KCS Country Risk & Threat Advisory

KCS Group Europe
Risk & Threat Advisory paper

Political Risk Advisory Briefing: Algeria
May 2019

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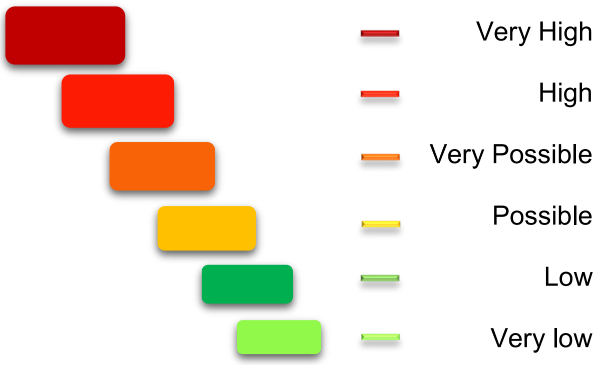
Country:	Algeria
Population:	41.80 million
Source:	Trading Economics

Algeria has a risk rating of 3: Possible

6	**Very High**	The assorted threats described in the report are almost certain to have a derogatory effect.
5	**High**	The threats are extremely likely to negatively affect the business.
4	**Very Possible**	There is a strong likelihood of problems arising in this country.
3	**Possible**	There is a fair chance of problems arising in this country.
2	**Low**	There is a low likelihood of any threats impacting business.
1	**Very Low**	There are virtually no impediments to successful business in this country.



Politics

Algeria might be about to experience the Arab Spring that it never quite had in 2011. Abdelaziz Bouteflika, who has been President since 1999 and who has become increasingly both autocratic yet infirm, was until recently seeking a fifth term in office despite suffering a near-fatal stroke in 2013 and being something of the 'invisible man' thereafter. In a somewhat unexpected move, he resigned in early April 2019, following widespread protests, and declared that forthcoming elections would take place without him.

While the announcement that the House chairman, Abdelkader Bensalah, will take temporary charge is a placeholder at best, there is a sense that this may be Algeria's moment to effect substantive and long-lasting change.

None of the problems which led to the protests in 2011 – high unemployment, inflation, a muzzled social voice and a corrupt government sector – have been solved, and in most cases have actually got worse. Bouteflika throughout his rule showed little inclination to understand the root causes of discontent however, merely remarking following the original protests that his practices should be *'accepted by citizens'*. But in the intervening years (perhaps mollified by the promise of a 2014 election, which was delivered – albeit in likely fixed form) the discontent became less vocal. Now, with even Bouteflika's resignation not serving as a panacea, the position appears to have swung back once again.

The delayed election, now scheduled for July, thus takes on a degree of seriousness, and foreboding, that has arguably not been seen in any Algerian contest thus far. Will Bouteflika's pre-emptive action be enough to persuade the faithful one last time to vote for his part and/or chosen successor, or will his bluff be called by the youth surge that is unwilling to accept the status quo? The signs are so far that the latter will win out. Already the size and volume of the anti-establishment protestors is growing, and Algerian minds will think back to the Arab Spring the differing contrasts of Tunisia's Ben Ali, who bowed to public pressure and escaped with his life (and his wealth), and Libya's Gaddafi, who did not. While Bouteflika may be out of the picture as far as frontline politics is concerned, those who owe their power and position solely to him may be nervously looking over their shoulders.

Regardless, street protests of whatever size and allegiance are likely to incite indiscriminate violence. The ultimate decision may well be made by how long the military and police can be kept on-side by the interim administration. But beyond this there is another consideration, of how much Bouteflika was actually in control by the end. Given his declining health and his absence from Algiers, it is widely believed that behind him sat a 'cabal' led by military figures and Bouteflika's own brother, who are unlikely to be willing to hand over power for long.

Economy

As with many oil-rich countries, Algeria's economy is reliant on the oil industry to the extent that this has become a crutch, and a bellwether for the country's economic status: if the oil price is high, Algeria thrives. If the price is low, she suffers. The same can be said of output, which is suffering a ten-year low of just 1.5m barrels per day. Government spending is tied heavily to oil revenues, and when the latter declines (and it is suffering a low at the moment of just $66 per barrel compared to $100 in 2014) the knock-on effect is that public spending goes less distance. GDP growth has sunk to just 0.8% in the past year[1]. Instead of using the oil wealth to boost Algeria's ground-roots economy, and diversification, the profits are either used as subsidies or disappear into the pockets of the elite.

Worse, even with less revenues the government is still overspending. The trade deficit at 12.5% is one of the largest in the world and shows little signs of abating soon. The Bouteflika administration has been either unable, or unwilling, to turn the economic ship around. Compounding the problem is the unemployment level, and where this has most impact. With unemployment at record levels (11.7%, rising to 29% among the youth population) – compounded by a youthful population – this is a problem that is only going to get worse. Indeed, there is a very real chance that Algeria will quite literally run out of money.

The consequences of this would clearly be severe. Saving an injection of funds by the World Bank or the IMF – which clearly could not go on forever – and the reduced chance that Algeria could secure loans or credit from neighbouring countries – she would go bankrupt, with the concomitant chances of revolution, violence and structural/economic collapse.

