

AFRICA RISK CONSULTING

Algeria Monthly Briefing March 2017

Algeria Summary 20 March 2017

Finance minister Hadji Baba Ammi announces the government is planning to issue an interest-free local currency denominated bond this year. The bond is interest free to satisfy the demands of Islamic authorities in the country who object to lending money for interest. The government is attempting to raise capital and cut expenditure in order to preserve its foreign currency reserves, which dipped to \$100 billion at the end of 2016. The energy ministry announces it will tender for 4 gigawatts (GW) of solar energy power plants by early April. The European Union (EU) and Algeria agree to cooperate on the promotion of investment in renewable energy under the European Neighbourhood Policy. The Islamic State (IS) terrorist organisation claims responsibility for an attempted suicide bombing of a police station in the city of Constantine.

Government launches interest free bond as reserves dips to \$100 billion

Finance minister **Hadji Baba Ammi** told the media on 27 February that the government is planning to issue an interest-free local currency denominated bond this year.¹ The government is looking at a wide range of options to raise money in order to cover its budget deficit due to the persistently low price of oil and gas. Prime minister **Abdelmalek Sellal** told the media on 6 March that **Algeria** would retain foreign currency reserves of at least \$100 billion across 2017.² Speculation that Algeria could run out of foreign exchange reserves has hit both domestic and international confidence in the economy. Sellal clarified that the government currently had reserves of over \$112 billion.³ This includes a \$2 billion spend since December 2016 when reserves were \$114 billion.⁴ In 2015 and 2016, foreign reserves declined \$30 billion and \$34 billion respectively.⁵ In order to maintain reserves of \$100 billion, the government will have to spend just \$14 billion from the reserves in 2017, less than half what it spent in previous years.⁶

The government intends to raise capital through releasing local bonds and continuing to make significant spending cuts. It will market the bond to local buyers in an attempt to get citizens to help support public finances.⁷ The decision to make the bond interest free is to allow it to comply with Islamic finance rules.⁸ However, Baba Ammi told the media that the bond would not be a *sukuk* (a sharia compliant bond product), which would have to comply with other regulations:

*"We are about to launch a bond sale, but free of interest this time, if the government allows this approach... I would not use the word 'Islamic' but rather 'participative'."*⁹

Bondholders will receive a share in projects that the issue will finance.¹⁰ However, the finance ministry has not released any further details of the structure of the bond product, or what these

¹ APS, 27 Feb 2017.

² APS, 6 Mar 2017.

³ APS, 6 Mar 2017.

⁴ APS, 6 Mar 2017.

⁵ MEMO, 7 Mar 2017.

⁶ APS, 6 Mar 2017.

⁷ APS, 27 Feb 2017.

⁸ Reuters, 28 Feb 2017.

⁹ Reuters, 28 Feb 2017.

¹⁰ APS, 27 Feb 2017.

projects could be.¹¹ The decision to remove interest follows the failed release of a similar bond in April 2016.¹² After the finance ministry issued the open-ended bond in April at a 6% benchmark interest rate, a number of high profile religious figures – including within the government – criticised the product for being un-Islamic.¹³

“This is the way of Algeria – the government tries to get people involved in the state and it turns into an argument about whether it is Islamic enough. People should think about the wellbeing of the country.”¹⁴

Alongside this plan to raise further revenue, government departments will have to reduce spending. The finance ministry has declared that it will cut spending across the board by 14% this year, and has introduced tax increases – including a value added tax (VAT) – and reduced fuel subsidies in order to increase revenues.¹⁵ The government has also reduced its imports bill to \$46.27 billion in 2016 from \$54 billion in 2015.¹⁶ Sellal told the media that the government hoped to reduce imports by a further \$5 billion in 2017, to approximately \$41 billion.¹⁷ Sellal pointed out that the government is keen to reduce imports without hurting industries that rely on imported goods.¹⁸ However, the government has yet to diversify exports away from the oil and gas sector that still accounts for 94% of export receipts and 60% of government revenues.¹⁹

