

## THE ATTRACTIVENESS OF THE INVESTMENT CLIMATE IN ALGERIA

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### **Abstract:**

As part of the realization of economic development and increase the economic growth rates Algeria has taken a number of policies and measures, especially those relating to the change in investment legislations, for improvement of the investment environment and make it an attractive environment through this research, we Try to study the attractiveness of investment climate in Algeria, through its components, without forgetting the restrictions and obstacles facing investors in the investment environment.

### **Résumé**

Dans le cadre de la réalisation du développement économique et augmenter les taux de croissance économique, l'Algérie a pris un certain nombre de politiques et de mesures, en particulier celles relatives à la modification des législations d'investissement, pour l'amélioration de l'environnement de l'investissement et en faire un environnement attrayant grâce à cette recherche, nous essayons d'étudier l'attractivité du climat d'investissement en Algérie, à travers ses composantes, sans oublier les restrictions et les obstacles auxquels font face les investisseurs dans l'environnement d'investissement,

## **1. Introduction:**

The Algerian economy has gone through many stages for achieving economic development, And the targeting of good economic growth rates through improving the investment climate. Algeria introduced several reforms, depending on the economic policies in order to attract local and foreign investors, but the investment climate has several components,

Algerian economy over a set of changes and shifts in the balance of the macro and micro since independence, these changes were dictated by circumstances and transformations witnessed by both domestic and international arenas, where the Algerian economy moved from the application of mechanisms oriented economy to enter into a stage of the application of mechanisms of a market economy

### **A. The problem statement :**

Thus, the research problem can be summarized by the following basic questions:

- What are the most important factors of investment climate components?
- What are the factors that attract and expulsion in the investment climate in Algeria?
- Is progress has been made in the investment climate in Algeria based on global

indicators?

### **B. The research objectives:**

The aim of this study is to focus on investment climate in Algeria, because the concept of the investment climate has developed gradually, to become a vehicle includes a combination of economic, social and political factors and authorities, so the Algerian government is seeking through it the promotion of investment opportunities available, so all that to know if the investment environment attracting a lot of investors for contributing to the economic development.

Algeria has sought to get out of the circle of countries that suffer imbalances in its economic system, building on the reforms and the measures taken, has been the development of the legislative framework for investment in order to improve the investment climate and to cover the shortcomings of the guarantees granted and multiple benefits.

The paper is organized as follows. Section 2 provides a look around Components of the investment climate, followed by section 3 which discusses and assesses the investment climate in Algeria. Major conclusions and are presented in section 5.

## **2. Components of the investment climate**

The investment climate can be understood as the set of factors in a given location that shape firms' incentives and opportunities to invest, grow and create jobs. Some of these factors are costs; others are risks; still others are the competitive forces in the economy (Sumedh Rao, 2010), this differs from one country to another by economic and political conditions of internal and external surrounding this country, so the investment climate are favorable or unfavorable dependant on the firm or the sector.

According to Sumedh Rao, Investment in one type of industry can discourage other types of investment. This is particularly the case concerning investment associated with the extraction of natural resources as opposed to other types of investment (2010)

A good investment climate is not just about generating profits for firms but also about improving outcomes for society including through its impact on job creation, lower prices, and broadening the tax base, that according to The World Bank (2005)

The Investment Climate Surveys carried out by the World Bank with partners in 53 developing countries provide new insights into conditions facing firms. The surveys, based on large random

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samples of firms, give firm-level experiences with specific regulatory burdens, sources of finance, the quality and access to infrastructure services, security of property rights and corruption. The surveys also provide measures of firm performance, allowing for the impact of investment climate conditions on investment rates, growth and employment to be assessed. (Mary Hallward, etc., 2004)

Investment climate consists of many factors that affect the attraction, these factors are:

**A. Political factors** relating to save political stability within the country and from the stability of policies taken by the government, in addition to the lack of wars and political tensions

**B. Economic factors** is linked to macroeconomic variables, such as:

- inflation
- economic growth
- achieve inner balance
- external and balance through the balance of payments
- the stability of the currency through the exchange rate
- And the availability of material and human resources
- Market size
- Unemployment
- ...etc

**C. Social factors:** are as follows:

- Abundance of labor
- Consumer culture
- Customs and traditions
- Social ties
- ...etc

In other side the firms don't go to the investment climate which include some obstacle factors, In the Investment Climate Surveys, firms are asked to rank up to 18 potential issues on the degree to which they represent an obstacle to the growth and operation of the business (Mary Hallward, etc., 2004), like: Policy uncertainty, Macro instability, Tax rate, Corruption, Cost & access to finance, Crime, Regulations and tax administration, Courts and legal system, Labor regulations, Access to land, etc..

