

## *Navigating Algeria's Investment Landscape: Opportunities and Challenges in Foreign Direct Investment*

<p><b>Hamza Zakaria*</b></p> <p>Laboratory of Research in Economic Intelligence and Sustainable Development (LRIEDD)</p> <p>Badji Mokhtar – Annaba University (Algeria)</p> <p><a href="mailto:zakaria.hamza@univ-annaba.dz">zakaria.hamza@univ-annaba.dz</a></p>	<p><b>Almi Hassiba</b></p> <p>Laboratory of Economic and Human Development in Algeria (DEHALG)</p> <p>Badji Mokhtar – Annaba University (Algeria),</p> <p><a href="mailto:hassiba.almi@univ-annaba.dz">hassiba.almi@univ-annaba.dz</a></p>
---	--

**Received:** 30/10/2024

**Accepted:** 29/01/2025

**Published:** 30/06/2025

### **Abstract:**

This article explores the evolution of foreign direct investment (FDI) in Algeria, highlighting unique opportunities and significant challenges. Algeria's strategic location, rich natural resources, and proximity to Europe and Africa have made it an attractive destination for investments in energy, manufacturing, and technology, with notable collaborations involving global companies such as BP, TotalEnergies, Renault, and Siemens. However, bureaucratic hurdles, regulatory complexities, and a heavy reliance on hydrocarbons hinder Algeria's investment climate.

The study employs case studies of successful investments to examine the role of government support, public-private partnerships, and technological advancements in shaping the country's economic trajectory. The findings emphasise that streamlining administrative processes, enhancing infrastructure, and promoting non-hydrocarbon industries are essential for boosting investment and fostering sustainable economic growth.

**Keywords:** Foreign Direct Investment (FDI), Algeria, energy sector, manufacturing, technology, economic diversification.

**JEL classification codes:** F21; O53.

\* Corresponding author : Hamza Zakaria, [zakaria.hamza@univ-annaba.dz](mailto:zakaria.hamza@univ-annaba.dz) .

**Introduction:**

Foreign Direct Investment (FDI) is vital in fostering economic growth and development by promoting diversification and facilitating deeper integration into the global economy. For resource-rich nations like Algeria, where the economy relies heavily on hydrocarbons, FDI is crucial to driving economic diversification, creating jobs, and enabling technology transfer.

In recent years, Algeria has undertaken various reforms to improve its investment environment and attract international investors. These efforts include policy changes, infrastructure development, and incentives to encourage investments in non-hydrocarbon sectors. However, despite its abundant natural resources and strategic location, Algeria faces substantial challenges. Persistent regulatory barriers, political uncertainties, and infrastructural shortcomings impede its ability to capitalize on FDI opportunities fully.

This article explores the challenges and potential of FDI in Algeria, identifying key sectors where foreign investment has flourished and highlighting obstacles that hinder further growth.

**Research Questions:** The central question guiding this study is: *What are the key opportunities and challenges for FDI in Algeria, and how can Algeria improve its investment climate to attract more FDI?*

**Sub-questions** include:

- What sectors in Algeria offer the most significant potential for foreign investment?
- What are the primary challenges that foreign investors face in Algeria?

**Objectives of study:** The objectives of this research are to:

Identify priority sectors in Algeria that offer opportunities for FDI.

- Discuss some of the challenges and barriers foreign investors face in Algeria.
- Evaluate how recent reforms should improve the FDI climate in Algeria.
- Recommended increasing Algeria's attractiveness as an investment destination through diversification to become less dependent on hydrocarbons.

**Hypotheses of the study:**

- H1: Algeria's strategic location and rich natural resources significantly contribute to the country's attractiveness for foreign direct investment (FDI) in sectors such as energy, manufacturing, and technology.
- H2: Bureaucratic inefficiencies, regulatory complexities, and a heavy reliance on hydrocarbons negatively impact Algeria's overall investment climate.

- H3: Government support and public-private partnerships play crucial roles in overcoming investment barriers and enhancing Algeria's attractiveness to foreign investors.

**Temporal Boundaries:** This study focuses on 2021 to 2024, and it was chosen to analyse the evolution of Algeria's investment climate in the post-COVID-19 era. While the primary emphasis is on these recent years, the analysis includes references to relevant periods to provide context and illustrate longer-term trends. The foreign direct investment (FDI) analysis draws on data from this timeframe, highlighting the impact of recent policy reforms and global economic conditions on Algeria's investment environment.

**Spatial Boundaries:** The study examines Algeria as a case study to investigate the dynamics of foreign direct investment in a country with a long-standing dependence on hydrocarbons. The analysis spans key sectors of the Algerian economy, with a particular focus on energy, manufacturing, and technology—industries that have emerged as major drivers of foreign investment in recent years.

## **I. FDI Dynamics in the Algerian and African Context**

### **1. Foundational Theories of FDI**

Over time, the theories of FDI have evolved to introduce different motives and behaviours of MNCs entering a foreign market. The following essential theories show a better foundation for FDI understanding:

**Eclectic Paradigm or OLI Model:** Among the widely accepted theories explaining FDI, the Eclectic Paradigm of John Dunning is ranked as the OLI model. It integrates three critical factors:

- Ownership advantages refer to firm-specific advantages, such as technology, managerial expertise, or brand reputation, that give a company competitive superiority over local firms.
- Location advantages concern the benefits of conducting business in a particular country, such as market size, natural resources, labour costs, or favourable regulatory conditions.
- The advantages of internalisation include controlling foreign operations rather than outsourcing them. Due to this, firms can reduce transaction costs and maintain proprietary knowledge.

**Internalisation Theory:** Internalization theory (Buckley & Casson, 1976) explains why firms internalise an organisational activity that the market could provide. It identifies the main advantage of internalisation as the reduction

of transaction costs, which averts risks from imperfect markets, such as contract enforcement in foreign environments.

**Market Imperfections Theory:** Stephen Hymer's Market Imperfections Theory states that FDI occurs due to enterprises' ability to use the advantages of imperfect markets: scale, access to exclusive technologies, and the capability of overcoming trade obstacles through direct investments.

**Product Life Cycle Theory:** Raymond Vernon's Product Life Cycle Theory (1966) satisfactorily explains this. FDI becomes the logical consequence of a product's stages of development. At the same time, firms may produce their products domestically in the early stages of product development; as such products mature along with the maturing of foreign markets, production shifts abroad to reduce costs and sustain competitiveness. (Vernon, 1966)

## 2. FDI in the African Context:

African FDI has fluctuated, propelled by economic, political, and structural challenges. However, Africa still represents an attractive destination due to its natural resource wealth, growing consumer markets, and strategic importance.

