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Foreign direct investment in Algeria

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Abstract---The study aims to identify foreign direct investment in Algeria by taking a look at the reality of foreign investment flows in Algeria. The study reached a set of results, the most important of which are Algeria has tried hard since independence until today to encourage foreign direct investment through a set of tax incentives, but the flow of these investments is still modest and does not live up to ambitions.

Keywords---foreign direct investment, flows, tax incentives.

1. Introduction

Experts and researchers agreed that investment in general is the most important link to drive the economy, achieve economic prosperity and move forward to achieve social welfare. When investment remained confined to other variables no less important related to the savings of governments and peoples, investment did not achieve its desired goals and it was necessary to search for new capital, which was initially limited to financial aid and loans from global financial institutions that countries were unable to repay at some point, which made the national sovereignty of those countries more threatened than ever before, so countries turned to other means that could solve social problems, and transfer modern technology and contemporary management methods on the condition of improving their investment climate from flexibility in legislation and laws and refuting corruption and bureaucracy to an efficient financial system and providing security for investors with capital, which led to enhancing the competitiveness of countries to attract foreign investments and its pace accelerated due to financial

globalization due to its advantages over the economies of developing countries, foreign investments that are active alongside other local investments that work in an integrated manner to serve the economy and achieve a level of economic growth that local investments were unable to achieve at some point. Algeria, like other countries in the world, has experienced some of these economic and financial openings, and has followed in the footsteps of countries that relied on foreign investments to support local investment, not to replace it, to achieve economic growth capable of achieving sustainable development. Despite not reaching the desired numbers through development strategies, the latest of which is the five-year plan to reach the 4% growth threshold after colliding with the collapse of fuel prices, there remains a real intention to embody it on the ground, betting on foreign and local investments to achieve sustainable development. This brings us to pose the following problematic: What is the reality of foreign direct investment in Algeria.

The topic of foreign direct investment has received a lot of attention for a long time, as many economic literatures have addressed its motives and determinants since the emergence of classical thought, and theorizing is still ongoing due to the continuous emergence of new variables, as a result of the constant change in global economic conditions.

2. Definition of Foreign Direct Investment

The United Nations Conference on Trade and Development (UNCTAD) defined foreign direct investment as: an investment that involves a long-term relationship, reflecting a lasting interest and control in management between a company in the home country and a company or production unit in the recipient country. (report, 2009, p. 243)

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Ownership of 10 percent or more of the voting power in an enterprise in one economy by an investor in another economy is evidence of such a relationship. (www.oecd-ilibrary.org, 2024)

Foreign direct investment can be defined as an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country. A foreign direct investment can be made by obtaining a lasting interest or by expanding one's business into a foreign country. (corporatefinanceinstitute.com, 2024)

3. The Importance of Foreign Direct Investment

The importance of FDI is evident from the many advantages it offers some of which are as follows: (https://www.tutorialspoint.com/international_finance/foreign_direct_investment.htm)

- FDI is a major source of external financing for some middle-income countries and this is achieved through the transfer of real resources from abroad such as equipment, machinery
- Necessary for the establishment of investment and the accompanying technical, administrative and organizational expertise, which can break many obstacles to development.
- FDI does not establish its rules in the host countries until it does in-depth studies showing the economic and technical feasibility of the project in which it invests.
- It increases the use of local resources and employment opportunities for citizens in the host country where FDI is financing in its true meaning by creating many economic exits that drive the manufacturing movement in the host country.

4. Determinants of foreign direct investment

The determinants of foreign direct investment can be divided into the following: (Khouazem, 2021, p. 16)

- Economic determinants: These are represented by the prevailing conditions in the host country for foreign direct investment and its development prospects. The availability of basic infrastructure such as roads, advanced means of communication, health and education services, water and electricity networks, play an important and influential role not only in determining the size of the attracted investments but also in distributing them among the various economic sectors. This is in addition to the inflation rate and exchange rate fluctuations, the extent of development of the banking system, the size of the local market and the availability of raw materials and local labor.
- Legal determinants: These are represented by the existence of a legal framework that establishes the legal legislative foundations regulating all economic activity, so that the laws are characterized by the absence of complexity and contradiction, especially with regard to the procedures and practical applications of these laws on the ground. The legal framework must also be characterized by development and complete flexibility in order to attract foreign direct investment.
- Political determinants: The existence of a stable political system based on freedom and guaranteeing human rights is considered one of the most important factors that influence attracting investors and pushing them to settle in a country for investment, because the foreign investor does not accept investing in any country unless he is assured of the stability of the political system there.

