Economic Sciences, Management and Commercial Sciences Review | Volume: 14 / N°: 02 / N.S : 28 (2021) p 280-295

Impact of the Business Climate in Algeria on the Settlement of Multinational Corporations

Dr. Farah RAHAL [1], Hayet BOUDJEMA [2], Sana MERAIMI [3]

[1] Ecole des Hautes Etudes Commerciales – EHEC (Algeria), farah.rahal@gmail.com

[2] Ecole des Hautes Etudes Commerciales – EHEC (Algeria), boudjemahayet@gmail.com

[3] University Djilali Bounaama Khemis Miliana (Algeria), sanameraimi@gmail.com

Received: 21/11/2021 **Accepted: 20/12/2021** **Published:30/12/2021**

Abstract:

Globalization is a phenomenon of opening up national economies to a global market, leading to increasing interdependence of countries. By becoming involved in globalization, several companies have decided to expand their investment by setting up in other foreign countries, targeting other international markets, and no longer be limited to local investment, hence the birth of multinationals.

In seeking their destination, these companies always want to choose a country where working conditions are very easy and the business climate is very attractive. Algeria is an attractive country on an international scale. Many opportunities and facilitations are provided by our government and not found elsewhere. However, the number of foreign companies is still modest and small compared to other countries.

The purpose of this research is to know the reasons behind and at the same time find solutions to fix and escape this situation. And so, increase the number of FDI in Algeria.

Keywords: Globalization; Business climate; FDI; International relations; Multinational firms.

Jel Classification Codes: F23, F43

Corresponding author: Dr. Farah RAHAL, e-mail: farah.rahal@gmail.com.

1. INTRODUCTION

After the industrial revolution, an incredible increase in production, technological developments, speed of transportation, and ease in communication helped capital, labor, information and technology movements to get more intense between countries besides goods and services. As a result, national economies connected to each other with movements which are gradually getting more complex and dense. This has laid the first foundations of globalization (SIMON, 2008).

Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this global movement, as well as the political and social factors that are associated with the growing economic integration (Merle, 1995).

The growth in foreign direct investment (FDI) and multinational companies has been effective in the world economy by creating competition between countries. In this context, the developing countries open their borders to global markets to avoid losing their competitive advantages, and they become promoters of globalization by creating a favorable investment climate (ADDA, 2007). Foreign direct investment (FDI) has become even more important than trade. In the last decade, we assisted a third wave of globalization where the economic link between countries has been strengthened mainly by FDI flows. A strong expansion of international investment flows has led to faster exchanges between different areas, with a greater variety of forms and a quantitative evolution of its content. For host countries, the use of foreign direct investment (FDI) is an important issue for local development, fixed capital formation, and technical progress due to the technology it incorporates. FDI allows the increase of trade, the transfer of technology, the upgrading of local firms, and the creation of jobs (Pinot de Villechenon, 2006).

Regarding Algeria, the economy operates thanks to a single sector: hydrocarbons. Other sectors remain ignored by the Algerian government. In the absence of economic diversification, the hydrocarbon sector occupies a dominant position in attracting FDI.

The last few decades were marked by Algeria's commitment to a policy of economic reforms aimed at restoring macroeconomic equilibrium and liberalizing the national economy, thereby improving performance in terms of economic growth, private sector development, and increase inward FDI flows (Ducobu, 2005). However, when we look at the evolution of FDI in Algeria since 2009 and, we observe, in the non-hydrocarbon sector and excluding the financial sector, a decrease of about 60% in 2009 compared to 2008. While in many emerging countries, there is a fairly significant recovery of capital flows during the same period (UNCTAD, Rapport sur l'investissement dans le monde, 2012).

In this research we tried to evaluate the business climate in Algeria on the settlement of a multinational firm to evaluate the attractiveness of the Algerian business climate, mainly, in terms of foreign direct investment since it plays a major role in promoting economic growth, the transfer of new technologies, and the integration of economies in international trade. In short, our main objective is to know the reason behind the restricted number of foreign firms present in Algeria. In spite of the facilitations and opportunities given by the Algerian government to reinforce the attractiveness of its business climate, multinationals are still oriented towards other markets.

Through our study we also want to determine whether the problem is in the attractiveness of the business climate or there are other constraints faced by foreign investors after their settlement in the country. We took the example of Batimetal Galva from a list of different organizations considering that it is a newly installed foreign company in Algeria and is in direct interaction with the current economic environment in the country.

That been said, the research is here to answer the following primary question: ***What are the different challenges faced by multinationals established in Algeria?***
From this central question arise the following specific questions:

1. Is the Algerian economy open to global markets?
2. Is Algeria attractive to foreign direct investments?
3. Does the business climate in Algeria have a positive or negative effect on the implementation of a multinational corporation?

As an attempt to answer these questions we issued the following hypotheses:
H1: Algeria has made a huge progress in integrating the world economy by signing many free trade agreements with other countries especially the EU (European Union).
H2: Multinational companies usually prefer to choose Morocco or Tunisia as a destination to their investments instead of Algeria.
H3: Despite the efforts made by the government, the number of multinational companies in Algeria is still insufficient.

In order to reach effective results that can either confirm or deny these assumptions we adopted a research methodology that is both descriptive and analytical, carried out through several interviews with the different department managers at Batimetal Galva.

