

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing July 2017

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#### Algeria Summary 21 July 2017

**Prime Minister Abdelmajid Tebboune throws Ali Haddad, the influential CEO of construction company ETRHB Haddad, out of a government event in a sign that the presidency is cutting ties with the business elite. The government approves sweeping economic reform proposals that include substantial cuts to subsidies and the \$30 billion per annum welfare bill, and the introduction of Islamic finance to boost growth. The government announces plans to grant residency rights and job permits to African migrants to combat racism and to plug a shortage in agricultural and construction workers.**

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#### Tebboune moves away from traditional business allies

The prime minister, **Abdelmajid Tebboune**, is moving the government away from its allies running major **Algerian** corporations, including **Ali Haddad**, the influential CEO of construction company **ETRHB Haddad**, according to local media reports on 19 July.<sup>1</sup> The move away from Haddad and other corporate leaders signals a change in power dynamics within the *'pouvoir'* – the ruling elite around President **Abdelaziz Bouteflika** (1999-present). Tebboune snubbed Haddad during the opening of a new public administration college, the **Ecole Supérieure de la Sécurité Sociale**, in **Algiers** on the night of 18 July.<sup>2</sup> Tebboune had Haddad thrown out of the event when he heard he would share a podium with him for the opening speech.<sup>3</sup> Tebboune opened the college with **Abdelmadjid Sidi Saïd**, the secretary general of the **Union Générale des Travailleurs Algériens (UGTA)**.<sup>4</sup> Haddad, who is also chair of the business forum, the **Forum des Chefs d'Entreprise (FCE)**, is highly influential in Algeria and was close to Bouteflika for many years, enjoying popular support in his role as owner of the **USM Alger** football club.<sup>5</sup>

*"Haddad was one of the most powerful men in the country, a split between him and the government means that the shake-up of the new government is continuing...I just don't know who is pulling the strings."*<sup>6</sup>

Algerian press coverage has interpreted Tebboune's actions as a sign he is distancing himself from business.<sup>7</sup> Tebboune is currently conducting a review of all public sector contracts started under his predecessor, **Abdelmalek Sellal**.<sup>8</sup> Local news sources believe that Tebboune is in the process of preparing a number of state interventions and possibly corruption charges against high-ranking business officials.<sup>9</sup> Tebboune reportedly publicly rebuked Haddad for unfinished public contracts before having him removed from the event.<sup>10</sup> Local analysts believe that this is part of the government attempting to improve its image before the 2019 presidential elections:

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<sup>1</sup> Liberté, 19 Jul 2017.

<sup>2</sup> Liberté, 19 Jul 2017.

<sup>3</sup> Liberté, 19 Jul 2017.

<sup>4</sup> Liberté, 19 Jul 2017.

<sup>5</sup> Liberté, 19 Jul 2017.

<sup>6</sup> Source, journalist, Algiers

<sup>7</sup> Liberté, 19 Jul 2017.

<sup>8</sup> Maghreb Confidential, 16 Jul 2017.

<sup>9</sup> Maghreb Confidential, 16 Jul 2017.

<sup>10</sup> Liberté, 19 Jul 2017.

*“Tebboune is trying to distance the government from the business elite ... It is a populist move about being on the side of the people, but really it is about moving Sellal’s allies on and bringing Tebboune’s in.”<sup>11</sup>*

The incident also ties into a new consultative process that Tebboune is drawing up between government, unions and business on an economic reform package (see below).<sup>12</sup> The UGTA currently holds sole consultative status with the Algerian government and is reportedly worried that it will lose its role as the mouthpiece of the unions.<sup>13</sup> The FCE, represented by Haddad, and other business groups have also publicly expressed their concern that they are expected to bear significant costs to prop up the government’s public spending agenda.<sup>14</sup>

*“The government needs to find a lot of money and is looking at the large businesses to see where they can make them add value ... this could be the start of a very serious breakdown between business and government.”<sup>15</sup>*

There is ongoing uncertainty about key shifts in the *pouvoir* with both the military and business leaders being moved away from the presidency. The more established figures from within the ruling **Front de Libération Nationale (FLN)** whom Bouteflika brought back to power in May appear currently to be acting to consolidate power without drawing on other allegiances. This leaves them vulnerable, particularly if ailing President Bouteflika leaves office. However, the short-term goal appears to be to demonstrate to the populace that the administration can change following record low turnout for the legislative elections in May (see *ARC Briefing Algeria May 2017*).