5. Forms of foreign direct investment:

The forms of FDI vary depending on the ownership of the project. This property can be absolute or relative, and on this basis FDI can be divided into a joint investment which is an investment owned or shared by two or more parties from two different countries on a permanent basis.

Such participation is not limited to the share of the capital but extends to the management of the project. Or an Investment wholly owned by foreigners, this type of investment means that the foreign investor retains the right to own the investment project, as well as the right to manage it and control all its operations. (Collis, 2011)

6. The Algerian Investment Laws

The Algerian government has enacted a number of investment laws that include a set of tax advantages, which have been in place for several years since the independence. The most important of these laws:

- Law 63-277 of July 26th, 1963 ;
- Order 66-284 of September 15th, 1966 which contains the Investment Law: This law came to fill the loopholes of Law 63-277 where the order 66 - 284 granted a number of tax concessions and benefits to private capital, whether it was foreign or national ;
- Law No. 82-11 of August 21th, 1982 concerning national private economic investment ;
- Law No. 86-13 of August 19th, 1986 on the establishment and operation of mixed companies, where this law was amended and complied with Law No 82-11;
- Law No. 88-25 of July 12th, 1988 on the direction of national private economic investments;
- Law No. 90-10 of April 14th, 1990 on cash and loan;
- Law No. 90-10 of April 14th, 1990 related to the promotion of investment this decree came with the freedom of investment condition and granted a number of tax advantages;
- The legislative decree No. 93-12 dated October 5th, 1993, Related to the promotion of investment this decree came with the freedom of investment condition and granted a number of tax advantages;
- Decree No. 01-03 dated August 20th, 2001 concerning investment development. The decree came as a result of the establishment of the National Agency for Investment Development. It also stressed that the investments are carried out in full freedom, taking into consideration legislation, regulations and environmental protection, and also addressed many of the advantages granted to investments;
- Decree No. 06-08 of July 15th, 2006 amending and supplementing Order 01-03 on investment development;
- Executive decree No. 06-356 of October 09th, 2006 Includes the powers, Organization and Operation of the National Agency for investment development;
- The legislation did not stop here. There were several decrees and decisions over the years from 2007 until 2016, all of which were aimed at developing investment and offering several tax advantages;
- Law No. 16-09 of August 03rd, 2016 concerning the promotion of investment. This law defines the system applied to national and foreign investments in economic activities for the production of goods and services.

After the last law a number of executive decrees issued in Official Gazette No. 16 dated March 08th, 2017 were adopted. They are based on the advantages

provided in Law 16-09, but they dealt with some of the points presented previously and added some advantages. These decrees are the following:

- Executive decree No. 17-100 of March 05th, 2017 amended and supplemented by executive decree No. 06-356, containing the powers of the national agency for investment development, organization and operation.
- Executive decree No. 17-101 of March 05th, 2017. Defines the negative lists and the minimum amounts to benefit from the advantages and the application of the advantages to different types of investments;
- Executive Decree No. 17-102 of March 05th, 2017 defines the modalities of investment registration as well as the form and results of the certificate;
- Decree No. 17-103 of March 05th, 2017 specifies the amount of receivables for processing investment files and the manner of collection;
- Executive Decree No. 17-104 of March 05th, 2017 relating to the follow-up of investments and penalties applicable in case of failure to comply with written obligations and obligations;
- Executive Decree No. 17-105 of March 05th, 2017 defines the modalities of applying the additional benefits of exploitation granted to investments created for more than 100 jobs.

7. Foreign direct investment flows in Algeria

The following tables show the FDI flows in Algeria

Table 1: Foreign direct investment inflows in Algeria
(Millions of dollars)

Years	2018	2019	2020	2021	2022	2023
FDI inflows	1 475	1 382	1 140	870	255	1 216

Source: World Investment Report 2024

We note from the table a decrease in foreign investments inflows in Algeria from 2018 to 2022, where it experienced the lowest decrease during 2022, then returned to a significant increase in 2023.

Table 2: Foreign direct investment outflows in Algeria
(Millions of dollars)

Years	2018	2019	2020	2021	2022	2023
FDI outflows	854	31	15	-52	85	84

Source: World Investment Report 2024

We note from the table a decrease in foreign investments outflows in Algeria from 2018 to 2022, as they witnessed the lowest decrease during this year. Among the reasons for this sharp decrease are the repercussions of the Corona crisis, to then return to an increase during the years 2022 and 2023.