In comparison to its Maghreb neighbors, Algeria has the advantage of the largest market in the region, because the size of the internal market and easiness of access to it are two essential factors in the decision making process for a company willing to invest in the area. Companies already settled in Algeria consider the expanse of the Algerian market even larger than they had thought it would be before their installation. Geographically, Algeria occupies a strategic place and its proximity to European countries enables it to develop its potential in terms of foreign investment and to create a vast free trade area between the two shores of the Mediterranean and between Europe and African countries since it is considered as the front gate of Africa (Sheffield, Korotayev, & Grinin, 2013).

Algeria has a considerable and diversified natural wealth, particularly in hydrocarbons, where it ranks 15th in terms of oil reserves (45 billion tons of proven oil reserves), 18th in terms of production and 12th in exports; its refining capacity can reach 22 million tons per year. As for natural gas, Algeria ranks 7th in the world in terms of reserves, the 5th in production and the 3rd in exports. A real energy giant with 50% of reserves, 48% of total production and an impressive 94% of natural gas exports, Algeria has no rival in the Mediterranean, where it is ranked first producer and exporter of natural gas. Algeria is the third largest supplier of natural gas to the European Union and its fourth largest energy supplier (ANDI, 2013).

In addition to oil and gas, Algeria contains in its subsoil huge amounts of phosphate, zinc, iron, gold, uranium, tungsten and kaolin, making it a prime area of investment, especially as these are currently underexploited. Infrastructural challenges associated with the remote desert locations of some key reserves, as well as a historical lack of investment in the state-dominated mining sector are the main culprits, though the authorities are working to step up investment and production in the industry.

2. Evaluation of the Business Climate in Algeria

By the end of the 1990s, the Algerian public authorities established a set of procedures and perspectives dedicated to the Algerian economy, whose main purpose was to transform and develop it. The preliminary point was to make available to investors in general and foreign investors in particular all the necessary measures making a favorable climate for business in the country, and it is in this aspect that various provisions have been elaborated.

Algeria's economy is mainly dominated by and depending on the hydrocarbon sector, and since it has the third-largest proven oil reserves on the continent, hydrocarbons are crucial contributors to the economy. Yet it is still facing significant challenges due to the sharp fall in the international price of oil during 2014 and 2015 (Group O. B., 2017). While its international profile is in the midst of a gradual shift as it seeks to reduce imports and diversify its exports portfolio, Algeria has succeeded to maintain its political stability in contrast to many other countries in the region. Algeria's GDP was worth $156bn in 2016, making it the largest economy in the Maghreb region and the second largest in North Africa, according to World Bank figures. With a per capita GDP of $3843, the country was the wealthiest in North Africa. The private sector's economic contribution has also expanded significantly; it grew to 70% of GDP by 2015, and economic output increased four-fold over the same timeframe (Bank, 2018). Despite these positive results, the economy is currently facing major challenges due to the recent collapse of oil, which has exhausted the country's oil reserve fund and strained public finances. The fall in the value of hydrocarbons has also led to rapid deterioration in the current account balances, which stood at a deficit of 16.5% of GDP in 2015 and a similar figure in 2016, according to IMF estimates. This deficit has put additional pressure on foreign currency reserves (Fund, 2017).

To address such problems, the authorities are working to diversify the economy away from oil and gas dependency, by encouraging the development of the local private sector and compelling firms to manufacture goods locally, partly by raising the costs of importing finished goods. Improvement in these areas would both reduce the need for government-backed investment and bring down imports.

Algeria has had long complicated foreign relations, having tense ties with neighboring Morocco, which has held back regional integration, while at the same time having strong trade relations with the EU, with which it signed a free trade agreement in 2002. However, it is currently going through significant changes regarding its international presence, aiming to bring down industrial imports from traditional trading partners, such as the EU, and develop stronger trade, investment and strategic alliances with Africa and China. According to ONS figures, the country's main export destination in 2015 was Spain, which accounted for 17.4% of the value of Algerian goods sold abroad, followed by Italy 16.3%, France 13%, and the UK 7.6%. Turkey and the US were the country's largest costumers outside of the EU; accounting for 5.5% and 5.2% of Algerian goods, respectively, China was the largest exporter to the country, accounting for 16% of imports, followed by France 10.5%, Italy 9.4%, and Spain 7.6% (ONS, 2018).

Algeria remains a lucrative but challenging destination for many foreign investors. Economic growth has been driven primarily by oil and natural gas, accounting for 96% of exports, 40-45% of GDP and 60% of budget revenues. The drop in oil prices, however, while affecting Algeria's main revenue stream, has spurred the Algerian Government to attempt to lower the country's sizable import bill and to target non-hydrocarbon sector investments, attracting greater foreign direct investment (State, 2015).

3. Algeria Attitude toward Foreign Direct Investment (FDI)

Algeria is the epitome of a high risk, high reward economy. While the authorities are enthusiastic towards FDI, a difficult business climate, an inconsistent regulatory environment, and a government that seems torn generationally between protecting the status quo and liberalizing the economy. There are business opportunities in nearly every sector, including but not limited to energy, power, water, health care, telecommunications, transportation, recycling, and agribusiness. The recent drop in oil prices has highlighted Algeria's over-dependence on hydrocarbons and increased calls to open and diversify the economy. The government is completely aware that things need to change but has been slow to make the necessary economic reforms. Instead, its short term reaction has been to restrict imports in an attempt to lower the import bill and encourage domestic production, which has only added to the uncertainty of the market.

