

AFRICA RISK CONSULTING

Algeria Monthly Briefing January 2016

Algeria Summary 21 January 2016

President Abdelaziz Bouteflika (1999-present) approves a new draft constitution that limits future rulers to two terms in power and hands greater powers to the legislature and regulatory bodies. Opposition figures condemn the new draft constitution for not challenging the status quo, but the president's Front de Libération Nationale's (FLN) majority in parliament will easily pass the reforms. The trade ministry signs a \$3.3 billion deal with China to build and manage a new port facility in Cherchel. Chinese banks will fund the deal, leading to criticism that the deal does not benefit Algeria enough. The power ministry publishes a draft power purchasing agreement (PPA), outlining the terms under which the government would purchase electricity from independent power producers.

New constitution: two term limits and checks on presidential power

The government of **Algeria** released draft constitutional revisions on 5 January, the most notable provision of which is to limit presidents to two terms in power.¹ President **Abdelaziz Bouteflika** (1999-present) altered the constitution in 2013 to allow himself to stand for election for a fourth time. He then promised a further constitutional reform process prior to his winning the May 2014 election.² Bouteflika approved the draft revisions on 29 December. The revisions will now go to the cabinet for approval and then to the constitutional council – a panel of experts and members of the legislature that oversaw the revision process. The council will then present them for parliamentary approval.³ The ruling **Front de Libération Nationale (FLN)** has a sizeable majority and will pass them without significant opposition.⁴ The president's chief of staff **Ahmed Ouyahia** released details of the constitutional revisions in a press conference. He told members of the press that the new revisions are to preserve political stability:

"We don't want Algeria to fall into anarchy, we have seen what has happened in other countries."⁵

However, members of the opposition are sceptical that the new constitution will bring about any changes in the elite running the country:

"All of these revisions are cosmetic...the president and the pouvoir [the military and business elite] will keep on running Algeria like they want and beyond any oversight from parliament or the law."⁶

The key revision alters Article 74 of the constitution limiting presidents to two terms in office and limiting each office to five years.⁷ This prevents Bouteflika from seeking a further term in office. The revisions also add Article 74 to Article 178 of the constitution, preventing any further amendment of

¹ APS, 5 Jan 2016.

² APS, 29 Dec 2015.

³ Liberté, 5 Jan 2016.

⁴ Liberté, 6 Jan 2016.

⁵ Ouhayia in Liberté, 6 Jan 2016.

⁶ Source, opposition figure, Algeria

⁷ Draft revised constitution, 5 Jan 2016.

the article.⁸ It joins other unamendable articles which govern the republican nature of the state, the multiparty democratic system, Islam as the religion of the state and Arabic as the national and official language.⁹ The revision also amends Article 77 so that the president requires the approval of a parliamentary majority when appointing the prime minister.¹⁰

The move to restrict the terms of future rulers confirms long-running rumours that the president, who is very ill, is trying to create sustainable and stable transitions after he leaves power.¹¹

*"This is the managed succession, Bouteflika will put his preferred candidate in place and rely on the new constitution to prevent any opposition as it will be democratically decided."*¹²

The revisions also added to Articles 173-175 and created a number of independent advisory bodies and authorities – or high councils – that are accountable only to the president and governed and protected under the constitution. New councils include the **Conseil National des Droits de l'Homme** (national human rights council) and the **Organe National de Prévention et de Lutte Contre la Corruption** (national organisation for the prevention of and fight against corruption).¹³ Opposition figures have demanded anti-corruption and human rights bodies for some time. However, opposition figures are concerned that despite financial and administrative independence, direct presidential oversight will render these bodies unable to take on transgressions within the political elite.¹⁴

The amended constitution will include a continuation of the amnesty process for armed Islamist groups that began in 2002.¹⁵ However, it will not allow groups or figures associated with the Islamist parties of the **Algerian Civil War** (1992-2002) to stand for elected office.¹⁶ The new constitutional provisions also add to Article 41 guarantees of freedom of the press and the right to free peaceful demonstrations.¹⁷

Algeria and China sign \$3.3 billion port deal

The governments of Algeria and **China** signed a \$3.3 billion deal to develop a new 'mega-port' in **Cherchel** to the west of the capital, **Algiers**, on 20 January.¹⁸ The transport ministry signed the deal with the **China Harbour Engineering Company (CHEC)** and **China State Construction Engineering Corporation (CSCEC)** to construct the port.¹⁹ The port will have 23 docks capable of processing 6.5 million 20-foot containers and 26 million tonnes of goods per year. The government forecast that the port traffic in the central region of Algeria will reach 35 million tonnes by 2050 and this new port will go much of the way to meeting that demand.²⁰ The CSCEC said that the expected timetable to completion is seven years.²¹

A government official told the media that "*Chinese banks*" would fund the port, but did not specify which.²² When construction is complete, China-based **Shanghai Ports Group** will manage the facility.²³ The deal demonstrates how China does business in Africa, placing Chinese state-owned

⁸ Draft revised constitution, 5 Jan 2016.

⁹ Draft revised constitution, 5 Jan 2016.

¹⁰ Draft revised constitution, 5 Jan 2016.

¹¹ Reuters, 6 Jan 2016.

¹² Source, academic with ties to the opposition, Algiers

¹³ Draft revised constitution, 5 Jan 2016.

¹⁴ Source, opposition figure, Algeria

¹⁵ North Africa Post, 29 Dec 2015.

¹⁶ North Africa Post, 29 Dec 2015.

¹⁷ Draft revised constitution, 5 Jan 2016.

¹⁸ BRICS post, 20 Jan 2016.