The business climate is so important for growth and development, why have African countries been so slow to improve it? Part of the reason is the particular severity of physical constraints in Africa, but equally important is the configuration of political interests for and against reforms in areas related to the business climate. It is argued that these factors weaken the ability, and perhaps also the motivation, of the business community to press for a better business climate, and that this compounds the ambivalent attitude toward business expressed in Afrobarometer surveys and reflected in statements by many prominent African officials. These factors raise the question of whether to attempt reforms across-the-board or to sequence them to create pockets of opportunity that in turn can build constituencies for wider reforms.(Benn Eifert,..etc, 2005)

Thus, The investment climate is defined as the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand.

Government policies and behaviors exert a strong influence through their impact on costs, risks, and barriers to competition. A good investment climate is not just about generating profits for firms—if that were the goal, the focus could be narrowed to minimizing costs and risks. It is about improving outcomes for society. Many costs and risks are properly borne by firms. Reducing barriers to competition expands opportunities, spurs innovation, and ensures that the benefits of productivity improvements are shared with workers and consumers. A good investment climate is one that benefits everyone in two dimensions. First, it serves society as a whole, rather than just firms, including through its impact on job creation, lower prices, and broadening the tax base. Second, it embraces all firms, not just large or influential firms. (world bank, 2005)

### **3. investment climate assessment in Algeria**

Investment climate assessments systematically analyze the conditions for private investment and enterprise growth in a country, drawing on the experience of local firms to pinpoint the areas where reform is most needed to improve the private sector's productivity and competitiveness. By providing a practical foundation for policy recommendations and involving local partners throughout the process, the assessments are designed to support policy reforms that can speed the private sector's growth, leading to faster economic growth and poverty reduction (World bank, 2002)

Algeria government have taken a number of steps towards improving their image and offering increased incentives and institutional support to foreign firms investing in Algeria.

Algeria, with its population of more than 37 million, hydrocarbon wealth, expanding infrastructure needs, and growing consumer product demand, is attracting interest from companies around the world. U.S. firms continue to consider Algeria an emerging and growing market. The climate for international firms considering direct investments in Algeria has stabilized in the wake of a series of restrictive foreign investment rules enacted in 2009 and 2010, which imposed a requirement of at least 51 percent Algerian ownership of foreign investments. Foreign Direct Investment (FDI) in Algeria waned as a result of those measures. Investors highlight regulatory uncertainty, tight foreign exchange controls, lax intellectual property rights (IPR) protections, customs delays, and a large informal sector among ongoing commercial challenges. However, the Government of Algeria (GOA) has invested more than USD 286 billion in infrastructure development, making the local market sufficiently profitable for firms adapted to emerging markets to weather those challenges and explore new opportunities, especially in sectors like energy, power, water, health, telecommunications, transportation, and agribusiness. (BEBA, 2013)

The signs of change are positive and Algeria's macroeconomic outlook is stable, but vulnerabilities and challenges persist, including dependence on hydrocarbon revenue and risks posed by rising inflation. The public sector still dominates the economy and inefficient state-owned enterprises are a drag on productivity. (BEBA, 2013)

**Table 01: some index, Algeria**

Measure	Year	Index/Ranking
TI Corruption Index	2012	105 (out of 176)
Heritage Economic Freedom	2012	140 (out of 183)
World Bank Doing Business	2012	152(out of 185)

**Source:** Bureau Of Economic And Business Affairs, report: Investment Climate Statement – Algeria, <http://www.state.gov>, February 2013

Generally, Algeria's regulatory system is transparent, but decision-making authority remains opaque. Each ministry defines its rules for doing business in the sectors it manages, and regulatory bodies are established to administer them. Challenges arise in managing the bureaucracy, because authority is generally vested at the top of every organization, and access to decision-makers is often limited. Furthermore, the Algerian bureaucracy is slow and protocol-oriented, such that even minor deficiencies in paperwork can lead to significant delays and fines. (BEBA, 2013) Corruption is a major constraint in Algeria, with 75 percent of firms reporting bribes are paid. for example Regulation is a bigger cost in China, but not so much in Algeria – where corruption accounts for a bigger share of the costs. (Mary Hallward, etc., 2004)