The 49/51 investment law requires a majority of Algerian partner for any foreign investment, but otherwise there are few laws restricting foreign investment. However, the process of setting up a business is heavily bureaucratic and subject to political and protectionist influences (State, 2015). The National Agency for Investment Development (ANDI) is the primary Algerian government agency tasked with seeking and recruiting foreign investment, as part of the ANDI missions, it is essential to unify the network of nationwide offices under one structure to provide more consistent information to those seeking to start businesses, and to pro-actively seek and recruit investment in Algeria, as opposed to passively answering questions of those who inquire. Officials said they are consulting with private companies on ANDI's new structure to ensure it meets the needs of the business community. The 49/51 investment law requires a majority of Algerian ownership of at least 51 percent in all projects involving foreign investments. This requirement was first adopted in 2006 within the oil sector and was expanded across all sectors by 2009. According to official authorities, the law seeks to diversify local economic production and profit while limiting deficits of the public trust and restrict capital flights and ensure additional local economic growth.

The recent slump in oil prices has pushed the Algerian economy through a policy of diversification that involves more private sector participation and less investment orientation towards hydrocarbons. With its 2015-2019 $262bn investment plan, the government is focusing on several sectors including agriculture, tourism, information and communications technology, construction infrastructure, and health (State, 2015).

Algeria has also diversified its investment partners, looking more to the United States and Asia, and slowly moving from its traditional European partners given the continental economic recession. While favoring investors who are willing to transfer the know-how, technology and train local human capacity.

4. METHODS AND MATERIALS

In order to find solutions to improve our business climate, we decided to analyze and evaluate the different constraints faced by the foreign companies after their settlement on the Algerian territory; we have taken Batimetal Galva as a sample of study. Batimetal Galva is a joint-venture between two large groups; the Portuguese group Metalogalva and the Algerian group Imetal. To discuss the research proposals, and taken into consideration the qualitative nature of our research, we are called to conduct several interviews with the various directors of Batimetal Galva. And since it is a new company that has just settled in Algeria, the number of our interviewees was quite limited, made up of 7 people, presented by the various directors of the departments and the general director of the company. Our interview guide has been established in a very structured way, with a set of questions, some of which are related to the different problems encountered by the foreign companies and others related to the attractiveness of the business climate in Algeria.

5. RESULTS AND DISCUSSION

5.1 Factors of Attractiveness of Foreign Direct Investment

The general manager gave us a list of factors that he believes is the most important in the attractiveness of FDI *« the geographical area, the importance of the market, cost of labor, and the tax policy »*, he added that Algeria is a country that offers a lot of facilities for foreign companies.

The commercial director on his side added that energy is a very important factor attracting multinational companies, according to him, Algeria is a country rich in natural resources but, instead of investing in refining, we prefer to concentrate on extracting these resources and selling them as raw material. In his own words: *« energy is a very attractive factor, but the problem is that we attract bad flies, multinationals like TOTAL for example, they come and they pump energies, and these contracts are against the benefit of Algeria,* *because finally we will take this energy like oil for example, we sell it outside as a raw product and is then imported as a finished product. And it's true that it generates a lot of money for Algeria but it can generate more if we know how to exploit it better ».*

The director of human resources also mentioned agriculture as a determining factor of the attractiveness of FDI in Algeria as well as the geographical position of the country being the gateway to Africa and since the continent holds an enormous potential, whoever wants to invest in Africa, he has only to invest in Algeria.

The production manager sees that the problem of Algeria is not in the absence of FDI attractiveness factors but in the way in which foreign investors are treated after their arrival.

5.2 The 51/49 Rule

Introduced by the 2009 supplementary finance law, the so-called 51/49 rule sets the shareholding of a foreign investor in a company governed by the Algerian law at 49%; some investors consider this rule as a brake to the development of foreign investment in Algeria. The general director said that this rule is very limiting to foreign investors, because an investor who is willing to bring his money and work in favor of the Algerian economy, taking the advantage of having the majority in his own company away from him is a bit unfair and inconvenient.

The commercial director on his part said: *« this rule was established in order to control the management of joint-ventures in Algeria and to always have the final decision, and for me when a company is interested in the Algerian market, it's this company that has the expertise and the know-how, and so there is always a conflict between the one who holds the money and the one who has the knowledge, and at the end the law that is imposed is on the part that doesn't have the know-how »*. So finally it is still a restraint to foreign investors.

The construction director thought that *« since in Algeria we still don't have the necessary knowledge to be able to dictate our own decisions, we need the upper hand in another area, which is why, for the time being this rule is necessary in order to guarantee the transfer of the know-how and to keep an eye on actions that are being taken. And when the time comes where the Algerian part can stand on its own, we will be able to afford removing this rule »*.

The human resource director said that maybe at some point politically it is justified to want to keep that supremacy, because *« in case of conflicts or disagreements, it's still our property and we can replace the other part with another »*.

The financial director thought that instead of holding back the foreign investors through this rule, we can take other measures to supervise and control his actions, the transfer of capital being an example.

The two other interviewees have also agreed that this rule is a handicap to foreign investment because it is holding back several companies from choosing Algeria as a destination to invest.

5.3 Administrative Bureaucracy in Algeria

This problem eventually discourages investors that prefer to turn to other countries whose procedures are lightened and facilitated. According to the commercial director, 90% of the problems that scare investors in Algeria are related to bureaucracy, instead of facilitating the work of foreign investors they are blocked at all administrative levels, for example, to extract a single document it takes ten more documents, and for each document you have to go through several administrations. The bureaucracy is a real handicap in

Algeria, because instead of letting work progress, we prefer the control of documents over the job.

