

Algeria economic review Investment opportunities

Tokyo November 2015

Contents

Algeria macroeconomics and sectors of investment

- 1 Economy overview
- 2 Macroeconomic indicators
- 3 Renewable Energy
- 4 Banking system
- 5 Insurance
- 6 Health
- 7 Questions and Contact

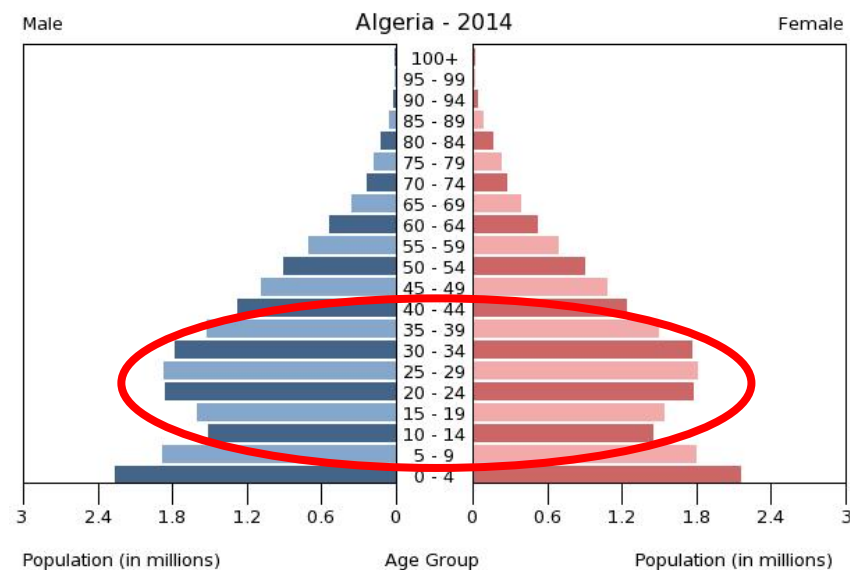
Geographical situation : It takes less time to travel from Algiers to Barcelona, Nice, Roma, than from Central Tokyo to Narita Airport

- Algeria is the largest country in Africa with 2,3M sq. km
- The country border the Mediterranean sea between Morocco and Tunisia
- Geographically close to the developed market of the South of Europe by sea (Spain, France, Italy)
- Algeria has the 10th-largest reserves of natural gas in the world and it ranks 16th in oil reserves



Population data (source: CIA World Factbook)

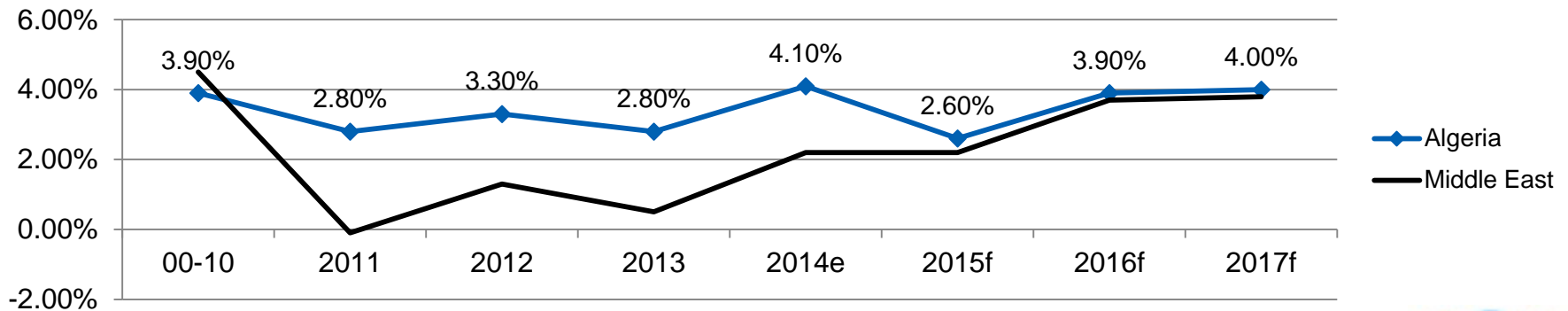
- **A demographic economic endowment:**
 - **39,2 millions in 2013** with 1.84% growth rate
 - Qualify young population : **68% of the population is under 35**
 - One of the most advanced education system and health coverage system in Africa
 - Most of the population speak at least Arabic (official) and French (lingua franca)



Economy overview

- Algeria's economy remains dominated by the public spending, but based on current economic situation and perspectives the government, now it is the momentum for economy diversification and business environment reforms.
- Hydrocarbons have long been the backbone of the economy, accounting for roughly 60% of budget revenues, 30% of GDP, and over 95% of export earnings.
- Strong revenues from hydrocarbon exports have brought Algeria relative macroeconomic stability, with foreign currency reserves of \$159 billions (June 30, 2015). In addition, Algeria's external debt is extremely low at about 2% of GDP.
- The GDP growth rate has been positive the last 10 years despite the financial crisis.

GDP growth rate



Source: World Bank



Economy overview

- The Trade balance is expecting to be negative for the first time for 20 years due to the fall of oil prices...