[1] All figures from Trading Economics

The only solution is twofold: funnel all oil revenues straight back into the state for development and improvement projects, and actively seeking to diversify the economy into other areas to prevent a crash fuelled (ironically) by the end of oil: an Algerian version of Riyadh's Vision 2030. Thankfully, the post-Bouteflika government may very well be spurred on to do this in the knowledge that time is running out for credible reform. To a large degree though, this is dependant on who takes power in the next elections and what they decde to do with it.

Corruption

As befits a one-party state with highly embedded military control, a supine judiciary and political freedom only for those that make the rules, Algeria is a highly corrupt state. In the first instance this is seen openly in the most lucrative sector, oil: with revenues which are supposed to be used in repairing the state being diverted to the coffers and pockets of the political elite and their cronies. Not only does this have knock-on effects for the country as a whole (as previously outlined) but it means that the single biggest sector, which should be Algeria's primary benefit, is hobbled from the start.

While corruption at the state level is prevalent, and painted on a broad canvas, one is just as likely to encounter bribery, corruption and greasing-of-the-wheels at varying local and regional levels, although these officially are illegal. A legal framework exists that sees assorted corruption offences as criminal actions, but in practice these are rarely adhered to. For a living example one might consider the case of Saipem, an Italian oil firm which is alleged to have paid almost 200m Euros in bribes between 2007 and 2010 in order to secure contracts worth 8 billion Euros. While this was exposed (although Saipem denied all wrongdoing), there was no great outcry or contrition from the Algerian side – it was just accepted that this was the way of doing business.

This is made all the more ironic, or worrying, given that in only November of 2018 the Secretary-General, Haba El-Okb (acting as a proxy for the then-President) warned that *'bribery, nepotism and suffering … have festered and become crippling parasites'.* Wise words, but with little action taken either side of them to suggest that the Algerian marketplace will become anything other than extremely mendacious. Without the will to act, there is very little chance of meaningful resosolution to change.

There are of course paths around this, and it is certainly not the case that every Algerian venture will be hand-in-hand with corrupt practices. But the problem is that there are few meaningful safeguards to prevent what corruption does occur, and an acceptance (or perhaps resignation) at *'the way things are'.*

Business environment

Despite the political, economic and security concerns, Algeria has been keen to promote itself as a prime destination for business. It has been a candidate for membership of the World Trade Organisation since 1987, although as the relevant working group has not met since 2014, and none scheduled, progress on this front seems unlikely to blossom any time soon.

2014 also saw surface-level changes of the 51/49 rule, whereby any venture by a foreign entity into Algeria would require 51% ownership by a native/domestic Algerian concern. Clearly the chance for corruption in such a situation would be strong as the foreign entity would be beholden to their Algerian partner – and with the possibility of no prior due diligence to ensure that they are a sound choice. While it was initially thought that this rule would be scrapped, it still remains 'in practice', meaning that – once again – nothing has changed. It was hoped that the removal of 51/49 would see a paring-down of the bureaucracy and stolid governance that characterises Algerian business, but so far this is yet to happen.

Other problems – such as the regulatory difficulty with which foreign companies can gain customs clearance, the limits placed on franchises and the infelixibility of the Algerian rule system even when these directly limit the effectiveness of businesses to support the Algerian economy – will likely always be faced, although can be diverted around with the right knowledge and decisions.

The key for the strong development of Algerian business will be in the degree to which it welcomes investment and opportunities away from the hydrocarbon sector. If Algeria can prove it can diversify into long-term industrial and financial projects, while diluting the somewhat 'ad-hoc' nature of imposed rules, then the attractiveness will only increase. But again this depends on whether the chance for a 'new future' is grasped or ignored. Bit-by-bit change will not work for Algeria in the long-term, for reasons of both efficacy and time – wholesale sweeping changes need to be made in the type, manner and ease of business to ensure that Algeria keeps pace economically with its neighbours.

Criminality/Terrorism

Memories are still strong of the In Amenas siege of 2013, when 67 died in a massacre at the Tigantourine gas processing facility at the hands of Islamist militants, and the terror threat remains very current in Algeria. Sitting at the top of Maghreb, and not least bordered by Mali and Libya, Algeria is, if not quite a major player in the Islamic State playbook, then at least a fertile recruiting ground and a minefield for 'lone wolf' attacks inspired by Al-Qaeda to the north, Al-Shabaab to the east and Boko Haram to the south.

While there has not been an attack of the severity of In Amenas since, the threat level remains severe. Although attacks are for the most part focused on the Algerian state and its instruments, foreigners (particularly wealthy, or solo travellers) are valuable targets of opportunity. Kidnappings are common and more likely to come from terror affiliates than standard opportunists. Not all are for monetary gain, either, but for political purposes (for instance, seeking the removal of Western energy companies or for the release of convicted terrorists). Given that the Algerian government has no desire to foment further terror, and the British government has a long-standing policy of non-negotiation, both are equally of concern.

Algeria is a vast country and groups can operate out of the mountains and desert with impunity, with the true potential of the threat likely to be much bigger than known by government agencies.