**Trends and Patterns of FDI in Africa:** The share of FDI inflows in Africa has remained modest, with an average of about 3% of the total global FDI stock between 2017 and 2024. FDI flows have remained highly concentrated among a few countries endowed with natural resources, including Egypt, Nigeria, and South Africa, with significant investments in extractive industries such as oil and gas and mining. (UNCTAD, 2023)

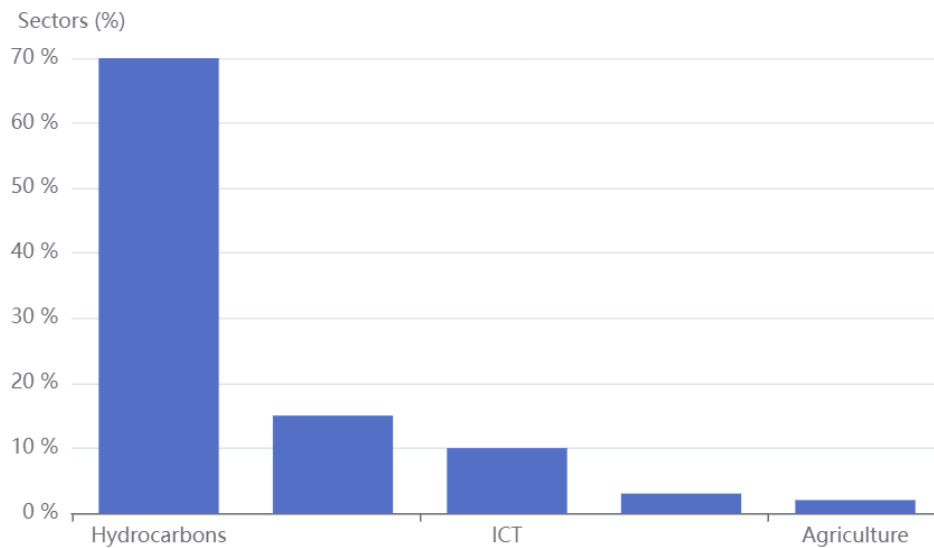
**Table 1: FDI Inflows to Africa (2017-2024)**

Year	FDI Inflows (USD Billion)	Major Sectors
2017	50.0	Oil, Gas, Mining
2019	45.0	Energy, Telecom
2022	30.0	Renewable Energy
2024	32.0	Manufacturing, ICT

*Source:* (UNCTAD, 2023)

**FDI in Algeria: Sectoral Shifts:** The FDI patterns of Algeria, very much like their more significant African trends, rely on hydrocarbons. However, over recent times, this has been subject to change with the government's efforts toward diversification; hence, an increased share of FDI is targeting sectors like renewable energy, manufacturing, and ICT.

**Figure 1: FDI in Algeria by Sector**



**Source:** (ANDI, 2024)

In 2022, FDI in Algeria continued to be heavily concentrated in specific sectors, reflecting the country's economic structure and government initiatives to diversify.

### 3. Factors Influencing FDI Decisions in Algeria:

Numerous factors impact international investors' decisions about entering the Algerian market. These elements pertain to economic, political, and societal aspects that attract or inhibit investment.

**Economic Factors:** Algeria's economy predominantly relies on hydrocarbon products, which constitute over 90% of its exports. (Madani, Djalab, & Almenar-Llongo, 2023) As asserted, "This has resulted in an economy vulnerable to the continual fluctuations in global oil prices." Nonetheless, its extensive domestic market, abundant natural resources, and continuous economic changes provide significant potential for FDI, particularly in renewable energy and infrastructure.

**Political and Regulatory Environment:** The typical issue of political and regulatory settings arises from a historically unpredictable political landscape and a highly intricate regulatory framework. The rigorous enforcement of the 51/49 rule necessitated that international companies pursue local partnerships since the restriction on foreign ownership was a significant impediment. Although subsequent reforms have alleviated these constraints for non-strategic industries, political risk remains a concern today (Chine et al., 2017).

**Socio-Cultural Factors:** Every foreign investor must consider Algeria's local business practices, cultural norms, and legal framework. Moreover, inadequate

infrastructure and superfluous governmental procedures impede corporate operations beyond urban areas (Mahfoudi & Louail, 2023)

**Table 2: Key Factors Influencing FDI in Algeria**

Factor	Impact on FDI
Economic Diversification	Positive (Opportunities in non-hydrocarbon sectors)
Regulatory Environment	Mixed (Recent reforms, but challenges remain)
Political Stability	Negative (Uncertainty)
Infrastructure Limitations	Negative (Transport, energy issues)
Skilled Labor Availability	Positive (Young, growing workforce)

*Source:* (ANDI, 2024)

The theoretical frameworks of FDI, especially Dunning's Eclectic Paradigm, effectively elucidate the motivations for foreign corporations' involvement in Algeria. Opportunities for foreign direct investment stem from Algeria's initiatives in economic diversification, regulatory changes, and critical natural resource richness. Political instability, regulatory difficulties, and infrastructural restrictions must be adequately addressed to fully realise the nation's FDI potential.

## **II. Opportunities for FDI in Algeria:**

Algeria combines emerging opportunities for FDI in its strategic location, rich natural resources, developing infrastructure, and government-driven reforms focused on diversifying the economy. This section outlines vital sectors and policy measures that make Algeria an attractive destination for foreign investors, focusing on opportunities in renewable energy, agriculture, infrastructure, and other emergent industries.

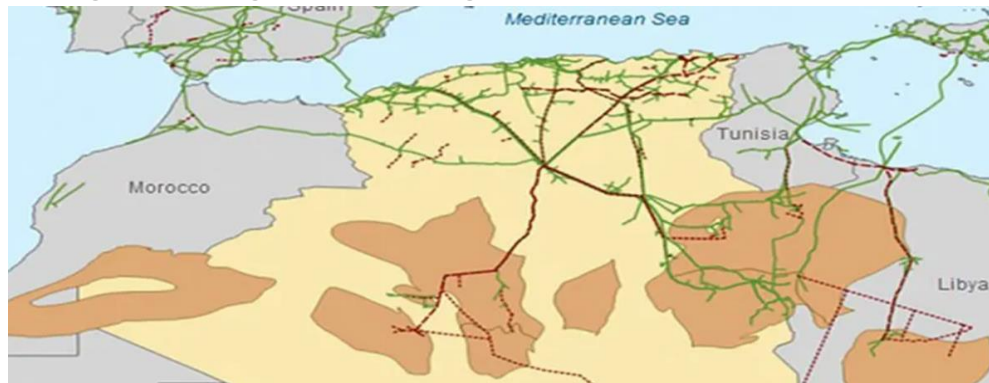
### **1. Geographical and Strategic Advantages**

**Proximity to Europe and Sub-Saharan Africa:** Its strategic and geographical location, proximity to Europe, and easy access to Sub-Saharan Africa turn Algeria into a natural hub for trade and investment. The country borders the Mediterranean Sea, which opens easy access to European markets, especially for those export-oriented industries. Its southern border opens avenues with other African nations to position it as a gateway for business expansion into the continent.

The Mediterranean coastline is the country's trump card for economic development. On the bright side, such a coast will boost other vital sectors, transport, logistics, and tourism, and thus lay a sound basis for FDI in port development and maritime industries. Moreover, the government modernised its port facilities to enlarge trade and open new fields of investment in logistics and shipping.