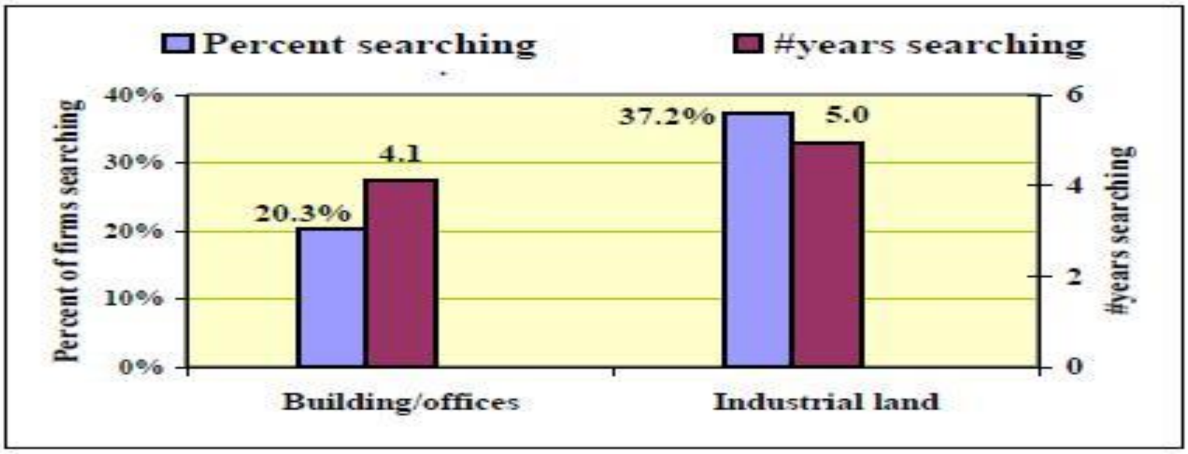
The general director has also described the administrative environment of Algeria as *« an administrative "terrorism", unless you know the right person at the right place »*.

Another opinion on the matter is that of the construction director, who said that they suffered only to get the construction permit, even though the company is in favor of everyone in the Algerian society. He also stated the example of Batimetal Galva which is still facing complicated challenges as a result of bureaucracy, compared to the same company's division in Ukraine which was created at the same time as the Algerian division and is now at a far more advanced stage. Indeed, according to the report "*Doing Business of 2018"*, Algeria has the highest number of procedures and the longest delays compared to its neighbors. These procedures concern all the activities related to the creation of a business.

5.4 Access to Industrial Land

Access to land was one the hardest and most complicated procedures in Algeria, the whole process of acquiring industrial land is extremely lengthy, costly and uncertain. Because of the dominant role of administrative allocation, this can be proved by the following survey of Doing Business Report which was conducted on a sample of 562 firms.

Fig.1. Looking for Land or Offices in Algeria



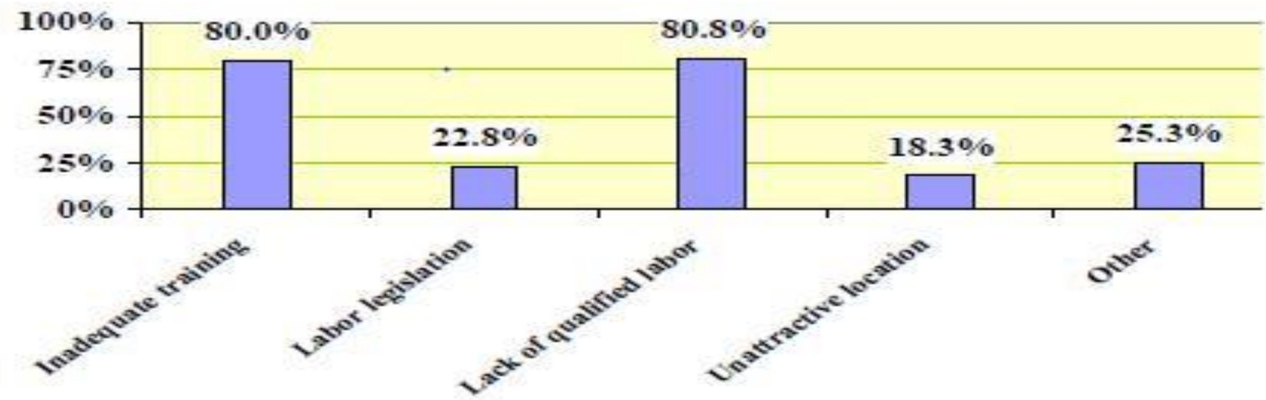
Source: (Group, 2003), p14.

37.2% of the companies surveyed, are searching for an industrial land plot to invest in a new venture or to expand their business. On average, they have been searching for 5 years. And 20.3% of them have been searching for buildings and offices for 4 years. However, our case study has showed otherwise. All of our interviewees have agreed that access to land was not an issue for Batimetal Galva. The general director mentioned that the land that they are currently using was owned by the Algerian company Batimetal which was already dissolved by the Algerian government and the land with its buildings was rented to Batimetal Galva. So they did not have to go through any of the complicated procedures that new foreign companies usually face.

5.5 Human Resources

Another one of the frequently mentioned restraints to foreign direct investment is the lack of qualified work-force in the Algerian market; a survey that was conducted by the World Bank on 562 companies about recruiting issues has had the following results.

Fig.2. Recruiting Issues in Algeria



Source: (Group, 2003), p25.