Overall trade exchange	2010	2011	2012	2013	2014	2015*
Imports (bn USD)	40,5	47,2	50,3	55	58,5	39
Exports (bn USD)	57	73,4	71,9	65	63	29
Trade balance	16,5	26,2	21,4	10	4,5	(10)

Source: algerian customs

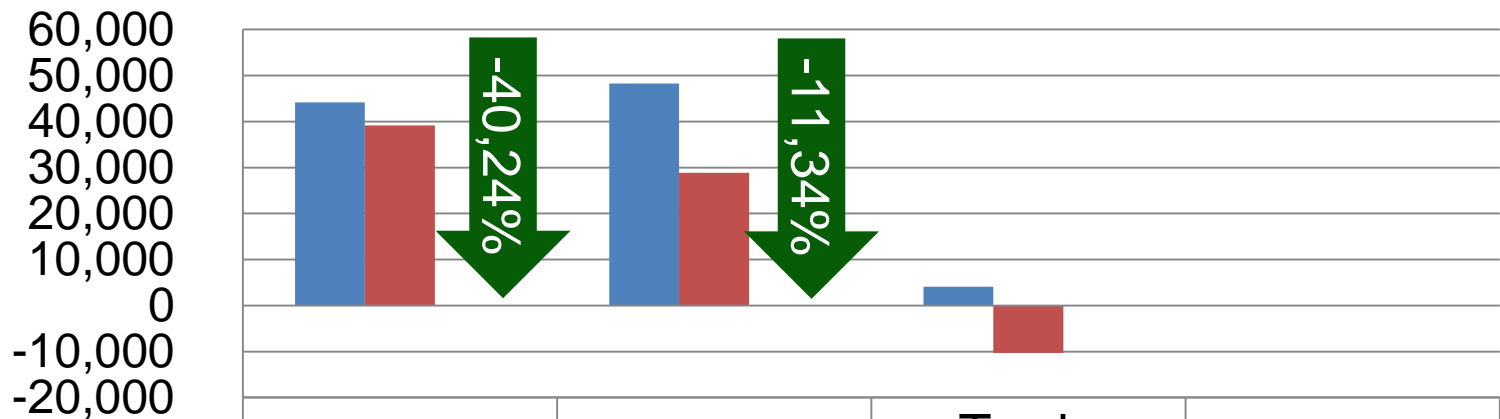
- ...however the important hydrocarbon exportations of the last years has allowed Algeria to accumulate foreign exchange reserves and secure the financial system.

	2010	2011	2012	2013	2014
Foreign exchange reserve (bn USD)	151	183	191	193	179

Source: CIA factbook

Evolution of foreign trade in millions of US \$

- The results in terms of foreign trade achievements Algeria for the nine months 2015 recorded a deficit of 10.33 billion US dollars, against a surplus of 4.08 billion US Dollars, this trend is mainly due to the respective declines exports and imports (40.24%) and (11.34%).



	imports	exports	Trade balance	
■ sept 30, 2014	44,203	48,292	4,089	
■ sept 30, 2015	39,192	28,860	(10,332)	
■ Evolution %	-10.40	-37.30		



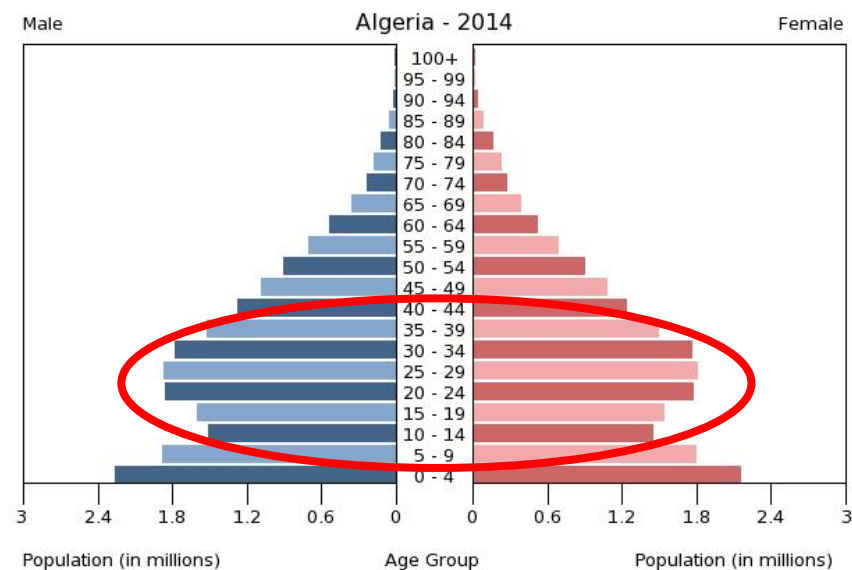
Geographical situation

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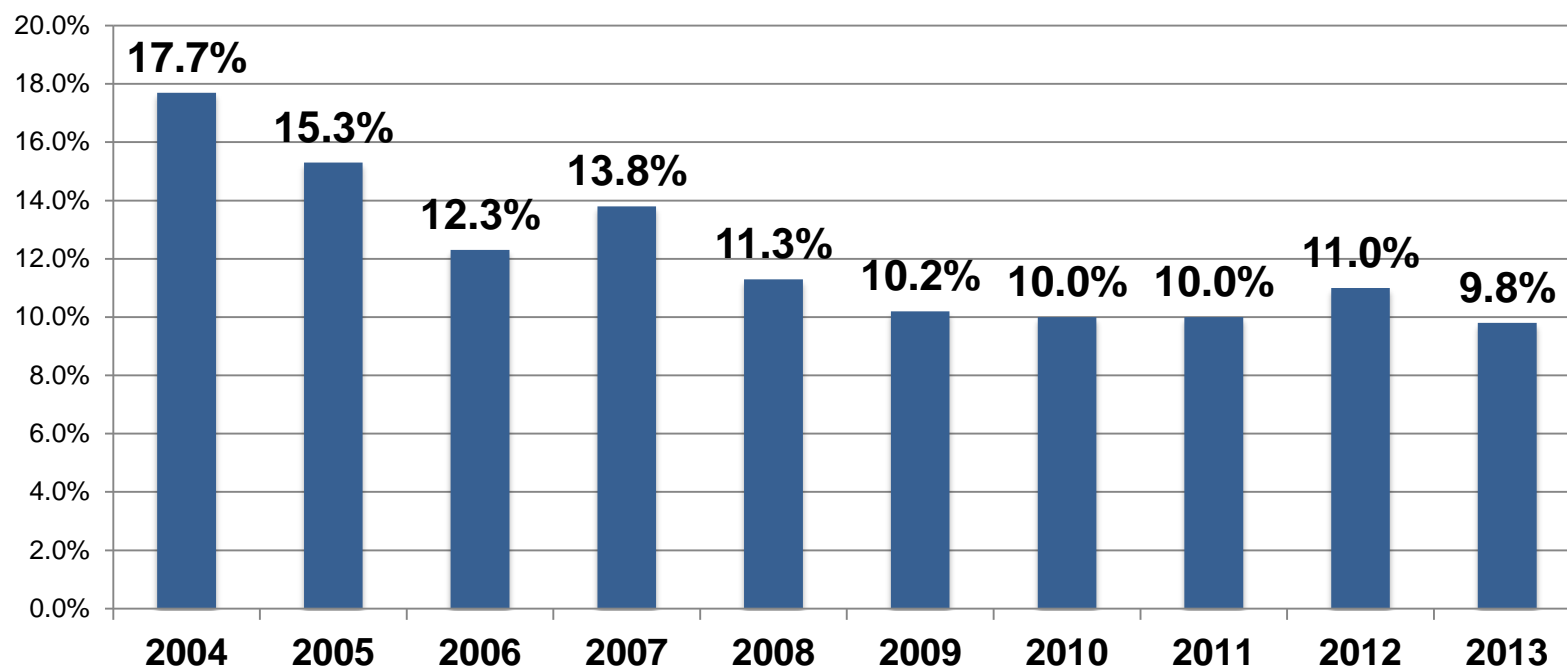
Population data (source: CIA World Factbook)