### Government passes economic reform package

The government approved sweeping economic reform proposals by the prime minister, Abdelmajid Tebboune, on 29 June. The reforms are a bid to reduce Algeria’s dependence on oil and gas exports, which currently make up 60% of the government’s budget.<sup>16</sup> The reforms will result in a sizable cut in public expenditure, including the controversial overhaul of a long-standing subsidy policy that sees the Algerian government spend large-sums of money every year on basic goods such as fuel, medicine, housing, education and basic foodstuffs and raising taxes on luxury products.<sup>17</sup> Reducing the \$30 billion per annum welfare spending bill will form part of a wider programme of public expenditure cuts.<sup>18</sup> The government also plans to use Islamic finance to attract investment from inside and outside Algeria.<sup>19</sup> This will involve introducing a regulatory and legal framework for Islamic finance and Islamic bonds.<sup>20</sup> The government will “*issue sovereign bonds for participatory funding*”<sup>21</sup>, a likely reference to Islamic financing tools. The government will look to integrate the parallel market into the formal economy, a key step to strengthening government revenues.<sup>22</sup> Modernisation of the outdated and bureaucratic banking system is yet another way the government hopes to make Algeria a more investor friendly jurisdiction.<sup>23</sup>

*“The new economic programme is more radical than the previous attempt to turn around the economy [the 2016 supplementary budget bill]...it does much of what the government was afraid*

<sup>11</sup> Source, journalist, Algiers

<sup>12</sup> Liberté, 19 Jul 2017.

<sup>13</sup> Liberté, 19 Jul 2017.

<sup>14</sup> Liberté, 7 Jul 2017.

<sup>15</sup> Source, academic, Algiers

<sup>16</sup> Reuters, 30 Jun 2017.

<sup>17</sup> Reuters, 30 Jun 2017.

<sup>18</sup> Liberté, 5 Jul 2017.

<sup>19</sup> Reuters, 30 Jun 2017.

<sup>20</sup> Reuters, 20 Jun 2017.

<sup>21</sup> Reuters, 20 Jun 2017.

<sup>22</sup> Reuters, 20 Jun 2017.

<sup>23</sup> Reuters, 30 Jun 2017.

*to do before, especially cutting expenditure and raising taxes. I still doubt that the government can actually implement successfully before the reserves run out.”<sup>24</sup>*

Cuts to subsidies were reportedly a triggering event for riots in the south of Algeria in January 2017 (see *ARC Briefing Algeria January 2017*), and the government is wary of further unrest.<sup>25</sup> Tebboune plans to hold widespread consultations on the new measures, in particular on the issues of subsidies.<sup>26</sup> This step is unusual in Algeria and lends further weight to the argument that the government is concerned about the public response to subsidy cuts.<sup>27</sup> Bouteflika released a statement on 5 July calling on Algerians to support the plans.<sup>28</sup> The statement is an attempt to mitigate public displeasure with the reforms, and addressed these issues head on:

*“Our country faces a huge reduction in its external earnings and deterioration in its balance of payments, even if it retains its sovereignty in social and economic decisions. I renew my call for the people to work for and implement in a sovereign manner, the necessary economic reforms.”<sup>29</sup>*

The reforms represent a profound change in Algeria’s economy, as the country has had little development beyond the oil and gas sector since the socialist one-party state rule that followed Algeria’s independence from **France** in 1962.<sup>30</sup> A prolonged period of weak oil prices has forced the government into action due to a sharp fall in earnings and the decline in exchange reserves.<sup>31</sup> Algeria’s foreign exchange reserves declines to \$108 billion so far this year from \$114 billion in 2016 and \$144.1 billion in 2015.<sup>32</sup> On 29 June, **Banque d’Algerie** (central bank) governor **Mohamed Loukal** stated that high import bills are the main reason behind the depletion of the reserves.<sup>33</sup>

Tebboune has taken personal control of rebalancing the economy, appearing to sideline finance minister **Abderrahmane Raouya** who is playing a supporting role. The economic plan is the most radical step the government has taken since the price of oil crashed in 2014. It reflects the prevailing opinion amongst oil analysts that the oil price will not climb back to its 2013 highs of \$100 per barrel any time soon. The emphasis of the plan is cutting expenditure, and it tackles the issue of high welfare expenditure head on. This carries the risk of some social unrest as a result of subsidy cuts which will have an impact of the quality of life of Algerians. However, the plan has less detail on how it will stimulate economic growth and draw in international investors. Islamic investment has yet to generate significant revenues in **North Africa**. It took neighbouring **Morocco** five years to put the necessary infrastructure in place to allow Islamic-compliant trading and investment. Banking reform is another issue that will appeal to investors, but it may take wider reforms – such as amending the 51/49 local ownership role – to attract the level of investment needed to turn around Algeria’s economic fortunes.

