the country through a network of up to 100,000 agents that infiltrated and brought down insurgent and opposition groups alike.⁶ Many sources are unwilling to comment on him even after he has left office. One source with ties to the presidency described him as "the bogeyman... even when he's gone you don't speak his name".⁷

Mediène was reportedly the only person in Algeria able to directly contravene the president due to his wide reaching power and influence within the military.⁸ The two have clashed multiple times since 1999. Notably, local media reported that Mediène did not want Bouteflika to stand for a fourth term in 2013.⁹ Local and international media have long speculated that Mediène might be a potential successor to Bouteflika.¹⁰

¹ APS, 13 Sep 2015.

² Liberté, 14 Sep 2015.

³ Al Jazeera, 14 Sep 2015.

⁴ Al Jazeera, 14 Sep 2015.

⁵ Le Point, 16 Apr 2014.

⁶ Le Point, 16 Apr 2015.

⁷ Source, businessman with ties to the presidency, Algiers

⁸ El Watan, 14 Sep 2015.

⁹ Le Point, 16 Apr 2015.

¹⁰ El Watan, 14 Sep 2015.

“General Toufik (Mediène) inspired real fear in people, the DRS kept information on everyone and he had power to make people disappear... no matter what comes next, it is a good thing he has gone.”¹¹

Bouteflika has systematically removed figures close to Mediène from senior military and intelligence posts since late 2013 and has accelerated these efforts in 2015. Military police arrested the former head of counter-terrorism, **Abdelkader Ait-Ouarab**, known as **General Hassan**, on 30 August.¹² Police charged Hassan with possessing illegal firearms, withholding information from the state, and insubordination.¹³ Hassan was head of counter terrorism at the DRS and was close to Mediène.¹⁴ He ran the DRS’ operations against Islamist groups during and after the Algerian civil war in the 1990s. The president forcibly retired Hassan at the end of 2013, and it emerged during the arrest that the president has had Hassan under surveillance since then.¹⁵ In addition, Bouteflika dismissed three senior generals responsible for internal security on 25 July: **Ali Bendaoud**, the director of specialist counter-terrorism unit **Détachement Spécial d’Intervention (DSI)**; **Ahmed Moulay Meliani**, head of the **Garde Republicaine (GR)**; and **Nacer Habchi**, head of presidential security.¹⁶ The president has also curtailed the scope of the DRS, moving responsibility for tackling Islamist groups operating in the country from the intelligence services to the army.¹⁷

“This is part of a plan Bouteflika started in 1999 when the generals asked him to be president...he has worked towards limiting their power for over a decade.”¹⁸

The president replaced Mediène with General **Athmane Tartag** as new head of the DRS. Tartag is close to the president. He served as the president’s national security adviser from July 2014 and was previously deputy head of the DRS from 2005 to 2014.¹⁹ He has extensive experience fighting insurgent groups that currently pose a security threat in rural areas.²⁰ Tartag is a former army officer who joined the DRS in 1972 where he served in **Oum el Bouaghi**, **Jijel** and **Wilaya** provinces. In 1981 he moved into the rival military intelligence corps, **Direction Centrale de Sécurité de l’Armée (DCSA)**. He became the DCSA’s deputy director of operations during the civil war from 1990 to 1999, gaining a reputation for counter-insurgency operations.²¹ He returned to the DRS in 2005 and was reportedly responsible for the armed assault during the **In Amenas** hostage crisis in January 2013 that left 30 hostages dead.²² Mediène retired him in July 2014 and Bouteflika appointed him national security adviser soon afterwards.²³

Sources in Algeria speculate that Bouteflika is planning for his succession. He has been in poor health since suffering a stroke in 2013. He rarely appears in public and, when he does so, looks increasingly frail.²⁴ Mediène reportedly stood in the way of Bouteflika anointing a successor of his choice. Mediène’s removal may also point towards succession coming sooner than the end of Bouteflika’s term in 2018.²⁵ Bouteflika also reportedly wants to be able to insulate his inner circle from repercussions when he steps down.²⁶ This leaves the door open for a range of government officials,

¹¹ Source, academic and activist, Algiers

¹² El-Watan, 30 Aug 2015.

¹³ El-Watan, 30 Aug 2015.

¹⁴ AFP, 30 Aug 2015.

¹⁵ AFP, 30 Aug 2015.

¹⁶ Liberté, 25 Jul 2015.

