FOREIGN DIRECT INVESTMENT IN ALGERIA AND ITS IMPACT ON ECONOMIC GROWTH

By

BENSGHIR Karim

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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2010

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ABSTRACT

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Algeria recent financial prosperity and a clear point to significant improvements in overall economic indicators, the most notable manifestations are the decline of external debt, and rising international reserves of hard currency (ranked 10th in the world in 2009), in the context of modern economic take-off and the issue of Foreign Direct Investment in the Algerian economy and the third world in general seems to have fundamental effects to boost the growth.

Capital is a vital element in economic growth of any country; so the formulation of this capital has three sources: aids, borrowing or FDI. The latter plays a vital role in any country. However, the way to get FDI to the country differs from one country to another according the openness of the economy and regulation and others measurement. So Algeria in this decade of fierce competition with the neighboring countries has to have a strong potential to attract FDI in other areas rather than natural resources based once.

Dedicated to

The KDI School of Public Policy and Management

and

Korea International Cooperation Agency (KOICA)

ACKNOWLEDGEMENT

To all my family: father, mother, sisters, and brothers

My professors in the KDI School, especially my supervisor: Professor Jin Park

My co -workers in the ministry of finance Algeria (HAMDINI Bouleam , HADEF Smain , BOUZIDI Hanan, ALIOUCH Nadia, AOURAN Salima, TALBI Latifa,Azzouz Katima ,Hamana Safa, Hamana Hassen,..)

My bosses in the Ministry of Finance

To all my friends.

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CHAPTER 1

INTRODUCTION

The current economic environment is characterized by intensification of competition for foreign capital among the various developed countries and developing countries alike. Foreign investment plays an important role in the provision of funding required for the establishment of productive projects, transfer of technology, contribution to raising incomes and living standards, creation of more jobs, strengthening of the rules of production, improvement of the skills of management expertise, and achievement of competitive advantages in the field of export.

Foreign Direct Investment (FDI) plays a vital role in developing countries that suffer from financial crises that have been exacerbated by the shrinking sources of funding, the escalation of debt indicators and inflation costs associated with borrowing from the outside world. At the same time, the remaining sources of funding remain available to them are limited. Thus, on one hand they have to work to bring FDI, and on the other hand, they must stimulate local (domestic) investment.

This logic has intensified competition among nations to attract FDI by removing barriers and obstacles and giving incentives and guarantees that facilitate the flow of FDI to the domestic market.

In this context, in general most developing countries, seek to enact of legislation granting incentives, and remove all restrictions that stand in their way to attract foreign investors. Algeria was among those countries that have enacted law of investment

(No.01-03 of 20 April 2001, as amended and supplemented by ordinance 06-08 on the development of investment) which provide broad guarantees for foreign as well as local investors. We shall take up this research through analysis and study of such incentives and guarantees, with emphasis on their efficiency in attracting foreign direct investment in the structure of the international environment of competition.

I. Purpose of the study:

The purpose of current study is to understand the status of foreign direct investments in economic development in the case of Algeria, and to provide policy recommendations to promote FDI.

II. Signification of the study:

This study aims to contribute to the discussions that take place at the present time in developing countries, about the necessity of activating the role of competition for FDI. We are on the threshold of economic globalization that has seen the world take the form of a global village. The developing countries strive to seek access to economic development due in great part to the capital of FDI.

The importance of the study leads to the use of effective methods. To strengthen the importance of FDI in the economic growth of any country, especially in the case of Algeria, since the growth pattern characteristics are: heavy reliance on oil; weak economic base; high youth unemployment rates of -almost 12.5%-; (Hassan and Bashir, 2002; Makdisi, Fattah and Liman, 2002), and try to shift from this situation to an economic growth based on other factors (like FDI, diversification of exports…).

III. Research questions and hypothesis

How can FDI contribute to the economic development of Algeria?

It is hypothesized that:

- Encouraging foreign investment requires the presence of infrastructure and organizations as well as updates to upgrade and rehabilitate local institutions.
- Bringing in FDI is linked to the facilitation of legal and administrative procedures and by factors like monetary economic and political stability.

The following are the objectives of this study:

- To answer the problems previously raised;
- To highlight the importance of foreign direct investment in economic growth;
- To quantify the benefit of Algerian economy from FDI;
- To explore the obstacles that stand in front of FDI in developing countries in general and Algeria in particular.

Scope and limitations:

This study will focus on the role of FDI in economic growth, in the recent investment law adopted in 2001, FDI inbound and outbound that Algerian economy represents in the recent years compared to other developed countries where FDI has been the factor of development .However, this study faces some limitations: First, there is a lack of recent statistics, and secondly, there are few sources that make specific references to the Algerian case.

To overcome these obstacles and to give credibility to our study, especially in the case of the lack of statistics, the study uses World Investment Reports (United Nations), in spite of the relatively small number of statistics; they help to build our research and data.

CHAPTER 2

LITERATURE REVIEW AND METHODOLOGY

I. Background:

Foreign Direct Investment involves a foreign investor owning part or all of the investments in a particular project, through equal participation. According to the IMF (International Monetary Fund) and the OECD (Organization for Economic Cooperation and Development) when the percentage of participation is between 25% and 50% we can say that it a foreign investment. In this field, according to the World Investment Report 2008, World FDI inflows rose in 2007 to a record level of $1.8 trillion USD. Developing and transition economies attracted more flows than ever before, reaching nearly $600 billion USD a 25 per cent increase over 2006, and a third of the global total (UNCTAD, 2008).

Similar to many modern states after independence, immediately after the restoration of the sovereignty Algeria adopted a National Law of Investment (Law Number 63 /277 of Investments, 1963).However, this law was not applied in the field, especially as investors did not form a credibility to the law and they did not follow it, because Algeria in this period started Nationalization (63 - 64). After the fall of the political system in 1965, another law was passed in 1965 -Order No. 66/284, 1966- . The status and the forms of the latter law differs radically from that of the first law, especially in the incentives, procedures to invest.

In 1982, Algeria adopted a law on the establishment and conduction of mixed economic companies, and thus confirmed the intention to reject the entering of FDI capital, preferring instead to invest through mixed companies. This trend was confirmed in 1986 by the parliament members' rejection of the entering of FDI to domestic markets, although the government wanted to raise in the proportion of foreign capital. However, in 1988, Algeria has adopted economic reforms that led to the emergence of public economic institutions, rather than institutional or corporate socialism with an economic nature. The nature of the new economic legislation in Algeria and the results of the structural adjustment, and the issuance of the investment law in October 1993 as well as the 1995 Act and finally the 2001 law (Ordinance No.01-03 of 20 April 2001, as amended and supplemented by ordinance 06-08 on the development of investment), brought a new view to foreign direct investment (KPMG Algeria, 2008), and brought about several changes in the new law of investment.

In spite of the introduction of several amendments to the laws and legislation in Algeria in order to encourage and attract foreign investment, especially direct ones, the Algerian government did not succeed attracting FDI compared to other developing countries. The data confirm the small share of FDI flows to the country, totaling only USD 1 billion in the first half of 2008(The Central Bank Governor of Algeria, 2008) while the global FDI inflows rose in 2007 by 30% to reach $1,833 billion (UNCTAD, 2008).

The main cause of this small share is the several years of civil war that Algeria has had make it not a trustworthy country. It is thus hard to get and attract investors, even though there is great potential.

II. Theoretical Background/Framework:

This study takes the perspective that FDI is an “effective channel to transfer technology and foster growth in developing countries” (Hassan, 2003) and will bring more advantage to the host country Theoretical support for this position comes within the framework of the neo-classical models à la Solow (1956), and also a group of mainstreams economists that have considered FDI as a driving engine of growth.

Empirical work by Mankiw, Romer and Weil (1992) shows that the ratio of investment to GDP is an important determinant of growth which indirectly indicates the importance of saving. However, the findings on the determinants of the FDI in the form of multinational enterprises are not clear-cut.

Japanese model discussed In 1978 by Kojima, made abroad picture about FDI in the, and according to him FDI invest in developing countries and the target investments in this countries are mainly on natural resources like oil, gas, iron, and other metals. However, the American model is extremely different from this side, and based on FDI in countries with low wages that will bring more profit margins(Braconier etal,2002),. According to the World Investment Prospects Survey 2007-2009, The major motives behind the growth of FDI remain market-seeking and, to a smaller but growing extent, resource-seeking (mainly skilled labor, but also raw materials and finance) (UNCTAD, 2009).from this prospective and in the case of Algeria in the Japanese model since all the FDI inflow to the country is based on natural resources.

FDI has many effects, not just for the foreign exchange supply, but also for many other effects: trade and employment; resources transfer; spill over and competitive effects (Brech and Sharp, 1984).

In the case of Algeria, in July of 2008, the Korean International Cooperation Agency, a policy consulting for Industrial development of Algeria concluded the importance of FDI in line with industrial policies (KOICA, KIET, 2008) in the Economic Growth of Algeria, and how it can be implemented via the reforms of FDI policy institutions for instance ANDI, proivde more information and access to this information for investors. Moreover, if Algeria needs to induce more FDI to undertake the advanced technologies, so Algeria need more Algerian enterpreneurs that can take initiative to absorbe this advanced technologyies(KOICA, KIET, 2008).

III. Methodology

This chapter will review methods utilized for collecting and analyzing data by researchers. Both qualitative and quantitative research will be conducted to analyze Algerian inbound and outbound FDI as well as FDI data from other countries.

The study will be qualitative research met with quantitative methods, as the study utilize data and graphs that shows inbound and outbound of FDI, besides analysis of the impact of FDI in the economy of developing, and developed countries compared with Algeria. The research design was both exploratory, to understand the problems that face Algeria in the field FDI, and descriptive, to illustrate the law of investment and different efforts that the government has made so far, and to analyze the current juridical and other institutions of promotion of investment situation and derive appropriate recommendations.

The research is divided in three parts; the first part reviews the FDI policy in Algeria, used to get a broad view of polices and the legal framework (law of investment) about the FDI in Algeria. The second part makes comparisons with other countries (mainly the neighboring countries: Morocco, Tunisia and Egypt), since we have the same potential for attracting investment. Finally; the study presents policy recommendations for Algeria to overcome the obstacles and try to adapt and learn lessons from those countries that did well in attracting FDI.

To study the FDI policy in Algeria, this study examines the legal framework for investments in Algeria, investment environment, investment incentives, implementation of benefits and the institutions governing investment promotion. Each of these elements used in this study were mentioned in broad vision in law of investments (01-03 with different amendments) since it has the current legal framework, also it includes all the information that should be known about FDI in any country.

The comparison study of the current Algerian FDI with other neighboring countries focuses especially on the following areas: inbound and outbound FDI, share of FDI from GDP, and access to business environment., Later on, the study makes a general analysis about the situation in the world, in order to get the common obstacle that the world and Algeria in particular is facing in this field.

Institutions Reviewed:

While there are many institutions in charge of investment in Algeria, the National Investment Council (CNI) and The National Investment Development Agency (ANDI) plays a fundamental role in facilitating FDI.

The National Investment Council (CNI) is under the Prime Minister. All foreign investment projects as well as any Algerian investment exceeding 500 million Algerian Dinars (7 million USA) should be submitted to the CNI, for consideration and approval, so the CNI is the start point of any investors in case the amount is exceeding 7 million USD.

The National Investment Development Agency (ANDI) is placed under the authority of the Ministry of Industry and Promotion of Investment. It also has an important role in our study since it is the organism that helps the foreign investors to get all the incentives that the law of investment offers to investors in general and facilitation to start their investment projects. Moreover in case the investor's projects are in provinces (Wilaya) other than the capital, the one stop service as a decentralized institution of ANDI in six provinces will help them to make their investments without getting to the headquarters.