Algeria’s financial situation remains poor, especially with the persistently low price of oil not delivering the increase in finance the government had banked on for 2017. Raising debt on the domestic markets allows the finance ministry to keep the value and impact of the bonds in the country. It is as much a political exercise as an economic one, which is why the compliance of the bonds with the belief system of much of the population does matter. By encouraging the populace to buy into the government through the bond, and then using that to finance infrastructure projects the finance ministry hopes to buy time and patience for what could be many years of poor economic performance ahead. The finance ministry’s current plans still do not include a clear pathway back to economic stability. The reserves are buying the country time, but unless there is a major shift in economic production, the government will need to plan for the day they run dry.

Algeria to launch 4GW solar tender with EU backing

Algeria’s energy ministry announced on 13 March that it will tender for 4 gigawatts (GW) of solar energy power plants by early April.²⁰ The announcement came the same day as the **European Union (EU)** and Algeria agreed to cooperate on the promotion of investment in renewable energy under the **European Neighbourhood Policy**.²¹ **Mohamed Arkab**, CEO of the **Compagnie de l’Engineering de l’Electricité et du Gaz (CEEG)**, a subsidiary of state-owned gas electricity utility **Sonelgaz**, said that his company will oversee the tendering process.²² CEEG will commission photovoltaic installations in three 1,350 megawatt (MW) phases.²³

“This is the largest push towards renewables from the government since it released its renewable energy plan in 2012; there is an understanding in the energy ministry that renewables are an

¹¹ APS, 27 Feb 2017.

¹² Reuters, 28 Feb 2017.

¹³ Reuters, 28 Feb 2017.

¹⁴ Source, political scientist, Algiers

¹⁵ Reuters, 7 Mar 2017.

¹⁶ Reuters, 7 Mar 2017.

¹⁷ APS, 6 Mar 2017.

¹⁸ MEMO, 7 Mar 2017.

¹⁹ Reuters, 7 Mar 2017.

²⁰ PV-Magazine, 13 Mar 2017.

²¹ UPI, 13 Mar 2017.

²² PV-Magazine, 13 Mar 2017.

²³ PV-Magazine, 13 Mar 2017.

*opportunity to draw in cheap investment, improve Algeria's international reputation, and reduce some of the costs of energy."*²⁴

The installations will be located in the **Hautes Plaines** region in the north of the country, and at undisclosed locations in the south of the country.²⁵ CEEG will form a number of special purpose corporate vehicles to develop the projects, responsible for financing, engineering procurement and construction (EPC), grid connection, and power sale.²⁶ Each of these will be a joint venture between state-owned oil and gas company **Sonatrach** (40%), Sonelgaz (11%) and an international partner (49%).²⁷ The energy ministry will require partners to raise at least 70% of funds from bank loans.²⁸ Partners will also be required to purchase components from state-owned electronics company producer **Entreprise Nationale des Industries Electroniques (ENIE)**.²⁹

*"There is a good opportunity for experienced renewables operators to gain a foothold in a country with significant generation potential...however, there are many renewables projects out for tender across the continent and Algeria's reputation for corruption may put some companies off."*³⁰

The tenders will fit into a new EU supported framework for renewable energy generation. The EU signed a \$42.7m agreement with Algeria to promote economic diversification, with an emphasis on developing renewable energy.³¹ Under the terms of the agreement the EU will promote renewable energy infrastructure in order to reduce reliance on oil and gas, create new jobs, and promote energy efficiency.³² Approximately \$14m of the funds will go towards creating new regulatory frameworks for the production and distribution of energy generated from renewable sources.³³ **Johannes Hahn**, the EU commissioner for European Neighbourhood Policy, said in a statement that:

*"In line with Algeria's efforts to diversify its economy, the programme will also help promote private investment – domestic and foreign – in renewable energy and energy efficiency projects...today's EU package for Algeria will help Algeria diversify its economy contributing to the creation of new jobs and the modernisation of public finances."*³⁴

