

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing June 2017

#### Algeria Summary 14 June 2017

**President Abdelaziz Bouteflika (1999-present) reshuffles his cabinet, replacing Abdelmalek Sellal with veteran Abdelmadjid Tebboune as prime minister and Nouredine Bouterfa with Mustapha Guitouni as oil minister. The International Monetary Fund (IMF) publishes its Article IV report following a mission to Algeria in May. The IMF projects growth to fall to 0.7% by 2018, and for public debt to grow due to the low price of oil. Government plans to cut further subsidies risk putting pressure on the cost of living and possibly sparking further unrest. The armed forces hunt militant groups following two roadside attacks on military and police convoys.**

#### Bouteflika reshuffles cabinet after election

President **Abdelaziz Bouteflika** (1999-present) reshuffled his cabinet following elections on 4 May, replacing a number of key allies on 24 and 25 May. The president is hoping to give a semblance of change to the government following record low turnout in the elections. Bouteflika appointed **Abdelmadjid Tebboune** as prime minister on 24 May.<sup>1</sup> The outgoing prime minister, **Abdelmalek Sellal**, tendered his resignation, and that of his cabinet, on 22 May – the first day of new business in the re-elected national assembly.<sup>2</sup> Sellal served as prime minister from 2014 to 2017 and is seen as a Bouteflika confidante.<sup>3</sup> However, a series of corruption scandals, poor economic growth and widespread unrest over subsidy cuts have damaged his reputation.<sup>4</sup> Bouteflika congratulated Sellal and the outgoing government for their work.<sup>5</sup>

Bouteflika announced the appointment of Tebboune via state news agency **Algeria Press Service (APS)** on 25 May. Tebboune is a long-standing member of the ruling **Front de Libération Nationale (FLN)** and is reportedly close to Bouteflika.<sup>6</sup> He served as housing minister from 2012 to 2017, interior minister between 2001 and 2002,<sup>7</sup> and communications minister from 1999 to 2000 in Bouteflika's first cabinet.<sup>8</sup> His first ministerial position was as local authorities minister between 1991 and 1992 in the final administration of President **Chadli Bendjedid** (1979-1992).<sup>9</sup> He has held senior political positions since 1983 when Bendjedid appointed him wali (governor) of **d'Adrar Province**.<sup>10</sup>

*"This appointment looks like the FLN old guard trying to manoeuvre back into position now that the power of the military has faded and the younger generation of the pouvoir [political elite] have failed to deliver growth."<sup>11</sup>*

Bouteflika announced the wider reshuffle on 25 May, and there are indications that tensions between different camps in the **Algerian** government drove the appointments. Bouteflika fired oil minister

<sup>1</sup> New Arab, 24 May 2017.

<sup>2</sup> New Arab, 24 May 2017.

<sup>3</sup> New Arab, 24 May 2017.

<sup>4</sup> New Arab, 24 May 2017.

<sup>5</sup> New Arab, 24 May 2017.

<sup>6</sup> New Arab, 24 May 2017.

<sup>7</sup> APS, 24 May 2017.

<sup>8</sup> APS, 24 May 2017.

<sup>9</sup> APS, 24 May 2017.

<sup>10</sup> APS, 24 May 2017.

<sup>11</sup> Source, political analyst, Cairo

**Nourredine Bouterfa**, who is widely credited as the architect of the **Organisation of Petroleum Exporting Countries (OPEC)** output reduction deal last year.<sup>12</sup> The news reportedly shocked Algeria's allies and Bouterfa himself.<sup>13</sup> Bouterfa was at an OPEC meeting when he lost his position and international media reported that other ministers were highly surprised to see him leave.<sup>14</sup> **Mustapha Guitouni**, the former head of state-owned gas company **Société Nationale de l'Electricité et du Gaz (Sonelgaz)**, replaced Bouterfa.<sup>15</sup> Local media implicated Guitouni in a gas price fixing scandal at Sonelgaz in 2014, but he returned to the organisation as CEO in 2016.<sup>16</sup> Bouteflika also replaced finance minister **Hadji Baba Ammi** with **Abderahmane Raouia**, a technocrat who ran the taxation department at the finance ministry.<sup>17</sup> Long-serving foreign minister **Ramtane Lamamra** was replaced by **Maghreb** and **African** affairs minister, **Abdelkader Messahel**.<sup>18</sup> In total, the presidency replaced 13 ministers in the reshuffle.<sup>19</sup>