Information Sources:

The study gathered sources from many recent and previous studies. The main information for the legal framework and theoretical aspects are from a current law of investment (01-03 in 2001) that the Algerian government applied for FDI up to date version (sometimes there are many modifications concerning the law of investment that the government just mentions and modifies in the law of finance, for instance in the complementary law of finance for 2009). There are also many relevant materials and studies from other organizations about FDI in Algeria published recently from KPMG Algeria, as well as the aforementioned ANDI and CNI.

Additional Information is also collected from the websites of the Ministry of Finance, the Ministry of Industry and Promotion of Investment, and the Ministry of Foreign affairs-Algeria- .and also from a review of textbooks, well-known reports and published documents on FDI. The following databases where used to gather such important information concerning FDI: KDI school e-library, the official website for legal framework in Algeria (General Secretary of Government, www.joradp.dz), source from official websites of ANDI and KPMG, the International Monetary Fund (IMF) and the World Bank.

Information synthesis and Analysis

The objectives of the synthesis of literature are to understand the background, of FDI theories and implementation in Algeria, the government policy and implementation via all the institutions of promoting investment.

To analyze and study FDI policy in Algeria, the study will examine the literature on the current law of investment 01-03, and all the changes that have happened especially in 2006(when the law of investment 01-03 was amended and completed). Additionally the law of finance that brought some regulations concerning FDI especially in the field of incentives as a quick action made by the government will be reviewed. Furthermore, investment environment, incentives, ANDI implementation of benefits and the institutions in charge of promotion and governing the FDI will also take part in our study analysis, to have an overview of FDI policy and practice in Algeria.

The research states the effects of the current policy on the practice of FDI. Moreover, prospects of investments in Algeria, recommendations and lessons that can be learnt from neighboring countries (Egypt, Morocco, and Tunisia) and other countries are used as policy suggestions for promoting and attracting FDI in Algeria.

A quantitative study was also conducted by taking other countries data using three samples for comparison starting with neighboring countries that did well in the field of FDI (Egypt, Morocco, and Tunisia) and comparing them with the FDI performance in Algerian. The results from the comparison analysis will help to study if FDI in practice played a role in economic matters. On the other hand, the study takes South Korea as a sample of a developed country and assesses the FDI impacts on the process of development of this country.

The study uses a legal frame work that the Algerian government adopted in 2001, namely the law of investment (01-03) as an official government document. These government documents guide FDI environment, conditions and many things related to investment in general in Algeria. This research also uses official reports done by think-tanks focusing on the investment institutions in Algeria such as ANDI and KPMG. This gives more credibility to this study. Moreover, the study utilizes many policy recommendations to many countries in the field of FDI from the IMF, the World Bank and the United Nations Conference on Trade and Development to understand international practice and results during the recent years. The study thus achieved a depth of analysis on FDI in Algeria.

A diversity of valid and reliable studies and legal texts in our qualitative research are made, so a complete analysis via legal support to the current situation of FDI in Algeria can provide strong recommendations. The comparison studies gave us the chance to study about other countries successful stories in FDI and how they became strong elements in their economy. The results that we obtained via these methods will be discussed in the next chapter.

CHAPTER 3

CURRENT STATUS OF INBOUND FDI IN ALGERIA

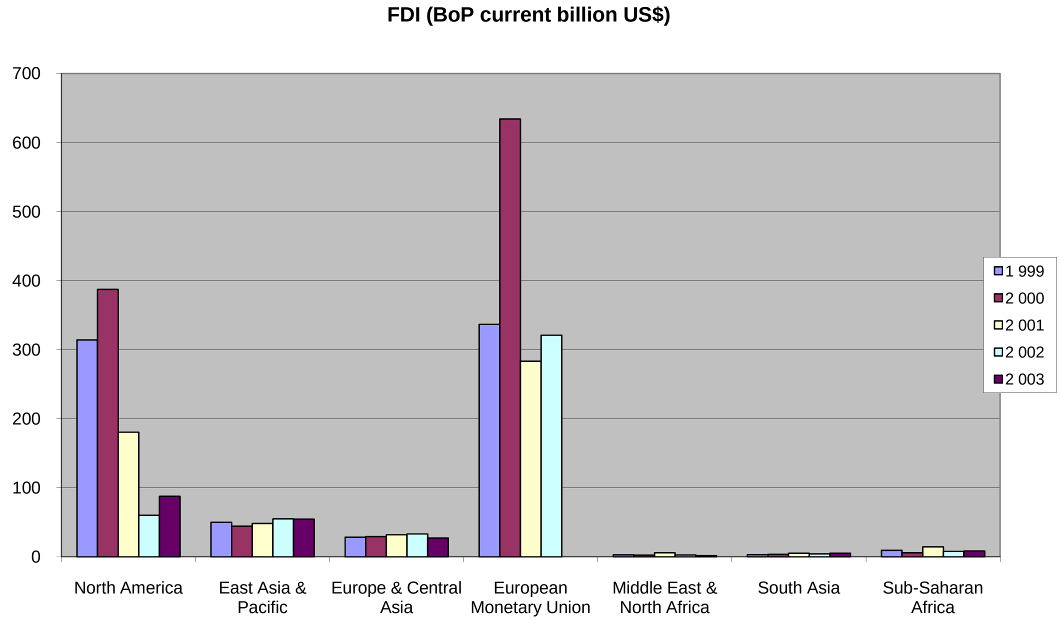
Dr. Supachai Panitchpakdi, Secretary-General of UNCTAD (UN Conference on Trade and Development), in introducing the report of the Organization (the World Investment Report 2005: Transnational Corporations and the Internationalization of R & D) stated "Intense competitive pressures in many industries are leading firms to explore new ways to improve their effectiveness." There is a clear signal that many of the developing countries were able to develop themselves and their infrastructure to increase ability to attract foreign investment to be competitive. In the case of Algeria, public investment was made in this field, especially in the period 2000 to 2009. With these words, the picture looks bright, beautiful and provides positive suggestions for a world where there is a bright prosperity, to the extent that developing countries can compete with developed countries to attract FDI.

So, in this chapter we focus on the role of FDI in economic growth in Algeria, and compare the neighboring countries' performance in that field. Also developed countries' policy towards FDI will be covered and recommendations drawn.

I. Competitor analysis and assessing the possibility of FDI in Algeria in comparison with other countries

FDI inflows to Algeria are mainly concentrated in a few industries, such as oil, gas, and mining. This is the same for other African countries like: Chad, Egypt, Equatorial Guinea, Nigeria and Sudan, and accounted for about 48% of inflows to the region (UNCTAD, 2006).

Figure 1: Foreign Direct Investment by region 1999-2003

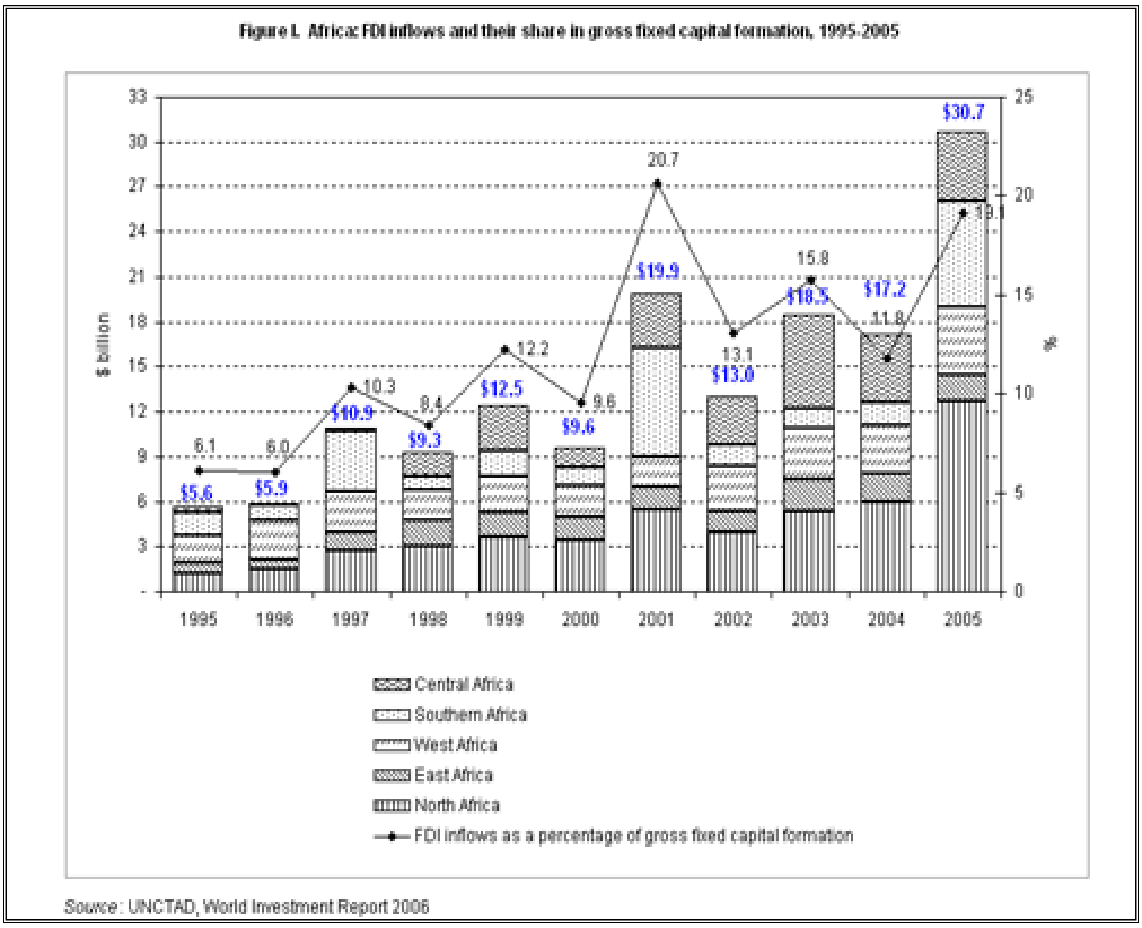


Source: UNCTAD (2006)

Thus the Algerian government makes a great public investment to promote the energy sector and mine, almost 80 billion dollars in 2008 allocated (Energy and Mining report, 2009), also a package of 63 billion dollars for the period 2008-2012 allocated to develop the National Hydrocarbons Company Sonatrach group's domestic and international activities.

According the World Investment Reports 2006, African countries are receiving a high portion of FDI inflows. For instance in 2005, 31 billion dollars were sent in.

Figure 2: Africa: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, World Investment Report 2006.

From the figure above, we can see that FDI is a major source of investment in Africa, as the shares FDI in the gross fixed capital increased in 2005 to 19% (UNCTAD, 2006).The top ten recipients of FDI are: South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, the Democratic Republic of Congo, Algeria, Tunisia and Chad , totaling 86% of the regional FDI.

