



# Algeria Debt Capital Market Study

African Local Currency Bond Fund



# 1. BOND MARKET ANALYSIS

## 1.1 Bond Market Overview

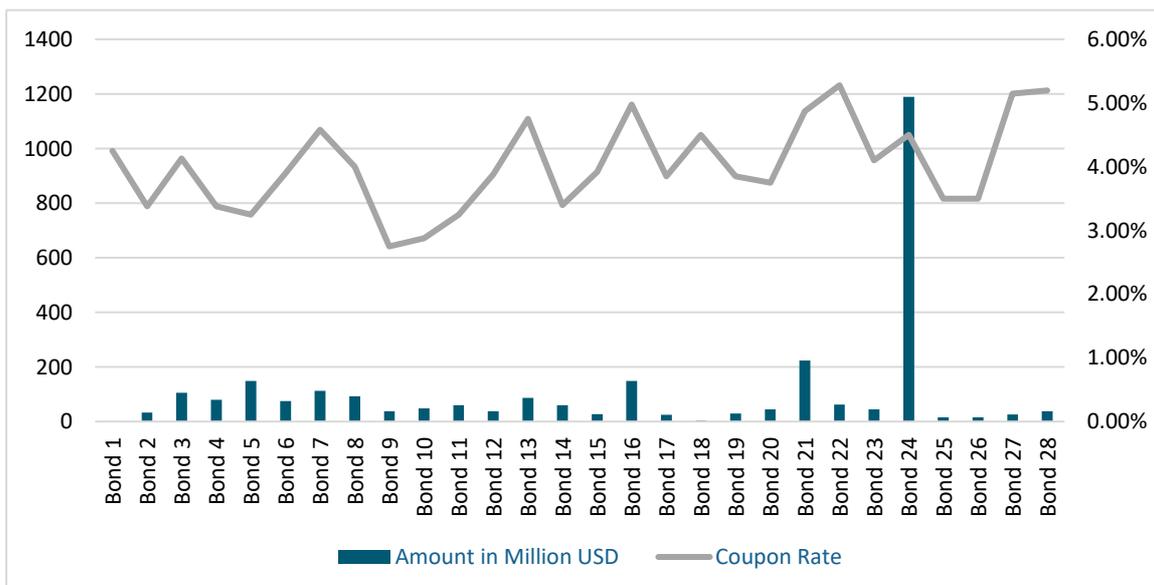
**The Bond market:** The Algiers stock exchange bond market is open to all private and public companies and a total of 28 bonds valued at 385,25 Billion DZD (2,87 Billion USD) have been issued on the exchange since 2003. The last bond issue listed on the stock exchange dates back to 2009, and the last listed bond was due in 2016. On the institutional bond market (over the counter), four bond issues are in circulation: two loans from the National Investment Fund (FNI) whose maturity is scheduled for 2024 for a total amount of 160 Billion DZD (1,19 Billion USD), a MLA loan whose maturity runs until 2022 for an amount of 3,5 Billion DZD (26,14 Million USD) and the SRH loan of amount of 5 Billion DZD (37,35 Million USD) whose due date is expected in 2023. The overall volume of bonds in circulation amounted to DZD 168,5 billion (1,253 Billion USD) as of December 31, 2020.

A total of **14** companies have issued bonds since 2003. The companies are from various sectors: financing, electronic communications networks, transport sector, food industry and mass distribution, electronics and household appliances, steel industry, flat glass industry, industrial construction, automotive, services, media, tourism sector, oil & gas drilling, public works and energy.

Figure 1: Cross-section of Bond Issuers



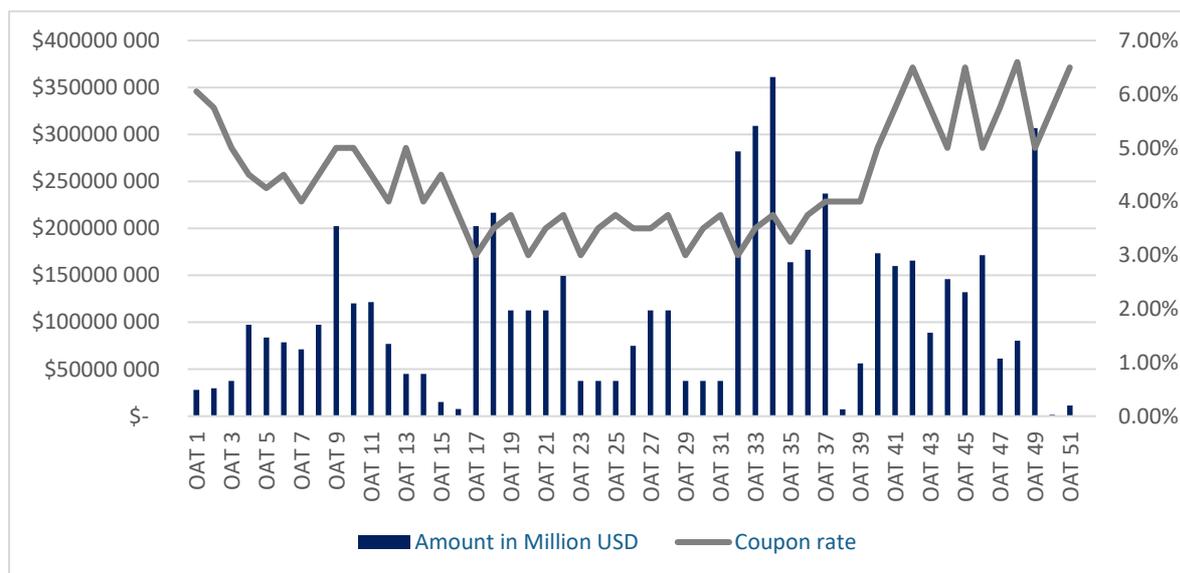
Figure 2: Algerian Corporate Bonds and Yield Variation Since 2000



**Market for Assimilable Treasury Bonds (OAT):** The Obligation Assimilable du Trésor (OAT) is a sovereign debt instrument issued by the Algerian State through the General Directorate of the Treasury, to finance its budget deficits. Assimilable Treasury Bonds are issued using an auction technique called the Dutch auction system and can only be purchased in the primary compartment by Specialists in Treasury Values (SVT) approved by the Directorate General of the Treasury.

At the end of 2020, twenty-nine (29) listed OAT lines were in circulation with an outstanding amount of 518.985 billion dinars against 486.362 billion dinars in 2019, an increase of 6.7% over one year. The amount issued during the year remained relatively at the same level as in 2019 and amounted to 52.626 billion dinars. The amount due during the year, meanwhile, amounts to nearly 20 billion dinars.

**Figure 3: Algerian Sovereign Bonds and their Yield Variation since 2000**



Since 2001 a total of 51 OATs have been issued for a total of 5,681 billion USD, and currently, 30 are still active with an end date running till 2036. The coupon rate varies between 3 and 6,5%.

**Figure 4: Yield Curve of Algerian Government OATs (since 2000)**



There are no correlations between the maturity of a Sovereign bond and its coupon rate as The Directorate General of the Treasury issues Obligations Assimilables du Trésor (OAT) with three main maturities, namely: seven, ten and fifteen years. Applicable rates are 3,75% and 5% for OATs, more than 30% of the sovereign bonds issued have a 3,75 or 5% coupon rate. The lowest applicable coupon rate is 3%, while the highest is 6%.

