



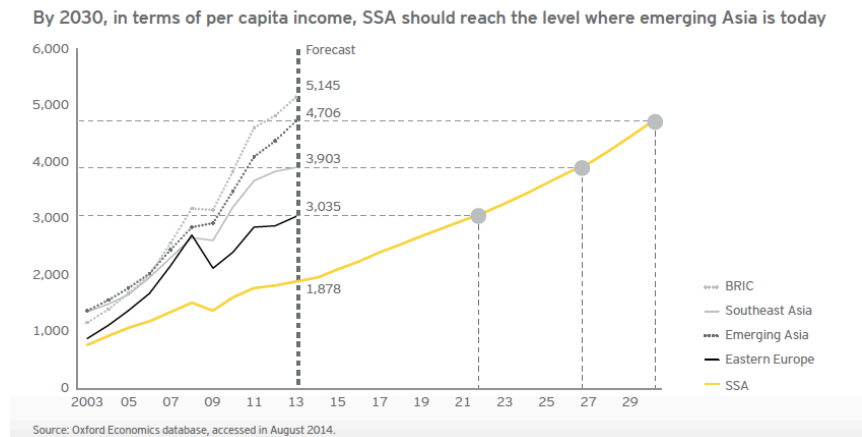
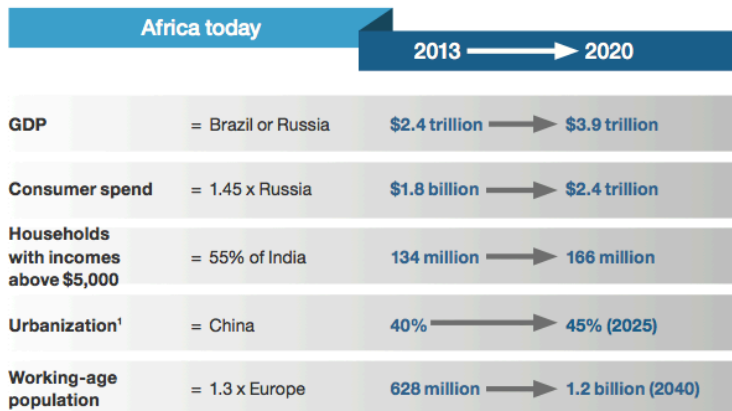
Why invest in Africa and Algeria?

January 2016

# AFRICA, THE NEXT CONTINENT

« Tomorrow's Africa is going to be an economic force » - Goldman Sachs

- Analysis reveals that ROI from investments in Africa have consistently been among the highest in the world since the 1990s.
- In 2014, Africa accounted for 9 of the 15 fastest-growing economies globally.
- Today, 26 of Africa's 54 countries have achieved middle-income status.
- Last decade GDP growth rates of 5% or more for most countries.



# DEMOGRAPHIC TRENDS

« Africa has the world's youngest population and the consumption habits of youth are quite different from those of their elders » - *McKinsey Global Institute*

AFRICA'S POPULATION	
Today	2050
1.1 Billion	2.4 Billion
Median age – 19.4 years	24.7 years Asians: 39.8 years Latin America and Caribbean: 40.6 years

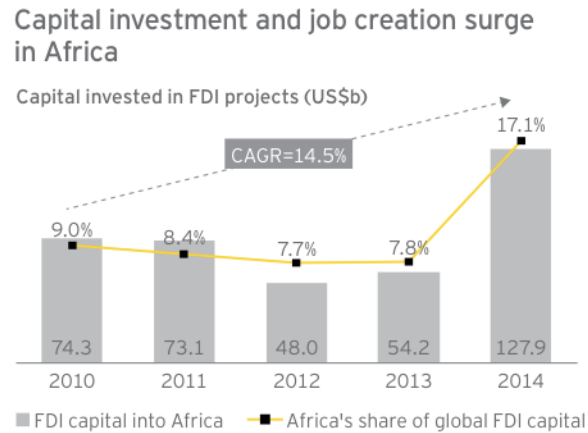
URBANIZATION
% of population living in cities: Africa: 40% India: 30% China: 45%
Cities > 1 million people 2011: 52 2016: 65 (= Europe > than India and North America) 2025: 80 (UN forecast)

- Rising urbanization and a growing consumer class = strong inflows into real estate, hospitality, and more demands in technology, media and telecommunications (TMT); financial services and consumer products (CPR).
- In 2014, TMT, Financial services and CPR together attracted 51.8% of FDI projects.
- Urban spending is increasing twice as fast as rural spending.
- Urban per capita incomes = 80 % higher than those of countries as a whole.
- Cities are more densely populated = consumers are easier to reach.
- Mobile subscriptions and data traffic are rising strongly in Africa, opening up opportunities to supply education, banking and health care via the internet.
- Multinational businesses are beginning to take account of these trends and the opportunities they present.