One appointment was notably controversial. Bouteflika appointed Messaoud Benagoun tourism minister on 25 May, but was forced to sack him on 28 May.<sup>20</sup> Privately owned television channel **Ennahar** reported that senior executives at the tourism ministry had resigned en-masse when Bouteflika appointed Benagoun.<sup>21</sup> Ennahar also reported that the Bouteflika administration bypassed normal security checks and the security services had to deliver a "*black dossier*"<sup>22</sup> on Benagoun to Bouteflika detailing a criminal record and a six-year prison sentence.<sup>23</sup> The Ennahar report alleged that Benagoun had a fake university degree and a falsified CV that Benagoun used to stand in the parliamentary elections for minority party **Mouvement Populaire Algerien (MPA)** which is in coalition with Bouteflika's FLN.<sup>24</sup> Benagoun told the media on 30 May that Bouteflika did not give a reason for his dismissal.<sup>25</sup> He claimed he was the target of a smear campaign by Ennahar and that he was innocent of all claims against him.<sup>26</sup>

*"This is what happens when you have nobody in control of the country, the president can barely walk and talk so everyone around him tries to take power for themselves. All normal protocol goes away. I am sure that Benagoun was able to persuade the right person in the presidency to secure a cabinet position. Normally there would have been security checks, where were they now?"<sup>27</sup>*

Bouteflika's new cabinet faces the same major challenge as before: balancing the budget while the oil price remains low. Arguably the greatest loss for the country is Bouterfa, who was a major player on the international scene and had overseen an opening up of the country's oil and gas sector. The return of figures such as Tebboune and Guitouni to government poses a risk to investors of worse governance. While Guitouni is directly linked to corruption, Tebboune served in numerous regimes that allowed corruption to run unchecked at the highest levels. Behind the reshuffle is a power struggle between constantly shifting factions in Algeria. Local sources say that it is very difficult to speculate which figures are closest to the president, but his brother **Said Bouteflika** is universally cited as a powerful gatekeeper.

<sup>12</sup> APS, 24 May 2017.

<sup>13</sup> AP, 29 May 2017.

<sup>14</sup> AP, 29 May 2017.

<sup>15</sup> AP, 29 May 2017.

<sup>16</sup> DIA, 26 Jun 2016.

<sup>17</sup> Reuters, 26 May 2017.

<sup>18</sup> Reuters, 26 May 2017.

<sup>19</sup> Reuters, 26 May 2017.

<sup>20</sup> APS, 29 May 2017.

<sup>21</sup> Ennahar, 27 May 2017.

<sup>22</sup> Ennahar, 27 May 2017.

<sup>23</sup> Ennahar, 27 May 2017.

<sup>24</sup> Ennahar, 27 May 2017.

<sup>25</sup> Algerie-Focus, 30 May 2017.

<sup>26</sup> Algerie-Focus, 30 May 2017.

<sup>27</sup> Source, political commentator, Algiers

## IMF completes Article IV mission

The **International Monetary Fund (IMF)** published its Article IV report on 1 June, following a mission to Algeria from 19 to 26 May.<sup>28</sup> Algeria is struggling to rebalance its economy away from a reliance on oil and gas but has not sought funds from the IMF due to sizeable foreign currency reserves. The IMF was broadly positive about the efforts the government is making to adjust the economy, and recognised the “*significant challenges facing the Algerian economy*”.<sup>29</sup> The IMF projected gross domestic product (GDP) growth of 1.3% for 2017 falling to 0.7% in 2018.<sup>30</sup> However, the IMF also forecast the budget deficit to decrease from 14% of GDP in 2016 to 3% in 2017 as the government cuts spending.<sup>31</sup> The IMF commended the government on its “*commitment to pursue sustained fiscal consolidation*”<sup>32</sup> and hinted that Algeria could borrow more widely in order to finance public spending – foreign owned debt remains at just 2.3% of GDP.<sup>33</sup> However, the IMF stated that:

*“... wide ranging structural reforms are needed to diversify the economy and promote a more dynamic private sector.”*<sup>34</sup>

The government is attempting to carry out reforms in line with the IMF’s recommendations. Former finance minister Haji Baba Ammi told the media on 18 May that the government is working on cuts to food and fuel subsidies in order to balance its budget.<sup>35</sup> Algeria has already cut subsidies and raised taxes in order to adjust the fiscal balance to account for the low oil prices. This led to protests in January (see *ARC Briefing Algeria January 2017*) and the new subsidy cuts may lead to further unrest. The finance ministry increased gasoline and diesel prices by 14% and then a further 11% in 2016.<sup>36</sup> However, despite these cuts subsidy levels still equate to 27% of GDP.<sup>37</sup> Oil analysts predict that the price of oil may increase to close to \$60 per barrel across 2018, but the government still needs to increase its revenues by over 40% in order to be able to balance the budget.<sup>38</sup>

The IMF identified further measures that the government should take. These include reducing red tape, increasing access to finance, and improving governance and transparency in business.<sup>39</sup> The IMF also called on the government to reform the labour market, increase the participation of women in the workforce, and open up the economy to international investment outside of the oil and gas sector.<sup>40</sup> The IMF also noted that high unemployment among the under-35’s (26.7%) and women (20%) posed a long-term threat to economic stability.<sup>41</sup>