The FDI inflow to North African countries, compared to Algerian performance, during the period 2004 and 2005 is shown in the table below:

Table 1: The FDI inflow to North African countries (millions of dollars)

Countries / years	2004	2005	Comparison (%)
Egypt	2,157	5,376	42.2
Morocco	1,070	2,933	23.0
Sudan	1,511	2,305	18.1
Algeria	882	1,081	8.5
Tunisia	639	782	6.1

Source: UNCTAD, World Investment Report 2006

From the table 2, compared to the neighboring countries, especially Morocco and Egypt, the FDI performance in Algeria is very low, even though its potential is rather high (KOICA, KIET, 2008) ,as shown in the table 3 below:

Table 2: FDI Performance and Potential Index Ranking in the World

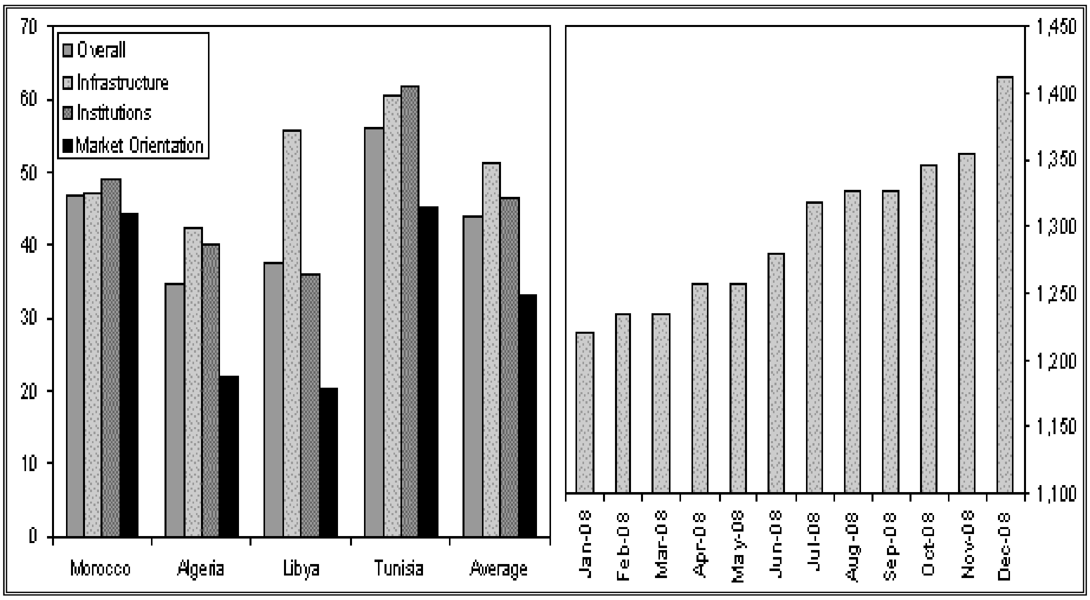
	Performance		Potential	
	2000	2005	2000	2005
Algeria	113	109	83	65
Egypt	105	66	70	81
Morocco	83	43	99	89
Tunisia	71	77	74	69

Source: UNCTAD, World Investment Report 2006

We can thus conclude that Algeria has a higher potential than the neighboring countries. However, the performances are lower. In the case of Egypt, the 2000 performance index was higher than Algeria even though the potential that Algeria had in 2000 was higher.

Recently the Algerian government as of July 29 has banned consumer loans (Law of Finance, 2009).In the same period a very important FDI project has been cancelled. It was one of the largest plans (outside of the oil sector) for an amount of between US$5 billion and US$20 billion over the next decade (Business Monitor International IMB, 2009). The Dubai property developer Emaar pulled out of a major real estate development project. The company's financial problems were most certainly a factor, due to the cancellation of consumer's loans.

. **Figure 3: North Africa Business Environment Ratings**

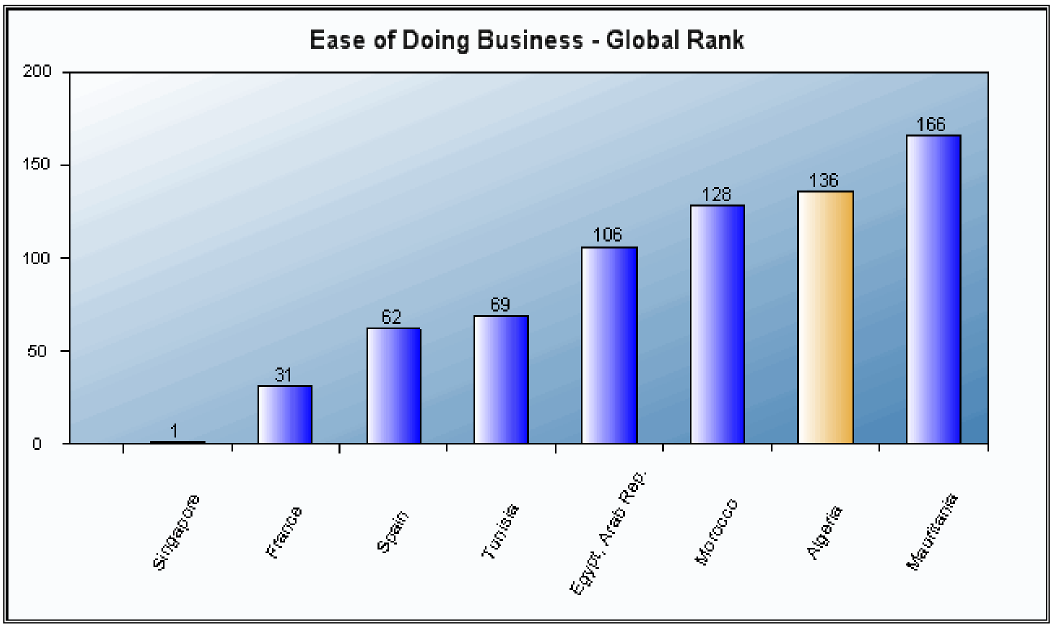


Source: Bank of Algeria

As the chart shows, Algeria compared unfavorably with its neighbors in the business environment: at just 34.8, the overall rating compared with other countries is even lower than that of Libya - the country which is only just emerging from decades of total economic isolation (IMB, 2009)

When we talk about ease of doing business in the country, as the figure below show, Algeria is ranked 136th out of 183 economies.

Figure 4: Algeria - Compared to global good practice economy as well as selected economies:



Source: The International Bank for Reconstruction and Development / the World Bank

To give a broad view, the table below will illustrate the regulations on starting a business in Algeria compared with accepted best practices and other economies.

Table 3: Starting a Business Regulation data for Algeria compared to good practice and comparator economies:

Good practices economies	Procedures (numbers)	Time (days)	Cost (% of income per capita)	Min. capital(% of income per capita)
Denmark			*0.0*	
New Zealand	*1*	*1*		*0.0*
Selected Economy				
Algeria	14	24	12.1	31.0
Comparator Economies				
Egypt, Arab Rep.	*6*	*7*	*16.1*	*0.0*
France	*5*	*7*	*0.9*	*0.0*
Mauritania	*9*	*19*	*34.7*	*450.4*
Morocco	*6*	*12*	*16.1*	*11.8*
Spain	*10*	*47*	*15*	*12.8*
Tunisia	*10*	*11*	*5.7*	*0.0*

Source: The International Bank for Reconstruction and Development / the World Bank, 2009.

The table above shows the difference between countries to start a business in case of regulations. This comparison resulted that Algeria is not in a good ranking position compared with best practices and other economies. For e example, the time in starting business regulations in Algeria is 24 days. However, in Mauritania it is just 19 days. This is particularly disturbing as other indicators show that Algeria is doing well compared with Mauritania For instance, the Min. capital (% of income per capita) for Mauritania is almost 451%, and in Algeria just 31%.

II. Facts and impacts of FDI in Algeria

II.1 Inflow and outflow of investments in Africa

Annex 3 shows FDI situations in all Africans countries from 2002 to 2007 (USD millions), according to the report of UNCTAD about the reality of foreign investment in developing countries in different continents, along with the sources of these investments. The facts about FDI in developing countries showed that the flow of foreign direct investment globally in 2004 rose to $ 648 billion, reflecting an increase of 2 percent from what it was in 2003. However, the global figure masks diverging trends. Flows to developing countries rose 40 percent to reach $ 233 billion - the second highest level ever recorded - while developed countries saw a decline of flows directed to them by 14 percent to fall to 380 billion dollars. So in 2004 about 36 percent of all foreign direct investment inflows were to developing countries.

Additionally, as shown in the table in the annex 3, FDI inflow to African countries increased to reach 52 982USD million in 2007 and Algeria portion from that is just 1665 USD million in percentage 5.10%, decreased in comparison with 6.30% in 2006. However, when you get to Egypt there was 11578 USD million, an increase of42.70% from 2006.

II.2 the impacts of FDI in Algeria:

In general there are many benefits that the hosts countries and investors would get from FDI. This table shows this:

Table 4: The Benefits of FDI

To Host Country	To Investor
Capital for investment	Extension of market
Foreign exchange	Higher ROCE
Employment	Access to skilled labor
Technology	Reduced transport costs
Training	Lower production costs
Increase in demand	Acquisition
Tax Revenue	Regional management base
Exports	Regional production base

Source: lecture FDI inbound and outbound, KDI School 2009.

We can make benefits for FDI for the countries as well as for TNC in this diagram

FDI

↓

Transnational Corporation (TNC)

Benefits to

Consumers	Domestic competition	Government; workers, consumers and local investors	Local Distributors
Will Learn and create a party and new patterns of consumption and use of products. The development of special uses of goods	Generate enthusiasm to raise productivity and give more attention to development activities and innovation. Increased profit and the development of many sectors	1-Collection of taxes resulting from the development of exports and the development of infrastructure projects 2-the development of local skills and high wages. 3-Fall in product prices and high quality production	Learn the modern methods of production or the development of the old ways, also development of production capacity

Hermes and Lensink (1999), tried to set up that FDI has many channels which will make a positive externalities:

1- **Competition channel**: they said that when an increase the competition that will leads to increase in the productivity; so efficiency and investment in human and physical capital, and it will leads also to changes in the industrial structure towards more competitiveness (comparative advantage) so theses industries will make and have more export-oriented activities;
2- **Training channel**: the FDI inflow to the countries will train labor and give them more knowledge also will enhance their capacity in the management fields;
3- **Linkages channel** : FDI in the field of industry is often accompanied by the transfer of technology; that will happen within the foreign firms that enter the country;
4- **Demonstration channel:** like most experiences, the domestic firms try always to imitate the technologies that the foreign firms brought and used .

However, compared what said above, and compare that to the Algerian case we can see that, FDI has a negative aspects like:

1. In case of the **Training of local employment opportunities**, which is available when they work in branches of foreign companies and give them the skills using the latest modern technological methods of work. The people working in these branches can, in theory, transfer and use their skills and scientific knowledge, technical and administrative to national companies. However, in practice the

Algerian workers did not get that much from foreign companies, as an example in the field of oil and gas industries the engineers still from foreign countries.

2. **No transfers of technology:** since there is a greater competition and efficiency, the establishment of scientific relationships between foreign affiliates and local centers for scientific research and development can lead to the acquisition of these centers. Thus companies get the technology and methods of research (which could improve industry performance and service provision), so technology transfers would happen. However, as an example, since Algeria is primarily resource-based FDI, especially in the field of oil and gas investment, the reality shows partial technology transfer happened in to the country. Thus foreign companies still doing business in Algeria and exploiting the resources; due to the affiliate companies do not support global research and development activities in Algeria, and they concentrate of such activities in the main centers of these companies located in their own countries**.** The reasons for this include:
   - under the pretext of difficulties of coordination between research and development activities have been carried out, if not central,
   - As well as lack of skilled and specialized skills in Algeria,
   - The branches of these activities will lead to fragmentation of the labs, research labs and thus high cost of those investments will happen.
3. **No linkage effects:** many foreign affiliates in Algeria did not play a role in the forwards and backwards effects on industries, so the investments are built just in aspects of profits, without connections with other industries. As an example,

many oil investments focus just on refining industries, without moving for other Industries that could be created and likened to this industry.