# ECONOMIC TRENDS

« Africa is today at a point where many East Asian economies were in the 1970s, and where India, Mexico and Turkey were in the 1980s » - EY

- In 2014, Africa attracted more FDI funding than North America, Latin America and the Caribbean, and Western Europe.
- African FDI inflows has overtaken official development assistance (ODA).
- In 2014, traditional investors, including those from North America and the Middle East, refocused their attention on Africa. Investors from the US, France, UAE, Portugal and China were particularly active during the year.
- US investors lead the way in Africa, but European investors, profiting from historic business, cultural, language and transport ties, continued to dominate.

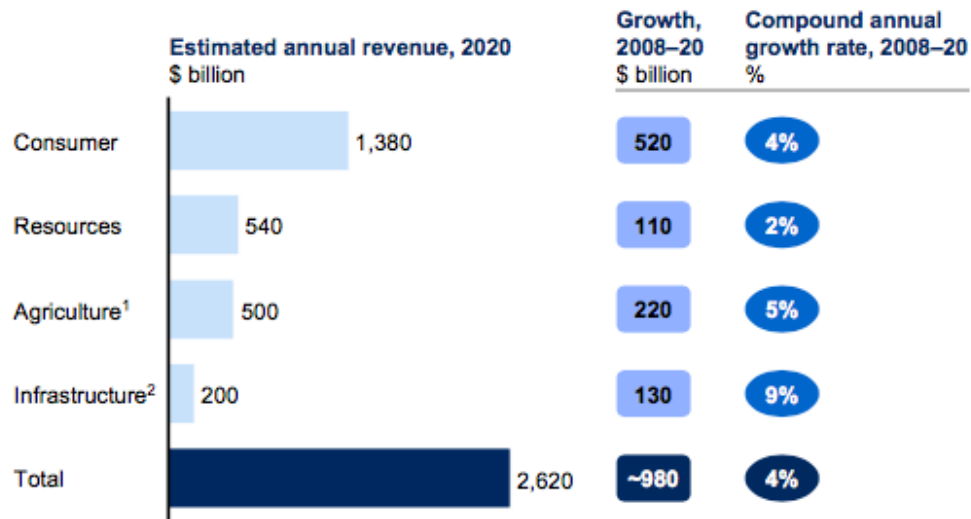


# MARKET TRENDS

« The combination of economic and demographic growth is creating an expanding consumer class with spending power » - *Oxford Economics*

- The needs of a large middle class and growing business and leisure travel are turning investor attention toward servicing consumers and filling the infrastructure deficit.

**Four groups of industries could have combined revenue of \$2.6 trillion by 2020**



<sup>1</sup> We took the 2030 value of \$880 billion and calculated straight-line equivalent for 2020.

<sup>2</sup> Represents investment. Assumes need remains as same share of GDP through 2020.

SOURCE: McKinsey Global Institute

# MARKET TRENDS

« By 2020, more than half of African households are projected to have discretionary income » - *McKinsey Global Institute*

- The African market opportunity is concentrated, with 10 of 53 countries—Algeria, Angola, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Sudan, and Tunisia—accounting for 80% of Africa’s private consumption.
- Private consumption in Africa is higher than in India or Russia. Urban Africans are spending a large share of their budgets on food and groceries more than consumers do, on average, in Brazil, China, India, and Russia.
- Trade blocs are also an important consideration, especially for manufacturers. There are eight major trade zones, the result of agreements that eliminated tariffs and quotas between member countries to create common markets allowing free movement of capital and labor.
- Increasing regional and international trade in Africa has buoyed the number of business travelers, prompting leading hoteliers to develop ambitious plans, according to the UN World Tourism Organization.

