

AFRICA RISK CONSULTING

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Algeria Summary 20 October 2016

President Abdelaziz Bouteflika (1999- present) approves the 2017 draft budget and new legislation that gives local and municipal authorities more powers to attract investment. The draft budget includes a 14% reduction in public expenditure across 2017. Oil minister Noureddine Bouterfa continues to push for a reduction in global oil prices following September's informal meeting of oil ministers in Algiers. Bouterfa is reportedly becoming the key player in drawing up a deal between Saudi Arabia and Iran at the next Organisation of Petroleum Exporting Countries (OPEC) meeting in November. The Armée Nationale Populaire (ANP) (Algeria's national army) kills two leaders of the Jund al Khalifa (JK), an Islamist group affiliated to the Islamic State (IS). IS releases a statement saying it will step up operations in Algeria and claims responsibility for a failed roadside bombing.

Finances for 2017: 14% spending cuts and new powers for local investment

President **Abdelaziz Bouteflika** (1999- present) approved the draft budget for 2017 and new legislation giving local and municipal authorities new powers to attract investment, at a cabinet meeting on 4 October. The government is continuing efforts to diversify the economy, despite the hope for a deal on restricting oil supply in November (see below).

Bouteflika approved a 14% spending cut to **Algeria's** state expenditure for 2017.¹ The continued cutting of public expenditure reflects the likelihood of the oil price remaining low for the medium term. The cuts are 55% greater than the spending cut for the 2016 budget of 9%.² In a presidential statement following a cabinet discussion of the draft budget, Bouteflika told the nation that the cuts were necessary to address the low price of oil.³ By cutting expenditure by 14%, the administration hopes to reduce the budget deficit to 8% of gross domestic product (GDP) by the end of 2017.⁴ This is a reduction of 7% from the current projected deficit for 2016 of 15% of GDP.

"These are big cuts, I am not sure that the economy can sustain them and still grow at the rate the government needs it to. There is an aspect of dogma to what the government is doing – they try to cut the deficit, but at what cost?"⁵

The spending cuts are based on a projection that oil will remain at around \$50 per barrel on the international markets for the rest of 2016.⁶ Oil and gas exports still account for 93% of Algeria's export earnings and 60% of government revenue in 2016, despite efforts to diversify economic production.⁷ The statement made no mention of other measures in the draft budget, or the supposed taxation reform, included reducing value added tax (VAT), that Bouteflika mentioned in August (see *ARC Briefing Algeria August 2016*). The draft budget will need approval by parliament; however, the

¹ Liberté, 5 Oct 2016.

² Liberté, 5 Oct 2016.

³ Liberté, 5 Oct 2016.

⁴ Liberté, 5 Oct 2016.

⁵ Source, economic journalist, Algiers

⁶ Liberté, 5 Oct 2016.

⁷ Liberté, 5 Oct 2016.

ruling **Front de Libération Nationale (FLN)** party and its allies hold an overwhelming majority and all legislation passes without opposition.⁸

The presidency also approved on 4 October measures separate to the draft budget to increase the role of local assemblies in investment promotion.⁹ Algeria has opened to international investment following the low price of oil in order to maintain its infrastructure and development projects. Algeria, the largest country by size in **Africa**, is divided into 48 *wilaya* (provinces) each of which has a directly elected local **Assemblée Populaire Wilayale (APW)** that has control of local expenditure and elements of public policy.¹⁰ The 48 provinces are divided into 533 districts and 1,458 communes, each of which also has an elected assembly. The president's statement instructed local governments and APW's to work to attract increased investment to each province. Bouteflika stated that the central government would increase their resources in order to do this, and would hand them a greater role in development and infrastructure projects.¹¹ The president also hinted at new regulation and greater oversight of provincial level programmes to implement this effectively.¹² The statement echoes a meeting that prime minister **Abdelmalek Sellal** held in 2015, where he summoned all 48 governors to capital **Algiers** to discuss increasing investment at the provincial level to create more local jobs.¹³ However, local sources doubt that localisation of investment incentives will lead to increased investment:

*"The local assemblies are often poorly organised with little money – this is not what you want in a successful strategy to get more investment into the country. This sounds more like shifting the blame than a coherent investment strategy."*¹⁴

Algeria pushes for further progress following Algiers OPEC talks

Oil minister **Noureddine Bouterfa** told the media on 6 October that Algeria would back any deal that reduces oil output within the **Organisation of Petroleum Exporting Countries (OPEC)**.¹⁵ Bouterfa has emerged from the informal talks in Algiers in late September as the key diplomatic player within OPEC (see *ARC Briefing Algeria September 2016*), as Algeria is the only country with the perceived neutrality to bring both **Saudi Arabia** and **Iran** to the table.¹⁶

*"Algeria has gone from being a lone voice on the outside [of the negotiations] to being right at the centre, first Bouterfa gained the trust of Iran to back an Iranian output increase during a global reduction, then persuaded Saudi that it was the only force that could moderate the Iranian's desire."*¹⁷

The media initially branded the meeting in Algiers largely unsuccessful as both Iran and Saudi Arabia declined to agree an output limit.¹⁸ However, the participants reached an informal agreement to reduce output by 700,000 barrels per day (bpd) to between 32.5m and 33m barrels per day.¹⁹ Bouterfa told the media that Algeria would push for further reductions in output when OPEC meets in **Vienna (Austria)** in November, if the 700,000 bpd reduction was insufficient to increase the price of oil.²⁰ He is reportedly gathering support for the motion to reduce global oil output at this meeting.²¹

⁸ Liberté, 5 Oct 2016.

⁹ Reuters, 5 Oct 2016.