After introducing the positive and negative effects of FDI in Algeria, the next step is lessons from many developed countries and recommendation to develop FDI in Algeria in all aspects.

III. Investment environment in Algeria

The report of the investment climate in the Arab countries in 2008 was issued by the Arab Institution for Investment Guarantee and Corporation. This report spoke about the positive developments in the situation of Algeria in this year. The economic developments highlighted the Algiers Stock Exchange values transmitted since 1998, creating a market for the values of the public treasury and the continuance of structural reforms by the program agreed upon with the IMF. However, while GDP recorded positive real growth of almost 3%, it was less than the last years by 2%. Monetary authorities have also been able to reduce the rate of inflation and stabilize exchange rates. In 2008, the volume of foreign investments inbound to Algeria reached 5.7 billion USD in percentage of 16.6 % total investments in Arab countries (Arab Institution for Investment Guarantee Corporation, 2008). FDI in the country mainly covers the construction and banking sectors, with branches of banks recently opened from Saudi Arabia, Jordan and France (Kuwait News Agency, 2008).

In addition to this, Algeria is still continuing its efforts to attract FDI by the intensification of seminars, visits to foreign and Arab countries, and the signing of a package of agreements for economic cooperation (bilateral agreements: annex1). This increase, and the positive nature of developments during the year, has resulted in a climate of stability and civil peace to eliminate the disturbances that have defined Algeria in the past.

According to ANDI 2008, Algeria has the qualifications and components to attract investment. This is agreed upon by KPMG, and proven in the current conducive investment climate. The fundamental elements that help this are the economic performance of Algeria from 2000 to 2009, the legislative framework, administrative organization, and the investment law (01-03), in addition to the capabilities of the country.

III.1 Economic performance:

Algeria has enjoyed several years of strong economic performance, but continues to face important challenges (IMF, April 2009), as indicated in the following:

Table 6: Economic performance of Algeria from 2002 to 2008

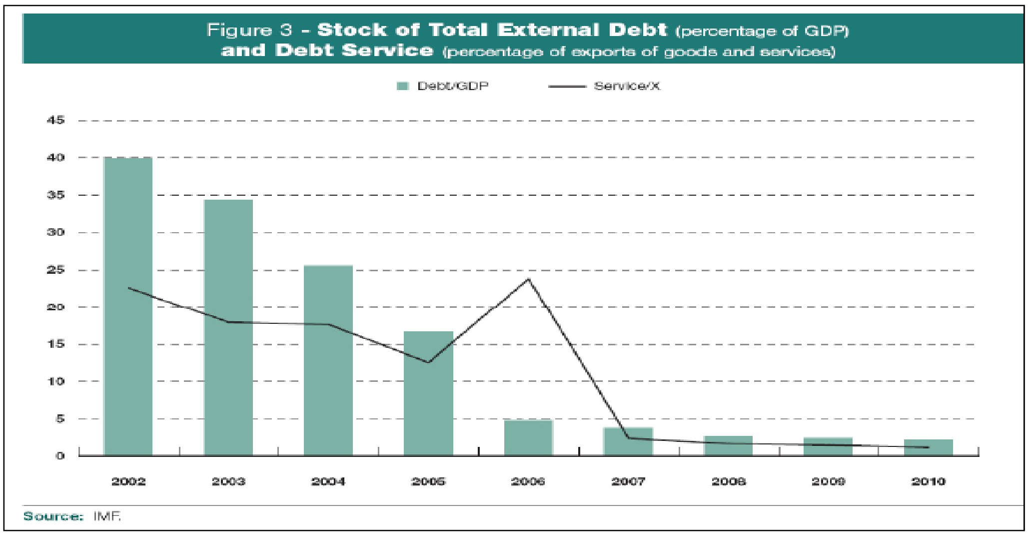
	Unit	2002	2003	2004	2005	2006	2007	2008
GDP	$Billion	55.9	68	85	102.7	116.8	225.1	232.9
GDP per capita (PPP)	$	1,788	1,800	3,500	6,600	6,600	6,700	6,900
Real Growth	%	4.1	6.8	5.2	5.1	2	3.1	3.5
Exports	%	18,710	24,460	32,220	46,380	55,346	60.6	78, 23
Imports	Millions	-12,010	-13,350	-17,950	-19,570	-25,880	26.4	39, 16
Current account	$Millions	4,360	8,810	11,120	21,720	25,880	34, 2	39, 07
Foreign reserves	$Billions	23.2	33.1	43.2	56.3	72.6	110.2	143.5
Exchange rate	AD: US$	79.68	77.39	72.06	73.28	72.93	63.25	72.50
Inflation	%	2.5	2.6	3.6	1.6	2.5	3.5	4.5

Source: International Monetary Fund (IMF), Report 2008.

The table shows that Algeria made great strides in economic reforms to get a good economic performance that encourages and attract investment. This has come about especially after reaching the desired results, such as restoring the balance of payments, exchange rate stability, the control of monetary expansion, decrease in the external debt to less than 5% of GDP after repaying its Paris and London Clubs debt in 2006 (as shown in the graph below), foreign trade liberalization, and price liberalization.

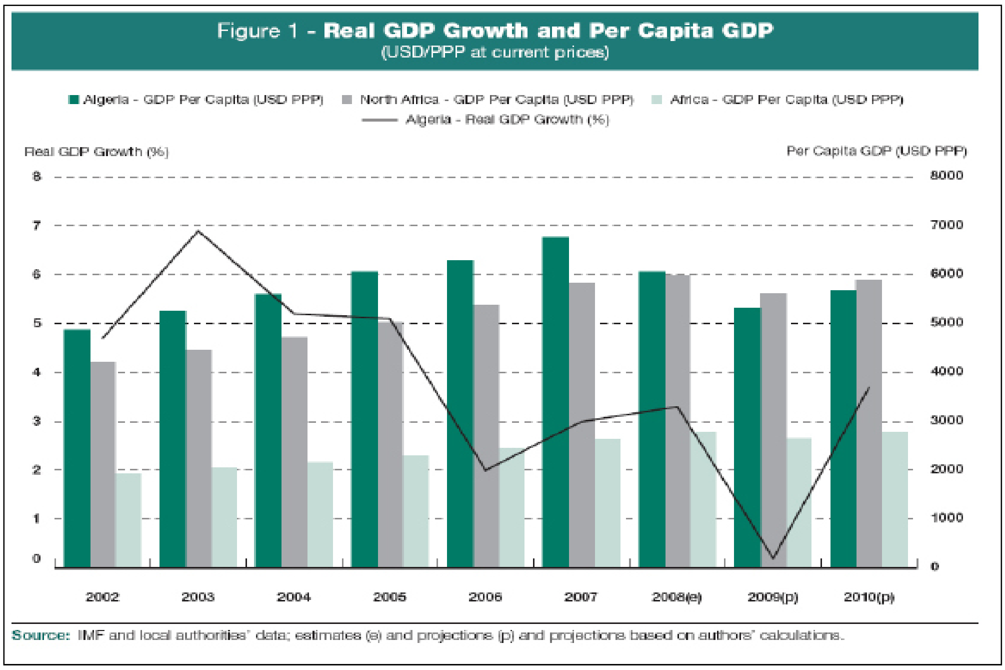
For more clarification, these two figures show this situation over the time period of 2002-2010:

Figure 5: Stock of total External Debt and Debt Service



Source: the African Economic outlook website.

Figure 6: Real GDO Growth and per Capita GDP



Source: the African Economic outlook website.

III.2 Legislative and administrative reforms:

The Algerian government has introduced various reforms and amendments to the legislation relating to investment regulations. In particular the government issued a special law that provides many incentives and guarantees, reconsidered tax and customs regulations, created social legislation relating to labor, and adopted the free zones for investments.

The main points of the law were to: ensure freedom of investment, without taking into account whether an investor is foreign or domestic, and to release the free transfer of profits and capital. However, the most important things are that Algeria has concluded agreements on are the following:

- Convention on the recognition and implementation the decisions of international arbitration, by the United Nations, the 10th of June,1958;
- Convention on the International Center for Settlement of Disputes between Investors and Host countries by the International Centre for Settlement of Investment Disputes (ICSID) on the 30th of October,1995.
- Convention on the Multilateral Agency to Ensure Investments on the 30th of October, 1995.
- Convention Moroccan Arabic to ensure investments by the Union of Arab Maghreb sour Promotion and Guarantee of Investments on the 23 of July 1990.

III.3 Algerian Qualifications:

Why Algeria? Algeria has a lot of special qualifications and competitive elements, especially concerning its excellent geographical location. Algeria mediates the Maghreb countries and while in the vicinity of the Western European countries, represents the entrance to other African countries. Additionally, the country boasts a wealth of human resources, since the majority of the population is made up of highly qualified young generations, with almost 8 million students in high and secondary school from 2006 to 2007 (Algeria-Statistics, Ministry of Foreign Affairs).

Algeria also has a major manufacturing base (Annex 2) that is in need of investments in order to increase production and add to the efficiency of the domestic market and exports. In addition, the country has a variety of natural resources, the most important of which are the reserves of oil, gas and minerals (Crude oil -3rd in Africa, Natural gas -2nd in Africa).

Other qualifications of growth for Algeria are:

- **Growing local Market:**

The Algerian population are 35 million in 2009(CIA World Fact book, 2009), making a large consumption of manufactured materials and processing materials. For example, the percentage of imports in 2008 amounted to approximately $ 35 billion USD.

- **Good infrastructure:**

According to ANDI 2008, Algeria has a relatively sophisticated infrastructure which helps to attract investment, including a network of roads in length of about 111 thousand kilometers; there are 4 thousand kilometers of railways. It has 42 multiservice ports; including two for hydrocarbon exportation provide various types of services and can receive all types of goods, in addition to this there are 34 Airports, including 13 international airports (Algeria-Statistics, Ministry of Foreign Affairs).

- **Human resources:**

An educated workforce is available at very competitive costs: there is 97 % enrollment of the Algerian population at the appropriate age of training each year (ANDI, 2009), including:

- 7 000 000 enrolled in college;
- + 900 000 enrolled in the university;
- + 450 000 enrolled in vocational training

Education and Human resources is a crucial policy tool for the economic growth, especially in the 21st century reverse direction from education, training to the industrial development , since a talented people play a key role in emerging new industries, nurturing them with education/training to industrial development draws policy maker's attention.

As a results education/ training system should be redesigned in order to meet increasing demand for qualified workforce with economic development, thus building the demand oriented education/training system that supply workers who equipped the right a skill that industry needs is one of the most important tasks for sustainable economic growth.

III.4 Assessment of the investment climate in Algeria:

The diagnosis of the characteristics of the investment environment in Algeria allows for delineating the strengths and weaknesses in aspects of the investment climate:

1. Strengths

1) Algeria has the qualifications of natural resources, also in terms of the convenient geographical location, and wealth regarded as esoteric, in addition to a big market(as explained above);
2) Strong political will to promote investment climate and rehabilitation according to the requirements to attract national and foreign investors, can be seen from several aspects (the legislative side, the fight against corruption, the provision of appropriate infrastructure, the conclusion of many international agreements ... etc);
3) The legal system is very motivating, containing the most important guarantees, incentives and facilities desired by the investors.

4) The recent rehabilitation of major infrastructure, and expanded with the program for Economic Recovery (2001-2004) and the programs of Support of Growth (2005-2009), besides a new program of development (2010 -2014).