## 1.2 Corporate Bonds and Treasury bonds comparison:

	Corporate Bonds	Market for Assimilable Treasury Bonds (OAT)
Number of bonds issued	28 bonds since 2000	51 bonds since 2000
Total Amount	2,87 Billion USD	2,87 Billion USD
Amount	Smallest bond: 0,018 Million USD Biggest bond: 1,19 Billion USD	Smallest bond: 1,5 Million USD Biggest bond: 361 Million USD
Average Coupon Rate	4,06%	4,4%
Duration	7 year and 4 months average The most frequent duration selected is 5 years	Either 7, 10 or 15 years

### Success rate and failure reasons for corporate bonds:

Out of the 28 corporate bonds issued, 27 were successful, and only one did not reach its subscription objectives. Stock Company DAHLI was the only private sector company that issued publicly. However, the loan had a subscription rate of only 28%. The low subscription level was as a result of excess liquidity in the market, which led institutional investors (in particular banks) to not actively participate in this issuance since they had sufficient liquidity while complying with prudential rules. Another reason that led to that failure was the reluctance of the Algerian investors to invest in private companies after the bankruptcy of local private banks, which resulted in significant losses to depositors. The financial strength of the issuer also caused the failure of the loan as it was not sufficient and therefore represented a blocking point for most investors, the guarantees backed by this loan, which consisted of real guarantees in the form of a mortgage (Hilton Hotel and ABC tower) covering 170% of the maximum amount of the loan, had already been mortgaged in order to benefit from loans from the BEA (largest Algerian Bank) but yet were accepted by the COSOB.

**Estimated Cost of issuing a bond for corporates:** the cost of issuing bonds for corporates is usually calculated based on two charges related to the operation; regulatory fees and remuneration for the provision of services that are fixed by conventions.

**Table 1: Fees on Corporate Bond Issues**

Regulatory Fees	Remuneration for services
<p><b>The COSOB Fee</b> which is 0,075% of the gross amount of the issue (<i>Article 2 of the decree August 2, 1998 implementing Article 3 of Executive Decree No. 98-178 of May 20, 1998 relating to fees collected by COSOB</i>)</p> <p><b>SGBV Commission</b> (Stock Exchange Management Company) (<i>if bond is admitted on the stock market exchange</i>): Admission to the stock exchange: the rate of commission received by SGBV is set at 0.05% of the nominal amount admitted.</p>	<p><b>Lead Bank brokerage commission:</b> 0,15 to 0.30% of the gross amount raised</p> <p><b>Placement commission:</b> 0,25% of the gross amount raised</p> <p><b>Remuneration of the consulting office</b> :0.45 to 0,5% of the amount nominal issued</p> <p><b>Remuneration paid to ALGERIE CLEARING</b> (membership, account registration and securities transactions):</p>

<p>The amount of this commission cannot be greater than 2,500,000 DZD (18722,38 USD). Listing fees for a security: Initial registration 400,000 DZD (2995,58 USD), Additional registration 100,000 DZD (748,9 USD) and for any substitution or modification 100,000 DZD (748,9 USD) and costs of maintaining the quotation: 300,000 DZD (2246,69 USD) for bonds.</p>	<p>Membership: 10 DZD (0,075 USD) for 100,000 DZD (748,9 USD) of share capital (min 20,000 DZD / max 200,000 DZD)  Management fee: Listed securities = <math>1 / 5,000 * DC * \text{quantity of securities held}</math>  Unlisted Securities = <math>1/10,000 * NV * \text{quantity of securities held}</math>  Payment (dividends, interest, etc.): 1/1000 of the amount distributed  Repayment of capital: 1/10000 of the amount distributed  Increase in capital by issuing new securities 1/5,000 of the capital increase  Other transactions on securities having an accounting impact (division, consolidation, demerger of the company, etc.): 50000 DZD (374,45 USD)</p>
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### 1.3 Bond Market Actors

#### 1.3.1 Authorities and intermediaries

##### a. The Financial Market Authority "COSOB":

The Commission for the Organization and Supervision of Stock Exchange Operations (COSOB):

The COSOB is the authority of the Algerian financial market. Established by the legislative decree n°93-10 of May 23, 1993, modified and completed by the law n°03-04 of February 17, 2003, relating to the stock exchange, it is an independent administrative authority endowed with moral personality and financial autonomy.

##### ► Its field of intervention:

The field of intervention of the commission extends to the securities issued within the framework of a public call for savings, whether they are listed on one of the markets of the Algiers Stock Exchange or not admitted for listing. The SGBV, the central depository, the IOB, the TCC and the OPCVM exercise their missions under the control of the COSOB.

##### ► Its missions:

The COSOB's mission is to organise and supervise the securities market by ensuring in particular:

- The protection of savings invested in securities or any other financial product giving rise to a public call for savings. the proper functioning and transparency of the securities market. In this respect, the Commission submits to the Government an annual report on the activity of the securities market.

##### b. The Stock Exchange Management Company "SGBV":

The SGBV is a joint-stock company established as the manager of the Algiers stock exchange. Its capital is held by the approved IOB, its statutes and the appointment of its main managers are approved by the Minister in charge of finance after the opinion of the COSOB.

##### ► Its missions: The SGBV is in charge of the following activities:

- The practical organisation of the introduction in the Stock Exchange of securities
- The material organisation of the stock exchange sessions and the management of the trading and quotation system

- The publication of information relating to stock exchange transactions and the edition of an Official Bulletin of the Stock Exchange (BOC).
- The missions of the Company are carried out under the control of the Commission of Organization and Supervision of Stock Exchange Operations (COSOB).

#### **c. The central securities depository “Algeria Clearing”:**

The central securities depository is the organisation ensuring the cash settlement against the delivery of securities. Algeria clearing is a joint-stock company that performs the functions of the said depository; its statutes and the appointment of its main executives are approved by the Minister in charge of finance after the opinion of the COSOB.

#### **d. Intermediaries in stock exchange operations “IOB”:**

The intermediaries in stock exchange operations are legal entities approved by the COSOB to mainly carry out the trading of securities admitted to the stock exchange. The following can be approved for the exercise of the activities of IOB: banks and financial institutions, and commercial companies constituted for this purpose.

#### **e. The Account Holders-Custodians of Securities “TCC”:**

The custody account-keeping of securities consists in registering securities in the name of their holder and in keeping the corresponding assets, according to the terms and conditions specific to each issue of securities.

### **1.4 Potential investors**

#### **1.4.1 Institutional Investors:**

Institutional investors are defined as "financial organisations collecting savings resources and required, by their nature or their status, to use a significant part in investments in the form of securities.

The large amount of capital collected by institutional investors makes them essential suppliers on the market; they include:

**Insurance companies:** which invest a part of their resources in securities in order to meet the commitments made to their clients.

#### **Insurance companies that invest in the Algerian bond market are:**

The Algerian Company of Insurance and Reinsurance (Compagnie Algérienne d'Assurance et de Réassurance) (CAAR)

The Central Reinsurance Company in french Compagnie Centrale de Réassurance (CCR)

The National Insurance Company in french Société Nationale d'Assurance (SAA)

The Algerian Insurance Company in french Compagnie Algérienne des assurances (CAAT)

**The deposit and consignment funds:** which manage in particular the deposits made in the savings and provident funds

#### **Collective Investment Schemes in Transferable Securities (Les organismes de Placement collectif en Valeurs Mobilières) (OPCVM) :**

OPCVM are companies or funds whose purpose is to build up and manage a portfolio of securities and other financial products on behalf of third parties.

They are entitled to collect savings, however small, in order to be invested in the financial market according to a well-defined investment policy.

The constitution of a OPCVM requires the approval of the COSOB.

### There are two main legal families of OPCVM:

The open-end investment company (La société d'investissement à capital variable) (SICAV) is a joint-stock company that issues shares as and when subscription requests are received. There are currently two existing SICAVs in Algeria: SICAV CELIM and ALGER SICAV - ALGER AMERICAN ASSET GROWTH FUND "Le fonds commun de placement" (FCP) is a co-ownership of securities, without legal personality, which issues shares.

The purpose of OPCVM is to attract a large public to securities investments and to offer savers investment structures adapted to modest financial means, as well as complex individual portfolio management.