- **A demographic economic endowment:**
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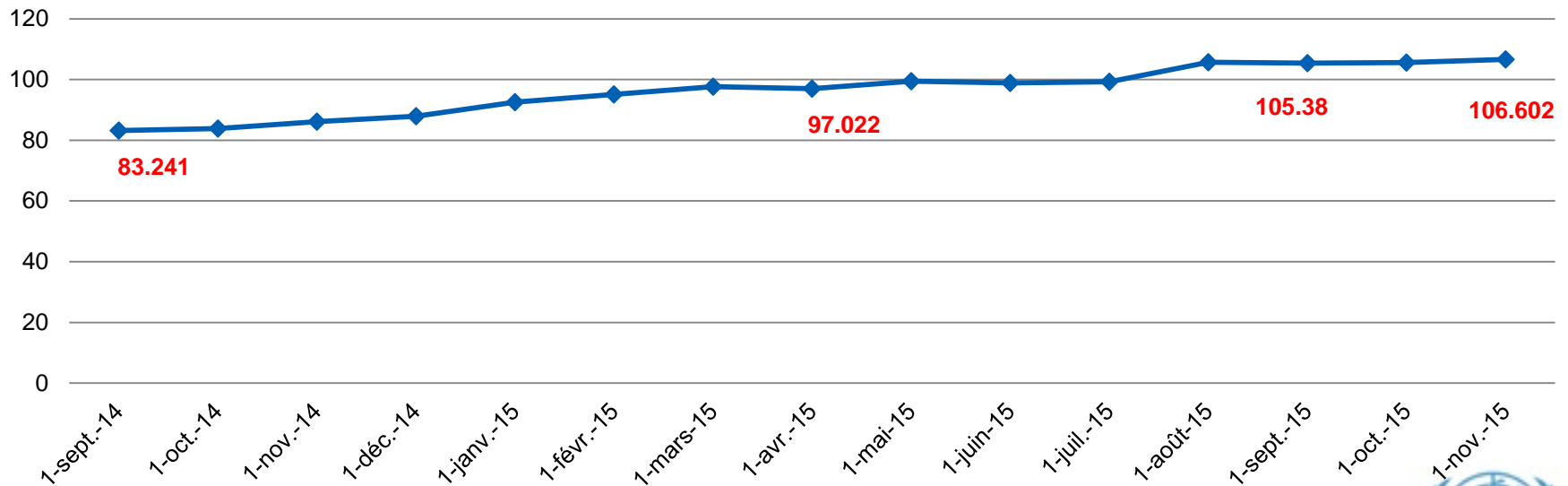
Unemployment rate (Source: ONS)

- Unemployment rate has strongly decrease between 2004 and 2009 and remains stable since.



Macroeconomic indicators

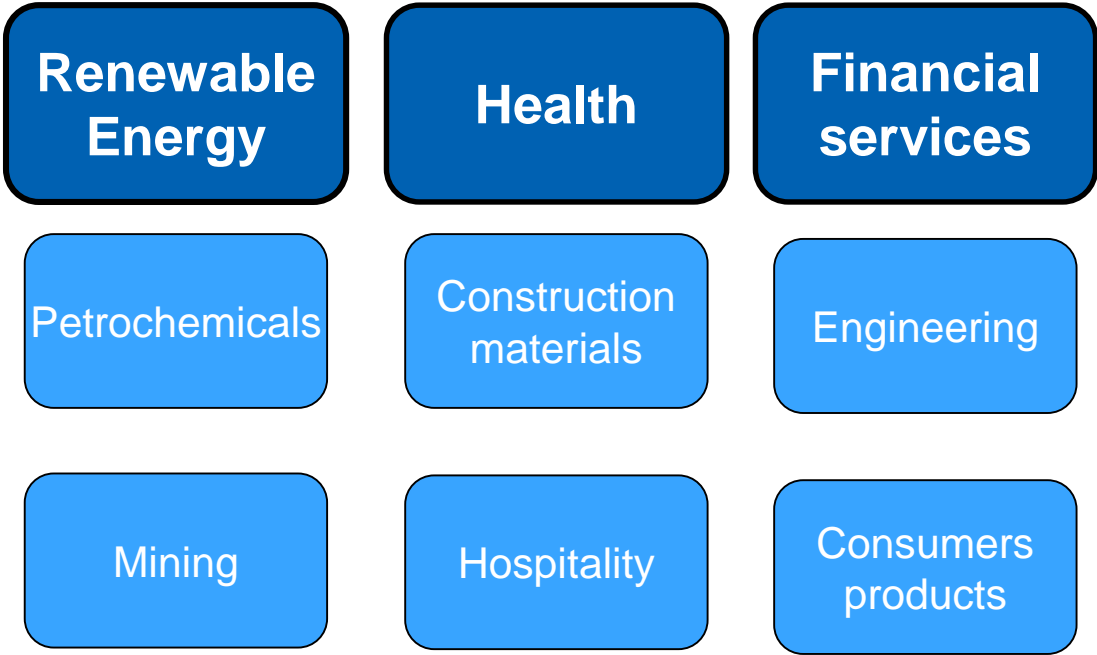
- The **Dinar's value** has fallen roughly **30%** in the last year with the goal to preserve social spending as a result of the fall of oil price.
- The side effect is making imports more expensive which **encourage production and consumption of domestic products and exportations.**