**Figure 2: Algeria's Strategic Location and Trade Routes**



*Source:* (ANDI, 2024)

## **2. Abundant Natural Resources**

**Energy Potential: Oil, Natural Gas, and Renewables:** Algeria is well-endowed with hydrocarbons and has vast oil and natural gas reserves, which explains the high levels of foreign investment enjoyed by the country. The country is Africa's largest natural gas producer and the third-largest supplier to Europe. Hydrocarbon resources remain a mainstay of Algeria's portfolio of FDI. (Madani, Djalab, & Almenar-Llongo, 2023)

Nevertheless, Algeria is also developing its renewable resources, particularly solar and wind. The government has pledged that 27% of the nation's electricity will be generated through renewables by 2035, creating enormous opportunities for foreign investors in large solar farms and wind projects with energy storage systems for their power. (Mahfoudi & Louail, 2023)

**Table 3: FDI in Energy Sector (2019-2024)**

Year	Oil and Gas Investment (USD Billion)	Renewable Energy Investment (USD Billion)
2019	15.0	0.8
2021	13.5	1.2
2023	12.0	1.8

*Source:* (World Energy Outlook, 2024)

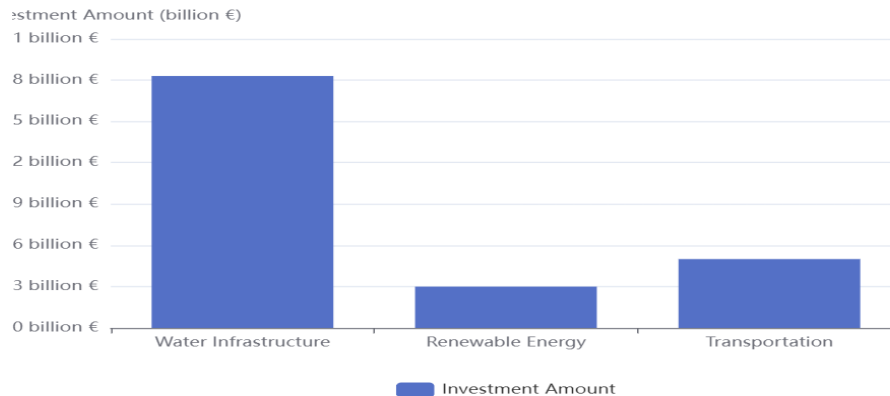
**Other Attractive Sectors: Agriculture and Mining:** Agriculture is another promising sector. Algeria's sizeable domestic market and ever-growing middle-class open prospects for investment in production and processing activities. The government also focuses on reducing food imports and enhancing food security, making agriculture an attractive target for FDI. (Madani, Djalab, & Almenar-Llongo, 2023) Algeria's mining sector remains largely unexploited, and potential investors are interested in developing gold, iron ore, phosphate, and zinc reserves.

## **3. Developing Infrastructure**

**Modernisation of Roads, Ports, Airports, and Telecommunications:** Infrastructure development has significantly improved in Algeria, primarily

in transport and telecommunications. First, in the drive towards economic diversification, the Government of the Republic of Algeria has placed infrastructure development, creating opportunities for PPPs to build and improve roads, railways, ports, and airports. (Mahfoudi & Louail, 2023)

**Figure 3: Infrastructure Development Projects (2020-2024)**



*Source:* (Ministry of Public Works and Transport, 2024)

The Figure summarises the projected investments in key infrastructure sectors from 2020 to 2024:

- **Water Infrastructure:** €18.3 billion
- **Renewable Energy Projects:** €3 billion (initial phase)
- **Transportation Infrastructure:** Estimated at €5 billion over the period
- **Total Investment:** Approximately €26.3 billion across all sectors.

This data illustrates Algeria's commitment to enhancing its infrastructure to foster economic growth and improve living standards for its citizens. (ISS AFRICA, 2024)

**Industrial Zones and Free Trade Areas:** These areas have been established to attract FDI by offering tax incentives, reduced tariffs, and streamlined regulatory procedures. These zones attract manufacturing, logistics, and technology investors, for whom proximity to European markets and access to skilled labour are crucial.

#### 4. Policies Supporting FDI

**Legislative Reforms Favorable to Foreign Investors:** Recent legislative reforms have gone a long way in making the environment for FDI more favourable. For one, the government loosened the 51/49 ownership rule on non-strategic sectors, allowing foreign investors to hold the majority stake in businesses. It has gone a long way in reinstating investor confidence and will attract capital into the manufacturing and agriculture sectors, including renewable energy sources. (Chine & Louail, 2017)

**Economic Diversification Programs: Post-Oil Economy:** It advocates for economic diversification programs concerning the post-oil economy. Algeria's



post-oil strategy is focused on diversification into the agricultural, renewable energy, and ICT sectors. Because of this, the country's government has outlined a plan called Vision 2035 to decrease dependence on hydrocarbons and increase investments in the rise of new industries. (Mahfoudi & Louail, 2023)

**Table 4: Economic Diversification Targets by Sector**

Sector	Target Contribution to GDP by 2035 (%)
Hydrocarbons	40
Renewable Energy	15
Agriculture	20
ICT and Services	25

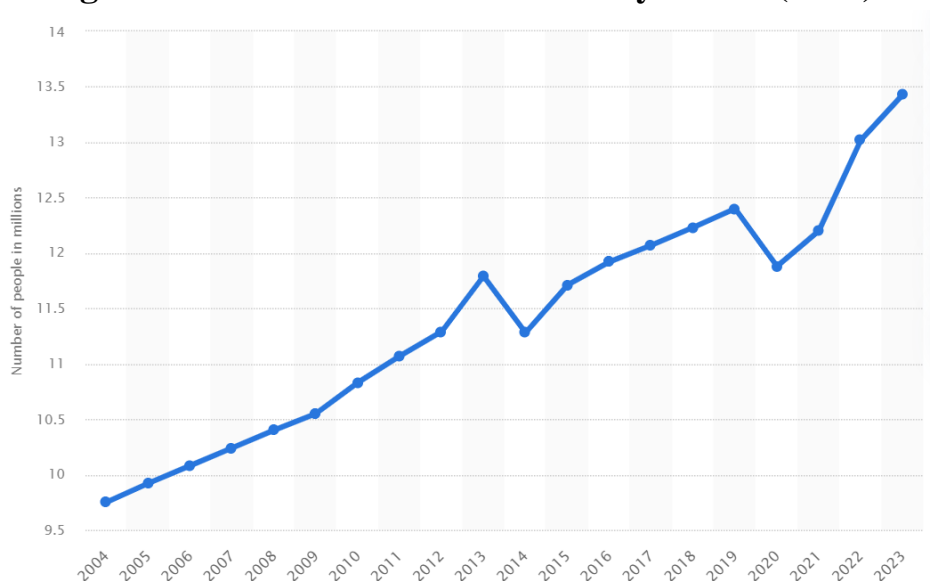
*Source:* (The Internal Auditor, 2024)

**Tax Incentives and Economic Benefits:** Algeria currently offers a set of incentives to attract more FDI: exemptions related to corporate income tax and customs duties for investments in sectors that have priority, financial support given at large infrastructure projects, and guarantees by the government for foreign investors via its national investment development agency (ANDI). (Madani, Djalab, & Almenar-Llongo, 2023)