#### Banks:

They can meet the demand for long-term capital (demand of the financial market) either directly, by using a part of the capital that belongs to them (recourse to the market for the investments of the cash surpluses), or as intermediaries between the applicants and the suppliers of long-term capital.

Thanks to their networks, the banks ensure the coverage of the whole territory of the country and thus make it possible to collect the orders of purchase, sale and subscription and thus proceed to the operations on security to the profit of the holders of the securities (activity of intermediation)

#### Public sector banks that invest in the Algerian bond market:

Banque de Développement Local (BDL)  
Banque Extérieure d'Algérie (BEA)  
Bank of Agriculture and Rural Development (BADR)  
Crédit Populaire d'Algérie (CPA)  
National Bank of Algeria (BNA)  
Caisse Nationale d'Epargne et de Prévoyance (CNEP Bank

#### Private sector banks that invest in the Algerian bond market:

BNP Paribas EL-Djazair  
Société Générale Algérie

#### 1.4.2 Households:

Individuals who come forward to invest their financial savings and they represent an important source of investment in bonds. This type of investor, contrary to the others, is essentially interested in the remuneration perceived through their investments in bonds and do not have privilege neither on the level of the coupon, nor the regularity of the coupons paid. However, individual investors are not that frequent in Algeria.

#### 1.5 Historical Performance of the Corporate Bond Market

There was a gap in the market between 2010 and 2014, during which no companies were granted a (a written authorisation on the information notices drawn up which makes a public offering on the occasion of an issue of securities, an initial public offering or on the occasion of public offerings). This was linked to the excess liquidity situation of public banks. This excess liquidity was fuelled, on the one hand, by the importance of deposits in the hydrocarbon sector, and on the other hand, the result of the increase in the collection of savings from individuals. Hence, the massive granting of loans on favourable terms to companies that have no longer sought to diversify their financing.

In 2011, the public authorities agreed to participate in the rescheduling of the debts of companies in difficulty. Also, it was agreed that the Government would encourage banks to reschedule the debts of companies in difficulty, with a three-year grace period during which the Public Treasury will cover the interest, then the creditor bank will cancel the agios reserved for the company benefiting from the rescheduling. This decision contributed to further slowing the growth of the bond market in Algeria.

In fact, economic operators, and through the advantages provided by this system, will continue to rely exclusively on bank financing, knowing that they will benefit from these advantages granted and at the expense of the Public Treasury, in particular by taking charge of interest on deferred payments granted and cancellation of agios. Support for bank indebtedness to the detriment of the development of the financial market will further delay the development of the debt capital market and reduce the confidence of economic operators to turn to other methods of financing.

Many companies did not see any interest in resorting to bond loans, while they have the possibility to access advantageous loans granted by the National Investment Fund (FNI) in terms of duration and interest rate. All the more so as some public banks which had been involved in stock market operations have also started to offer 7-year syndicated loans, which are more attractive to them and their clients.

Since 2014, corresponding to the beginning of the period of the drastic fall in oil prices and deterioration of Algeria's financial situation, there has been a resumption of activity on the bond market. Issuers are financial institutions, particularly leasing companies, whose activities have become attractive thanks to incentives for the development of SMEs.

**Table 2: Detailed Listing of All Corporate Bonds That Have Been Issued To This Day**

Companies' information	Type of securities	Amount	Nominal Value	Bond information					
				Coupon Rate	Issue Date	Maturity of the loan	Negotiation	Purpose of the Loan	Investors
<b>Air Algérie</b>	Ordinary Bonds	32,87 Million USD	74,70 USD	3% and 3,75%	30/03/2004	Unknown	OTC negotiable bonds	Unknown	Unknown
		105,96 Million USD		3,75%, 4,5% and 6%	12/2004	6 years	Bonds admitted to trading on the Algiers stock exchange		
		80,03 Million USD		3% and 3,75%	19/12/2004	Unknown	OTC negotiable bonds		
		92,06 Million USD		4%	2005	Unknown			
<b>Cevital</b>	Ordinary Bonds	37,35 Million USD	74,70 USD	3,75% and 4%	18/01/2006	5 and 6 years	OTC negotiable bonds and retractable bonds	To finance part of CEVITAL SPA's investment plan.	Public Commercial Bank "Crédit Populaire D'Algérie" (CPA)
<b>ETRHB Haddad</b>	Ordinary Bonds	44,82 Million USD	74,70 USD	4,1%	10/12/2009	5 years	OTC negotiable bonds	Reinforcement of the company's production capacities through the acquisition of new public works equipment.	Public Commercial Bank "Crédit Populaire D'Algérie" (CPA)
<b>Dahli</b>	Ordinary Bonds	62,02 Million USD	74,70 USD	4%, 4,25%, 4,75%, 5,25%, 5,75%, 6,25% and	11/01/2009	7 years	Bonds admitted to trading on the Algiers	the realisation of the "ALGER MEDINA" project (three modules) consisting of an Aquatic Park, an Aparthotel and a marina	Public Commercial bank "Banque Exterieur d'Algérie" (BEA)

				6,75% (per year)			stock exchange		
<b>Algérie Télécom</b>	Ordinary Bonds	48,56 Million USD	74,70 USD	2,75% and 3%	12/11/2005	5 years	OTC negotiable bonds	To finance the investment program of the Algérie Télécom group.	Public Commercial bank "Banque Nationale d'Algérie" (BNA)
		149,45 Million USD		4%, 4,5% and 7,9%	17/10/2006	5 years	Bonds admitted to trading on the Algiers stock exchange	To finance the investments made by the subsidiary ATM Mobilis to develop the cellular telecommunications network	
<b>EEPAD</b>	Ordinary Bonds	3,73 Million USD	74,70 USD	4,2% and 4,8%	30/05/2007	6 years	OTC negotiable bonds	Support the growth of the company - Invest in a network specific to EEPAD TISP to reduce dependence on operator ALGERIE TELECOM, - Innovate its range of services and products	Public Commercial bank "Banque de l'Agriculture et du Développement Rural" (BADR)
<b>ENAFOR</b>	Ordinary Bonds	59,73 Million USD	74,70 USD	3% and 3,5%	08/12/2005	11 years	OTC negotiable bonds	The acquisition of drilling rigs and equipment planned as part of the company's development plan	Public Commercial bank "Banque Exterieur d'Algérie" (BEA)
		44,82 Million USD		3,75%	03/04/2008	5 years		The acquisition of devices and equipment for standard renewal and exchange for drilling rigs.	
<b>ENTP</b>	Ordinary Bonds	37,35 Million USD	74,70 USD	2,75%	18/07/2005	5 years	OTC negotiable bonds	To finance the acquisition of drilling rigs and equipment planned as part of the company's development plan.	Public Commercial bank "Banque Exterieur d'Algérie" (BEA)
		59,77 Million USD		3,3% and 3,5%	12/06/2006	11 years		To finance the company's investment program and to repay early, debts contracted in foreign currencies	