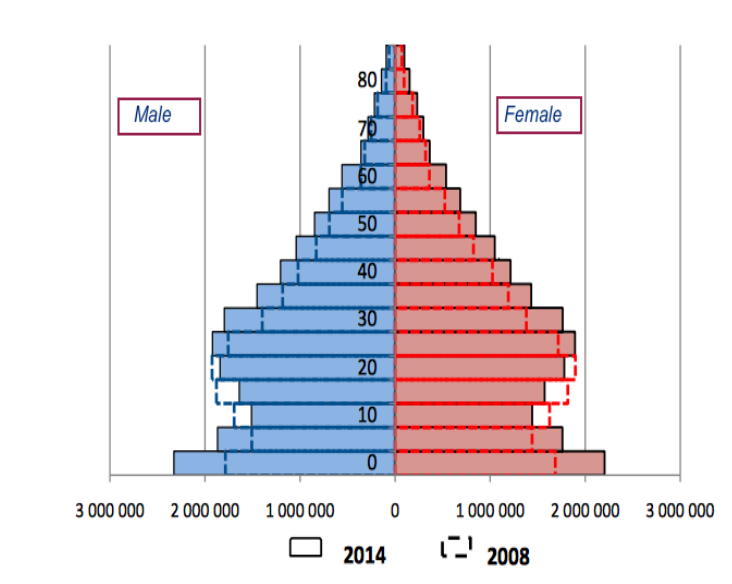
# CHALLENGES

- Africa remains a complex and challenging environment for doing business.
- It is not a single market, which comprise 54 sovereign states with numerous languages and cultures.
- Perceptions differ according to where investors are based:
  - Investors who already have operations in Africa believe it is the most attractive investment destination in the world, has become more attractive in the past year, and that its appeal will strengthen further in the next three years;
  - Investors looking in see Africa as the world's second worst investment destination. Doubts are much stronger in the minds of those who have yet to experience the realities of investing in Africa. But, surveys find as well that investors present in Europe are more optimistic about Europe's prospects than those based overseas.
- Better communication to investors about the realities is needed.
- By 2040, Africa is expected to have the world's largest labour force, ahead of both India and China. Technical and professional skills are especially in demand. However, the UNESCO forecasts that Africa will be home to half of the world's illiterate in the years ahead, and that resulting constraints on skill development will harm business and wealth creation.

# ALGERIA, A LAND OF BUSINESS OPPORTUNITIES

KEY INDICATORS	
	2015 (Approx.)
Population	39.7 M
Human Development Index	93/187 (0,717)
GDP Nominal	181,7Bn USD
GDP/Capita	4,345 USD
GDP Growth	4%
Rank - DB 2016	163/189
Unemployment	11,6%
Inflation Rate	5,0%
Petrol (OPEP basket price – October 2015)	45,0 USD
Official Reserves	159Bn USD
Balance Budget 2015 (% of GDP)	-11,2%
Trade balance	-6,8Bn USD
Public Debt (% of GDP)	13,6%
Gross external debt	4Bn USD
Sources: World Bank, ONS, EU Commission, IMF	

MEDIAN AGE: 27,3 years





# ECONOMIC TRENDS

- Algeria currently has a very favourable financial situation and the country's external position is solid. The good performance of crude oil prices in the last decade and the efficacious management of the external debt, place the country in a strong position able to weather external shocks:
  - Reserves estimated at USD 159 Billion in June 2015;
  - A small external debt of USD 4 Billion in 2015 (1.9% of GDP).
- Algeria has major advantages:
  - Proximity to Western Europe;
  - Centre of the Maghreb;
  - Gateway to the fast growing African continent;
  - Part of the Greater Arab Free Trade Area (GAFTA);
  - Trade Agreements with EU;
  - Availability of skilled workers at lower wage rates than those in most developed markets;
  - Commitments to write a new investment code and embark on in-depth financial sector reform.
- The country has escaped much of the political turmoil that has affected its North African neighbours, and also benefits from a stable government.

# ECONOMIC TRENDS

- Continued weakness in oil prices will remain the key underlying dynamic over 2016:
  - The economy expanded by 4% in 2014, driven mainly by the oil and gas sector;
  - The economy depends on the sector for 98% of exports, 58% of government revenue and 28% of GDP;
  - The dramatic fall in oil prices in 2014-2015 has had an immediate effects on the economy;
  - GDP rate projected to fall from 4.0 to 2.8% in 2015-2016.
- Government announced in 2015 a USD 262 billion investment plan (2015-2019) and targeted non-hydrocarbon sector, attracting greater foreign direct investment.
- To face the economic downturns, the government has taken fiscal austerity measures for 2016 without affecting the social and investment projects and foreign-trade liberalisation:
  - Freeze on hiring government workers (except in education and healthcare);
  - Postponing major non-priority investment projects;
  - Using banks to fund projects in the five-year plan that are outside the equipment budget;
  - Reintroducing import licences to rationalise and reduce imports.

# ECONOMIC TRENDS

- Algeria, a oil and gas exporter before all, has no choice than diversify and liberalise its economy and reduce reliance on the hydrocarbon sector by having a proactive investment policy more favourable to business, considering mainly the following facts:
  - One of the Continent's highest per capita GDP, but also some of the least diversified economies;
  - Manufacturing and service sectors remain relatively small;
  - The Algerian economy remains too dependent on the hydrocarbon sector and the state;
  - The purchasing power of the inhabitants remains relatively limited;
  - Algeria would need to break out of a circle in which the economy is based on main source of income and living conditions are dependent on grant subsidies.
- Algeria has committed to diversify its economy:
  - Support the agricultural and rural development strategy;
  - Improve the investment climate particularly for small and medium enterprises;
  - Modernize the financial and banking sectors.
- The Algerian authorities at the highest level display a genuine desire to make the private sector the real engine of growth and development:
  - Over the past decade, the Algerian authorities have attempted in number of legislative and regulatory reforms aimed at modernizing and diversifying the economy.
- Private sector contacts also acknowledge the growing imperative to both open up and diversify the economy and are nearly unanimous in saying that multiple sectors potentially offer substantial opportunities for long-term growth for firms that choose to invest in Algeria.