¹⁰ Reuters, 5 Oct 2016.

¹¹ Reuters, 5 Oct 2016.

¹² Reuters, 5 Oct 2016.

¹³ Reuters, 5 Oct 2016.

¹⁴ Source, economic journalist, Algiers

¹⁵ Ennahar, 6 Oct 2016.

¹⁶ Ennahar, 6 Oct 2016.

¹⁷ Source, oil analyst, Istanbul

¹⁸ Bloomberg, 10 Oct 2016.

¹⁹ Reuters, 6 Oct 2016.

²⁰ Reuters, 6 Oct 2016.

²¹ Bloomberg, 10 Oct 2016.

“There is a change in the tides here, people were talking about ‘when’ rather than ‘if’ – they can see the price beginning to pick up and need the money badly.”²²

Bouterfa reportedly met oil ministers from OPEC and non-OPEC nations including **Russia in Istanbul** on 10 October for the 23rd **World Energy Congress**.²³ Media reports on 10 October suggested Bouterfa was instrumental in getting Russia to sign up to an output reduction deal.²⁴ Oil prices jumped from \$49.35 to \$51.29 per barrel, and have settled to \$51.05 at time of writing.²⁵

“It could still fall to pieces – Saudi are about the issue a \$15 billion bond to plug the gap in their economy, once that goes through they will have more security and could return to play hardball.”²⁶

Army kills Jund al Khalifa leaders

The **Armée Nationale Populaire (ANP)** (Algeria’s national army) confirmed it killed two leaders of the **Jund al Khalifa (JK)** Islamist group on 13 October.²⁷ Islamist groups continue to maintain a presence in some parts of Algeria, but the ANP and security forces carry out ongoing operations against them. The ANP said that it killed **Abu Doujana** and another leader known only as **Abderrahmane** during an ambush in **Oued Zehour** in the **Skikda Province** in eastern Algeria.²⁸ According to sources in Algeria’s security sector, Abu Doujana was the leader of JK, which has affiliated itself to the **Islamic State (IS)**.²⁹ JK was reportedly behind the kidnapping and beheading of **Hervé Gourdal**, a citizen of **France**, in September 2014, which was a trigger for the ongoing ANP operations against the group.³⁰ The ANP has killed or imprisoned the majority of JK’s leadership and dismantled a number of its operations in the last two years. However, IS released a statement on the internet saying that it was behind an unsuccessful ambush on a military convoy in Skikda on 11 October.³¹ According to a security source, it is unlikely that IS or JK have the capacity to carry out many operations in Algeria:

“The army has taken the organisation to pieces. If IS are planning attacks in Algeria, then they will have to import fighters and equipment to do so...the army and security forces have got considerably more efficient, the security risk remains moderate to low.”³²

There is ongoing low-level militant activity in the country. Islamist militant **Abdullah Balkehil**, who is not affiliated to JK or IS, allegedly kidnapped one **Canadian** and two **Italian** oil technicians at the border with **Libya** on 18 October.³³ The kidnapping occurred on the Libyan side of the border but security experts involved in negotiating their release believe they are being held in Algeria.³⁴ Belkehil is demanding a ransom of \$4.3m for the release of the two Italians, and Algerian security forces are working with their employer, Italy-based **Contratti internazionali Costruzioni**, to secure their release.³⁵

²² Source, oil analyst, Istanbul

²³ Trend News, 12 Oct 2016.

²⁴ Market Watch, 11 Oct 2016.

²⁵ Market Watch, 11 Oct 2016.

²⁶ Source, oil analyst, Istanbul

²⁷ APS, 13 Oct 2016.

²⁸ APS, 13 Oct 2016.

²⁹ APS, 13 Oct 2016.

³⁰ APS, 13 Oct 2016.

³¹ Reuters, 11 Oct 2016.

³² Source, security consultant, Cairo

³³ Asharq Al-Aswat, 18 Oct 2016.

³⁴ Asharq Al-Aswat, 18 Oct 2016.

³⁵ Asharq Al-Aswat, 18 Oct 2016.

Implications

The past three years have taught Algeria a harsh lesson about the dangers of relying too much on income from oil and gas. Bouterfa may well be successful in building a deal to restrict the global output of oil from OPEC countries, which will raise the price and stabilise Algeria's finances. However, the government is likely to continue to implement spending reductions at the same time as increasing investment incentives in order to rebalance the economy. If the oil price remains low, however, the 14% reduction in public funding will have an impact on consumer spending and quality of life. At the macro-economic level the government can attempt to square the circle with foreign investment. But increased activity in the gas sector, or at pharmaceutical plants in the industrial north of the country, will do little to help small businesses in the south or west of Algeria that will be hit by reduced subsidies.

Bouterfa has shown himself to be a clever strategist within the OPEC negotiations. Since his appointment in July this year he has worked quickly, yet effectively, to arrange the summit in Algiers and has travelled to OPEC and non-OPEC countries to build support for a reduction motion. A major reduction agreement in Vienna is still far from certain, but Algeria has laid the framework for a reduction of some kind even if it follows the Algiers numbers. The news of any announcement will bounce the oil price up, probably to over \$60 per barrel. Even if the supply and demand situation reduces that over time, the renewed market confidence can only help Algeria.

The security situation remains stable. IS and JK have limited capacity to carry out major attacks. The armed forces are increasingly successful at using the ambush tactics of the militants against them. IS has promised major operations in Algeria at least three times before, but has limited capacity to operate in the country. Despite the difficulties of securing the border with Libya, IS-affiliated forces there are more concerned with holding their territory than in planning major excursions through the Algerian desert. For the moment, investors should consider the risk profile unchanged.

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