Macroeconomic indicators

- The external financial position **remains strong** even if it shows signs of slowing, however, with a level of **foreign exchange reserves** estimated at **\$179 billion at end-2014**, equivalent to **32 months of imports of goods and services** and consolidated by a **small external debt**, estimated **4 billion USD in 2014, 1.9% of GDP**.
- The Algerian authorities have already taken steps to curb the effects of the drop in oil prices, while pursuing social and investment projects included in the 2015-19 five-year plan.
- In terms of sectoral distribution of GDP, the Algerian economy remains dependent on hydrocarbons which represents 28% of GDP in 2014.
- If the significant drop in oil prices observed during 2015 continue, the fundamental balance of the Algerian economy could be affected.
- There is therefore an urgent need to initiate a diversification of the Algerian economy. Such structural transformation requires a more favorable business environment and development of a private sector capable of revive the productive system and create jobs.

Business and investment opportunities



RENEWABLE ENERGY



Renewable energy

- The government, in the context of the Climate Conference has undertaken **to reduce carbon gas emission by 7% to 22% by 2030.**
- The global cost of the renewable electricity program is expected to reach between **60-100 billion US dollars.**
- Government has established the National Energy Control Fund (FNME) which aims to facilitate the projects financing by the **granting of interest-free loans and guarantees of loans** from banks.
- Expected volume of natural gas saved by 2030 is **300 billion m³.**

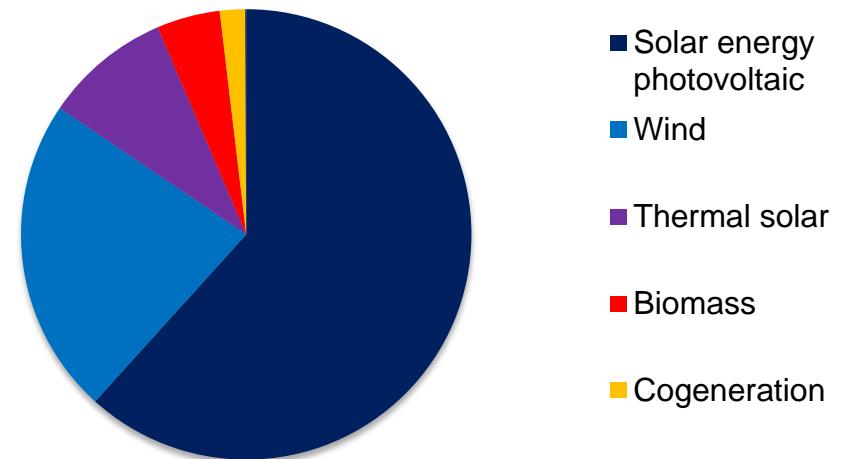
Renewable energy target (source : CDER)

- The Algerian government plans to switch to a renewable energy capacity of 4.5GW/h by 2020 and 22GW/h in 2030 (27% of the national production), with a large part of solar energy. As far as exports are concerned, the target is 2000MW for 2020 and 10000MW for 2030.

- **The repartition of this program in 2030:**

- Photovoltaic energy : 13 575 MW
- Wind : 5 010 MW
- Thermal solar : 2 000 MW
- Biomass : 1 000 MW
- Cogeneration : 400 MW
- Geothermal : 15 MW

Production of renewable energy in 2030

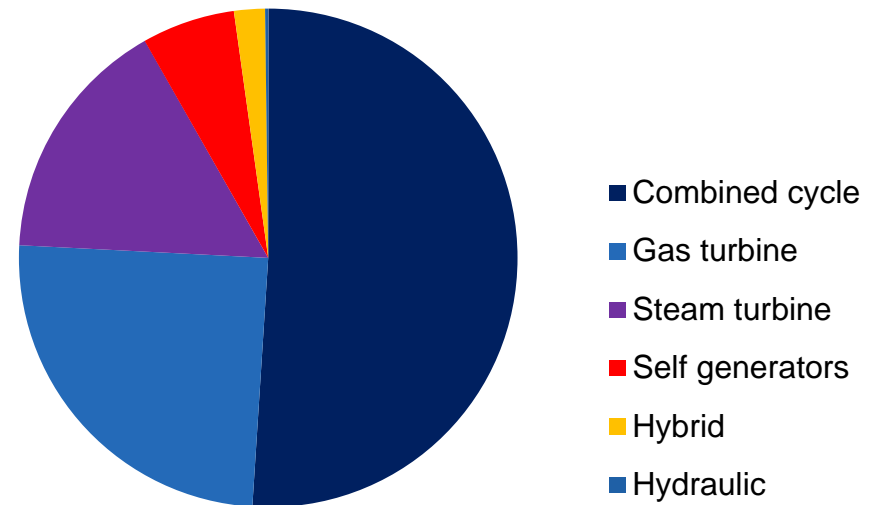


- Algeria has also set a target for exports (2000MW for 2020 and 10000MW for 2030), subject to the construction of an interconnection to the EU.

Current state of the power production (source :minister of energy)

- The electricity production in Algeria amounted to 59.9 TW/h in 2013 with 98% come from fossil energy (gas, oil).
- Base pricing in Algeria is presently very low but an increase is expected in the future in order to promote energy saving.