Algeria has high renewable electricity generation potential. It is the largest country in **Africa** and has an estimated potential of 170 terawatt hours (TWH) per year, the highest on the continent.³⁵ The country has a renewable power target of 13 gigawatts (GW) by 2030, but so far has only managed to install 0.25GW of capacity in the first six years of the project.³⁶

Algeria needs to find ways to generate economic growth, and the renewables plan is best understood as an investment vehicle, rather than an effort to meet power demand. Algeria is able to power itself off oil and gas; it is the retail value of these commodities that is low not their ability to produce electricity. However, it also needs to attract foreign direct investment outside of the oil and gas sector. Renewable energy has widespread international support. The EU framework demonstrates that the international community will easily put money behind renewables projects, in order to demonstrate a commitment to standards against climate change. It opens the Algerian market up to operators, developers and funders who previously had no way into the country. Large scale solar developments

²⁴ Source, political scientist, Algiers

²⁵ PV-Magazine, 13 Mar 2017.

²⁶ PV-Magazine, 13 Mar 2017.

²⁷ PV-Magazine, 13 Mar 2017.

²⁸ PV-Magazine, 13 Mar 2017.

²⁹ PV-Magazine, 13 Mar 2017.

³⁰ Source, energy investor, London

³¹ UPI, 13 Mar 2017.

³² UPI, 13 Mar 2017.

³³ UPI, 13 Mar 2017.

³⁴ UPI, 13 Mar 2017.

³⁵ International Energy Agency, 2016.

³⁶ International Energy Agency, 2016.

mean increased employment, and subcontracting opportunities for Algerian companies. A growing renewables sector could drive the diversification away from oil and gas the government is searching for.

Islamic State claims responsibility for failed suicide attack

Terrorist organisation the **Islamic State (IS)** claimed responsibility for an attempted suicide bombing of a police station in Algeria on 27 February.³⁷ IS has threatened multiple attacks on Algerian territory for the past four years, and this is the second in the region in four months. The bomber, whom officials have yet to name, attempted to walk into a police station in the city of **Constantine**, in the east of Algeria, at 9pm local time on 26 February.³⁸ However, after ordering him several times to stop, a policeman on duty outside the station opened fire on the bomber, who then triggered his explosive vest.³⁹ The resulting explosion was reportedly heard across the city, and injured two policemen who were also entering the station.⁴⁰ The police station was on the first two floors of a residential block.⁴¹ IS's news agency **AMAQ** released a statement claiming:

"An operation of martyrdom using an explosive in a bag by an Islamic State fighter yesterday targeted an Algerian police station in the Constantine city centre."⁴²

An IS affiliate appears active in Constantine. Gunmen shot dead a policeman in a restaurant in the north of the city in November 2016; IS also claimed responsibility for that attack.⁴³ The Algerian army has an active programme of hunting down and killing Islamist groups. The armed forces reported on 28 February that they had "*neutralised*"⁴⁴ nine alleged Islamists in the **Kabylie Region**, which lies between Constantine and capital **Algiers**.⁴⁵ This brings the total number of alleged Islamists the army has killed to 22 since the start of 2017.⁴⁶

IS has threatened to start a campaign of violence in Algeria for years, however the only resources they may have are the existing militant groups in Algeria and neighbouring **Libya**. The Algerian armed forces and security services have fought an ongoing campaign against these groups for years. The fear of the security services is that the IS will manage to establish a cell in a major urban area and carry out attacks against civilian targets. This may be the case in Constantine, which raises the risk profile of the city. However, the broad risk profile of Algeria remains unaltered.

³⁷ RFI, 27 Feb 2017.

³⁸ RFI, 27 Feb 2017.

³⁹ RFI, 27 Feb 2017.

⁴⁰ RFI, 27 Feb 2017.

⁴¹ RFI, 27 Feb 2017.

⁴² RFI, 27 Feb 2017.

⁴³ RFI, 27 Feb 2017.

⁴⁴ News24, 28 Feb 2017.

⁴⁵ News24, 28 Feb 2017.

⁴⁶ News24, 28 Feb 2017.

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)