55% of the firms surveyed mention constraints in recruiting. More than 80% of these are due to either the lack of qualified labor or, alternatively, to the fact that training does not respond to their needs. Despite these constraints in finding qualified staff, less than 32% provide formal training to their employees. Only large firms, most of them are State-owned, provide training to a large extent.

In order to confirm the existence of this problem in Batimetal Galva; we asked the following question during our interviews: *How do you qualify the work done by Algerian employees in terms of quality, cost and time?* The results were, however, contradictory; the majority of our interviewees have confirmed that the problem is not in the quality of the workers but in the absence of an adequate work environment.

The commercial director thinks that « *the Algerian workers give a 100% of their capacity in the current environment, and we don't need to call for foreign work force to do the same job that can be done by Algerian workers and at a cost that it is almost three times lower* ». And he evaluated the Algerian worker as being under-paid, compared to a foreign worker even if it is for the same job with the same output. But according to him, « *the real reason behind this issue is in the management system, because when the management system is good, the work environment is better, and the quality of the output is best* ».

The human resource director, on the other hand, sees that it is the absence of motivation that's behind the lack of quality in the Algerian work. For example, a worker who is on a one year contract, with the possibility of renewal, won't give a hundred percent of his capacities because at the same time he is on the look for another job elsewhere. The rest of our interviewees share the same opinions as the commercial and human resources directors. However, the opinion of the general director was a little different; he said that even though the Algerian workers have the skills, they don't put the totality of their capabilities into the job.

5.6 Others

The general director sees that one of the things that are blocking investment in Algeria is the non visibility of the evolution of the Algerian market. And the government has also stopped investment two years ago, and since then the market has been stagnant for most of the industrial sectors.

According to the commercial director, another one of the restraints to foreign investment besides the previously mentioned problems is a certain political side to the matter, because in every sector that generates money, there is a certain dominant company that aspires to gain an exclusive monopoly over the market. And if this company is well placed politically, it will exert all its power to control the other competitors. And since the main industrial and economic sectors are in the hands of particular people, they dictate their own policies and others are bound either to follow them or to withdraw from the scene. It is true that this exists in almost every country but in Algeria there is an exceptional supremacy.

The construction director, has also mentioned the absence of coordination and cooperation between the different actors in a certain sector, as one of the most important issues blocking the advancement of companies in Algeria, because according to him *« any small participation in the process can make the difference between moving forward and staying put »*.

The financial director said that there is no continuity in the decision making process, when a certain political leader comes to power, he doesn't continue on what the previous one started, but starts a new policy and so on, so there is an issue of political stability in the country.

For the human resource director, another constraint to FDI in Algeria is the absence of the follow-up by the Algerian part, when a project is launched; there is no supervision on the advancement of the work and no control over it.

From what we have gathered as information from the interviews carried out, we have arrived at the synthesis of the following points:

- According to our interviewees' answers, the business climate in Algeria is very attractive to foreign investors and holds great potential due to its uncultivated territory and the dimension of its market, in addition to the facilitations given by the Algerian government to foreign investors;
- One of the most attractive factors about the business climate in Algeria is the geographical position of the country and its closeness to European markets;
- Another factor of attractiveness is the natural resources that the country has and the abundance of energy sources that is also at low costs, plus the agricultural sector that holds several opportunities;
- The cost of labor is also very low compared to other countries in the region;
- The 51/49 rule is considered as a restraint to foreign investors and a guarantee to the Algerian part at the same time;
- Administrative bureaucracy is one of the most repelling aspects of the economic environment in Algeria, for its huge negative effect on businesses and individuals in general;
- Access to industrial land was not considered an issue for Batimetal Galva because of its availability in the region of Ain Defla;
- The human factor in Algeria is not lacking quality or training but it is affected by the absence of motivation in the Algerian work environment;
- Another restraint to foreign investment in Algeria is the political influence on the business climate and the lack of cooperation between the different actors in the market.
- The political stability and the market's stagnation are both considered as disadvantages to foreign investment in Algeria;
- The lack of supervision and the absence of control on the industrial projects are also negatively affecting businesses in Algeria.

6. Obstacles of Foreign Direct Investments in Algeria

The macroeconomic stability, so much praised for a decade, is probably experiencing moments of uncertainty and heartbreaking challenges, driven by the new financial situation of the country. The last decline in foreign revenues, resulting from the export of hydrocarbons, meant that foreign exchange reserves, estimated at nearly $200 billion in 2014, would not exceed $100 billion in 2017. The country will have consumed $100 billion in three years, dedicated to paying for imports. The reduction efforts of the latter, through the introduction of import licenses since 2015, have been inconclusive. Imports continue to weigh heavily on external revenues, which account for 97% of hydrocarbon exports, the overwhelming majority of which is shipped in raw form. It is an almost exclusively extractive industry that has cost the country many mistakes and misfortunes, including the import of fuels at the rate of three billion dollars per year. Sign of a serious economic indolence that led the country to import processed products from non-oil countries (Turkey, for example). The reason is as simple as it is absurd: the country seems to have forgotten to invest in refining. The easy solution has imposed its rules, as well in this field as in other fields such as; pharmacy, agricultural production, tourism, etc (NAIT MESSAOUD, 2017).

Some segments of the economy remain under control of the government and the pace of the privatization program has slowed down due to the long legacy of the centralized economy whose public sector played a dominant role in the economy. Indeed, the essential market is owned by public banks. In contrast, private financial institutions play a marginal role in the economy. The state, which is present today through a few hundred public enterprises that survive only through ruinous financial reorganizations, should have every interest in concentrating its efforts on the private sector which has, at least, the deserves to produce without recourse to the treasure money, unlike the public companies.