8. Foreign direct investment stock

The following tables show the foreign direct investment inward stock in Algeria

Table 3: Foreign direct investment inward stock in Algeria
(Millions of dollars)

Years	2000	2010	2022	2023
FDI inward stock	3 379	19 545	35 643	36 860

Source: World Investment Report 2024

Table 4: Foreign direct investment outward stock in Algeria
(Millions of dollars)

Years	2000	2010	2022	2023
FDI outward stock	205	1 505	2 810	2 894

Source: World Investment Report 2024

When comparing the investment stock for the year 2023 with the year 2000, we notice a significant increase, i.e. an improvement in attracting foreign investments compared to the years 2000.

9. Incentive Measures to attract Foreign Direct Investment:

Seeking to diversify and modernize the economy, the government has embarked on a huge challenge to attract foreign direct investment through plans and priority initiatives programmed. The Algerian Authorities are using various tools to encourage and facilitate investments in strategic sectors.

The opening of Algeria to the foreign investment is dedicated by the ordinance n° 01-03 dated August 20th, 2001, related to the development of the investment (Investment code), modified and completed by the ordinance n° 06-08 dated July 15th, 2006. The purpose was to assure the investing development offering a series of advantages to investors and introducing necessary instruments for an investment promotion policy. The management and guidance of the legal incitation device for the investment falls under the authority of three following national institutions: (Zahia Khiari, 2017, p. 54)

- The National Development Investment Agency (ANDI): Responsible for facilitating investment, granting fiscal and Para-fiscal exemptions, conferring investment advantages and helping investors receive special authorizations for unique investments.
- National Investment Council (CNI): Created to strengthen the legal and regulatory investment framework. The CNI is charged of defining investment strategies and priorities, approving special investment incentives by sector, and giving final authorization to special investment schemes.
- The ministry for Industry and Promotion of Investment (MIPI): It maintains two distinct offices, one for investment policy and the other for promotion of privatization. The MIPI is coordinating the on-going privatization of state-

owned companies, organized by sector into grouping managed “by participation management companies”.

- The government has augmented its efforts on large-scale privatizations in order to remove itself from supporting loss-making enterprises.

The Algerian investment code, known through its liberal nature, dedicates the principle of the equality of the treatment towards both of the national and foreign investors and provides the following guaranties:

- The fiscal and customs incentives;
- The transfer of the invested capital and incomes for the realized investments by the foreign operators;
- The non-appeal to the administrative requisition;
- The possibility of appeal to the international arbitration for the non-resident investors in case of dispute
- In terms of granting advantages for the investors, the ANDI is entitled to grant tax and special taxation exemptions through two regimes: a general regime which concerns the common investments and an exceptional regime reserved for the investments realized in specific zones or those presenting a particular interest for the national economy.

10. Obstacles to foreign investment in Algeria

- Lack of transparency in legislation: Some consider this factor to be one of the most important elements that hinder the flow of capital to Algeria, as changing legislation related to investment within short periods of time plays a negative role.
- The spread of bribery and corruption: Bribery is one of the scourges that gnaw at the Algerian economy, as the abundance of administrative procedures forces some investors to offer bribes as a way to simplify these procedures
- Lack of infrastructure: Algeria suffers greatly in terms of infrastructure, whether the lack of commercial airports and railway lines for transporting goods or the inability of current ports to keep pace with the development of the Algerian economy.
- The problem of industrial real estate: Despite the measures taken by the Ministry of Industry through the National Agency for Mediation and Real Estate Control to establish advanced industrial parks, the slow pace of achievement prevents the achievement of this goal.
- The parallel market: The absence of supervision outside the official market has allowed the spread of this phenomenon, which affects many aspects.
- The lack of development of the banking system: The banking system in Algeria remains very backward compared to the stages that the Algerian economy has gone through. (Hassani Rokia, 2016, p. 289).

11. Conclusion

From the above, we can say that foreign direct investment has become the cornerstone of the emerging model of economic development and achieving acceptable levels of economic growth. Algeria has tried hard since independence until today to encourage foreign direct investment through a set of tax incentives, but the flow of these investments is still modest and does not live up to

ambitions. A political strategy with economic and social dimensions must be developed that is embodied on the ground in the form of providing a suitable environment for investment from flexibility in laws and legislation and establishing an infrastructure and information at the required level and reducing deadly bureaucracy and refuting all types of financial and moral corruption.

12. Study suggestions

- Reducing bureaucracy, reducing regulatory barriers that limit competition, and controlling competition policy laws and monitoring their implementation;
- Decentralizing decisions and launching an effective control system;
- Providing a database available to economic operators;
- Improving the investment climate in Algeria to attract more investments.

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