5) Great stability on the political side, and strong aggregate indicators of the economy.

2. Impediments to investment in Algeria

Despite the positive aspects mentioned above, which refers to the significant improvement in the investment environment known in Algeria, some obstacles still exist. These constraints are:

1. Complexity of the administrative system, especially in terms of the spread of bureaucracy and overlapping of the jurisdictions;
2. The spread of the manifestations of corruption and bribery in the mediation, favoritism and intolerance, despite efforts made to combat this problems;
3. One of the constraints is also problematic in terms of manpower based on the level of decision-making and execution sites, where no mentalities evolve in line with global developments taking place. This is confirmed by the UNCTAD report for the year 2000, through research in the field of the factors motivating the individual for foreign investment in Africa The results show that humans are the the most important factors for implementation, which was usually a reflection of suspicious transactions, immoral activities for administrators , and supervisors of the managers.

4. Funding constraints such as high interest rates, the inadequacy of the market, and the lack of specialized financing programs, in addition to cost constraints inherent to the high costs of production, also the marketing constraints;
5. Significant delays in some fields of economic transformation, compared to the region, due to the slowdown in the delivery of some reforms. This was primarily in the processes of privatization, as an example; in the banking sector, first partial privatization of a state-owned bank was postponed back in December 2007, and has yet to take place (BMI, 2009).
6. The private sector did not perform significantly, and thus remained confined in the form of small, medium and micro enterprises, in spite of its growing contribution to national value added;
7. All sectors in Algeria suffer from major obstacles preventing the flow of foreign investments, as an example:

   - under developed real estate system, which hampers access to appropriate land for investment.;

   - The educational system out candidates who do not fit with the competence needs of investors;

   -The banking system, the administrative bureaucracy and poor transparency, which extends the time limits and slows down decisions.

So, after introducing FDI status quo in Algeria and the main obstacles that Algeria suffers from, even though all the positive aspects. In the next chapter we will try to understand the Algerian policy in field of FDI, which will lead us to have lessons and recommendation.

CHAPTER 4

FDI POLICY IN ALGERIA, AND RECOMMENDATIONS

In this chapter we will talk about the recent policy that Algeria adopted since 2001, by the law of investment 01-03 of 28 August 2001 (amended and supported by the law 06-08) that codify the rules applicable to the domestic and foreign investment.

I. The legal framework for investments in Algeria:

The Algerian government has taken in consideration the issue of FDI since independence, through a series of successive laws that were compatible with the nature of the stage and the economic situation. However, the country was changed by the economic transformations occurred in beginning of the nineties and openness to foreign and domestic capital, and also the transition to a market economy ,the reforms adopted by the bulk of economic institutions and Finance. The results of this entire situation make the government seek a legal formula in accordance with the transitional phase and global developments. So this study will try to address the evolution of laws of investment in Algeria through three steps:

I.1 Law of cash and loan No. 90-10, April 14th, 1990;

I.2 Legislative Decree No. 93-12 on the promotion of investments;

I.3 Ordinance No. 01-03 on the development of investment (amended and supplemented by ordinance 06-08 on the development of investment)

I.1 Law of Cash and Loan No. 90-10:

Law No. 90-10 on the Cash and Loan was enacted as a new organization to deal with foreign investment at the Bank of Algeria. The law has been assigned the task of the loans to make decisions that match the projects of investments submitted. It helped also to edit the abolition of foreign investment law 82-13 and 83-13 that introduce a legal alteration which measures segregation (since they was determining the proportion of mixed company's according to the capital base (51% and 49%) under market systems of exchange and capital movement).

The law 90-10 introduced a set of principles which are:

A- Freedom of investment in Algeria in exception to the areas allocated to the state or the affiliate as well as determining the conditions of the intervention of private capital.

B- Freedom to transfer capital funds after approval of the Bank of Algeria;

C- Simplify the process of admission to investment subject to conformity with the opinion request to the Monetary Council and the loan to broadcast in the file within two months with the possibility of recourse in case of refusal before the Administrative Chamber of the Court (according to article 50 of Law 90-10).

A- The impact of law 90-10 on FDI in Algeria:

Resulting from the opening of Algeria to the outside world, many reforms were pursued; the market economy followed and the country witnessed the emergence of the Law 90-10 on Cash and Loans, under which the reform of the financial and banking system occurred. Results were also seen in the creation of the Council of Cash and

Loans to study the requests of foreign investors, which in 1992 endorsed many projects, including:

- "PEUGEOT" French Cars, it was the second company after Italian company "FIAT";
- Held firm "DAEWOO" to South Korea for the installation of cars and buses, but this investment has been done and limited to only sell cars;
- A joint venture between Algeria and Switzerland to complete the composite of petrochemical industries.

I.2 Legislative Decree No. 93-12 on the promotion of investments:

The Legislative Decree No. 93-12 was enacted on October 5, 1993 on the premise that promotion of investments was the will of the state in the economic opening and investment promotion policy. Its philosophy is based on many principles: freedom of investment, diversity of investments, and equality of foreigners and local investors in making investments.

According to the article 49 in Legislative Decree 93-12, the law repealed all previous provisions, especially those relating to:

- Law No. 82-13 of August 28 ,1982, on the establishment of mixed companies and the economy functioning, amended and complementary;
- Law No. 88-25 of July 12, 1988 , on the orientation of National Economic Investment;
- The second paragraph of Articles 183 and t 184 of Law 90-10 of April 14, 1990 concerning Cash and Loan.

However, in the context of the economic transformations of the past five years and identifying future work on development programs, the comprehensive reform of economic and financial institutions will be proudly supported. Through the laws mentioned above, the state initiated significant reforms in all aspects, in order to monitor $ 55 billion as a five years program of development till the end of 2009. Algeria thus was publicly looking for a partnership with the EU and to join the WTO (the World Trade Organization).

All these movements must be made for Algeria to create and match its economic, social and legal frameworks to ensure economic development especially in the area of investments.

Due to the challenges and all the reasons mentioned previously, the government issued the Presidential Order No. 01-03 on August 20th, 2001 on the development of investment which is consistent with the direction of the Algerian reality of investment and support investors, and also future prospects on the basis of a change and progress.

I.3 Ordinance number 01-03 on the development of investment

The presidential order 01-03, in its context has many new articles for arranging investment in Algeria. Through this we examine the law or presidential order, on some of the most important points:

1. Cancel all previous provisions contrary to this order 01-03, especially those relating to Legislative Decree No. 93-12 of October 1993. With the exception of laws relating to hydrocarbons (Article 35 of Ordinance 01-03 of 20 August 2001, on the development of investment - an official journal - No. 47) ,under this article it has been canceled:

- Privileges, guarantees and aid given to foreign investors which was introduced by the Legislative Decree No. 93-12;
- The systems division by region (special areas, free zones. Grand South. The second-tier of the South) in the Legislative Decree No. 93-12.

2. A new definitions of investment according to the article 2 of the ordinance No. 01-03 ,is intended to include:
    - Acquisition of assets falls under the development of new activities, or expansion of production capacities, rehabilitation or restructuring;
    - To contribute to the company capital in the form of cash or in assets;
    - Restore the activities in the framework of partial privatization or full.
3. Freedom of investment , taking into account legislation and regulation of the regulated activities(article 5);
4. The principle of non-discrimination national and foreign corporations in rights and duties related to investment(article 14);
5. The law 01-03 set the investment in productive activities of goods and services, as well as investments in the framework of the concession and license(article 1);
6. Observed in 01-03 that it increased incentives ,concessions to private investors , increase tax incentives , quasi-fiscal and customs(article 9);
7. Division of the system of granting incentives and privileges to two systems: the general and exceptional regime (article 94).
8. According to the article 28, the law establish a fund to support investment in the form of a Special Account (in the budget of state), the Fund support and ensure participation of the government in the cost of benefits granted to the investment

and expenditure, notably the works entitled the basic facilities necessary to accomplish the investment, in this case the National Council for Investment determine the national agenda of investment expenditures that can be entered in this account.

The ordinance 01-03 has many advantages towards foreign investors that provide them with all the incentives and good climate to invest. However, the day to day application the bureaucracy of the institutions in charge of applying those regulations makes make many investors claims about that inefficiency of that ordinance.

II. Investment incentives

When investments provide more benefits to the National Economy, they can be considered to be given the most significant grants. These benefits vary according to the location and type of investment. The ordinance 01-03 sets the regime applicable to domestic and foreign investments implemented as a part of economic activities (KPMG, 2009), for that the law of investment divides these incentives for three types of regimes:

- **“The general scheme** mainly current investment projects, that they have a location outside the areas to be developed;
- **The scheme for areas to be developed** (or exceptional) the current investment projects that located within the areas to be developed;
- **The investment agreement scheme** concerns the investment projects which pose a particular interest for the national economy”(Ministry of Industry and Promotion of investment).

II.1 Benefits granted under the general scheme:

Since 2006, all the investment projects are granted these benefits except for the following exclusions as **listed in the Executive Degree N.07-08 of** January 11, 2007:

- Trading and distributions activities;
- Activities not eligible to registration within the trade registry;
- Activities that fall outside the application of the ordinance N. 01-03;
- Activities that have an own incentive scheme;
- Used goods.

In case that the investment is not excluded from incentives under the general scheme, we can divide incentives according to two phases:

Project setup phase: These incentives introduced:

- Value Added Tax (VAT) exemption on non-excluded goods and services that contribute to the implementations of the investments;
- Customs duties exemption of imported equipment, help to start the investments;
- Exemption of property transfer duty on real estate acquisitions

In case of execution or operating phase:

After confirmation that the investments are in operation, other incentives are given within this phase, including: three years exemption from the Tax on Company Profit (TCP), and Professional Activity Tax (PAT).

II.2 The scheme for areas to be developed: The laws of investments again consider the incentives in two phases:

Phase of the project setup

- Exemption from :Value added Tax, customs rights, transfer duty on real estate acquisitions
- Registration fee at reduced rate (0) for the constituent acts and capital increases,
- The possibility for partial or total support by state expenditures related to work infrastructure necessary to achieve the investment.

Phase of execution

- Ten-years exemption from the Tax on Company Profit (TCP),Professional Activity Tax (PAT) and the Land Tax (LT);

Possibility of granting additional benefits (report deficits and depreciation periods).

II.3 Benefits granted under the scheme of the investment agreement:

In case of special importance of the investment projects that will bring benefits to the national economy, ANDI made an agreement with the investors offering certain special incentives:

"With regards to the investment phase, in set up the projects; incomplete list of incentives, namely including customs duties, VAT and registration fee exemptions for a maximum 5 years, as for operating phase, exemption from TCP, PAT among other benefits could be considered for a period not exceeding 10 years"(KPMG,2009) .

III. Implementation of benefits and the institutions governing investment promotion

The benefits that the investors get from different schemes take effect on the date of registration of the projects with the National Trade Registry in the case of the implementation phase. However, if there is implementation made within one year, the decision for getting incentives will not be considered. Following the project set up, and if the investors can further get the incentive for operating phase, investors are entitled to request the ANDI's grant benefits in this phase.

Institutions mainly involved in investment in Algeria:

IV.1 the National Investment Council (CNI):

The council is under the authority of Head of Government, and has nine members from other ministries that involves in economic issues. However, it is the responsibility of the Ministry of Industry and Promotion of Investments. The council has many missions:

In case of mandating role, there are a few main tasks:

"The CNI:

- Proposes a strategy and sets the priorities for developing investment;
- Proposes adapting investment incentive to reflect observed changes;
- Proposes any decision and measure necessary for implementing investment and promotional mechanisms to the Governments;
- Studies and proposal pertaining to the establishment of new benefits".(KPMG,2009).