Structure of power production 2013



The 125 first kw/h	\$0,02 the kw/h
Beyond 125 kw/h	\$0,04 the kw/h

How to get in the solar market in Algeria?

- ❑ The legal framework in Algeria applicable to the power sector is well developed with a feed-in tariff of 0.15 to 0.20 USD per Kw/h
- ❑ How to enter Solar market in Algeria?
 - ❑ Investor/Operator Independent projects under the new Feed in Tariff scheme
 - ❑ Manufacturing of panels
 - ❑ Solar EPC Engineering and Maintenance

Processus

Before construction

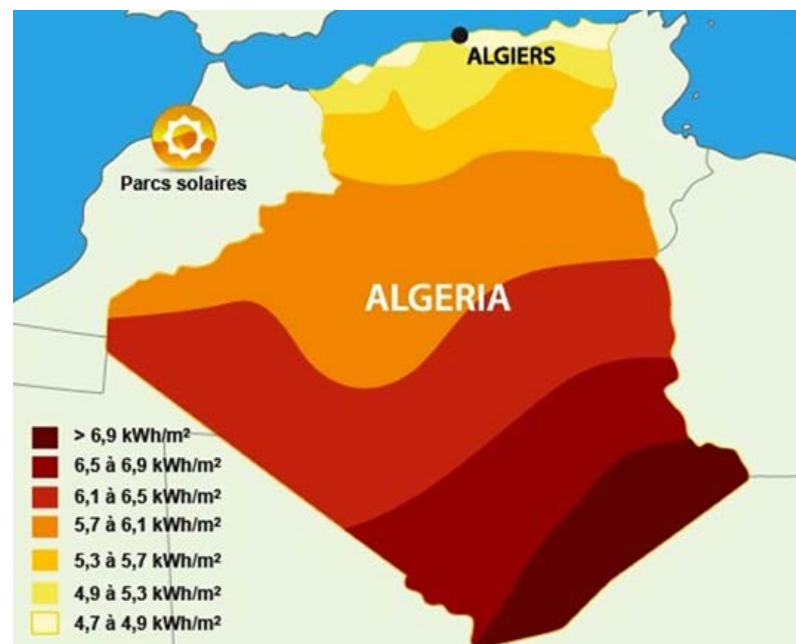
- Application for the certificate of guarantee of origin
- Application for autorisation to operate
- Application for the conclusion of a purchase agreement
- Request for a hook-up to the electrical network

Plant Operation

- Grid connection commissioning
- Single tariff during 5 years
- Reajusted tariff during 15 years

Great potential of renewable energy

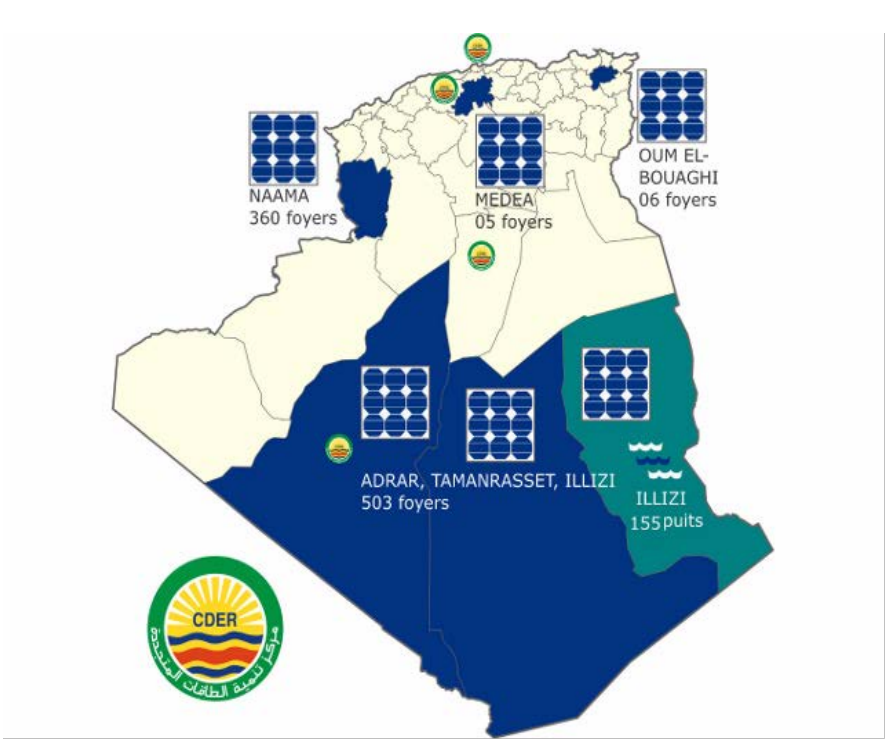
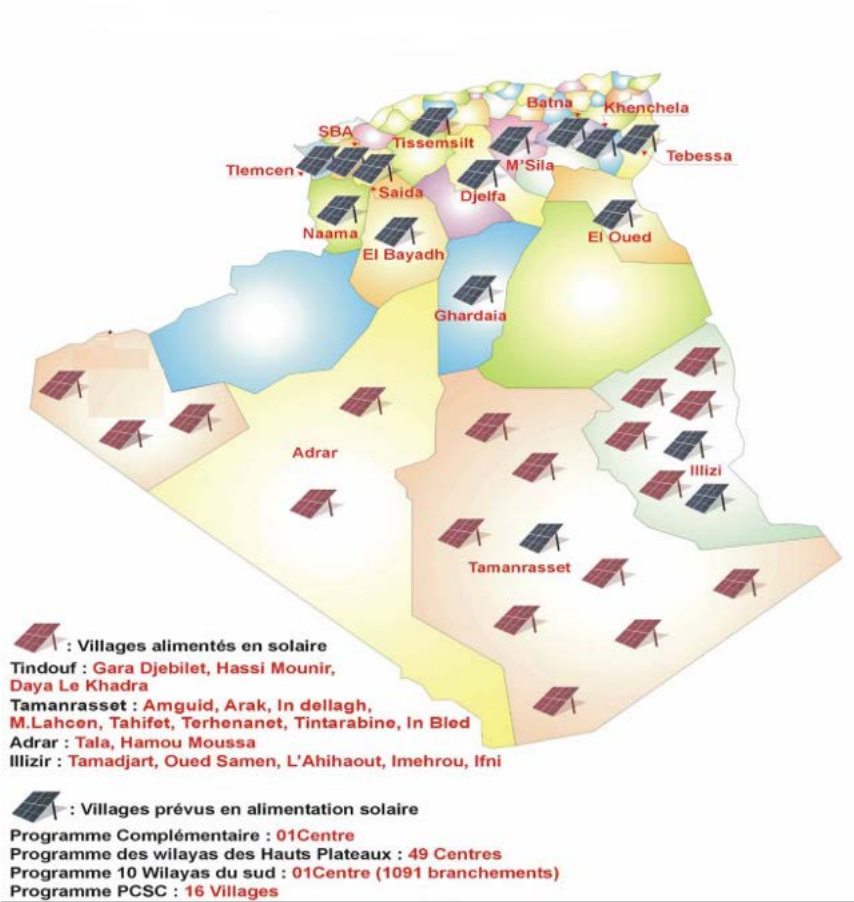
- Great potential of renewable energy (in particular solar energy)
- Power consumption is in a constant growth with peaks in summer (air conditioner) which match with peak sunlight availability.