		29,88 Million USD		3,85%	04/12/2007	5 years		the acquisition of drilling rigs to increase the fleet of operational devices, equipped with modern technologies and meeting customer requirements.	
<b>FNI</b>	Ordinary Bonds	1,19 Billion USD	747,15 USD	5% and 4%	23/10/2014	10 years	OTC negotiable bonds	Unknown	Public Commercial bank (BEA) for 50%, the other 50% were provided by several public commercial banks (BNA, BADR, CPA CNEP, CNMA), two Private commercial banks (Société Générale Algérie and BNP Paribas el Djazair) and two insurance companies (CAAR and CAAT)
<b>ALC</b>	Ordinary Bonds	27,26 Million USD	74,70 USD	3,85% and 4%	19/07/2006	5 and 6 years	OTC negotiable bonds	To collect the funds necessary for ALC to finance leasing operations and the refinancing of loans contracted exclusively for the financing of leasing contracts.	Public Commercial Bank "Caisse d'Épargne et de Prévoyance" (CNEP banque)
		24,64 Million USD		3,85%	11/01/2007	5 years			
<b>MLA</b>	Ordinary dematerialized bonds	14,94 Million USD	74,70 USD	2,5%, 2,75%, 3,25%, 4% et 5% (per year)	29/03/2015	5 years	OTC negotiable bonds	To finance the acquisition of equipment and / or business premises to be given as financial leasing (financial leasing) or operating leasing (operational leasing) to MLA customers.	Public Commercial Bank "Caisse d'Épargne et de Prévoyance" (CNEP banque) 50% and Private Commercial "Bank BNP Paribas el Djazair"
		26,14 Million USD	74,70 USD 59,76 USD 44,82 USD 29,88 USD 14,94 USD (Per year)	4% 4,5% 5% 5,75% 6,5%	26/09/2017	5 years			Private Commercial "Bank BNP Paribas el Djazair"

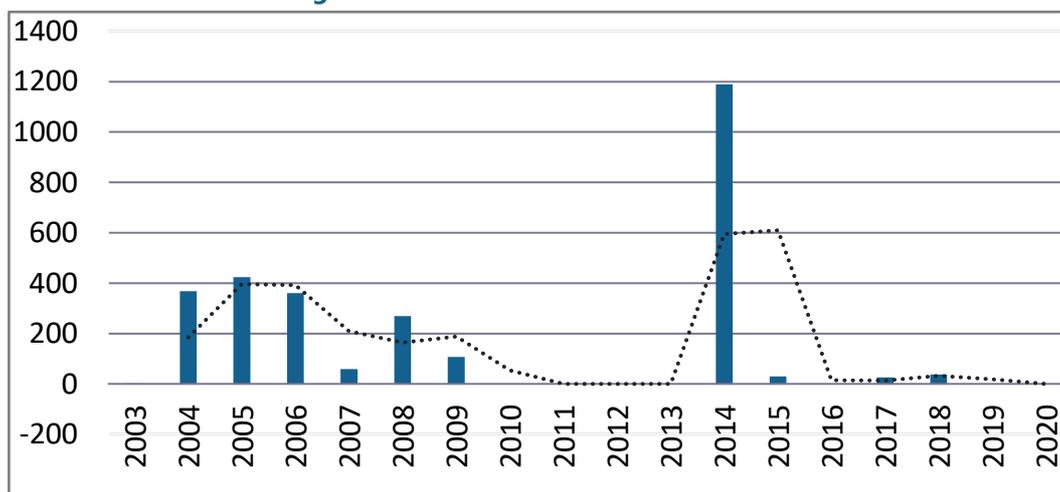
<b>SNL</b>	Ordinary dematerialized bonds	14,94 Million USD	74,70 USD 59,76 USD 44,82 USD 29,88 USD 14,94 USD (Per year)	3,5%	06/10/2015	5 years	OTC negotiable bonds	To finance the acquisition of equipment and / or business premises to be given as finance leasing (financial leasing) for the benefit of SNL customers.	Public commercial banks "Banque de Développement Local" (BDL) and "Banque Nationale d'Algérie" (BNA)
<b>SRH</b>	Ordinary Bonds	0,018 million USD	74,70 USD	4% and 4,5%	15/07/2003	Unknown	OTC negotiable bonds	Allow the BDL to refinance mortgage loans granted to private customers	(CPA), (CNEP banque), "Banque de (BDL), (BEA). (CNAC) and insurance companies" (SAA), (CAAR) and" (CAAT), Collective Investment Institutions in Transferable Securities "Selim SICAV"
		37,35 Million USD	747,15 USD	5,2%	02/04/2018	5 years		To refinance mortgage loans on one hand, and on the other hand, to finance the acquisition of real estate for the benefit of customers in the context of real	Public Commercial Bank "Crédit Populaire D'Algérie" (CPA)
<b>Sonelgaz</b>	Ordinary Bonds	149,41 Million USD	0,0074 USD	3% 3,25% 3,5%	23/12/2004	Unknown	Bonds admitted to trading on the Algiers stock exchange	Unknown	Unknown
		74,70 Million USD	0,0074 USD	3,5% 4% 4,2%	29/03/2005	Unknown		Unknown	Unknown
		112,05 Million USD	74,70 USD	3,5% 3,75% 4% 4,25% 5%	22/06/2005	Unknown		Unknown	Unknown

				7%					
		86,94 Million USD	74,70 USD	4,65% 4,85%	14/05/2006	9 and 11 years		To finance the Company's investment program planned for 2006: the construction of electricity transmission works gas transport and electricity and gas distribution.	Public commercial banks "Banque Nationale d'Algérie" (BNA), "Caisse d'Épargne et de Prévoyance" (CNEP banque) and "Banque Exterieur d'Algérie" (BEA)
		223,97 Million USD	37,32 USD	3,75% 4% 4,5% 5% 5,5% 6,5%	01/06/2008	6 years		To finance the Company's investment program planned for 2008: the construction of electricity production and electricity transmission works, gas transmission and electricity and gas distribution and the rehabilitation of electricity production and transmission structures.	Public commercial bank "Banque Nationale d'Algérie" (BNA)

**From the historical performance of the corporate bond market, we retain that:**

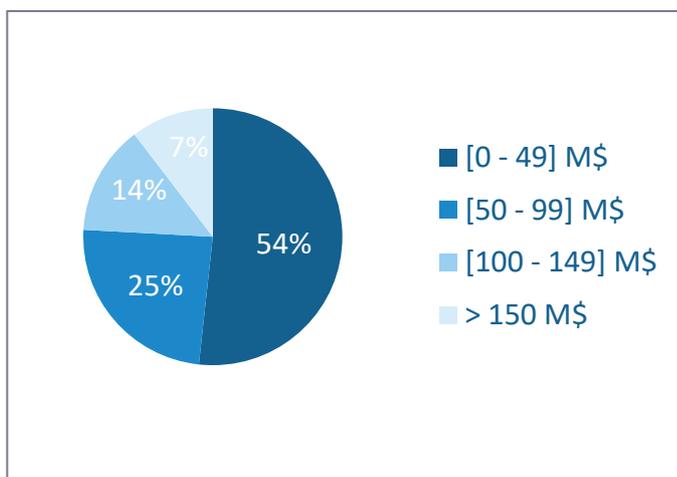
- Out of the 28 bonds issued, 28,57% (8 corporate bonds) chose to be admitted to trading on the Algiers stock exchange, which means 71,43% did not.
- Between the years 2004 and 2009, the institutional bond market experienced several issuances, unlike the years 2010 to 2013 when no loans were delivered.
- Since 2014 and a major loan issuance for the FNI amounting to 1,19 Billion USD, the market has known a few issuances but only minor ones.
- In 2019 and 2020, no bonds were issued.