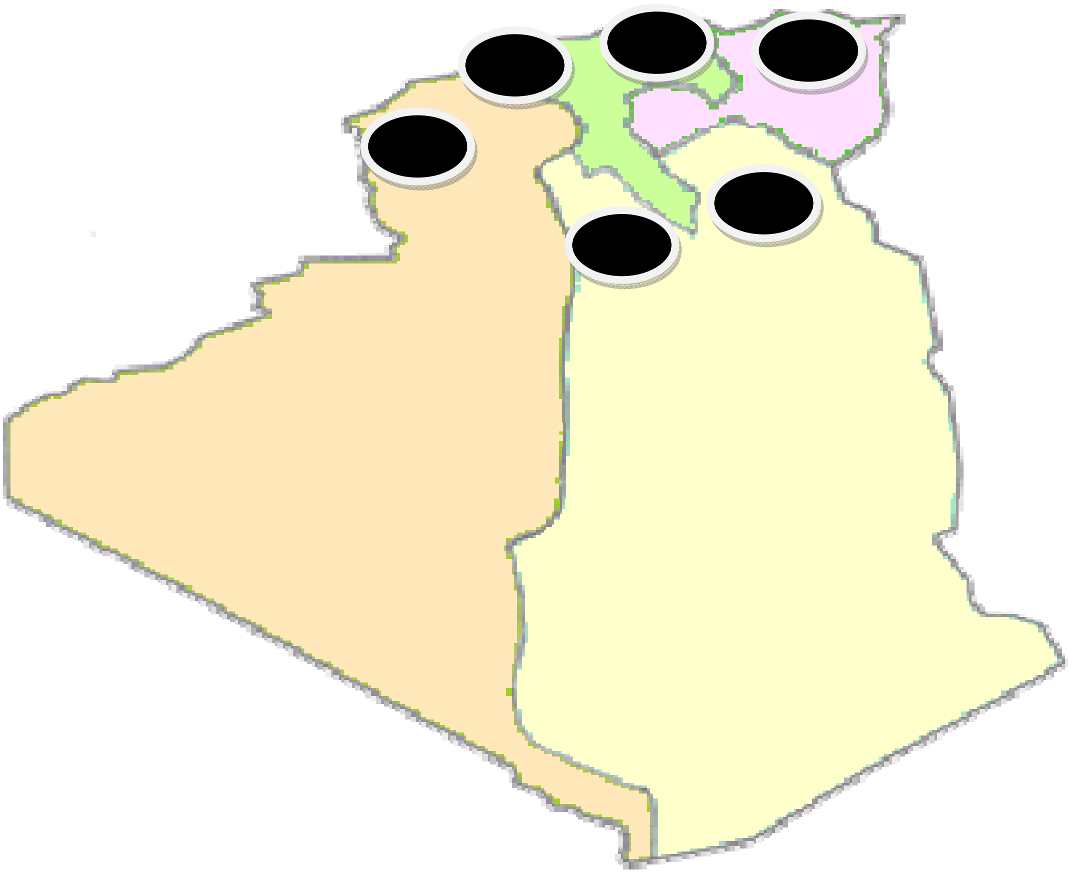
In regards to the decisions: according to KPMG reports in 2009, the decisions that CNI take are:

- Approval of the list of activities and assets that do not qualify for benefits, as well as modification and updates;
- Approval of the criteria that used to identify the projects bearing special importance for the national economy;
- Establishing the list of expenditures likely to be charged to the fund devoted to investment support and promotion;
- Determine the zones that likely to benefits from the special regime.

IV.2 the National Investment Development Agency (ANDI):

ANDI has a legal status and financial autonomy, and is nder the authority of the Ministry of Industry and Promotion of Investments. According to the importance of ANDI; it has many missions to achieve the role given to it. The ANDI is responsible for: providing information to investors, facilitating the procedures for investors, making a promotion of investments in all fields and sectors, assisting investors in all the phases, and identifying the special investment that will bring a special benefit to the national economy.

The one stop services (the local representative of ANDI), in 6 provinces make the investment procedures easily and rapidly accessible to investors.



The one stop services in Algerian map (ANDI, 2009)

This map shows the efforts made by the government via the ANDI to facilitate investment in all Algerian territories. More one stop services will be adopted in other provinces in beginning of 2010.

IV. New measures which governs FDI in Algeria

The complementary law of finance for 2009 introduced new measures that concern the law of investment N° 01-03 of 20th of august, 2001 relating to investment development:

Measures relating to the conditions to obtain the advantages: Many modifications to the law of investment happened in this field:

Article 60 of CLF 2009 identified new measures concerning essentially the advantages of the general scheme. The set up of the project will be granted after a written commitment of the investor, according to a rate fixed through regulatory means. Moreover, preference to the purchases of Algerian origin goods and services is necessary. As a result, the exemption from VAT for the goods that are necessary for the investment in this phase are granted only for the purchases of Algerian goods, except if there is no similar Algerian goods or service.

Article 35 concerns the general scheme, in the phase of exploitation hereafter granted to investment projects, in case the project will create more than 100 jobs.

In Article 61, all the investment convention under the derogatory scheme may enjoy exemption or reduction of rights or taxes for a period of 5 years, by the decision of the National Council of Investment. This includes the VAT, putting a strain on the prices of goods produced by the investment entering in the frame of the new industrial activities (CLF, 2009).

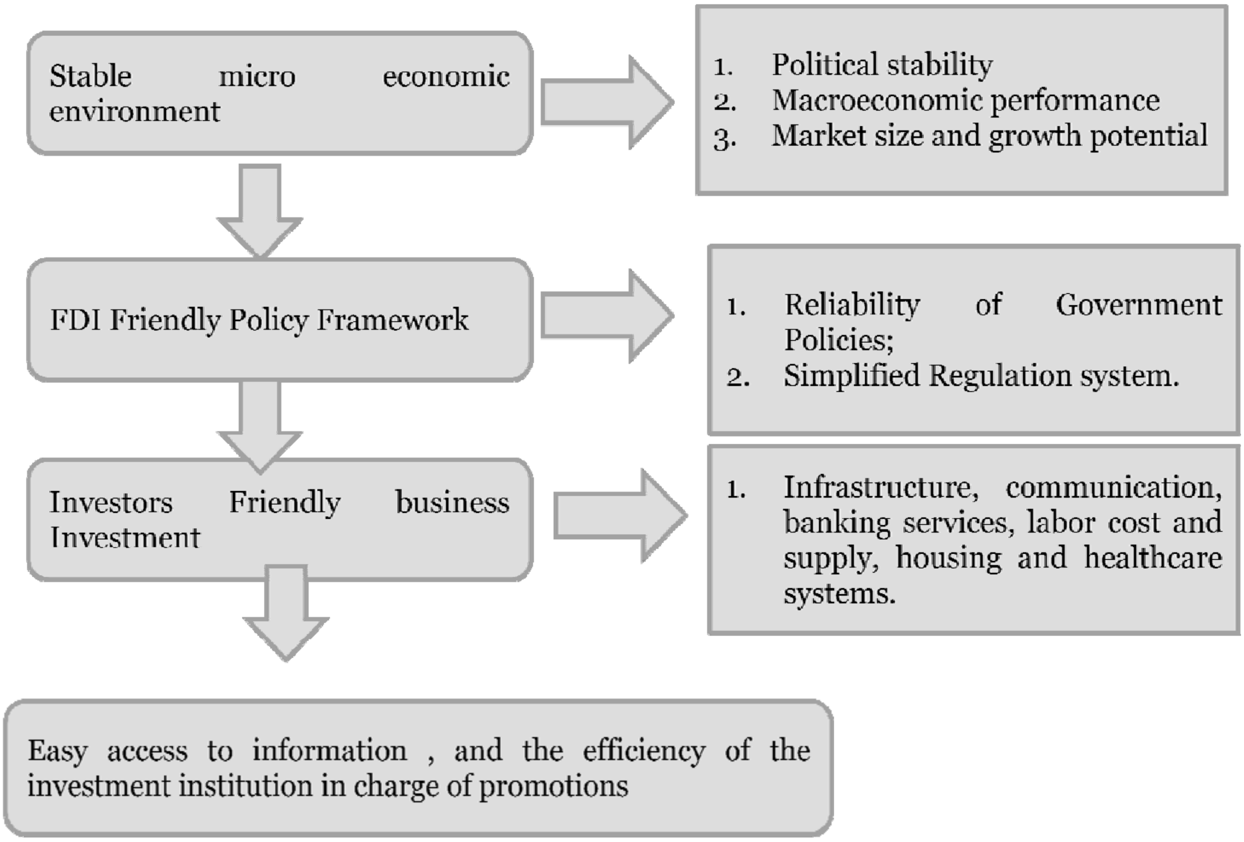
Concerning FDI, a few articles included changes in the performance of this investments initiated by foreigners. According to Article 53, any foreign investment must be in partnership with national investors, public or private (who must own 51% of the capital of the company). In addition, article 58 declared that before the set up of these investment, it must be declared at the National Agency of Investment Development and submitted to the National Council of Investment. Additionally, the foreign investments must present an active currency balance to the benefit of Algeria during all their life (article 58 CLF, 2009).

The Algerian governments with these new measures make the inflow of FDI to the country more difficult, so many countries likes France: the Secretary of State and Commerce, Mr.Hervé Novelli said that Algeria by these new measures introduced in the complementary law of finance 2009, is taking the wrong way for attracting FDI.

V. Lessons and Policy recommendations

Algeria has all the advantage to attract the FDI to the country. However, the facts shows that FDI inflow to the country is not really countable compared to all the qualification and the government efforts to build a good climate. So to improve the situation many recommendations will be concluded in this chapter.

In KOICA and KIET report, the Algerian government should follow certain steps to promote the investment in Algeria:



Thus, Algeria in the first stage should try to stabilize the Marco economic environments, especially the political stability (since many investors withdraw their investment in the period of 1990, due to the civil war that made Algeria as a risky country). In this aspect, the government tried many measures to bring back the situation to the safe stage: the act of peace from 2006 that bring the country to safe situation again.

The government should have more FDI policies that formulated within the objective of the programs of development and industrial plans that Algeria are considering in the future, that will help to create more technology transfer to the domestic firms.

Algeria has many procedures to approve and give the permit of advantages to foreign investors, according to the report doing business of the World Bank, 2009, Algeria considered among the countries that has the lengthiest approval system, compared with good practice in developed countries, and even among the developing countries, that due to the bureaucratic that the public institution in Algeria is characterized, also corruption that make a bad effects. In that aspects Algeria need an automatic approval system to facilitate and avoid that heavy bureaucracy and corruption. As a benchmarking country, South Korea, once the foreign investors has an intention to invest in Korea, they are automatically approved (KOICA, KIET, 2008).

Strengthen the anti corruption institution, more penalties to those who involve in such activities, especially towards foreign investors, as a result , a trust to the country and the organizations in charge of investment.

Algeria has created Investment Promotion Agency (ANDI) that focus on: (i) image building of the country in the field of invstemenent , (ii) investor servicing and make facilitation, (iii) investment generation and targeting, and (iv) encouragement for a better investment climate. In spite of some success stories that the agency did , ANDI still encounter difficulties in changing the perceptions of investors or influencing policy-making.

Ideally ANDI should be well placed and has the authority to provide feedback to government policy-makers. So make it in a position to act as effective organe for changing especailly the regulatory framework, and for introducing investment-friendly legislation and policies that the ministry of promotion and invstement now is in charge.