¹⁷ AFP, 30 Aug 2015.

¹⁸ Source, academic and activist, Algiers

¹⁹ BBC, 19 Sep 2015.

²⁰ Liberté, 14 Sep 2015.

²¹ El Watan, 14 Sep 2015.

²² El Watan, 14 Sep 2015.

²³ El Watan, 14 Sep 2015.

²⁴ Al Jazeera, 14 Sep 2015.

²⁵ AFP, 16 Sep 2015.

²⁶ AFP, 16 Sep 2015.

politicians and the president's influential brother, **Said Bouteflika**, to position themselves to take over.²⁷ There are also local press rumours that **France** played a part in Mediène's removal, making it a condition of lucrative trade agreements and security operations.²⁸

Government raises taxes and increases planned spending cuts as reserves fall

The government has raised taxes after data showed a considerable fall in foreign currency reserves in the first half of 2015. Central bank **Banque d'Algérie (BA)** gave its third quarter report on 8 September showing reduced government income and sharply declining foreign currency reserves.²⁹ Reduced oil and gas levels have lowered foreign currency reserves. BA governor **Mohamed Laksaci** warned that reserves were under considerable pressure.³⁰ Algeria had total foreign currency reserves of \$159 billion at the end of June, the latest figures available.³¹ Foreign reserves have declined 11% from \$178 billion in January, having absorbed \$19 billion in government spending.³²

Taxes from oil production in the first half of 2015 totaled \$10.6 billion, a 32% decrease year-on-year from 2014.³³ At the same time, the deficit has doubled to \$8.6 billion from \$4.36 billion in the first half of 2014.³⁴ The overall balance of payments in imports and exports has grown to \$14.7 billion up from \$1.6 billion in 2014.³⁵ This has affected the resources of the **Fonds de Régulation des Recettes (FRR)** (oil stabilisation fund) which the government created in 2014 to fund the budget shortfall.³⁶ A combination of foreign reserves and tax receipts fund the FRR. The FRR reserves fell to \$32.3 billion in September, from \$47.5 billion in January 2015.³⁷

"The FRR is the key to the current strategy, it was supposed to cover several years of revenue shortfall until the oil price stabilised... of course, this may not happen immediately."³⁸

The government has announced cuts to spending and increased taxes to address the economic situation. Prime minister **Abdelmalek Sellal** announced that the government would cut public spending by 9% in the 2016 budget.³⁹ This is a significant decrease in spending on the 2015 budget where the government cut public spending by just 1.6%, despite a 50% drop in revenue projected in the budget so far.⁴⁰ Sellal promised that the cuts would not affect housing, health or education. The government has also previously said that it will not cut subsidies on grain or other staples – which would be a highly unpopular move.⁴¹ Sellal said that the cuts would affect some larger infrastructure projects, but did not provide specific details on which projects.⁴² The finance ministry will raise taxes on diesel fuel, 3G internet and mobile data, and electricity.⁴³ It will also raise customs duties on imported computers and computer parts.⁴⁴ The tax increases will also be part of the 2016 budget and the ministry will release more information later in the year.⁴⁵

²⁷ AFP, 16 Sep 2015.

²⁸ El Watan, 14 Sep 2015.

²⁹ Jeune Afrique, 9 Sep 2015.

³⁰ Jeune Afrique, 9 Sep 2015.

³¹ Liberté, 31 Aug 2015.

³² AFP, 8 Sep 2015.

³³ APS, 8 Sep 2015.

³⁴ APS, 8 Sep 2015.

³⁵ APS, 8 Sep 2015.

³⁶ Jeune Afrique, 9 Sep 2015.

³⁷ Jeune Afrique, 9 Sep 2015.

³⁸ Source, economist, Algiers

³⁹ Liberté, 31 Aug 2015.

⁴⁰ Liberté, 31 Aug 2015.

⁴¹ Liberté, 31 Aug 2015.

⁴² Liberté, 31 Aug 2015.

⁴³ El Watan, 11 Sep 2015.

⁴⁴ El Watan, 11 Sep 2015.

⁴⁵ El Watan, 11 Sep 2015.