While it is true that the government have already taken a number of initiatives to facilitate the installation and work of companies, there are still many complicated administrative procedures that have unfortunately increased the hold of bureaucracy over these good initiatives. Access to land, obtaining issuance for a building permit and subdivision, connections to electricity, gas and water, continue still to take a lot of time. The lifting of bank loans and other facilities essential for the survival of a newly created company for example internet connection, upgrades and missions abroad, continue to be part of the obstacle course, especially when the newly created company is located far from the capital. Although there has been some progress over the years, the Algerian administration is far from being business friendly. About 20% of enterprises perceive public services as being either inefficient or totally inefficient. Foreign investors equally complain about the bureaucracy (Group W. B., Doing Business Algeria, 2018).

Algeria suffers from a lack of image and communication abroad, a deficit characterized by a lack of visibility of the national investment policy, largely related to the unavailability of quality information on the flows and trends of FDI by sector and by country of origin. A lack of coordination between the different actors of the investment, and the under-recognition of the foreign business community, a weak communication on the reforms and the new regulations adopted with a view to liberalize the national economy, and finally, the poor application of the new rules and procedures, negatively and significantly, affects the image that reflects Algeria abroad, thus influencing the attractiveness of foreign investors (Med, 2010).

Land is the most important obstacle to the creation and development of a dynamic foreign private sector in Algeria. Access to industrial land is complicated because of the unavailability of land and speculative maneuvers. Moreover, the lack of knowledge on the part of the public administration on the availability and viability of land is perceived by potential investors as an obstacle to any investment. Despite the government trying to remedy this by creating the National Agency for Intermediation and Land Regulation (ANIREF) in 2007, the issue of access to industrial real estate is constantly mentioned by entrepreneurs and investors as an overwhelming and increasingly severe constraint to business development (ANIREF, 2007). There is a large unsatisfied demand for industrial land. At the same time, around half of equipped land is unused, either because it belongs to bankrupt public enterprises or because private owners are holding on to them to speculate. Access to land in Algeria is an extremely complex and politically charged issue, where many vested interests are at work to block any reforms. It is quite important the structural adjustment that Algeria will need to undergo to make further progress in moving from a centrally planned to a market-base economy (Group W. B., Algeria investment climate assessment, 2003).

Many delays in infrastructure are hindering investment especially in ports, international airports and railways, as well as in the distribution of electricity and gas and access to telecommunications. For example, the port chain which handles almost all goods imported to Algeria suffers from serious dysfunctions. Planning between the different actors, port authorities, freight forwarders, customs agents, importers and ship-owners, is ineffective. It is to be hoped that the formalization of customs and the use of new specialized equipment (such as the scanner) will alleviate clearance over customs' procedures at the port of Algiers, the country's main port (UNCTAD, Examen de la politique de l'investissement, 2004).

According to a report conducted by the Organization of Economic Cooperation and Development (OECD), and published in the national journal Liberté, on the 11/06/2007. *« The justice and finance sectors are the essential impediments to improving the business climate in Algeria »* says the document. Referring to a World Bank study that ranked Algeria between the ninth and last amongst 14 other countries in the MENA region (Middle East, North Africa) in terms of six main criteria (accountability, political stability, governance, quality of regulation, role of law and corruption). The most criticized criteria in Algeria concerns the quality of regulation and the role of the law. *« It is the justice sector that is most concerned. The business community has limited confidence in the impartiality of the judicial system, which is also seen as slow and inefficient »* says the report. The judicial reform initiated since 2001 has more or less allowed the adaptation of the Algerian judicial framework to the necessities of a market-based economy. However its application suffers from a lack of procedures, qualified judges in the field of commercial law and an administrative and technical capacity to assess and implement justice. Despite the recent reforms of the judicial system, procedures remain slow and ineffective. In addition, bureaucracy and lack of confidence in the justice system, especially in the settlement of commercial disputes, are viewed by potential investors as obstacles to investment in Algeria (RABHI, 2007).

The 51/49% rule is the law that governs foreign investment in Algeria. It has been approved under the Supplementary Finance Act (CFL) for 2009. This rule consists of the distribution of the capital held by a company between two partners, an Algerian and a foreigner. As its name indicates, this rule stipulates that 51% of the capital of the Algerian-foreign company must be owned by the Algerian side, whether public or private. The fact that most of the company's shares are held by the Algerian side, gives it greater decision-making power than its foreign partner. The latter cannot therefore hold more than 49% of the capital (BEDDA, 2012). The rule has been adopted by the Algerian Government with the aim of preserving and favoring domestic investors over their international counterparts, particularly in certain strategic sectors such as energy. However, it continues to haunt the European business community, very interested in exporting their business, especially to the Maghreb countries. Despite the evolution of the value as well as the volume of foreign direct investment (FDI) in the Mediterranean, Algeria is still facing the backlash caused by the rule of 51/49% imposed on foreign investors wishing to settle in the country. This law is the main legal obstacle preventing the flow of FDI towards Algeria. Despite the calls of the private sector which considers the law of 51/49% too general and challenging, like the Forum of Entrepreneurs (FCE), the Algerian authorities give little hope for improving the foreign investment framework. The value of non-hydrocarbon investments in Algeria is between 500 million and 1.2 billion dollars annually, taking into account statistics from the United Nations Development Organization (UNDP). This value is materialized in the field by some small FDI projects. But it should be noted that the realization of investment projects does not exceed 10% of intentions declared by investors (BEDDA, 2012). The rule itself is a disadvantage to investment as it is a benefit. But the government still maintains that it is not an impediment but rather a safeguard to ensure local private and public sector participation in the economic process, create employment for nationals, transfer technology and know-how, and develop local training initiatives. Additionally, the government argues, and some foreign investors agree, that a range of tailored measures can mitigate the effect of the 49/51 rule and allow for other means of control, in practice some foreign investors use multiple local partners in the same venture, effectively reducing ownership of each individual local partner to enable the foreign partner to own the majority share. Despite the scale of the problems faced by foreign investors in Algeria, the government continues to maintain the rule of 51/49%, a law almost useless in an economic world with strong globalization.