Algeria should take in conisdertaion what the others countries did in the field of FDI, so as a first stage, the neigboring countries should be as a benchmarking for better performance. As an example Egypt, in the report of the World Bank in 2007 is considered number one reformers in the business Environment (KOICA, KIET, 2008).

In the report of the world bank in 2009,doing businesss 2010 in Algeria, they showed how the numbers of reforms that the governmnet made, and which one has a positive and negative aspects to develop the invstemenet environmenet "Algeria introduced regulations to better administer the construction permit process and ensure the safe, timely completion of construction projects. Contract enforcement was improved with a new code of civil procedures that reduces time and eliminates procedures. The courts are being fully computerized, including with an electronic case register and case management software. The corporate income tax rate was cut from 25 percent to 19 percent for tourism, construction and public works, and production of goods. Finally, property registration has been made easier and less costly by reducing the notary fee by 0.39 percent of the property's value and eliminating the capital gains tax" (the World Bank, 2009).

In the field of infrastructure that plays a role in attarcting FDI especaily in the recent years. Algeria in the investment program priority should be given to modernizing existing network infrastructure and facilities((world Bank , 2007)

Algeria should attract a FDI that can bring a technology transfer to the country, especially in the field of oil and gas industries, that will help in the future, Algeria will lead this industries with the country human resources and no need for foreign companies, thus to minimize the bad effects of FDI that mentioned above, moreover try to link that FDI with the industrial policy, and the contract with the foreign companies should be introduced for the transfer of technology step by step also train the Algerian labor to use it.

CHAPTER 5

SUMMARY AND CONCLUSION

During the previous study, despite the privileges and vast guarantees that the Algerian investment code provide to foreign and domestic investors, but the volume of foreign private investments registered in the country was not in any way commensurate with the level of ambitions, in the indicators of foreign direct investment was very far from what was expected, from behind the expansion in the granting of incentives and facilities.
The size is nowhere near the level of access investment opportunities that are available to the country's economy this is what happens upon the data by the central bank about the value of foreign direct investment.

While these observations are not specific to Algeria only, but it is more acute for the rest of African countries that did not seem to investment incentives where only a limited ability to sterilize foreign direct investment, that was due to the willingness of foreign investors .The volumes does not depend on the size of the privileges and exemptions granted to them, but was due primarily to the availability of an appropriate investment climate, which the exemptions and guarantees does not play a vital role there to be the only factor that attract FDI to the country.

It is known that the investment climate is made up of elements: economic and political. The former is the political stability and security, is in legal and judicial system effectively that protect investors from arbitrary actions and can quickly took advantage of his rights, in addition to the administrative bureaucracy and hindering the work as a large foreign investor must also the availability of social culture fit with the culture, the economic factors include the macro-economic policy, especially with regard to inflation rates, exchange rates and interest rates, laws on freedom of conversion of profits and capital abroad and the liberalization of market, price-fixing system, the reduction of state intervention to influence the conditions of competition, in addition to another very important element in this area is the extent of providing a strong and modern infrastructure of various components.

Algeria has been concerned for some time to provide some elements of the investment climate, where it took such actions as political openness, implementation of economic reforms and large-scale structures ,huge public investment in infrastructure, but these actions - not what get through the study - The time limit does not succeed in attracting more of the forms FDI except the based natural resources, but what happened is the decline in the level of those investments, the thing that has happened in many developing countries that have taken similar action, and get out here following results:

1.The legal guarantees for investment, so the legal protection to the investors money is not an incentive to them so far , and an expansion in the granting of legal guarantees is ineffective in many developing countries, including Algeria, so now the continuing foreign investors they are not looking to just provide him protection to their money but looking primarily from the conditions that guarantee it to achieve more profits, and that can only be achieved by providing a minimum element of a favorable investment climate;

2. For countries seeking to attract foreign investment to operate, foremost providing the appropriate investment climate, instead of going too far in granting exemptions and different facilities, otherwise, their efforts in attracting foreign investment will remain limited in the effectiveness , so will continue to fall short of responding to the conditions of competition in the world of the raging compete for FDI, something that is well understood by Algerian government, that without foreign investment the country cannot get out of the problems especially unemployment and pull it out of the problems that now afflict the foreign investments in economic development, the FDI also assisted in the accumulation of capital, the creation of jobs, and raising the standard of living for the populations by improving its purchasing power and changing the pattern of living.

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1. Ordonnance 06-08 du 15 Juillet 2006 Modifiant et complétant l'ordonnance n° 01-03 du 20 août 2001**,** *relative au développement de l'investissement,*

2. Règlement 05-03 du 06 Juin 2005 , *Relatif aux investissements étrangers.*

3. Loi 06-11 du 24 Juin 2006, *Relative à la société de capital investissement*.

Annexes:

Annex1:

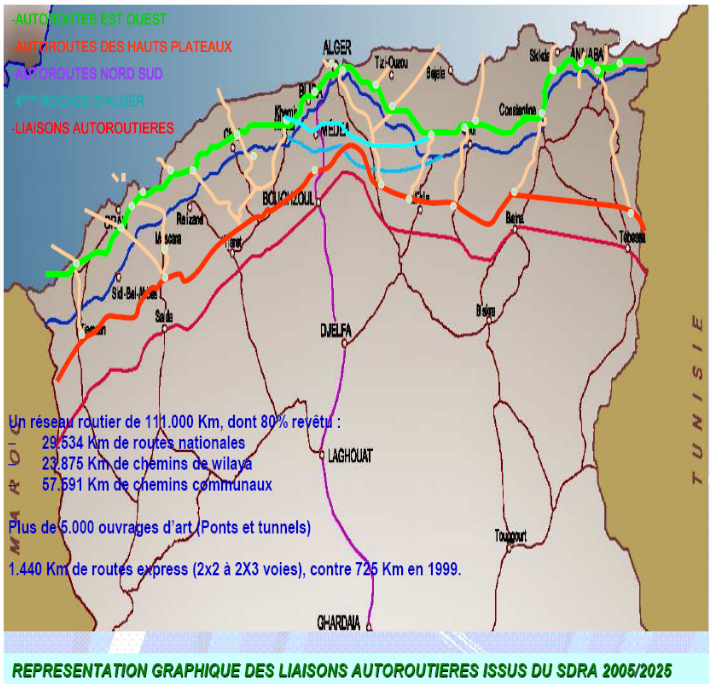
Source: Ministry of the Algerian Foreign affairs.

PAYS	*DATE ET SIGNATURE*	*DECRET-PUB*	*REFERENCE J.O*
Ethiopie	***08/06/1981***	***82/459***	***82/53***
Espagne	***07/04/1965***		***66/103***
Argentine	***12/04/1983***	***84/54***	***84/10***
Jordanie	***19/05/1997***	***98/252***	***98/58***
Albanie	***04/04/1964***	***64/231***	***64/66***
Albanie	***13/07/1981***	***82/445***	***82/51***
Brésil	***03/061981***	***82/448***	***82/51***
Portugal	***16/10/1976***	***78/101***	***78/19***
Bénin	***15/04/1976***	***76/59***	***76/68***
Pérou	***15/08/1973***	***74/36***	***74/39***
Soudan	***30/10/1967***	***67/248***	***67/99***
Soudan	***17/07/2001***	***30/117***	***03/20***
Sénégal	***07/10/1981***	***03/382***	***83/23***
Chine	***30/10/1999***	***00/279***	***00/58***
Togo	***24/04/1976***	***76/70***	***76/71***
Irak	***18/10/1967***	***67/247***	***67/101***
Irak	***17/03/1982***	***83/195***	***83/12***
Cameroun	***11/03/1967***	***67/64***	***67/33***
Cameroun	***10/10/1974***	***74/108***	***75/01***
Allemagne	***12/12/1966***	***67/34***	***67/13***
Hongrie	***07/11/1975***	***76/44***	***76/50***
Maroc	***30/04/1963***	***63/294***	***63/58***
Maroc	***20/11/1964***	***69/68***	***69/77***
Niger	***03/06/1964***	***65/121***	***65/43***
Niger	***19/02/1976***	***76/37***	***76/40***
Niger	***16/03/1998***	***00/422***	***00/78***
Inde	***10/02/1976***	***76/43***	***76/50***
Yémen	***25/03/1985***	***88/116***	***88/23***
Yémen	***25/11/1999***	***01/365***	***01/68***
Iran	***25/04/1983***	***84/321***	***84/53***
Pakistan	***19/09/1969***	***69/157***	***69/94***

Bulgarie	***22/02/1963***	***63/71***	***63/10***
Bulgarie	***21/07/1970***	***70/161***	***70/100***
Bengladesh	***14/10/1976***	***78/100***	***78/19***
Burundi	***15/12/1982***	***83/402***	***83/27***
Tchad	***08/10/1988***	***90/172***	***90/24***
Tchécoslovaquie	***01/09/1963***	***63/451***	***63/89***
Tunisie	***17/02/1973***	***73/08***	***73/30***
Tunisie	***09/01/1981***	***81/300***	***81/45***
Tunisie	***15/05/1991***	***92/106***	***92/19***

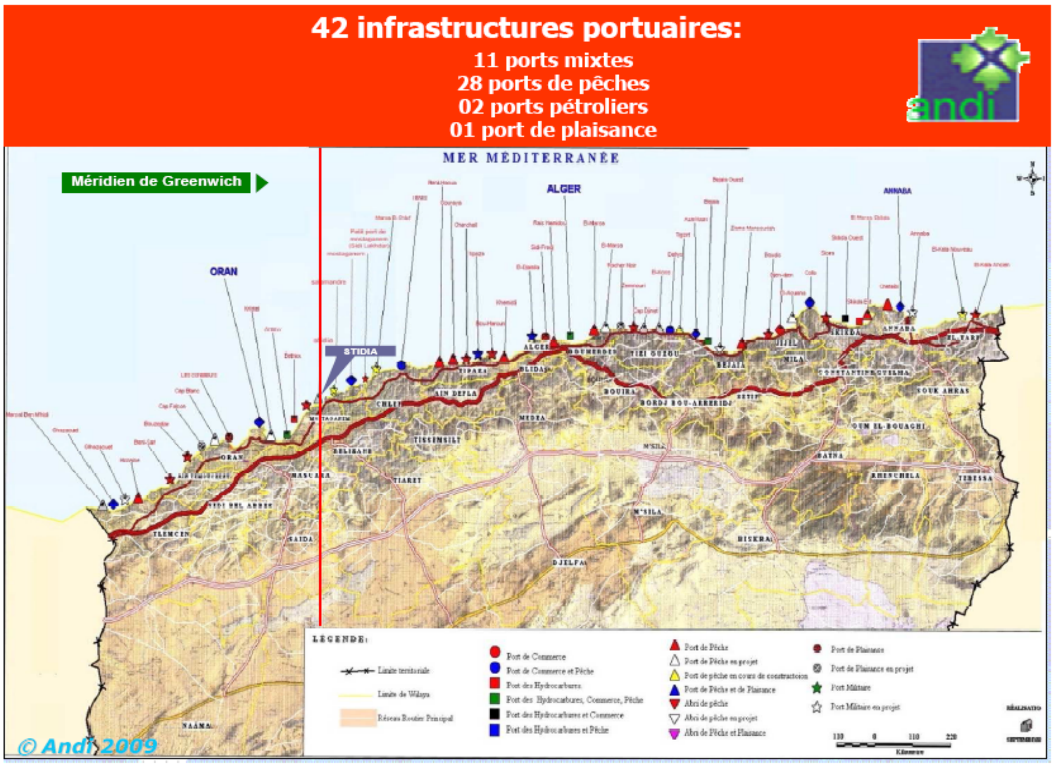
Annex2:

Road in Algeria



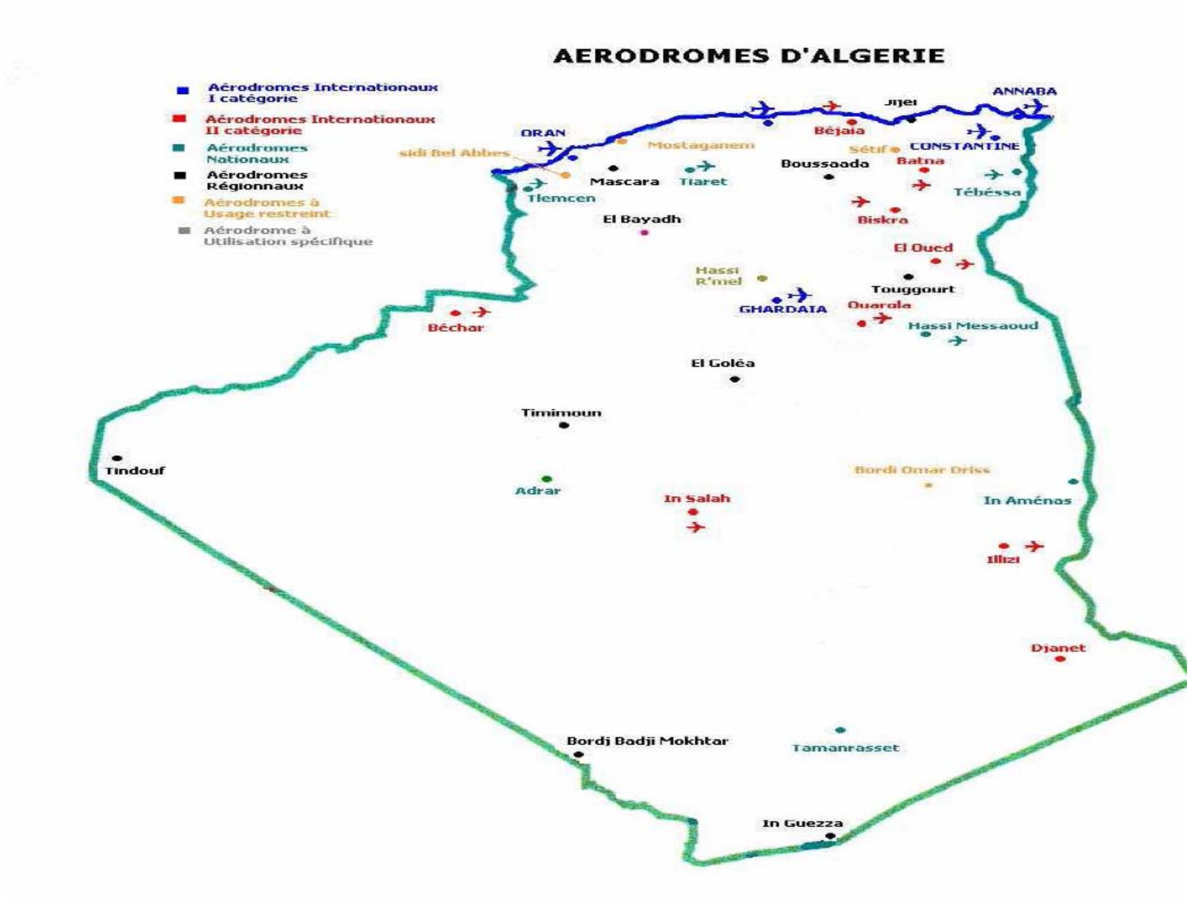
Source: ANDI

Ports in Algeria



Source: ANDI

Airport in Algeria



Source: ANDI

Annex3: **Foreign Direct Investment, 2002-2007 (USD million)**

Sources: UNCTAD, FDI Online Database (March 2009) and World investment Report 2008.

	FDI inflows						*FDI outflows*						*FDI inflows/GFCF (%)*			*Inward FDI* Potential Index*
Countries/year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2006**
Algeria	**1065**	**634**	**882**	**1081**	**1795**	**1665**	**100**	**14**	**258**	**23**	**35**	**290**	**4.70**	**6.30**	**5.10**	**68**
Angola	1672	3505	1449	-1304	-38	-1500	29	24	35	219	191	331	-52.70	-0.60	-17.80	76
Benin	14	45	64	53	53	48	1	0	-1	0	-2	-1	6.30	5.80	4.60	138
Botswana	405	420	392	281	489	495	43	207	-39	56	51	51	14.70	26.90	24.40	78
Burkina Faso	15	29	14	34	34	600	2	2	-9	0	1	-3	2.70	2.40	37.00	127
Burundi	0	0	0	1	0	0	0	0	...	...	...	...	0.50	,,,	,,,	...
Cameroon	602	383	319	225	309	284	-33	4	2	-9	-1	-2	6.70	7.80	6.20	112
Cape Verde	39	34	68	82	131	177	...	1	...	...	...	0	21.90	30.30	33.80	...
Central African Republic	4	13	15	17	18	27	1	...	...	...	...	...	21.50	22.40	29.00	...
Chad	924	713	495	613	700	603	0	0	...	...	...	...	48.20	45.40	34.80	...
Comoros	0	1	1	1	1	1	...	...	...	...	...	...	1.60	1.30	1.60	...
Congo	131	321	-13	724	344	352	4	2	5	3	3	4	47.50	18.30	18.90	97
Congo Dem. Rep.	117	158	10	-76	-116	720	-2	0	0	...	...	...	-7.50	-8.40	44.80	139
Cote d'Ivoire	213	165	283	312	319	427	-4	23	-26	52	-27	0	18.30	17.90	21.20	128
Djibouti	4	14	39	59	164	195	...	...	...	...	...	...	42.00	111.40	121.70	...
Egypt	647	237	2157	5376	10043	11578	28	21	159	92	148	665	32.20	49.80	42.70	83
Equatorial Guinea	323	1444	1651	1873	1656	1726	...	...	...	...	...	...	71.20	52.50	44.70	...
Eritrea	20	22	-8	-1	0	-3	...	...	...	...	...	...	-0.60	0.20	-1.20	...
Ethiopia	255	465	545	265	545	254	...	...	...	...	...	...	11.40	20.80	7.60	134
Gabon	37	206	194	60	268	269	-32	-57	-25	65	106	57	3.30	13.10	11.20	99
Gambia	43	15	49	45	71	64	...	...	...	...	...	...	37.30	57.80	40.20	115
Ghana	59	105	139	145	636	855	-2	11	-1	...	...	...	4.60	19.40	22.30	113
Guinea	30	83	98	105	108	111	0	..	-1	-5	...	...	23.40	20.00	13.70	132
Guinea Bissau	4	4	2	9	18	7	1	1	-8	1	0	-4	19.80	35.10	12.40	...
Kenya	28	82	46	21	51	728	7	2	4	10	24	36	0.60	1.20	13.10	126
Lesotho	27	42	53	57	92	106	0	0	0	...	...	...	11.20	15.50	16.70	...
Liberia	3	372	237	-1384	-205	42	403	173	304	437	346	363	-1587.00	-242.30	41.60	...
Libya	145	143	357	1038	2013	2541	-136	63	-286	128	-534	-479	14.40	23.00	25.30	35
Madagascar	61	95	95	86	294	997	...	-5	...	...	...	...	7.60	24.60	62.30	131
Malawi	17	66	108	27	30	55	0	1	2	1	1	1	14.30	15.90	26.20	137
Mali	244	132	101	224	83	360	2	1	1	-1	1	1	26.40	7.60	30.10	123
Mauritania	67	102	392	814	155	153	...	-1	4	2	5	4	97.80	19.50	19.00	...
Mauritius	32	62	11	42	105	339	9	-5	32	48	10	58	3.10	6.70	17.90	...
Morocco	481	2314	895	1653	2450	2577	28	12	31	74	445	652	9.80	13.00	12.20	91
Mozambique	347	337	245	108	154	427	0	0	0	0	0	0	8.50	9.10	22.60	104
Namibia	181	149	226	348	387	697	-5	-10	-22	-13	-12	-3	22.20	23.60	39.90	95

Niger	**2**	**11**	**20**	**30**	**51**	**27**	**-2**	**0**	**7**	**-4**	**-1**	**1**	**5.60**	**7.70**	**3.50**	**133**
Nigeria	**2040**	**2171**	**2127**	**4978**	**13956**	**12454**	**172**	**167**	**261**	**200**	**228**	**261**	**36.70**	**88.50**	**69.60**	**88**
Rwanda	**2**	**3**	**11**	**14**	**16**	**67**	**…**	**…**	**…**	**…**	**14**	**13**	**3.20**	**3.30**	**12.20**	**135**
São Tomé and Principe	4	3	4	16	38	35	…	…	…	15	3	3	64.10	74.50	59.90	…
Senegal	**78**	**52**	**77**	**45**	**220**	**78**	**34**	**3**	**13**	**-8**	**10**	**9**	**2.00**	**9.10**	**2.70**	**122**
Seychelles	**48**	**58**	**38**	**86**	**146**	**248**	**9**	**8**	**8**	**7**	**8**	**9**	**81.20**	**132.40**	**246.00**	**…**
Sierra Leone	**10**	**9**	**61**	**83**	**59**	**81**	**…**	**1**	**…**	**-8**	**0**	**-4**	**104.80**	**69.20**	**81.70**	**114**
Somalia	0	-1	-5	24	96	141	…	…	…	…	…	…	5.10	19.80	26.00	…
South Africa	**1573**	**734**	**799**	**6644**	**-527**	**5692**	**-399**	**565**	**1352**	**930**	**6725**	**3727**	**16.10**	**-1.20**	**11.50**	**74**
Sudan	**713**	**1349**	**1511**	**2305**	**3541**	**2436**	**…**	**…**	**…**	**…**	**7**	**11**	**41.30**	**42.20**	**22.90**	**121**
Swaziland	**92**	**-61**	**71**	**-50**	**36**	**37**	**-1**	**16**	**-1**	**-24**	**2**	**3**	**-9.80**	**7.70**	**7.50**	**…**
Tanzania	**388**	**308**	**331**	**568**	**522**	**600**	**0**	**2**	**…**	**-6**	**20**	**5**	**20.00**	**17.70**	**17.90**	**120**
Togo	**53**	**34**	**59**	**77**	**77**	**69**	**2**	**-6**	**-13**	**-15**	**-14**	**-25**	**18.80**	**16.70**	**13.30**	**130**
Tunisia	**821**	**584**	**639**	**782**	**3312**	**1618**	**7**	**5**	**4**	**13**	**33**	**20**	**12.10**	**45.50**	**19.60**	**66**
Uganda	**185**	**202**	**295**	**380**	**400**	**368**	**…**	**…**	**…**	**…**	**…**	**…**	**17.60**	**15.80**	**12.30**	**117**
Zambia	**303**	**347**	**364**	**357**	**616**	**984**	**…**	**…**	**…**	**…**	**…**	**…**	**19.90**	**22.80**	**35.60**	**129**
Zimbabwe	26	4	9	103	40	69	3	0	0	1	0	3	202.00	39.80	153.80	**141**
Africa	**14592**	**18719**	**18020**	**29459**	**45754**	**52982**	**270**	**1245**	**2050**	**2282**	**7829**	**6055**	**16.30**	**21.40**	**21.30**	**…**