### Government to grant residency & job permits to African migrants

Prime minister Tebboune, on 30 June, announced plans to grant residency rights and job permits to **African** migrants to combat racism towards them and to plug a shortage in agricultural and construction workers in Algeria.<sup>34</sup> Migrants are the target of a significant backlash by Algerians, which is heightened by the poor economic circumstances. The hashtag ‘No to Africans in Algeria’ was widely shared on social media sites such as **Twitter** and **Facebook** in June, and an anonymous online campaign alleging that African migrants are spreading the HIV virus and taking Algerian’s jobs

<sup>24</sup> Source, North Africa specialist at an international organisation, Washington DC.

<sup>25</sup> Liberté, 5 Jul 2017.

<sup>26</sup> Liberté, 5 Jul 2017.

<sup>27</sup> Liberté, 5 Jul 2017.

<sup>28</sup> Liberté, 5 Jul 2017.

<sup>29</sup> Liberté, 5 Jul 2017.

<sup>30</sup> Reuters, 30 Jun 2017.

<sup>31</sup> Reuters, 30 Jun 2017.

<sup>32</sup> Reuters, 29 Jun 2017.

<sup>33</sup> Reuters, 29 Jun 2017.

<sup>34</sup> Al Jazeera, 4 Jul 2017.

gathered a significant following online.<sup>35</sup> The campaign has reportedly shocked many in Algeria's more liberal urban elite, who view the country as a leader in tolerance and stability in the region.<sup>36</sup> Tebboune told the national assembly that Algeria had a "moral and human duty"<sup>37</sup> to aid migrants. It is a point of view that sources in capital Algiers share:

*"This is disgusting, everyone I know is shocked that Algerians can feel like this about their neighbours...everyone remembers the war [the Algerian Civil War 1992-2001], these people are fleeing conflict and are willing to do jobs that Algerians are not."*<sup>38</sup>

However, other sources are concerned that the social tensions of migrants could boil over:

*"The government is doing the right thing in taking in these migrants, but those who cannot find a job – even if there are labourer jobs available – will not see it this way, they believe that the migrants are pushing them out of the jobs market. Tebboune has to create jobs for Algerians or else the tensions will continue to rise."*<sup>39</sup>

Most of the estimated 100,000 migrants in question come from **Niger, Burkina Faso** and **Mali**, with many using Algeria as a pit-stop en route to **Europe** via **Libya**.<sup>40</sup> Although youth unemployment runs high in Algeria, at around 30%, there is a shortage of workers for jobs in the agricultural and construction sectors, which shows that the policy to grant residency and job permits to African migrants has social and economic merit as Algeria attempts to direct its economy away from dependency on gas and oil exports.<sup>41</sup> The interior ministry will conduct a census of all migrants in Algeria.<sup>42</sup> This will determine whether or not they meet the criteria to remain and will issue work permits and residency rights to those who do.<sup>43</sup>

Tebboune has gained international praise for his decision to offer migrants work permits. This plays to his advantage as he attempts to position the country as a foreign investment friendly economy. The migrants are also genuinely needed to fill agricultural and construction labour jobs that Algerians are not filling. This is a calculated decision to address labour shortfalls and improve the country's image, not an ideologically driven decision. The interior ministry census will allow the government to move a number of migrants on, while granting permits to those it deems most useful to stay. However, Tebboune will need to convince out of work Algerians that his economic and social reforms are working for them in order to address rising social tensions with the migrant community.

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<sup>35</sup> Al Jazeera, 4 Jul 2017.

<sup>36</sup> Al Jazeera, 4 Jul 2017.

<sup>37</sup> APS, 4 Jul 2017.

<sup>38</sup> Source, ARC correspondent, Algeria

<sup>39</sup> Source, academic, Algiers

<sup>40</sup> Al Jazeera, 4 Jul 2017.

<sup>41</sup> Al Jazeera, 4 Jul 2017.

<sup>42</sup> Quartz, 5 Jul 2017.

<sup>43</sup> Quartz, 5 Jul 2017.

### About Africa Risk Consulting:

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