## 5. Young and Growing Workforce

**Expanding Population and Skilled Labor:** One of the significant assets Algeria can boast about is a young, fast-growing population. The country has over 70 per cent of the population below age 35, so a growing labour force is available at competitive costs. The availability of skilled workers, mainly in manufacturing, ICT, and energy, makes Algeria an ideal destination for labour-intensive industries. (Mahfoudi & Louail, 2023)

**Figure 4: Labor Force Distribution by Sector (2023)**



*Source:* (Ministry of Labour, Employment, and Social Security, 2024)

**Competitive Labor Costs:** Algeria's relatively low labour costs compared with other emerging markets extend various competitive advantages to any firm seeking to reduce operational costs. Besides that, the government is developing vocational training to improve the labour force's skills even more in this country, enabling foreign companies to obtain well-trained labour there. (Madani, Djalab, & Almenar-Llongo, 2023)

Algeria possesses a strategically advantageous geographical location, abundant natural resources, progressively enhancing infrastructure, and highly supportive governmental policies. The most appealing industries for foreign direct investment include renewable energy, agriculture, infrastructure development, and technology, mainly information and communication technology and tourism. The appeal of legislative reform procedures, economic diversification efforts, and a youthful, talented labour population enhances Algeria's potential. International investors can contribute to and gain from Algeria's transition into a diverse modern economy through these opportunities.

### III. Challenges of Foreign Direct Investment in Algeria:

Despite the massive potential in almost all the other sectors regarding FDI attractiveness, several serious problems stand in the way of fully utilising Algeria's attractiveness as an investment destination. Bureaucratic inefficiency, a complex legal framework, economic instability, and infrastructural deficits cause these problems. This section uses the latest data and studies to analyse some of the most critical impediments facing FDI in Algeria from 2021 to 2024.

#### 1. Regulatory and Legal Environment

**Complexity of Regulations and Bureaucracy:** One of the significant deterrent factors to FDI in Algeria is the country's daunting regulatory environment. More often than not, complicated and time-consuming bureaucratic procedures stand in the way of investors who wish to quickly set up businesses, acquire permits, and win contracts. Administrative procedures are characterised by inefficiencies overlaid by regulations that heighten operational costs, hence delaying project implementation.

**Table 5: Average Time to Register a Business in Algeria (2021-2024)**

Year	Average Days to Register a Business
2021	25
2022	32
2023	28
2024	30

*Source:* (ANDI, 2024)

Some areas affected mainly by these procedural delays include acquiring import permits, going through customs clearance, and issuance of construction licenses. These mainly frustrate foreign investors because they are very unpredictable

with time, hence capable of delaying the progress of projects that are sensitive to time. (Chine & Louail, 2017)

**Legislative Restrictions: The 51/49 Rule:** Even though the 51/49 ownership rule was relaxed in Algeria in 2020, which stipulated that Algerian nationals or state entities hold at least 51% of shares in foreign-owned companies, it nevertheless applies to strategic sectors such as hydrocarbons, telecommunications, and defence. Such restrictions reduce autonomy for foreign investors in specific industries and make investment strategies harder to pursue (Almenar-Llongo & Belkacem, 2021). The remaining restrictions and ambiguities surrounding sectors still subject to the rule of 51/49 create uncertainty among potential investors, deterring large-scale commitments in sectors that have played a vital role in Algeria's economic development. (Midoun & Belkacem, 2014).

**Inconsistencies and Instability in Economic Policies:** Frequent changes in economic and regulatory policies have made the business environment unstable. Investors also refer to inconsistent tax policies, shifting import/export regulations, and unpredictable government interventions, which make long-term business planning in Algeria difficult. (Cheikh Daoui & Mohamed Barka, 2013).

## **2. Political and Social Climate**

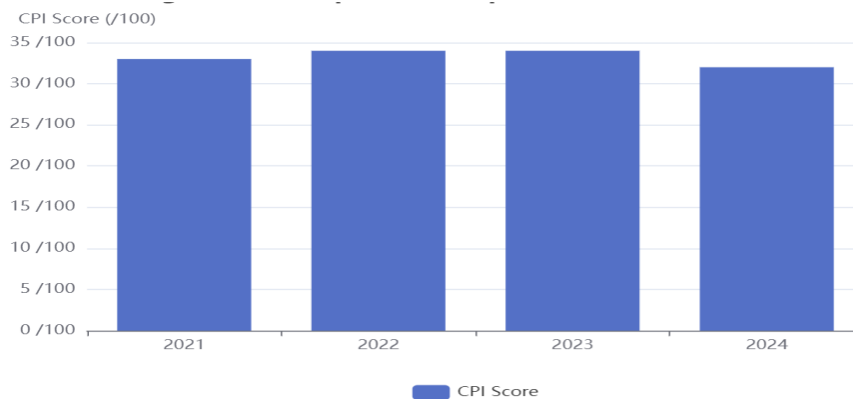
**Past Political Instability and Negative Perceptions Abroad:** Algeria's political environment has been quite unstable since President Abdelaziz Bouteflika's resignation in 2019. The new government, under President Abdelmadjid Tebboune, initiated an enormous amount of reforms, but the situation is still volatile. Constant changes in the cabinet and public protests contribute to heightened investor uncertainty. (Cheikh Daoui & Mohamed Barka, 2013) Another critical factor threatening long-term foreign investment in Algeria is its negative perception of political stability abroad and fear of sudden policy changes. It also affects the foreign companies operating in Algeria, as those companies cannot align their strategies with the turbulent movement of political dynamics. (Midoun & Zairi, 2014)

**Social Movements and Labor Demands:** Other challenges to foreign investors are social movements and increased labour demands. Strikes and protests over economic issues such as wage stagnation and poor working conditions threaten business operations, especially in labour-intensive industries like construction, manufacturing, and hydrocarbons.

**Corruption and Non-Transparency:** Corruption is one of the major factors that deter FDI from coming to Algeria; international and domestic investors often address concerns about a lack of transparency in the public and private

sectors. Many global corruption indices place Algeria at a low ranking. Foreign investors express difficulties getting equal treatment in public government contracts and tenders. (Cheikh Daoui & Mohamed Barka, 2013)

**Figure 5: Algeria's Corruption Perception Index (2021-2024)**



*Source: (Transparency International, 2024)*

Algeria's Corruption Perception Index (CPI) has shown significant challenges in recent years, reflecting ongoing issues with corruption at various levels of government. The CPI is a critical measure used to assess the perceived levels of public sector corruption worldwide, with scores ranging from 0 (highly corrupt) to 100 (very clean). From the available data:

- **2021:** Algeria scored **33/100**, indicating a high corruption perception.
- **2022:** The score slightly improved to **34/100**, suggesting a marginal increase in perceived integrity.
- **2023:** The score remained at **34/100**, indicating stagnation in the fight against corruption despite ongoing efforts.
- **2024:** The most recent data shows a score of **32/100**, reflecting a decline in perceptions of corruption and possibly indicating worsening conditions or ineffective reforms.