**Figure 5: Total Bond Loans in USD'bn**

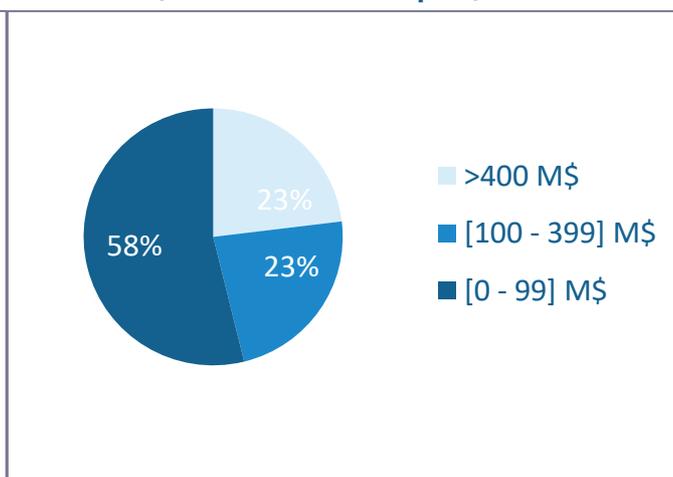


- 58% of the companies that benefited from a bond loan have a Social capital between 0 and 99 Million USD
- 23% possess a Social Capital between 100 and 399 Million USD
- The Final 23% of the companies that benefited from a bond loan are companies with a social capital higher than 400 Million USD
- The size of the loans varies between 0,018 Million USD and 1,19 Billion USD
- More than half of the loans granted are lower than 50 Million USD

**Figure 6: Size of the Loans Granted Since 2003**



**Figure 7: Size of the Companies that had Recourse to Bond Loans (Size of the Social Capital)**



## 1.6 Current Demand Analysis For Debt Analysis For Debt Capital Market

### Bond Supply Side Analysis: Algerian Corporates Survey

Three major private enterprises in Algeria gave their views regarding the Algerian bond market and their interest in other means of financing.

1. The first question asked was whether the bond issue is part of their debt strategy and 67% of them answered No, bond issue is not part of their debt strategy, at least not in the near future.
2. The second question was about knowing to what extent they will favor bond issuance over more conventional debt such as credit or equity issuance, and their answer was that they would prefer conventional bond issuance (institutional bond issue) not aimed at the general public.
3. We asked if they currently have the technical means to issue and monitor bonds, two answers raised: Some consider that they do not have the technical means to either issue nor monitor a bond issue while others consider that their Group has all the means to follow this type of operations.

The reasons keeping them from resorting to bond issuances remain the same:

- i) They usually reinvest a percentage of their profit; therefore, they do not need to reach for an external debt.
- ii) The weight of administrative procedures and the operational lack of control over this mode of financing.
- iii) The lack of activity and dynamism in the bond market

The advantages that they see in a bond issue:

- i) The financing of large-scale investment projects allowing industrial development
- ii) An easier way to raise large amounts in a period of crisis like the one the country is currently going through.
- iii) Financing projects without the obligation to put in place a lot of real guarantees
- iv) Financing without significant cash contributions, at an acceptable rate for better profitability
- v) Diversified financing method compared to banking thresholds and blocking banking conditions
- vi) Benefits linked to taxation and the scope of powers within the Group (Shareholders)

### Bond Supply Side Analysis: SME Survey

A survey was also submitted to a sample of five SMEs from various sectors (FMCG, Transportation, Energy), the first observation made was that:

1. All interviewed companies would consider bond loans part of their financing methods knowing that banking financing is reaching its limits.
2. Two of the SMEs interviewed would privilege a bond loan to finance large-scale projects.
3. A third company answered that they would solicit a bond loan to strengthen their working capital requirements.
4. The interviewed companies consider that they have the technical means to issue and monitor bonds.
5. When asked about barriers keeping them from resorting to bond issuances, the answers were mainly the same: **laws and regulation lacking clarity and finding the right opportunity with the right objective.**
6. The last question was about the advantages seen in resorting to a bond loan:
  - i. More advantageous financing costs
  - ii. Having the possibility to structure specific and real guarantees for a project
7. An additional question was to know their interest in having a foreign investor entering the Algerian Bond Market: **All interviewed SMEs would be favorable for a foreign investor entry provided the regulation is defined to grant access to them.**

## 1.7 Islamic Products Exchanged

The penetration of Islamic finance in Algeria remains relatively low. The two so-called Islamic banks, Al-Salam Bank and Al-Baraka Bank share 2% of the market, dominated by public banks, which control 83% of it. Of the 17% of the shares of private banks, the two Islamic banks hold 15 to 17%.

After the failure of the two previous initiatives, namely voluntary tax compliance and the launch bond issue, the National Bank of Algeria (BNA) became the first public bank; to have obtained the authorisation to market the relevant products of Islamic finance. In addition, the directors of the banks pleaded for the accompaniment; and the support of operators in Islamic finance.

In 2010, the COSOB recommended deepening and broadening the reflection on the terms of "Islamic bonds" given the lack of current legal coverage. The COSOB noted that in Algeria, sukuks have no legal basis and do not constitute securities as defined by the commercial code. They refer to a concept of restrictive property (without right of use) therefore not defined by the civil code.

In 2021, The High Islamic Council (HCI) submitted proposals to amend certain laws, including the Commercial Code, to allow the use of Sukuk in various transactions.

## 1.8 Update On Progress On Planned Bond Market Development

Even though Authorities are encouraging banks to diversify funding sources by developing the bond market and attracting money from the informal market, there are still no concrete actions nor plans that have been applied. The anticipated arrival of the new sharia-compliant instrument Sukuk to the bond market in the coming years is expected to add a further dose of dynamism (still, there is no precise date for their launch).

## 2 FOREIGN INVESTORS PARTICIPATION IN THE BOND MARKET

### 2.1 Foreign Investment Overview

The Algerian market is open to foreign investors. In addition, the Algerian authorities are trying to guarantee advantages for Algerian interests. Several restrictive rules applicable to foreign investments have been adopted.

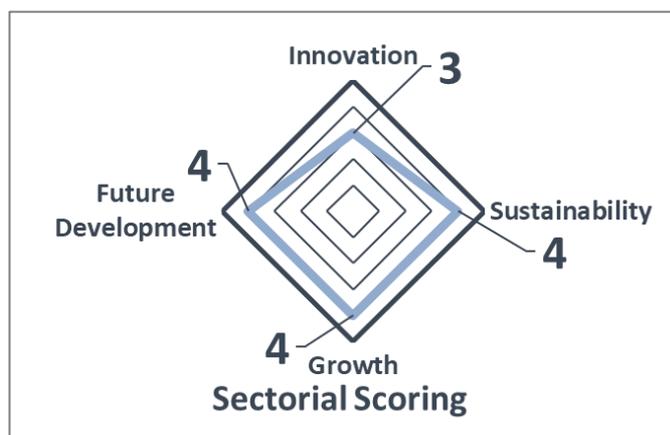
In order to define the high potential sectors in Algeria, we conducted a documentary study and data collection from government sources and other statistical organisations.

The data on the sectors collected was processed and analysed according to the following criteria: Growth, Innovation, Future development and sustainability, to establish what are the most attractive sectors in the country and present the opportunities and weaknesses of each sector, provide a clear vision on the future prospects of each sector and issue a sector scoring according to various relevant criteria.



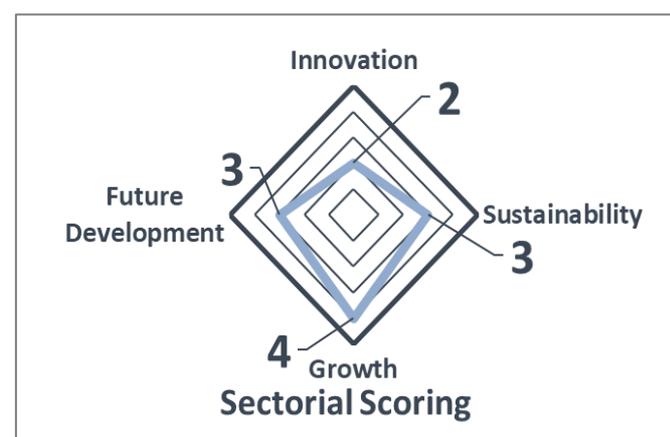
#### Health Sector

- ▶ **Innovation:** Efforts in terms of innovation have been noted, such as the development of tools and digital solutions to support healthcare professionals in the management of patient files
- ▶ **Future Development:** The supporting compartments are: Instruments and apparatus for medicine, surgery and other Electromedical apparatus. X-ray and medical imaging devices. Prevention / treatment in: diabetology, cardiovascular, respiratory.
- ▶ **Sustainability:** Projects to build 160 public and private health structures from 2019 to 2021 have emerged. The sector awaits the reception of 20 new hospitals while the private sector is growing at an average of 3-4 clinics per year.
- ▶ **Growth:** The Algerian pharmaceutical market is one of the main markets in the Middle East and Africa (MEA) region, thanks to vigorous and sustained growth for nearly 15 years, reaching 8% per year on average each year.