**Table 02: Output and prices, Algeria, 1997–2012** (percent)

Indicator	1997	2000	2003	2005	2007	2010	2012
Real growth of GDP	1.1	2.2	6.9	5.1	3.0	3.3	5.3
Real growth of non-hydrocarbon GDP	-1.3	1.2	6.0	4.7	6.3	6.0	7.1
Inflation rate	8.4	0.3	2.6	1.6	3.5	4.2	8.8

**Source:** world Bank; Banque d'Algérie, Rapports annuelles de la banque d'Algérie,2005, ( en ligne), [www.bank-of-algeria.dz](http://www.bank-of-algeria.dz)

Regarding the order of Algeria in this indicator, it is during the table below, we note that the best rank achieved at the global level is ranked 83 among 134 countries, and this in the year 2008, where it was before it had achieved ranked 99 in the previous year, while long overdue in subsequent years

**Table 03: rank of Algeria in The Global Competitiveness index**

Year	Rank /world	Rank of		
		Basic requirements	Efficiency enhancers	Innovation and sophistication factors
2007	99/134	61	113	126
2009	83/134	80	107	108
2011	110/144	89	136	144
2012	100/148	92	133	143

**Source:** World Economic Forum, The Global Competitiveness Reports, in cite: [www.weforum.org](http://www.weforum.org)

We can through the table to discern many observations concerning obstacles affecting business performance in the investment environment, we note the beginning that access to finance and Inefficient government bureaucracy are the biggest factors hindering the performance of the business in Algeria in recent years, and this actually refers to a lack of funding sources and the granting of borrowing in Algeria and can be seen by the weakness of financial intermediation

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relating to long-term loans, which reflect the complete absence of the role that can be played by the financial market in Algeria,

**Table 04: The most problematic factors for doing business in Algeria (2008-2011)**

	2008	2009	2010	2011
<b>Inefficient government bureaucracy</b>	20.1	21.1	18.4	17.5
<b>Access to financing</b>	23.0	16.4	19.2	15.8
<b>Corruption</b>	10.2	13.2	16.0	11.3
<b>Policy instability</b>	6.6	8.8	3.8	7.5
<b>Inadequate supply of infrastructure</b>	5.9	6.1	2.7	6.5

**Source:** World Economic Forum, The Global Competitiveness Reports, in cite: [www.weforum.org](http://www.weforum.org)

In the study conducted by the World Bank about the investment climate in Algeria in 2003 found that about 34.3% of the heads of the institutions to pay around 7% of their numbers in the form of bribes in order to take advantage of some of the benefits and services, as well as to accelerate their transactions (world bank, 2003 )

It remains for the stability of economic policies and tax rates and deficiencies in the provision of good infrastructure are other factors that contribute to hinder the performance of the business in Algeria, in addition to other factors can not be overlooked effects such as inflation, fiscal legislation, legislation of foreign currency and the instability of the government and other In fact, all of these factors indicate to the conclusion as a result of painful namely the weakness of the Algerian economy competitive on a global level.

#### 4. Conclusion:

In this study, The Algerian economy has witnessed many changes, Algeria has repeatedly tried to improvement of the investment climate conditions, as long as they showed a clear will for it, by devoting investment freedom and the pursuit of openness to the global economy.

However, in the last ten years, it is clear that Algeria has seen remarkable progress in the field of development, which refers to achieve some improvement in the investment climate Algerian, and as the economic environment suitable for attracting investment is characterized by the achievement of internal balance (reduced the deficit in the state budget) and achieve external balance (balance of payments), as well as the low rate of inflation and the high rate of internal growth,

Despite the large gap recorded in the business environment through indicators that we've seen, but it should not be overlooked efforts made by Algeria during the recent period with the aim of improving the environment, by working to provide structure or base material was a human quality, in addition to the policies taken at the macroeconomic level and on the political and social level, and that will contribute to providing a favorable climate for investment and improvement of its attractiveness as well as the improvement of competitiveness of the Algerian economy and reinforcement of its position at the global level.

Finally, we can say that the attractiveness of the investment climate in Algeria is not enough due to the weak competitiveness of this economy and the weakness of its position on the global

level and remains an anchor on the hydrocarbon sector associated with fluctuations World, as well as the obstacles that make a point of weakness is considered a barrier to the improvement of the investment climate, so that the latter needs to make more efforts in practice and not just legislation legal sufficiency, as well as an attempt to promote investment opportunities.

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