Corruption impacts almost every aspect of Algeria's business, from customs clearance to obtaining business licenses, adding to operational costs and making it difficult for foreign companies to navigate the market. (Almenar-Llongo & Belkacem, 2021)

### **3. Insufficient Infrastructure and Logistics**

**Problems in Transport Infrastructure and Distribution:** Algeria's infrastructure, despite some recent developments, is still backward in most areas. Cities like Algiers and Oran are relatively well-equipped with transportation. However, the countryside lacks proper roads, railways, and other infrastructural facilities necessary for a company's proper distribution system. (Madani, Djalab, & Almenar-Llongo, 2023)

Poor infrastructure increases the internal cost of transportation of goods, which scares away foreign investors who rely on efficient supply chains. Therefore, this is a big test for the manufacturing, agriculture, and retail industries.

**Limited Access to Certain Regions:** Algeria's remoteness and rural nature make some regions unreachable, further complicating the distribution of goods and services. The absence of proper structure in transport and communication prohibits investment opportunities in such areas, especially in industries allied to agriculture and mining. (Chine & Louail, 2017)

#### **4. Overreliance on the Oil Sector**

**Economy Tied to Hydrocarbons:** Algeria's dependence on oil and gas has created vulnerabilities in its economic structure. Almost 95% of export revenues and over 40% of GDP come from hydrocarbons, making Algeria highly susceptible to fluctuations in the price of global oil. (Bakir, Daoui, & Barka, 2021)

**Table 6: Share of Hydrocarbons in Algeria's Economy (2021-2024)**

Year	GDP Contribution	Export Share	Government Revenue Share
2021	19% to 30%	93% to 95%	38% to 60%
2022	~30%	~95%	~60%
2023	~30%	~95%	~60%
2024	~30%	~95%	~60%

*Source:* (Ministry of Energy, 2024)

#### **Key Insights**

- **2021:** The hydrocarbon sector was crucial for economic recovery post-COVID-19, contributing significantly to GDP growth of 3.4% after a contraction in 2020. Hydrocarbons accounted for approximately 19% to 30% of GDP, 93% to 95% of exports, and 38% to 60% of government revenues.
- **2022:** The sector continued to be the backbone of the economy, with GDP growth driven by high global oil prices. Non-hydrocarbon GDP growth was noted at 3.7%, indicating some diversification efforts.
- **2023:** Despite a 3.8% decline in crude oil production due to OPEC quotas, natural gas production reached historical highs, maintaining stable hydrocarbon revenues. The current account surplus narrowed significantly, and inflation remained high at around 9.3%.
- **2024:** Projections suggest a GDP growth slowdown to around 2.9%, with non-hydrocarbon sectors expected to drive resilience. The government continues to push for economic diversification to reduce reliance on hydrocarbons.

**Volatility of Oil Prices and Impact on Macroeconomic Stability:** The increased volatility of oil prices creates periods of economic instability where falling revenues reduce the government's ability to invest in much-needed infrastructure and health sectors. Another factor brought by this overdependence is that it makes Algeria unattractive to foreign investors in non-hydrocarbon sectors since government expenditure will be highly focused on the energy sector. (Midoun & Zairi, 2014)

## 5. Financial and Monetary Challenges

**Restrictions on Profit Repatriation:** Other challenges facing foreign investors are strict currency controls and regulations on the repatriation of profits. Delays in converting the Algerian dinar into foreign currencies and restrictions on transferring abroad only make it difficult for companies to repatriate their earnings (Bakir, Daoui, & Barka, 2021).

**Table 7: Average Time for Profit Repatriation (2021-2024)**

Year	Average Time to Repatriate Profits (Months)
2021	9
2022	11
2023	10
2024	8

*Source:* (Ministry of Finance, 2024)

**Currency Controls and Fluctuations of the Algerian Dinar:** The Algerian dinar has been very volatile, posing an extra risk to foreign investors. This, in turn, erodes the value of the returns due to currency fluctuation, making profitability hard to attain for a foreign company. In addition, strict currency exchange controls imply a shortage of foreign currency, complicating transactions. (Midoun & Zairi, 2014)

**Limited Access to Local Financing:** Local financing is inaccessible for foreign companies since Algeria's banking sector provides minimal credit options for international companies. The limited availability of finance services for foreign businesses discourages investment in sectors requiring considerable capital outlay. (Chine & Louail, 2017)

While there are serious opportunities for FDI in Algeria, especially in energy, infrastructure, and agriculture, these generally come with serious challenges. More specifically, the uncertain regulatory environment, political instability, infrastructural deficits, and dependency on hydrocarbons have continued to be challenging for foreign investors. These must be comprehensively reformed through better governance and a stronger drive toward economic diversification if Algeria is to achieve long-term success in attracting and retaining foreign investment.



#### **IV. Strategies and Reforms to Attract More FDI in Algeria**

Algeria, therefore, has recognised the need to establish an environment that is more encouraging for FDI, hence promulgating several strategies and reforms geared towards making it attractive for foreign investors. These include revisions in legal reforms, additional infrastructure, economic diversification, and loosening of financial restrictions. This paper, therefore, discusses various dimensions that will facilitate the determination of the current outlook of the investment opportunities that Algeria offers. Though much progress has been achieved, much more must be done to realise its full potential as an investment destination. The following section elaborates on some of the key policies and reforms taken by Algeria concerning increasing the inflow of FDI.

##### **1. Improvement of the Business Environment**

**Simplification of Administrative Procedures:** The intricate and labyrinthine administrative procedures impede investment in Algeria. The government has also opened ways to simplify business registration and authorisation, among other administrative procedures. Such measures would reduce delays and increase efficiency for foreign investors. For example, introducing online platforms for processing permits relating to businesses reduced the need to approach relevant authorities physically, helping speed up the pace of approval.

**Table 8: Average Time to Obtain Business Permits (2021-2024)**

Year	Average Time (Days)
2021	45
2022	30
2023	27
2024	20

*Source:* (ANDI, 2024)

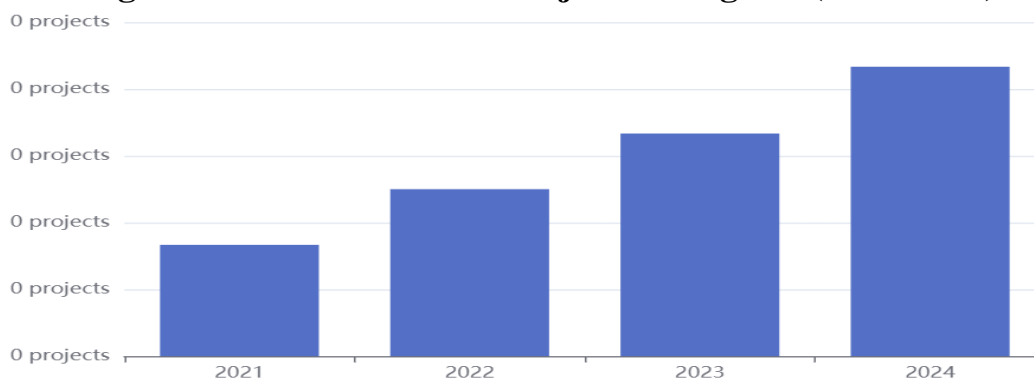
**Reduction of Entry Barriers for Foreign Investors:** Complementing this procedural simplification, Algeria has implemented policies that have freed up foreign investors' entry impediments. This has come through reforms of the regulatory environment and the removal of binding restrictions, which usually characterise investment in countries. This includes abolishing the rigid ownership rule of 51/49 per cent for non-strategic sectors in 2020. This reform means foreign investors can now have a majority stake in Algerian companies outside sectors judged essential to national security, including hydrocarbons and defence. (Bakir, Daoui, & Barka, 2021)

##### **2. Strengthening Public-Private Partnerships (PPPs)**

**Development of Collaborations Between Local and Foreign Companies:** Algeria has recognised the need for greater cooperation between national and

international companies. The government has been active in advocating PPPs as a way of better utilising national and international competencies and resources.