# CHALLENGES

- Algeria remains a lucrative but challenging market for many businesses:
  - 40 percent of Algeria's economy is informal;
  - Bureaucracy is omnipresent;
  - Currency conversion and monetary transfers;
  - Repatriation of dividends;
  - Price competition from Chinese, Turkish, and European businesses;
  - 51/49 Rule (Government is changing the rule to facilitate foreign investment).
- 51/49 Rule: The law states that a foreign investor must have an Algerian partner and the foreign party can only hold a maximum of 49% of the company. This has not prevented several successful joint ventures.
- Algeria has been seen as a challenging market to enter, but hurdles are often similar to those experienced elsewhere.
- Exporters can find substantial opportunities in Algeria if they have the right approach and effective agents to help translate the opportunities into sales.
- Most commentators therefore conclude that Algeria has a prosperous, stable and secure future that is worth investing in.
- British Prime Minister recently ask Ambassador to Algeria, to double British exports to the country by 2020. The United States, Spain, Germany, Italy, Russia, Turkey, Iran plan to increase their investments significantly.

# SOME OF THE BEST MARKETS

- **Hydrocarbons – Oil and Gas:**

Algeria is one of the world's top ten producers of both oil and natural gas. Existing upstream and midstream infrastructure is aging and inadequate to meet Algeria's near-term production goals. The government expects new investment in these areas, particularly as new undersea gas pipelines to Europe are constructed as well as investment in offshore exploration. A new hydrocarbon law was enacted in March 2013 to encourage foreign investments in unconventional gas exploration and exploitation. To meet the increasing growth in domestic consumption, Algeria is planning to invest USD 120 billion by 2030 in renewable energies.

- **Information and Communications Technology:**

Algerians are increasingly tech-savvy and interested in technology and know-how transfer in the Information and Communications Technology (ICT) sector. Government ministries are also interested in process modernization and digitization of recordkeeping. Home Internet penetration rates remain below 10 percent, but business Internet usage is estimated at over 40 percent. Mobile phones (GSM) are common, and Algeria is looking toward third-generation technology.

- **Public Works, Infrastructure Development and Water Resources:**

The government has simultaneously focused on roadways, rail systems, airport upgrades, public housing, hospital construction, water treatment, transportation, and electrification as part of a USD 262 billion infrastructure development program.

- **Healthcare:**

Despite the ban on importation of pharmaceuticals that can be produced domestically, the healthcare sector continues to be an attractive market. Demand for medical equipment and disposals is considerable and depends largely on imported goods. The population's standard of living is improving, albeit slowly. There has been an increased incidence in reporting of hypertension, diabetes, respiratory and cardiovascular diseases, and allergies. The government has embarked on a programme of new hospitals. There are also opportunities for companies with the refurbishment of current facilities.

# TESTIMONIALS

- *« As the world grapples with [an economic] crisis, new poles of growth are a key part of the solution. With its growing young, urbanizing population, Africa is the low-hanging fruit in terms of infrastructure investment, agribusiness, IT and more. »*  
Dr. Donald Kaberuka, President of the African Development Bank
- *« We remain confident that, despite economic headwinds, the 'Africa rising' narrative remains intact and sustainable. »*  
Ajien Sita, Chief Executive Officer, EY Africa
- *« Invest now, before it's too late. The train is about to leave the station. »*  
Dangote Group on the Africa opportunity  
Aliko Dangote, CEO of West Africa's largest conglomerate
- *« The pace of growth in sub-Saharan Africa could easily surpass most regions of the world. »*  
Oxford Economic
- *« Let me say to you that Africa is rising! Africa is transitioning! Africa continues to be committed to those processes that will lead to rationalization of its own natural resources to accountability, transparency, to mutuality and responsibility. »*  
Ellen Johnson Sirleaf, President of the Republic of Liberia and Nobel Prize Winner, 2013
- *« What makes us so confident that Africa's time has arrived and that we can achieve our dream within 50 years, or even less? Six of the world's 10 fastest growing economies are African, and the continent has been growing at an average of 5% per annum for over a decade, despite the global financial and economic crisis. We have a growing, vibrant, resourceful and youthful population, who are being equipped with critical skills that would be necessary to drive Africa's transformation. »*  
Nkosazana Dlamini Zuma, Chairperson of the African Union Commission, 2013

# SOURCE - DOCUMENTS CONSULTED

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