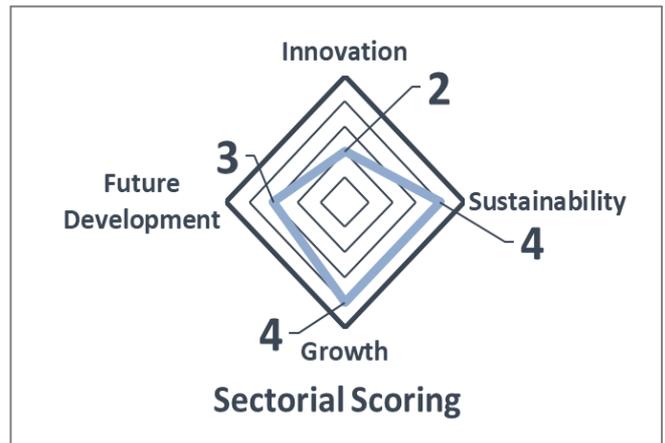
#### Automotive

- ▶ **Innovation:** The Minister of Energy Transition and Renewable Energies highlighted the need for electric locomotion in Algeria. Algeria's orientation towards electric cars aims to reduce the country's carbon footprint.
- ▶ **Future Development:** The supporting compartments are: Components for assembly, Accessories and spare parts, Garage equipment, Production equipment and Engineering and technical assistance for industry.
- ▶ **Sustainability:** The government initiated regulatory changes in 2020 to force manufacturers to increase the rate of local integration.
- ▶ **Growth:** Algeria is the 3rd largest automobile producer on the African continent.



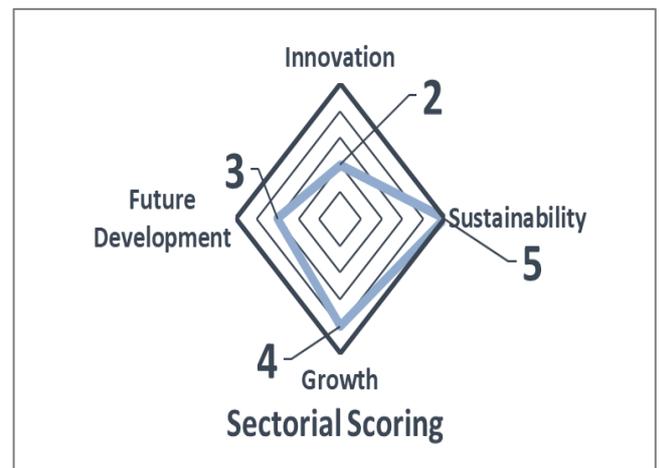
#### Real Estate

- ▶ **Innovation:** Innovation in the real estate sector is not yet developed; however, new technologies, smart buildings, site safety and town planning will be at the heart of the concerns of the various players in the construction industry.
- ▶ **Future Development:** The carrier compartments are: Technological innovation Architectural creativity Site safety Equipment installation (elevator, freight elevator).
- ▶ **Sustainability:** Several housing projects are under construction. The finance bill (PLF 2021) provides for the financing of a new housing program with 45,000 units and 130,000 self-construction grants.
- ▶ **Growth:** Of the total investments, investments in real estate represent 16%. Real estate sector turnover is estimated at just over \$ 1 billion, or less than 1%.



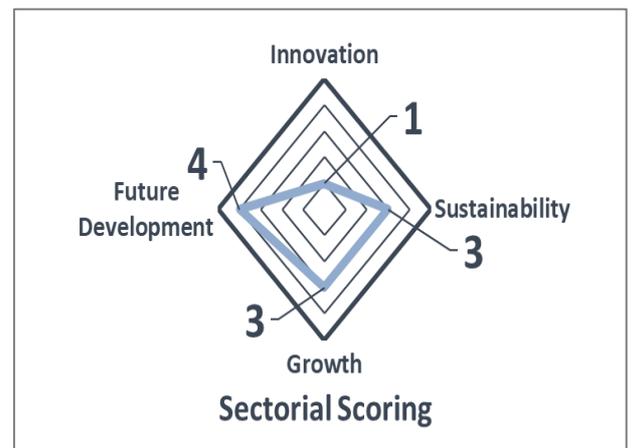
### Commercial

- ▶ **Innovation:** Innovation is not very present in this industry. On the other hand, the development of online payment offers a real change in Algeria.
- ▶ **Future Development:** The carrier compartments are: The Algerian market has enormous potential for e-commerce Modernise the commercial sector, in particular through the compulsory generalisation of very small businesses and online payment
- ▶ **Sustainability:** Investing in shopping center creation projects and opening up the Algerian market to major international brands are factors favorable to the growth and sustainability of this market on the national territory.
- ▶ **Growth:** Algeria has significant growth potential It has a total of 2,961 retail areas, 341 supermarkets and 52 hypermarkets. Algeria is the 2nd African retail market



### Tourism

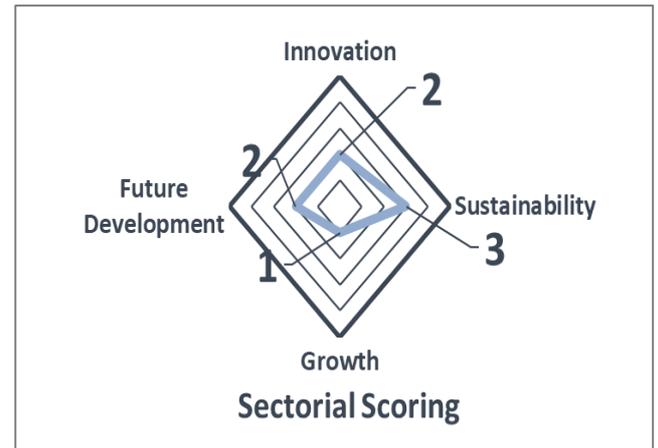
- ▶ **Innovation:** The industry must expand its offer to all types of activities, including seaside activities
- ▶ **Future Development:** Coastal regions as well as tourism in the Sahara Desert represent important growth vectors for the sector
- ▶ **Sustainability:** The Algerian authorities have new ambitions for the tourism sector, a new strategy has been put in place and many tourism projects are launched
- ▶ **Growth:** The number of tourism projects is increasing Despite everything, the number of tourists remains quite low and mainly made up of members of the diaspora, in particular because of the weakness of the infrastructures and a rather heavy visa regime.