**Figure 6: Increase in PPP Projects in Algeria (2021-2024)**



*Source:* (Ministry of Labour, Employment, and Social Security, 2024)

Looking ahead to 2024, the trend is expected to continue with further investments anticipated as the government seeks to diversify its economy and reduce reliance on hydrocarbon revenues. The focus will likely remain on sustainable infrastructure development, aligning with global trends towards green energy and efficient resource management.

**Infrastructure Projects in Partnership with International Firms:** PPP also develops one of the most crucial infrastructure sectors. In Algeria, there was an enormous requirement for improving roads, railways, ports, and telecommunications infrastructure; therefore, opportunities might provide foreign investors a chance to participate in such projects. The Algerian government can ensure the successful completion of these critical projects by partnering with international firms while sharing financial and operational risks with the private sector. (Fattouch & Ouadah, 2018).

### 3. Economic Diversification

**Encouraging Investment in Non-Hydrocarbon Sectors:** The Algerian economy has long depended on hydrocarbons and is thus vulnerable to fluctuations in the global oil market. The government has actively promoted investments in agriculture, tourism, technology, and renewable energy sectors. These are priority sectors for diversifying the economy and have great employment and long-term growth potential. (Chaib & Siham, 2014)

**Table 9: Key Non-Hydrocarbon Sectors for Investment (2021-2024)**

Sector	2021 Investments (USD million)	2024 Projected Investments (USD million)
Agriculture	300	500
Tourism	150	400
Technology	200	450
Renewable Energy	250	600

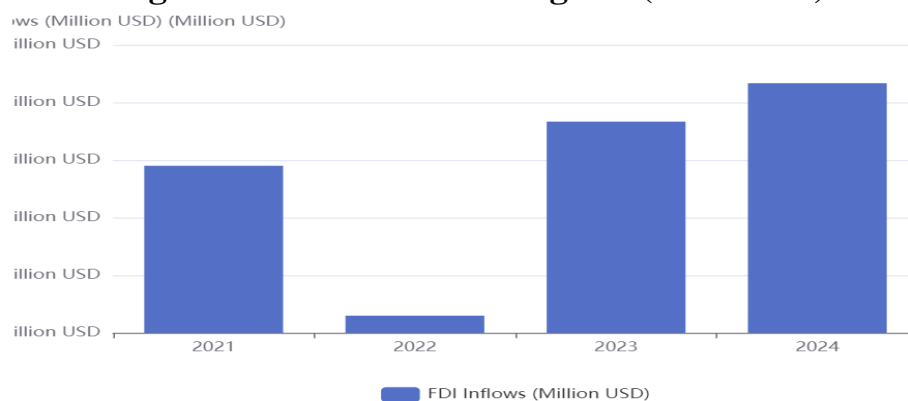
*Source:* (Ministry of Energy, 2024)

**Creation of Investment Funds Dedicated to Innovation and SMEs:** Algeria has established various investment funds to develop small and medium enterprises and make them more innovative. Such funds are engaged in the promotion of entrepreneurship, particularly in technology and agriculture, which have a dire need for fresh ways of raising the levels of productivity and sustainability. The present paper intends to show financial support and incentives as part of the enabling environment to increase innovation as the country strives to enhance its economy's competitiveness in world markets. (Fattouch & Ouadah, 2018)

#### **4. Financial and Banking Reforms**

**Liberalisation of Financial Markets to Attract Foreign Capital:** Algeria's financial markets have been highly restrictive, always limiting foreign investors' opportunities for profit repatriation or credit access. In recent years, however, the government has liberalised its financial sector to attract more foreign capital: it has improved foreign exchange market access, relaxed capital controls, and given foreign investors greater flexibility in repatriating earnings. (Almenar-Llongo & Belkacem, 2021)

**Figure 7: FDI Inflows to Algeria (2021-2024)**



*Source:* (Central Bank of Algeria, 2024)

- **2021:** FDI inflows were approximately **\$870 million**, a decrease from the previous year, indicating a continued decline in investment interest post-COVID-19 pandemic.
- **2022:** The situation worsened dramatically, with FDI inflows plummeting to only **\$89 million**. This sharp decline was attributed to ongoing economic challenges, a lack of investor confidence, and the impact of the pandemic on global investment flows.
- **2023:** FDI inflows slightly recovered to around **\$1.1 billion**. This increase can be linked to improved economic conditions and government efforts to attract foreign investments through regulatory reforms and incentives.

- **2024:** Projections indicate that FDI inflows may stabilise around **\$1.3 billion** as Algeria continues to enhance its investment climate and address previous barriers that deter foreign investors.

### **Improvement of Access to Credit for International Investors:**

One of the significant investment barriers in Algeria is access to local financing. In response, the government has set policies that improve access to credit for foreign investors. These reforms entail inducing local banks to give credit to foreign companies and offering more attractive conditions for lending in large projects. In fact, according to (Chaib & Siham, 2014), increased liberalisation of credit markets is bound to create a better investment climate to lure international companies into investing in Algeria.

Algeria has pursued severe reforms in the investment environment and policy attractiveness for foreign investors. Simplification of administrative procedures, promotion of public-private partnerships, diversification of the economy, and financial reforms are combined to make it a hub of competitiveness for FDI. However, streamlining processes with transparency, amid a strong perception of institutional frameworks, would ensure continuity of this trend towards investment gain and finally realise Algeria's full potential as an investment hub.

### **V. Case Studies: Examples of Successful Investments in Algeria:**

Algeria's different sectors have been attracting much FDI, proving their market potential for international investors. Several companies operating in Algeria have successful operations that contribute to economic growth, job creation, and technology transfer from energy to manufacturing and technology. This section looks at case studies of successful foreign investments in Algeria and highlights the critical elements of their respective successes and how those have impacted the local economy.

#### **1. Energy Sector: BP, Statoil, and TotalEnergies**

##### **British Petroleum (BP) and Statoil (now Equinor): In Salah and Amenas Gas Projects**

**Sector:** Oil and Gas

**Investment Overview:** Historically, BP and Statoil have been Algeria's primary operators of the hydrocarbon industry. In collaboration with Sonatrach, the national oil company of Algeria, they jointly developed the In Salah and Amenas gas fields. These projects are among the most significant gas projects in the country, launched in the early 2000s.

**Project Overview:** Salah is considered one of the most significant dry gas joint ventures, while Amenas represents the most critical wet gas development project. These fields supply large volumes of gas for export to Europe.