(source: CDER)

Projects in progress

- Many projects in progress



Solar PV feed-in-tariff

Adjustment limit	Number of hours in operation	1 to 5 MW		>5 MW	
		Phase 1 US\$/kWh	Phase 2 US\$/kWh	Phase 1 US\$/kWh	Phase 2 US\$/kWh
-15%	1275-1349	0,15	0,19	0,12	0,15
-10%	1350-1424	0,15	0,18	0,12	0,14
-5%	1425-1499	0,15	0,16	0,12	0,13
Reference output	1500-1574	0,15	0,15	0,12	0,12
+5%	1575-1649	0,15	0,14	0,12	0,11
+10%	1650-1724	0,15	0,12	0,12	0,10
+15%	>1725	0,15	0,11	0,12	0,09

- The feeding tariff has been increased in 2014. Renewable energy projects are entitled to sell to the respective distributor the power produced at a guaranteed fixed price for 20 years. tariff will be revised 5 years after starting operations in order to adjust it to the real energy potential of the site, up to a maximum of 15%.



Regulatory assessment

RENEWABLE ENERGY REGULATION	
General Independent Power Producer regulation	Law 02-01 establishes a regime for Independent Power Producers (IPP).
Land access	Land ownership for foreign investors requires prior approval. Most projects take place in state owned land under a concession regime.
Grid access	Grid access is well developed by Algerian regulation. The Transmission System Operator (TSO) takes charge of the costs of the first 50 Km of connection infrastructure.
Energy related permitting	Energy related permitting is well developed. The CREG (Commission for the Regulation of Electricity and Gas) is the entity in charge of issuing the permits.
Investment	The investment framework is restrictive. 51% of local ownership share is mandatory and financing is to be organized through local banks.

Institutional framework

- Energy Regulator (**CREG**)
- R&D Centre of Electricity and Gas (**CREDEG**)
- Agency of Promotion and Rationalisation of the Use of Energy (**APRUE**)
- Centre for Renewable Energies (**CDER**)
- National Fund for Renewable Energy (**FNER**)
- Ministry of Energy and Mines: in charge of designing Algeria's energy policy
- Sonelgaz Group:
 - Power producer : Société Algérienne de Production de l'Électricité (SPE):
 - TSO : Société Algérienne de Gestion du Réseau de Transport de l'Électricité (GRTE)
 - Power production/transmission system operation : Opérateur Système Électrique (OS)
 - Power distributors : Sociétés Algériennes de Distribution de l'électricité et du gaz d'Alger (SDA), du Centre (SDC) de l'Est (SDE) and de l'Ouest (SDO):

Regulatory framework

- Law n°99-09 of 28 July 1999 relative to the energy control
- Law n°02-01 of 5 February 2002 relative to the electricity and the public distribution of gas.
- Law n°04-09 of 14 August 2004 relative to the promotion of renewable energy.
- Finance Act 2010 lead to the creation of National Fund for Renewable Energy.
- Executive Decree no 13-218 of June 2013 relating to feed-in tariffs.
- Ministerial order of 2 February 2014 fixing the tariffs for Photovoltaic.
- Executive Decree no.15-69 of 11 February 2015 laying down the procedures for the certification of the origin of the renewable energy.

FINANCIAL SERVICES



Banking system

- The Algerian banking system is still poorly developed in view of the size of its economy.
- Many financial institutions are already settled but the public sector still dominates.
 - 6 public banks still own 90% of total banking sector assets. *(source : Bank of Algeria)*

	Algeria	Morocco	Tunisia
Automated Banking machine (ABM) per 100 000 inhabitants	6,57	25,11	23,59
Banking agency network (per 100 000 adults)	5,1	24,4	18,3
Borrowers from commercial banks (per 1000 adults)	43,7	-	204

Source: WorldBank

Banking Market Opportunities

Few modernization steps taken

- Recapitalization of the public banks and the stabilization of their portfolios.
- Launching of interbanking projects with new array of products, international payment cards, data transmission networks, monetics.
- Creation of private equity firms.
- Improving secure communications networks and introducing a modern means of payment.
- Payment by bank check has become obligatory for a purchase of a good from a certain value. (5M dinar for the purchase of a property and 1M dinar for the purchase of a vehicle for example). The goal is the reduction of the informal economy and to channeling funds to the banking system.
- Algiers' stock exchange is the smallest in the MENA region with a capitalization of 0.1% of GDP but officials aim to reach a capitalization of USD 7.8 billion in the next five years and enlist 50 new companies.