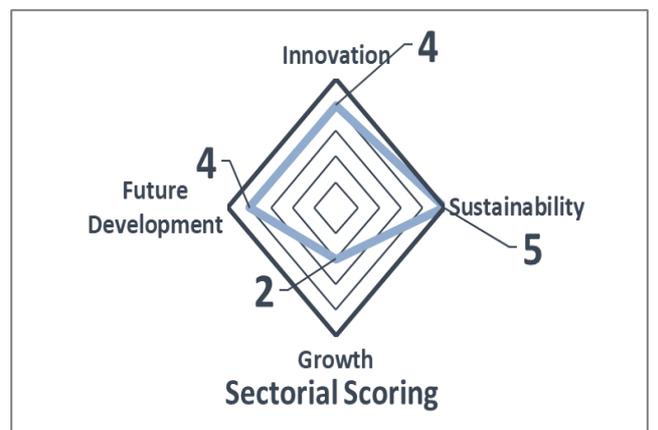
## Manufacturing industry

- ▶ **Innovation:** The manufacturing sector is dominated by public enterprises whose innovation rate is quite low
- ▶ **Future Development:** The promising compartments are as follows: Steel industry Textiles Petroleum derivatives
- ▶ **Sustainability:** The sector is predominantly publicly owned and the state ensures the survival of many national companies through subsidies
- ▶ **Growth:** Rather weak and volatile growth, the production of wealth in the sector remains marginal in relation to the country's GDP despite the stimulus plans and the subsidies granted



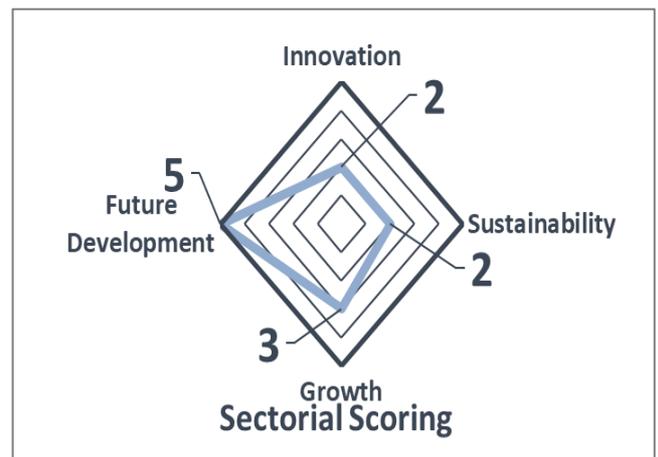
## Softwares

- ▶ **Innovation:** Constantly developing sector thanks in particular to the transfer of technology received as well as through the establishment of multinational companies
- ▶ **Future Development:** The promising compartments are as follows: ERP and PLM tools Cloud, SAAS, IAAS, PAAS solutions E-Banking Solutions Security solutions Artificial intelligence Customer data management solutions E-payment and E-commerce Mobile applications
- ▶ **Sustainability:** Due to the gap still to be filled, as well as the growing needs for digitisation and computerisation of companies and public administrations, the outlook for the sector is very promising.
- ▶ **Growth:** The sector is experiencing fairly low growth (1%)



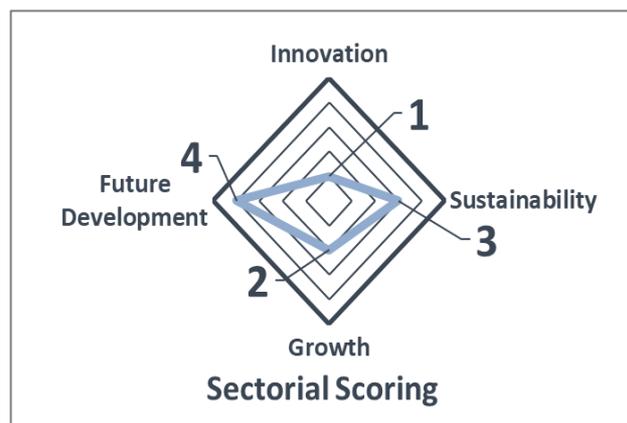
## Telecoms

- ▶ **Innovation:** The sector remains divided between innovative start-ups with a low market share and large national and international groups whose activities depend heavily on imported equipment and know-how (especially Chinese)
- ▶ **Future Development:** The supporting compartments are: Engineering and foreign expertise Consulting services Implementation of 5G E-governance Electronic signature Audio-visual E-Governance
- ▶ **Sustainability:** The industry is mostly owned by public companies or large international groups the sustainability of the sector strongly depends on the concentration risk presented by the sector.
- ▶ **Growth:** The sector continues to grow despite a delay recorded in recent years and a high concentration risk



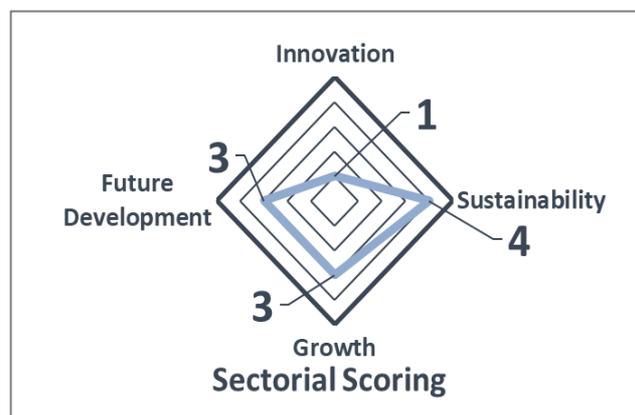
## Agriculture

- ▶ **Innovation:** The "Agriculture" sector benefits very little from new technologies, which are nevertheless within the reach of operators in the sector. As for the IAA, it is highly dependent on imported equipment, which limits innovation
- ▶ **Future Development:** The supporting compartments are: Engineering and foreign expertise Consulting services Packing and packaging Food processing Organic agriculture Mass breeding
- ▶ **Sustainability:** Given the delay recorded and the lack of innovation in the sector. The sector shows great promise and offers future development potential, particularly with the opening of the Algerian market to the African continent.
- ▶ **Growth:** The adoption of new technology will give a new dimension to the sector by offering it the tools and processes necessary to be more competitive on the local but also international market.



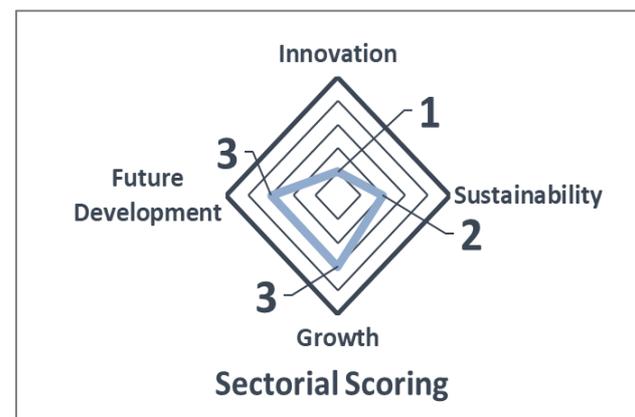
## Sports and leisure

- ▶ **Innovation:** The sector seems to have difficulty standing out and asserting itself economically, and it is marked by a context that does not encourage innovation and risk-taking.
- ▶ **Future Development:** The supporting compartments are: Foreign expertise, Football clubs, Training academies, Consulting Services, Management of sports facilities, Training and Sports Medicine
- ▶ **Sustainability:** Algeria is a young country that has a very important talent pool capable of propelling the sector.
- ▶ **Growth:** Economically, the sector remains unprofitable and seems to have difficulty freeing itself from the old paradigm of management of sports and leisure activities



## Banks and finance

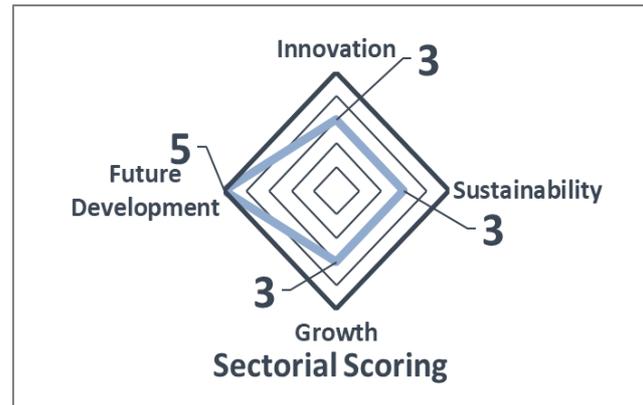
- ▶ **Innovation:** The Algerian banking sector shows rigidity in the face of change and the emergence of new technologies.
- ▶ **Future Development:** The supporting compartments are: Capital risk, Seed capital, Bi-banking, Islamic finance, Export of banking services, Expansion to the African continent Digital banking and Microfinance
- ▶ **Sustainability:** Faced with the current crises, the banking and finance sector has to reinvent itself and offer innovative solutions to economic players looking for financing.
- ▶ **Growth:** In the past, the sector has shown limits in the face of unfavourable macroeconomic conditions





## Energy

- ▶ **Innovation:** The emergence of new technologies in the energy sector in Algeria has accelerated the process of energy transition. Several innovative initiatives have been taken by economic operators to support the transition
- ▶ **Future Development:** The supporting compartments are: Engineering and foreign expertise Consulting Services Energetic Audience Thermal insulation of buildings Production of energy-saving lamps, mercury lamps, LEDs
- ▶ **Sustainability:** Faced with the erosion of natural resources by the massive extraction of hydrocarbons, renewable energies are considered as a real alternative
- ▶ **Growth:** The energy transition is one of the major axes of the Algerian Government, which aims to free the economy from the rent of hydrocarbons and diversify its sources of income.