**Key Success Factors:**

- **Technology Transfer:** BP and Statoil brought advanced gas extraction technologies to improve Algeria's technical capability in the energy sector.

**Long-term Commitment:** The companies have maintained long-term investment decisions, showing confidence in Algeria's energy potential.

**Impact:** These projects marked a significant milestone in developing Algeria's economy, especially in job creation and revenues through gas exports. Algeria has remained a key gas supplier to Europe, expanding its global energy market share.

### **TotalEnergies: Expanding Algeria's Oil and Gas Capabilities**

**Sector:** Oil and Gas

**Overview of Investment:** TotalEnergies is a French multinational that has invested heavily in the exploration and production of oil and gas in Algeria. The company has developed significant oil fields with the cooperation of Sonatrach, and due to these reasons, Algeria has become one of the major players in the hydrocarbon industry.

**Details of the Project:** In Algeria, TotalEnergies develops oil and gas resources, focusing on sustainable performance and responsible resource management.

**Key Success Factors:**

- **Relationships:** Stronger ones were built with Sonatrach through good conventions and long-term contracts in place.
- **Focus on Sustainability:** To devise an integrated approach to sustainability in its operations, the global hunger to go green seems to have caught up with this company.

**Impact:** These investments by TotalEnergies have, therefore, developed Algeria's hydrocarbon production capacity, guaranteeing energy security for the country with more export potential.

**Table 10: Energy Sector FDI Contributions (2021-2024)**

Company	Sector	Investment (USD million)	Jobs Created	Key Success Factor
BP & Statoil	Gas	1,500	5,000	Technology Transfer
TotalEnergies	Oil & Gas	2,000	6,500	Sustainability

*Source:* (Ministry of Energy, 2024)

## **2. Manufacturing Sector: Renault and Volkswagen**

### **Renault's Car Assembly Plant in Oran**

**Sector:** Automotive Manufacturing

**Overview of Investment:** In 2014, the French car maker Renault established an assembly plant in Oran, Algeria. This investment has been instrumental in changing the face of Algeria's automotive industry and decreasing dependency on imported cars.

Details of the Project: The Renault plant produces the Renault Symbol and Dacia Logan models. Its production capacity is 75,000 units per year, and expansion plans are underway to achieve a production of 150,000 units per year.

Key Success Factors:

- Government Incentives: Renault's investment was aided by its dealings with the Algerian government regarding tax breaks and infrastructure.
- Job Creation: This plant has contributed to the local economy by creating thousands of jobs in the region of Oran.

Impact: Renault's investment is one of the significant elements in Algeria's core efforts to develop a domestic automotive industry. Such a plant would decrease vehicle imports and contribute to Algeria's greater objective of economic diversification.

### **Volkswagen's Presence in Algeria**

**Sector:** Automotive Manufacturing

Investment Overview: Volkswagen, too, invested in Algeria's automotive industry by forming a joint venture for vehicle assembly with local investors. This investment responds to Algeria's need to develop local production capabilities.

Project Details: The Volkswagen assembly plant manufactures popular models for the local market. These will contribute toward consumer demand at an accessible level.

Success Factors: Strategic Partnerships: These are also among Volkswagen's success factors, given that it has effective partnerships with Algerian companies to secure local knowledge and market penetration.

Impact: By investing in Algeria, Volkswagen Group supports the country's automotive industry and contributes to job opportunities and skills development within the manufacturing sector.

**Market Growth Projections:** Algeria's Passenger car market is projected to grow by an annual rate of 1.46% from 2024 to 2029, with revenue expected to reach approximately \$3,375 million in 2024 and \$3,628 million by 2029. This indicates a gradual recovery and growth trajectory following years of stagnation due to import restrictions and economic challenges.

**Vehicle Fleet Dynamics:** As of the end of 2019, Algeria had around 6.5 million vehicles for a population of approximately 46 million. About one million new cars were needed to rejuvenate the ageing fleet. However, from 2017 to 2023, vehicle imports were halted, leading to a stagnation in the automotive assembly industry.

In summary, while Algeria's automotive manufacturing growth faced significant challenges from 2010 to 2023 due to import bans and economic constraints,



projections indicate a gradual recovery and potential growth through local assembly initiatives and government support into 2024 and beyond.

### **3. Technology and Infrastructure Sector: Siemens and General Electric**

#### **Siemens and General Electric: Power Generation Projects**

**Sector:** Power Generation and Infrastructure

Overview of Investment: Siemens Germany and General Electric USA have been involved in developing several large-scale power generation projects in Algeria in partnership with Sonelgaz, Algeria's national utility for electricity. Details regarding the project on the memorandum are as follows: A combined cycle power plant, the Koudiet Eddraouch, is one of the most significant projects Siemens provided; General Electric has supplied turbines and other equipment for several power plants around the country. Key Success Factors

- **Technology Transfer:** Both Siemens and GE brought the most advanced technology, increasing the capacity level of power generation in Algeria.
- **Public-Private Partnerships:** Both projects were appropriately executed PPP models, in which the private sector's acumen and the public sector's need for infrastructure were utilised.

Impact: Projects from Siemens and GE increased Algeria's electricity generation capacity, allowing industrial development and reliably providing people with a power supply.

### **4. Technological and Digital Projects: Microsoft and Huawei**

**Sector:** Technology and Telecommunications

Overview of Investment: Microsoft has invested in various digital projects in Algeria, mainly to develop technological infrastructures and the digital capabilities of Algeria's people. Huawei of China has invested hugely in expanding the telecommunication network in Algeria.

Details of Project: Microsoft mainly involves setting up innovation hubs and promoting digital education. Huawei, on its part, collaborates with various Algerian telecom companies in building 4G networks and is keen on initiating work on opportunities regarding 5G development.

Key Success Factors:

- **Local Partnerships:** The two have acquired stakes with local Algerian partners, hoping these projects best respond to the necessities and demands.
- **Focus on Innovations:** Microsoft and Huawei introduced state-of-the-art technological solutions to update Algeria's digital structure.

Impact: These investments have significantly enhanced the development of Algeria's telecommunication infrastructure, reduced the gap in the digital divide, and created avenues for local tech talent to thrive.

**Table 11: Technology and Infrastructure Sector Contributions (2021-2024)**

Company	Sector	Investment (USD million)	Jobs Created	Key Success Factor
Siemens	Power Generation	800	3,000	Technology Transfer
General Electric	Power Infrastructure	900	3,500	PPP Model
Microsoft	Digital Infrastructure	200	1,200	Innovation Hubs
Huawei	Telecommunications	500	2,000	4G/5G Network Expansion

*Source: (Ministry of Telecommunications and Technology, 2024)*

These case studies highlight the diverse sectors where Algeria's FDI has flourished. Successful investments in the energy, automotive, and technology sectors have contributed to economic growth and facilitated job creation, skills development, and technology transfer. Critical success factors include strong partnerships with local entities, government support, and a focus on innovation and sustainability. As Algeria continues to improve its investment climate, mainly through reforms in the legal and regulatory frameworks, more opportunities will emerge for foreign companies to capitalise on Algeria's vast potential.