The Bank of Algeria (BA) has published a new directive concerning investment regulations; this directive sets the conditions for the transfer of capital abroad by economic operators under Algerian law. Among the articles of this regulation published in the Official Journal (OJ) N°63, the first article stresses that the transfer of capital by operators (under Algerian law) regarding investment must be complementary to their activities of production of goods and services. The Algerian bank conditions investors to obtain a green light from the Currency and Credit Council in order to transfer capital, as stipulated in Article 3 of the BA note: *« Transfers of capital for investment abroad by economic operators under Algerian law, whatever the legal form it may take in the host country, are subject to the prior authorization of the Council of Money and Credit »*, while the investment concerned must be, moreover, *« in relation with the activity of the economic operator under Algerian law and must be aimed at consolidating and developing this activity and must not relate to investment transactions or real estate other than those corresponding to the operating needs of entities created abroad or forming part of their business »* (Article 4).

Among other conditions set by this note from the Bank of Algeria, there is this requirement that *« the economic operator under Algerian law and/or his legal representative, is (are) not registered in the national file of fraudsters and/or the file of violators with the legislation and the regulation »*, and must not also seek bank financing to make its investments abroad *« foreign exchange and capital movements to and from abroad, and financing for the implementation of the investment project abroad is ensured from the economic operator's own resources »*. Moreover, the Bank of Algeria requires that *« the income generated by the investment made abroad must be repatriated to Algeria without delay and in case of disinvestment abroad; the economic operator concerned is obliged to repatriate, without delay, the proceeds of the operation »* (art.11). However, the BA note stipulates in Article 13 that *« the provisions of this regulation do not apply to public administrations and public administrative establishments »* (AFRIK, 2014).

The Algerian government does not have performance requirements and does not officially mandate local employment, but usually there is pressure from the government for foreign companies to limit the number of expatriate middle and senior managers, so that Algerians can be hired for these positions. This pressure can be applied via visa applications for expatriate workers where a company must provide justification to various levels of the government as to why the expatriate worker is needed.

Despite the entry of several small private and foreign banks, Algeria's financial sector is still largely dominated by the government. Access to credit or the opening of a bank account is a very long and difficult procedure. A lack of information and modern payment systems and a lack of qualified staff are also major problems for foreign investors. Improving the financial system is currently a necessity for the Algerian government in order to attract more investors.

The Algerian labor market suffers from a severe lack of good quality workers, such as skilled managers, supply chain engineers, office workers with requisite computer and business skills and even skilled plumbers or electricians. It is true that the cost of the Algerian work-force is very low comparing to others countries but the quality is still less than acceptable.

The lack of information regarding laws, regulations, statistics and market information makes it difficult for entrepreneurs to manage their businesses and for bankers to assess loan requests. This problem is due in part to the weakness of communication networks between Algerian public administrations, chambers of commerce and industry and professional organizations. Furthermore, enterprises cannot access databases and other information centers that could facilitate market research and update their knowledge of current laws and regulations, new technologies, and foreign markets.

7. CONCLUSION

Algeria has changed its vision and strategy for foreign investors. Thus, since 1990, a gradual policy of openness and attractiveness of FDI was introduced, offering fiscal, customs and financial incentives. This policy has been intensified recently due to the fluctuation of oil prices. However, this change did not have a significant impact on incoming FDI flows. This is explained by the fact that Algeria presents an environment that is not conducive to investment. On the one hand, the economic fundamentals that are starting to improve recently are based on a fragile economy, which is standing on a single unstable pillar, that of hydrocarbons. On the other hand, the foreign investors are confronted with the bureaucracy, the lack of access to finance, information, the transfer of capital…etc. Investors also complain about the lack of qualification of the workforce and difficult access to industrial land. These are all elements that make the number of foreign companies present in Algeria remain modest. Algeria must first of all diversify the structure of its economy, improve the investment climate and strengthen its infrastructure before granting incentives that only absorb capital that could have been used to enhance structural attractiveness.

In one part, Algeria is a very attractive country in terms of foreign investments; several factors determine its attractiveness: economic, geographic, social…etc. In another part, there are several important obstacles that block the advancement of foreign companies such as the administrative bureaucracy, the 51/49 law, access to land…etc. So the first hypothesis stipulating that Algeria has made a huge progress in integrating the world economy by signing many free trade agreements with other countries especially the EU (European Union) is confirmed and could very well be the answer to the first sub question. Algeria has several agreements with different countries around the globe, and its position is very valued especially in the Arab world.

Our second hypothesis states that multinational companies usually prefer to choose Morocco or Tunisia as a destination to their investments instead of Algeria due to the lack of attractiveness of its business climate can’t be confirmed. The findings indicate that several opportunities are given to foreign investors by the Algerian government and there are various factors that determine the attractiveness of the business climate that are only available in Algeria and not in other countries. And if these foreign investors chose Algeria as a destination to their investments, it’s because of the attractive factors of the business climate in Algeria.