Market Opportunities

- Project financing
- Banking services
- Electronic banking
- Leasing
- Mobile banking
- Under developed stock market
- Professional asset management

Insurance

- According to the annual study of Swiss RE on the world insurance market made by Swiss RE, Algeria ranks 64th for the amount of income collected (on 147 countries) and 6th in Africa.
- The penetration rate in 2014 (premium/GDP) in Algeria is still weak with 0.76% of GDP, against 8.15% in developed countries and 2.71% in emerging countries.
- The amount of premium/inhabitants is \$40 USD against a global average of \$662 USD and the coverage rate is 1 sale point for 28 000 inhabitants against a global average of 1 for 5000.
- Less than one house on ten is insured. In 2010, the house insurance only represents 2% of the global turn-over of the insurance market.

Market Opportunities

• Life / Health Insurance

• Health services / Private insurance health coverage

• Retirement financial products



Insurance

- Emergence of new actors on the market and the process of reform launched by the government since 2006 have contributed to the development of this sector.
- However, the sector is still lagging in comparison with neighbors countries.

Millions Usd (in 2013)	Algeria	Tunisia	Morocco
Car insurance	765	398	1043
Fire and casualty insurance	495	154	337
Transport insurance	68	45	72
Credit insurance	11	7	13
Life insurance	108	263	1191
Total	1447	868	2656
Percentage of GDP	0,81%	1,82%	2,95%

Source: World Bank

HEALTH

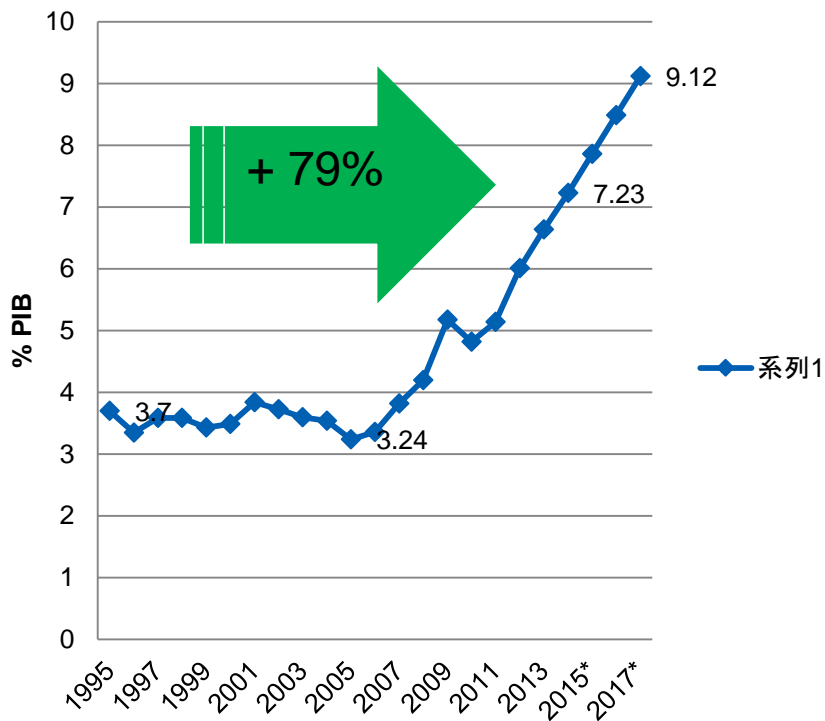


Health

- Algeria has one of the best healthcare coverage system in Africa.
- Algeria will continue to play a important role in the modernization of the health system over the coming years. In addition, we note the Algeria has become Africa's largest pharmaceutical market in 2014, after surpassing South Africa.
- Pharmaceutical values and volumes will continue to be boosted by various healthcare modernisation programmes. The government has indicated its commitment to the improvement of its population's health, outlining a program through to 2025. This situation will provide substantial opportunities to foreign players - most of which operate in the country through imports or local partnerships - as well as stronger domestic companies, which will be well placed to respond to increased demand for generic products.

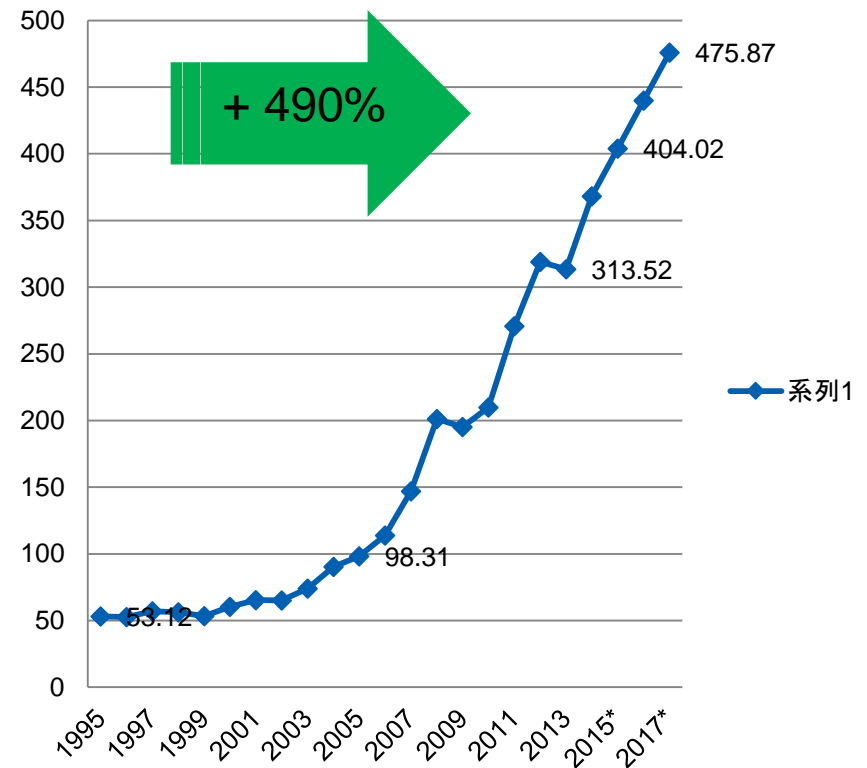
Health

Health care spending in the private and public sectors, in relation to GDP



Source: World Bank

Annual health spending per capita in US \$



Health

	Algeria	Morocco	Tunisia	Middle East and North Africa
Health expenditure per capita	313	189	309	259
Prevalence rate of diabetes	7,3%	7,9%	9,4%	9,2%
Total Health expenditure (%GDP)	6,6%	6%	7,1%	5,97%
Life expectancy at birth	71	71	74	70
Number of doctors per 1,000 inhabitants	1,21	0,6	1,2	1,48