*“There are underlying instabilities in the Algerian economy that have never been revealed because oil has kept the pressure off. Now the pressure is on those cracks – like unemployment and poor internal provision of certain goods – will begin to show.”*<sup>42</sup>

The IMF recognises the difficult situation that the Algerian economy is in, and that solutions are unlikely to come quickly. The projections demonstrate that Algeria’s economy is likely to slow, and debt to rise. Algeria still has time in hand due its foreign currency reserves to stimulate growth outside of the oil and gas sectors. However, years of underinvestment – and indeed lack of government interest – in wider sectors means the infrastructure is simply not there to support this.

<sup>28</sup> IMF press release, 1 Jun 2017.

<sup>29</sup> IMF press release, 1 Jun 2017.

<sup>30</sup> IMF press release, 1 Jun 2017.

<sup>31</sup> IMF press release, 1 Jun 2017.

<sup>32</sup> IMF press release, 1 Jun 2017.

<sup>33</sup> IMF press release, 1 Jun 2017.

<sup>34</sup> IMF press release, 1 Jun 2017.

<sup>35</sup> Bloomberg, 18 May 2017.

<sup>36</sup> Bloomberg, 18 May 2017.

<sup>37</sup> Bloomberg, 18 May 2017.

<sup>38</sup> IMF press release, 12 May 2017.

<sup>39</sup> IMF press release, 1 Jun 2017.

<sup>40</sup> IMF press release, 1 Jun 2017.

<sup>41</sup> IMF press release, 1 Jun 2017.

<sup>42</sup> Source, financial journalist, Algiers

This is reflected in the high unemployment levels, which will translate into social unrest as cut subsidies increase the cost of living across the board.

### Military hunts militants after roadside blasts

The **Armée Nationale Populaire (ANP)** (national army) has carried out operations against militants with links to the so-called **Islamic State (IS)** militant group following roadside bomb attacks on 1 and 3 June.<sup>43</sup> IS has increased attacks internationally following major offensives against its territory in **Iraq** and **Syria**, and is known to sponsor Islamist militant groups in **North Africa**. Militants attacked a police convoy in the **Blida Province** close to capital **Algiers** on 1 June, injuring four policemen.<sup>44</sup> Militants then attacked a military convoy with a home-made roadside bomb at **Tebessa**, near Algeria's border with **Tunisia**, on 3 June.<sup>45</sup> The attack left two soldiers dead and four wounded.<sup>46</sup> IS news agency **Amaq** released a statement on 2 June claiming responsibility for the 1 June attack, but did not claim formal responsibility for the 3 June bombing.<sup>47</sup>

The military has responded to the attacks by launching operations against militant groups in the affected areas.<sup>48</sup> The army shot dead two militants it claims were linked to the 1 June attack on 2 June in Blida.<sup>49</sup> ANP soldiers seized guns, ammunition and surveillance equipment in the raid.<sup>50</sup> The ANP then announced on 5 June that it had made three arrests of alleged backers of terrorist groups in Tebessa following the 3 June blast.<sup>51</sup> In a media statement the ANP said the suspects had admitted to making and planting the explosive device.<sup>52</sup> Militant attacks for the past six months have focused on the city of **Constantine** with a failed attempt to blow up a police station in March and a successful attack on a policeman in a restaurant in November 2016 (see *ARC Briefing Algeria March 2017*).<sup>53</sup> The attacks on military and police patrols away from urban areas are tactics militant groups in Algeria have employed since the end of the Algerian civil war between 1992 and 1999.<sup>54</sup>

The overall security risk in Algeria remains low. Attacks tend to be concentrated in areas with a historically strong militant presence and those close the unstable border with **Libya**. They also tend to focus on military and police targets. Despite continued rhetoric, IS and its affiliated organisations appear to have had little success establishing an effective presence in the country.

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<sup>43</sup> AFP, 3 Jun 2017.

<sup>44</sup> Reuters, 4 Jun 2017.

<sup>45</sup> Reuters, 4 Jun 2017.

<sup>46</sup> Reuters, 4 Jun 2017.

<sup>47</sup> APS, 6 Jun 2017.

<sup>48</sup> APS, 6 Jun 2017.

<sup>49</sup> AFP, 3 Jun 2017.

<sup>50</sup> AFP, 3 Jun 2017.

<sup>51</sup> APS, 6 Jun 2017.

<sup>52</sup> APS, 6 Jun 2017.

<sup>53</sup> APS, 6 Jun 2017.

<sup>54</sup> APS, 6 Jun 2017.

### About Africa Risk Consulting:

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