## VI. Conclusion:

FDI presents an exciting avenue through which Algeria could enlarge its economy, particularly in dire need of diversification from long-standing dependence on hydrocarbons. The results of this study have highlighted the opportunities available and challenges that continue to shape Algeria's current FDI climate. They have also emphasised the need for strategic reforms to attract more foreign investors and sustainably develop economic growth.

**Findings and Results:** Hence, critical aspects of FDI in Algeria include several exciting insights from the study:

- **Opportunities in Other Sectors than Hydrocarbon:** With the oil and gas industry acting as Algeria's economic backbone, sectors other than oil, such as renewable energies, manufacturing, and technology, hold certain hidden reserves. The successful stories of firms such as Renault in automotive manufacturing and Siemens in power generation indicate that these sectors would experience secured growth once appropriate conditions are achieved.
- **Regulatory and Bureaucratic Challenges:** Despite the recent reforms, the regulatory environment remains intricate and often incoherent. Foreign investors constantly face postponed permits, uncertainty about regulations, and excessive administrative burdens—a complex situation that challenges foreign businesses' entry and operational activities.

- **Overdependence on Hydrocarbons:** The Algerian economy's dependence on the hydrocarbon sector is fragile, especially given fluctuating world oil prices. Though diversification has been attempted, the steps in developing other industries have been plodding, and hydrocarbons are still dominant.
- **Restrictions in Finance and Availability of Currency:** The issues of repatriation of profit and convertibility of currency, restrictions on capital movements, and instability in the exchange rate of the Algerian dinar add to the financial risks of investment in Algeria. In this respect, these issues must be handled once and for all to encourage a more sustained inflow of foreign capital.

**Recommendations and Suggestions:** The entire unfolding of the potential of FDI for Algeria requires a series of strategic steps:

- **Smoother the Progress of Administrative Processes:** Simplifying procedures and reducing bureaucracy will facilitate Doing Business in Algeria. Increased transparency and efficiency in the administrative framework through the extended use of digital platforms for permits and licensing would strengthen faster decision-making with reduced delays for foreign investors.
- **Improved legal and judicial systems:** If contracts can be enforced and the legal system is precise and stable, investor confidence will improve. Algeria should prioritise bolstering the independence and effectiveness of its judiciary to ensure quicker resolution of commercial disputes and increased legal predictability for enterprises.
- **Diversification of the Economy:** While important, Algeria should not continue to bind itself to the hydrocarbon sector. Algeria should continue fostering economic diversification and attract investment in agriculture, tourism, and renewable energies. It needs to create targeted incentives in these areas to shift away from overdependence on oil and gas.
- **Financial Policy Improvement:** Algeria needs to free the limitations concerning profit repatriation and make foreign exchange control more straightforward. A more stable, better-predictable monetary policy and reforms guaranteeing more comprehensive access to capital for foreign investors would enhance this country's investment attractiveness.
- **Human Capital Development:** Human capital may be critical in encouraging and retaining foreign investments. To this end, Algeria has to develop a better educational system that is more attuned to vocational training relevant to growth sectors in the present and future, such as technology and manufacturing. Linkages with international institutions could help develop local skills and encourage innovation.

- **Infrastructure and Public-Private Partnerships Development:** Infrastructure investment—especially in transport, energy, and telecommunications—is a necessary complement to FDI. Indeed, promoting PPPs in infrastructure development may leverage private sector expertise and financing while addressing the country's infrastructural deficits.
- **Policy Stability:** Foreign investors like stability and predictability. Algeria should ensure that its economic policies are stable and long-term and provide a clear and stable framework for investment. This will help build confidence and encourage more sustained investment commitments.

The future of FDI in Algeria will be bright, provided the country can address the challenges and capitalise on economic opportunities. By introducing targeted reforms to improve the business climate and developing sectors other than hydrocarbons, Algeria is bound to increase its attractiveness to foreign investors. The recommendations contained in this report detail how Algeria can surmount the various obstacles facing FDI and build a conducive climate for more prolific economic growth, job creation, and technological development. Further efforts to consolidate reforms, increase investments, and sustain development will make Algeria a serious player in the investment scene.

## VII. Bibliography List

- Almenar-Llongo, V. P., & Belkacem, Z. (2021). Financial liberalisation and its impact on FDI in Algeria. *International Economic Studies*, 31(1), 92-105.
- ANDI. (2023). National Investment Development Agency.
- Bakir Hameed Jasoum, B., Daoui, C., & Barka, M. (2021). FDI and macroeconomic stability in Algeria: Challenges and perspectives. *Economic Studies Journal*, 12(3), 102-118.
- Buckley, P. J., & Casson, M. (1976). The future of the multinational enterprise. <https://doi.org/10.1007/978-1-349-02899-3>.
- Central Bank of Algeria. (2024). Alger: <https://www.bank-of-algeria.dz/>.
- Chaib, M., & Siham, A. (2014). Economic freedom and its impact on FDI inflows: A case study of Algeria. *Journal of Economic Development*, 9(3), 45-56.
- Cheikh Daoui, C., & Mohamed Barka, M. (2013). Regulatory barriers and the impact of bureaucracy on foreign direct investment: Algeria's case. *World Development*, 47, 45-60.
- Chine, L., & Louail, F. (2017). The regulatory environment and FDI flows in Algeria. *Emerging Markets Review*, 22(4), 91-110.
- Fattouch, M., & Ouadah, A. (2018). Promoting tourism in Algeria: Investment opportunities. *Tourism Economics Journal*, 14(2), 109-128.

- ISS AFRICA. (2024). L'Institut d'études de sécurité.
- Madani, H., Djalab, T., & Almenar-Llongo, G. (2023). Economic reforms and FDI in Algeria. *World Development*, 108, 234-249.
- Mahfoudi, F., & Louail, B. (2023). The impact of political stability on FDI inflows in Algeria. *International Economics Review*, 65(1), 90-115.
- Midoun Sissani, S., & Zairi Belkacem, A. (2014). Impact of political and economic instability on FDI inflows in Algeria. *International Journal of Economics*, 33(1), 78-95.
- Ministry of Energy. (2024). Annual report on foreign direct investment in the energy sector. Government of Algeria.
- Ministry of Finance. (2024). Alger: <https://www.mf.gov.dz/index.php/fr/>
- Ministry of Labour, Employment, and Social Security. (2023). <https://www.aps.dz/en/algeria/tag/Ministry%20of%20Labour,%20Employment,%20and%20Social%20Security>.
- Ministry of Public Works and Transport. (2023). ALGER: PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA.
- The Internal Auditor. (2024). Vision 2035. <https://www.theiaa.org/globalassets/site/foundation/latest-research-and-products/vision-2035-report.pdf>.
- UNCTAD. (2023). United Nations Conference on Trade and Development [UNCTAD], World Investment Report. United Nations.
- Vernon, R. (1966). International Investment and International Trade in the Product Cycle. *The Quarterly Journal of Economics*, 80, 190-207.
- World Energy Outlook. (2024). Energy Technology Perspectives 2024. <https://www.iea.org/reports/world-energy-outlook-2024>.