Our third hypothesis proposed that despite the efforts made by the government, the number of multinational companies in Algeria is still insufficient. According to the research we conducted and the answers of our interviewees, this hypothesis is confirmed, the number of multinationals and FDI in Algeria is still quite limited considering the great potential that the Algerian market holds. This is due to the many constraints and obstacles that foreign investors face after their arrival. Algeria puts a large effort in attracting these investors through different facilitations and offered opportunities, however, once they are settled in, they find themselves in front of another reality marked by extreme bureaucracy in the Algerian administrations, difficulty to access information, industrial land and to find a qualified work-force, without mentioning the limitations caused by the 51/49 Rule. This unfortunate situation is depriving the Algerian economy from several opportunities to prosper and grow into a strong and open economy built on solid foundations. However, this can only be fixed if there is a political willingness combined with the support and cooperation of the Algerian society, which would have to be ready to change things and move forward.

8. Recommendations

Finally, in order to avoid all these problems and increase the number of FDI in Algeria we have constructed a list of recommendations based on the observations we made during our research:

- The administrative bureaucracy is the biggest obstacle to foreign investors in Algeria, the government needs to reduce the number of administrative procedures in order to facilitate the work of companies;
- The government can also establish a special committee to investigate and control corruption in the Algerian administrations;
- Establish a plan to eliminate the 51/49 rule on the medium and long term, to open more possibilities of investment in the country and make the business climate even more attractive on the international level;

- Create a national agency which is dedicated to collect and diffuse information about industrial land availability and viability, and to guarantee an equal distribution of lands between foreign and domestic investors;
- In order to improve the quality of labor in Algeria, companies need to take into consideration the human factor and work to develop a motivational environment which includes correct wages in exchange for the work they performed. And ensure the top management’s active involvement in the work environment;
- Energy is one of the most attractive aspects of the business climate, however, Algeria has not taken advantage of this factor, instead of exporting it as a raw material, it should be investing more in refineries and produce its own finished goods;
- Algeria needs to diversify its economy outside of the hydrocarbon sector, by investing in other sectors such as agriculture and tourism; this can reduce the risk of falling into an economic crisis in case oil prices continue to drop;
- Privatizing the economy should also be on top of the government’s agenda, private sector companies should have the same incentives as their public opponents in terms of access to finance as well as land and other services;
- The government should also require all administrations and institutions to use new information and communication technologies in order to facilitate data access for investors so that they stay updated about the market’s evolution.

These are some of the most urgent solutions that the government should take into consideration to promote and improve its image on the international scale.

9. Bibliography List:

AFRIK, F. (2014). *The Bank of Algeria Sets the Conditions for the Transfer of Capital Abroad*. Consulted the 04 06, 2018, on https://www.financialafrik.com/2014/11/17/la-banque-dalgerie-fixe-les-conditions-de-transfert-de-capitaux-vers-letranger/

ADDA, J. (2007). *The Globalization of the Economy*. Paris: La Découverte.

ANDI. (2013). Natural *Resources*. Consulted the 03 26, 2018, on ANDI: http://www.andi.dz/index.php/fr/connaitre-l-algerie/ressources

ANIREF. (2007). *At the Service of Investment.* Algiers.

Bank, T. W. (2018). *World Bank Data*. Consulted the 03 08, 2018, on https://data.worldbank.org/country/algeria

BEDDA, M. (2012). Adapt the 51/49% Rule to the Regional Economic Context. *El Watan from Algeria*, 01.

Ducobu, Y.-D. A. (2005). *Internationalization of States and Multinational Banks: Actors, Strategies, Regulation.* Belgium: Academia.

Fund, I. M. (2017). IMF Executive Board Concludes 2017 Article IV Consultation with Algeria. *Report N° 17/141*, 26.

Group, O. B. (2017). *The Report: Algeria 2017*. Consulted the 03 10, 2018, on https://oxfordbusinessgroup.com/algeria-2017

Group, W. B. (2003). Algeria Investment Climate Assessment. *Report N°27605 AL*, 14.

Group, W. B. (2018). *Doing Business Algeria.* Washington, D.C.

Med, I. i. (2010). The Map of Investments in the Mediterranean., (p. 38).

Merle, M. (1995). *Assessment of Contemporary International Relations.* France: Economica.

NAIT MESSAOUD, A. (2017). Algeria: Macroeconomic Stability and Stability at All Costs. *Le Matin from Algeria*.

ONS. (2018). *International Trade*. Consulted the 03 09, 2018, on http://www.ons.dz/-Commerce-Exterieur-.html

Pinot de Villechenon, F. (2006). *Globalization and Its Effects: New Debates*. France: L'Harmattan.

RABHI, M. (2007). *The Judicial System in Algeria Remains Slow and Inefficient*. Consulted the 04 09, 2018, on https://www.djazairess.com/fr/liberte/78341

Sheffield, J., Korotayev, A., & Grinin, L. (2013). *Globalization Yesterday, Today, and Tomorrow*. USA: Emergent Publications.

SIMON, G. (2008). *The Migratory Planet in the Globalization*. Paris: Armand Colin.

State, U. D. (2015). *Investment Climate Statement Algeria*. USA.

UNCTAD. (2004). I*nvestment Policy Review*.

UNCTAD. (2012). World Investment Report. *Towards a New Generation of Investment Policies*, 37.