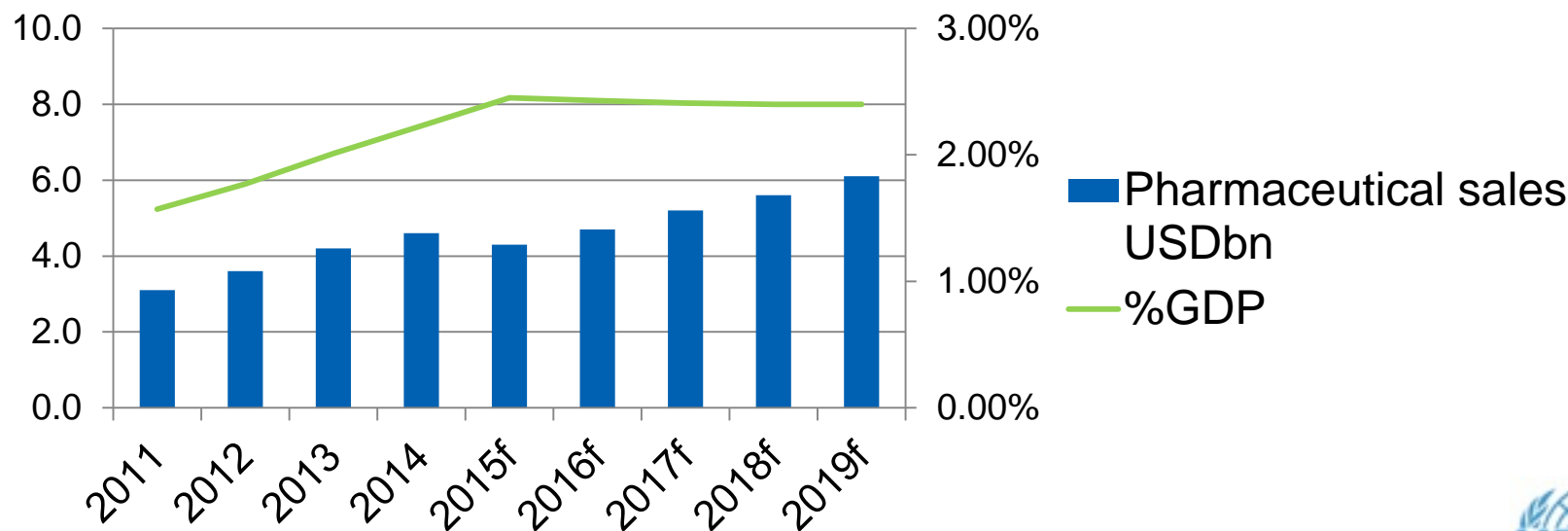
Source: World Bank

- One of the biggest healthcare market in Africa.
- A National healthcare coverage system.
- To modernise the healthcare system, the government planned to build 172 hospitals, 45 specialised health centres, 377 clinics and 1,000 treatment rooms
 - *(source BMI)*



Potential of the pharmaceutical market (rapport BMI)

- Largest pharmaceutical market in Africa with **\$4,64bn turnover in 2014.**
- Strong political will to develop the sector in Algeria:
 - Prohibition in 2011 of the importation of drugs that are produced in place, official expect to reach 70% of self production against 30% today.
- Market in **strong growth** with an average of **10% per year.**



How to get in the market

Activities in the sector of pharmaceuticals regroup:

Production – Packaging - Wholesalers importers - Wholesale distributors - Retailers (Pharmacies and others) - Joint-ventures, PPP

- The Algerian private pharmaceutical company Biopharm and the Indian generic drug giant Cipla, signed last February an agreement to create a joint venture in Algeria in order to market and distribute medicine dedicated to respiratory diseases. The construction of this plant will require an investment of nearly USD 15 million, held 60% by Biopharm and the remaining 40% will be held by Cipla (EU), the UK subsidiary of the Indian group. During the same year, another partnership agreement was signed between the Algerian laboratory Biopharm and the Anglo-Swedish AstraZeneca laboratory, for the construction of a pharmaceutical manufacturing plant in Algeria for an investment of over USD 50 million.



- The first insulin vials produced as part of the partnership between Algerian group Saïdal and the Danish laboratory Novo Nordisk, will be placed on the market in the first half 2016. The amount of this investment is estimated at over EUR 50 million.
- The two partners are initially local needs of the Algerian market and subsequently exported to countries in Africa and Asia.

Legal framework

- Decree of 8 of May 2011 relative to the interdiction of the importation of pharmaceutical products and medical devices for human medicine made in Algeria.
- Decree of 6 June 2005 setting out the technical conditions for the importation of pharmaceutical products to human medicine.
- The law n°85-05 of the 16 february 1985 relative to the protection and the promotion of Health.
- Decree n°92-284 of the 6 of July 1992 relative to pharmaceutical product registration to human medicine.
- Executive Decree n°92-285 of the 6 of July 1992 relative to the operations authorization for an establishment of production and/or distribution of medicines.

ITPO Tokyo, Local Advisors Program



Investment & Technology Office (ITPO), TOKYO

- **Mandate to promote and facilitate Japanese companies responsible investments**
- **Local presence with local advisors in Algeria, Mozambique and Ethiopia**
- **Available for providing local market knowledge and local facilitation**
- **Contact: I.kerrar@unido.org**



Questions and Contact



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