Finance minister **Abderahmane Benkhalfa** met the head of the **International Monetary Fund's (IMF)** Algerian mission, **Jean Francois Dauphin**, to discuss Algeria's economic situation on 10 September.⁴⁶ While there is no indication that the country will seek external assistance in the short term, Algeria is a long way from balancing its \$60 billion import bill.⁴⁷ As a long-standing net contributor to the IMF, Algeria has considerable goodwill with the fund and is likely to be able to access credit easily.⁴⁸

According to economic observers, major restructuring needs to happen sooner rather than later:

*"If we do not take action now then we will face a much worse crisis in three years' time when the foreign reserves run out."*⁴⁹

Sonelgaz to issue a bond in 2016 to fund expansion programme

State-owned gas and electricity company **Société Nationale de l'Electricité et du Gaz (Sonelgaz)** announced plans on 17 September to issue a bond in 2016 in order to fund its investment programme.⁵⁰ The electricity supplier is in financial difficulties as the state is no longer able to fund its expansion due to the poor economic situation (see above). Finance minister Benkhalfa said that the state-owned group would look to diversify its funding sources through raising funds on the capital markets and seeking potential partners.⁵¹ Sonelgaz has issued a bond release request to the **Commission d'organisation et de surveillance des opérations de Bourse (COSOB)** which regulates transactions on the **Bourse d'Algérie**.⁵² COSOB president **Abdelhakim Berrah** confirmed that COSOB had preliminarily approved the transaction. Sonelgaz is now free to advertise the bond release later in 2015.⁵³ Sonelgaz has a history of successful bond auctions. It issued five bonds between 2004 and 2008 with a combined value of \$822m to fund an earlier investment and expansion plan.⁵⁴ The minister also hinted that the bond release was the first of a series of parastatal funding agreements, which sources in Algeria confirm:

*"There is a plan underway to shift the cost of infrastructure development onto the markets and external investors... it is being kept quiet for now but expect more listings and auctions from parastatal groups over the next year."*⁵⁵

Sonelgaz's investment programme will cost an estimated \$15 billion. It is a comprehensive upgrade of Algeria's transmission and distribution grids as well as upgrades to existing generation facilities.⁵⁶ The wider investment plan, which includes continued investment in new generation facilities to meet projected demand increases, is estimated to cost \$60 billion.⁵⁷ Sonelgaz plans to finance 85% of the plan from international investors and the capital markets. The company aims to complete the upgrades by 2025.⁵⁸

Implications

Bouteflika's dismissal of Mediène is the culmination of a long running conflict. The president and DRS head played a game of cat and mouse over control of Algeria's political future from 1999 onwards and Bouteflika appears to have come out on top. It fundamentally changes the position and influence of

⁴⁶ El Watan, 11 Sep 2015.

⁴⁷ AFP, 10 Sep 2015.

⁴⁸ AFP, 10 Sep 2015.

⁴⁹ Source, economist, Algiers

⁵⁰ Jeune Afrique, 17 Sep 2015.

⁵¹ Jeune Afrique, 17 Sep 2015.

⁵² Jeune Afrique, 17 Sep 2015.

⁵³ El Watan, 17 Sep 2015.

⁵⁴ El Watan, 17 Sep 2015.

⁵⁵ Source, businessman with ties to the presidency, Algiers

⁵⁶ El Watan, 17 Sep 2015.

⁵⁷ Jeune Afrique, 17 Sep 2015.

⁵⁸ El Watan, 17 Sep 2015.

the DRS in Algeria. It is too early to tell what the result of the change will be. At best it could open Algeria to a democratic succession in which the military does not intervene. At worst it could hand power to Bouteflika's inner circle of businessmen and technocrats to rule in favour of their vested interests. Tartag will never have the influence and power of Mediène over Algeria's politics. However, the DRS' formidable network remains in place and the security situation remains relatively stable.

Algeria is beginning to take the steps necessary to rebalance its economy. The finance ministry appears to have faced the fact that the oil price is unlikely to rebound in the short term and that it needs to adjust its revenue and expenditure. The tax increases and 9% spending cut are a start. In order to balance the \$60 billion import bill, more major reform is needed. The IMF is likely to suggest Algeria cut its politically popular subsidies programme. This may keep Algeria from accepting external help, especially in the changing political environment.

Sonelgaz has won praise from the government for turning to capital markets; however, the poor economic situation in Algeria may result in an increased price of debt. Constrained electricity supply has severely affected growth elsewhere on the continent. No matter what yields it achieves on the bond release, Sonelgaz's investment programme underpins more than its own economic viability and is vital to the economic diversification Algeria needs in order to remain economically viable.

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