¹⁹ Liberté, 20 Jan 2016.

²⁰ BRICS post, 20 Jan 2016.

²¹ BRICS post, 20 Jan 2016.

²² Liberté 20 Jan 2016.

²³ Liberté 20 Jan 2016.

enterprises at the heart of large-scale infrastructure deals. According to local sources there is some hesitancy over the scope for local involvement in the deal:

*"Where is the space for Algerian firms to do the work? The Chinese are going to take the benefit of the building and management contracts that we [the Algerian state] will pay them with their own money, plus interest."*²⁴

However, Chinese representatives hailed the two countries drawing closer as a result of the projects. According to **Zhou Sheng** of CSCEC:

*"The Algerian government selected Chinese companies to build this project regarding the traditional friendship between the two nations and strong bilateral relationship in political, economic and cultural fields."*²⁵

Algeria is fighting a growing budget deficit due to the currently low price of oil. The new port will help to develop a more diversified economy by increasing import/export flows.

Government publishes draft PPA for renewable energy projects

The energy ministry published a draft power purchasing agreement (PPA) on 24 December that will govern renewable energy independent power producers (IPPs).²⁶ The government is committed to installing 22 gigawatts (GW) of renewable energy power by 2030 and an effective PPA is necessary to move any projects forward.²⁷ Independent regulator the **Commission de Régulation de l'Électricité et du Gaz (CREG)** published the draft PPA on its website.²⁸ The PPA guarantees the preferential feed in tariffs (FiT) that the energy ministry published in 2014 as the rates at which the government will purchase for a fixed period of time. The base tariffs range from \$0.11/kilowatt hour (kWh) to \$0.14/kWh for the more desirable solar photovoltaic (PV) projects.²⁹ The rates of these tariffs will automatically adjust on the basis of the size and scale of the generation facility after five years.³⁰ According to power sector sources the publication of the PPA is a precursor to greater investment:

*"IPP developers look for clarity in the regulatory environment and the licensing approval purposes... Algeria's publication of a draft PPA, as well as the existing FiTs make it an attractive investment destination."*³¹

Algeria's target of 22GW of renewable energy by 2030, with over 4.5GW to be commissioned by 2020, will rely primarily on photovoltaic (PV) solar installations. The energy ministry estimates that they will make up 13.5GW of the target capacity.³² The rest will come from wind power plants, concentrating solar power (CSP) plants, biomass installations, cogeneration plants and geothermal plants.³³ Algeria installed roughly 268MW of solar PV capacity in 2015 primarily through **Shariket Kahraba wa Taket Moutadjadida (SKTM)**, a subsidiary of state-owned energy company **Société Nationale de l'Électricité et du Gaz (Sonelgaz)**.³⁴ There are more projects in the pipeline. China-based companies **Yingli Solar** and **Belectric** are developing 400 megawatts (MW) of solar power through 23 PV facilities in southern Algeria that was due to come online in late 2014.³⁵ Algeria is also looking to **Europe** for IPP renewables developers. Foreign minister **Salah Khebri** signed an agreement with **Gotz Lingenthal**, the **German** ambassador to Algeria, to encourage German

²⁴ Source, financial journalist, Algiers

²⁵ Liberté, 20 Jan 2016.

²⁶ CREG website, 24 Dec 2015.

²⁷ Eversheds, 28 Dec 2015.

²⁸ CREG website, 24 Dec 2015.

²⁹ Eversheds, 28 Dec 2015.

³⁰ Eversheds, 28 Dec 2015.

³¹ Source, energy sector, London

³² PV Tech, 22 Feb 2015.

³³ PV Tech, 22 Feb 2015.

³⁴ PV Tech, 13 Jan 2016.

³⁵ Eversheds, 28 Dec 2015.

companies to invest in the renewable energy sector.³⁶ Greater investment has appeal in Europe as well. **Brussels**-based influential think-tank **Bruegel** published a report on 15 January citing the “*huge potential*” for power investment in Algeria for European companies.³⁷

Implications

The new constitution was long in the making and contains few surprises. As *ARC Briefing* has reported for several months, the emphasis is on security of transition after Bouteflika leaves, or dies in, office. By putting the two-term clause into an unchangeable category the president is closing the door behind him for any further extended periods of single person rule. However, opposition parties are right to fear that this will not lead to a change in who holds power. The *pouvoir* controls the legislature and the technocratic institutions. The left-wing opposition parties are a minority and the real opposition – Islamist parties with widespread rural support – are locked out of power. If the government does not work to build a more inclusive democracy, political risks remain despite the new constitution.

Algeria has little option but to turn to bi-lateral lenders such as China to fund infrastructure investments. It has an exceptionally low public debt burden and in the current climate it makes more sense to borrow from China to build the port – which will allow for increased import/export flows. These have the potential to engender much more economic growth than allowing Algerian companies to build or manage the port facility. China is already a major institutional investor in Algeria and the government stands to benefit from strengthening the relationship as China intends to increase its investment in Africa over the next four years.

Algeria has large potential for renewables generation. The south of the country extends deep into the **Sahara Desert** and its coastal regions have high wind speeds. However, a reliance on petroleum products has left its renewables market largely under-developed. The government had the foresight to commit to renewables development in 2013 when the oil price was still high. Increasing the renewables in the energy mix will allow Algeria to export more of its oil and gas products, easing some of the pressure on the economy. Increased investment by IPPs will also allow Sonelgaz and the energy ministry to reduce spending to ensure a stable power supply.

³⁶ APS, 27 Dec 2015.

³⁷ Ennahar, 20 Jan 2016.

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

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

Getting in touch

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

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