## 2.2 Foreign Investment in Bond Market

In 2015, The Commission for the Organization and Supervision of Stock Exchange Operations (COSOB) suggested to the financial authorities the opening of the national bond market to foreign institutional investors as well as to non-resident nationals, to diversify the sources of productive financing investments undertaken by both public and private enterprises and boost the Algerian financial market.

It was also suggested that investment in bonds issued by Algerian companies could be authorised to a limited number of banks or foreign investment funds, called "qualified foreign institutional investors."

The COSOB also proposed that investment in bonds should also be open to non-resident nationals in order to mobilise their savings in foreign currency and to involve non-resident Algerians in the financing of the economy.

To this day, **the proposal has not been approved**, meaning that the Bond Market is still **not accessible to foreign investors**, and there is no record of any foreign fund, financial or any institutional company investing in the Algerian bond market.

**Attention point:** syndicated loans involving foreign and local investors are possible in the current regulatory context.

## 2.3 Rating bond issues

The stock exchange institution proposed the establishment of a rating system for issuers of debt securities in order to protect savings invested in securities.

Since the introduction of the bond market in Algeria, the COSOB has often had to require bond issuers for bank or real guarantees (mortgage, etc.), consequently increasing the cost of the bond, making some companies reluctant to resort to this type of financing. The suggested rating system will remove this fear and ease the conditions for issuing bonds.

The system will rate issuers according to their financial situation and their ability to repay their debts, which will gradually help replace the guarantees required when issuing bonds.

The COSOB proposed to entrust, on a transitional basis, the rating mission to the Algerian export insurance company (CAGEX), which already has evaluation and rating software called Cagex Rating, which is a solicited external financial rating system. It is built for the needs of the banking market for credit to economic enterprises. It is presented as a model for measuring, forecasting and anticipating the risk of default linked to bank credit intended for the benefit of the enterprise; it evaluates the repayment capacity (solvency) in the short and medium-term. This analysis aims to detect the possible and probable vulnerability of the borrower using economic and financial information and is adaptable to the rating of bond issues.

In order to make the securities of investments safe and profitable, the Commission recommends putting on the market treasury stocks, and bonds indexed to inflation.

Therefore, there is currently no listing authority, no bond rating organisation, nor software created strictly to evaluate bond issues.

**Attention point: Moody's, Fitch and Standard & Poor's agencies does not operate in Algeria.**

### 3 DIAGNOSTIC OF THE LEGAL, TAX AND REGULATORY FRAMEWORK

#### 3.1 Constraint Analysis on the Legal and Regulatory Framework

To be eligible for a bond issuance, companies must meet a certain number of conditions per Art. 715 bis 82 of the commercial Code:

- Joint-stock companies
- Two years of existence minimum
- Fully paid-up capital
- Drawn up two balance sheets regularly approved by the shareholders

These conditions do not apply to the issuance of bonds which benefit either from the guarantee of the State or legal persons governed by public law, or from the guarantee of companies fulfilling the conditions provided for.

They are also not applicable to the issuance of bonds that are secured by debt securities on the State or on legal persons governed by public law

#### 3.2 Assessment of the Regulatory Environment for Corporate Bonds

For the regulatory environment, the framework is defined by four Codes/regulations/decrees designed by the COSOB, The Algerian Bank and the Ministry of Finance:

The Commercial Code	
Legislative Decree No. 93-10 of 23/05/1993	amended and supplemented, relating to the securities stock exchange
COSOB Regulation No. 96-02 of 06/22/1996	relating to the information to be published by companies and bodies making public offerings when issuing securities
COSOB Instruction N ° 97-03 of 11/30/1997	applying the above-mentioned regulation

<b>Art. 715 bis 83.</b> Bonds are, as the case may be, accompanied by conditions or clauses of repayment or amortisation at Maturity or by drawing down. In the cases expressly provided for at the time of the issue, a bond may be constituted as a perpetual annuity giving the right to variable income and capitalisable without repayment of the principal.	
<b>Art. 715 bis 86.</b> If the company makes a public offering for savings, it must, before opening the subscription, complete the formalities of publicity on the conditions of the issue. The advertising formalities are specified by regulation.	
<b>Art. 715 bis 87.</b> The company cannot constitute any pledge whatsoever on its own obligations	

<p><b>Art. 3.</b> - Any company or public establishment which issues securities by making a public call for savings is subject to the establishment of a notice intended for the information of the public. This notice must contain the information which enables the investor to base his decision.</p> <p>In addition to the mandatory information provided for by the Commercial Code, the information notice includes information on:</p> <ul style="list-style-type: none"> <li>• the presentation and organisation of the issuer;</li> <li>• his financial situation;</li> <li>• the evolution of its activity;</li> <li>• the object and characteristics of the planned operation.</li> </ul> <p>It is dated and signed by the legal representative of the issuer.</p> <p>In addition, the capital entrusted to stock market intermediaries by their clients to be invested in transferable securities must be transferred by bank transfer</p>	
<p><b>Art. 4.</b> - The issuers referred to in article 3 above must file for approval with the Commission for the Organisation and Supervision of Stock Market Transactions, (COSOB), hereinafter referred to as the Commission, prior to any subscription transaction, a draft information notice, at least two months before the scheduled date of issue. The Commission's visa does not include an assessment of the proposed transaction. It relates only to the quality of the information provided and its compliance with the laws and regulations in force.</p>	
<p><b>Art. 46-8.</b> - COSOB Regulation n ° 12-01 of January 12, 2012: Debt securities are considered to be bonds, bonds convertible into equity securities, equity securities, or any other warrant giving entitlement to equity securities</p>	
<p><b>Art. 80.</b> - The listing process set up for equity securities traded on the market is the auction or continuous listing method, by application of the principles of a centralised market directed by orders, under the conditions set by SGBV. Debt securities may be listed on the bond market at fixing or continuously.</p>	
<p><b>Art. 1.</b> - A securities exchange is established.</p> <p>The securities stock exchange is the framework for the organisation and conduct of operations on securities issued by the State, other legal persons governed by public law as well as joint-stock companies.</p>	
<p><b>Art. 2.</b> - The securities exchange is held in Algiers.</p>	

### 3.3 Regulatory Requirements for Foreign Investors to Participate in Local Corporate Business Issuances

Foreign investments in the production of goods and services can only be carried out within the framework of a partnership in which the resident national shareholding represents at least 51% of the share capital of a commercial company.

These investments must:

- Be the subject of an investment declaration to the National Agency for the Development of Investment (ANDI)
- Be subject to prior review by the National Investment Council (CNI);
- Present a surplus currency balance in favour of Algeria.

As for the bond market specifically, there are no regulatory requirements since the national bond market is not open to foreign institutional investors yet.

### 3.4 Taxation implications on foreign domiciled investors and repatriation considerations as well as foreign exchange controls

#### 1) General Taxation:

- A withholding tax of 10% is applied on interest on bonds
- For Treasury bills, a fixed rate of 10% is payable at maturity, while for coupon-bearing instruments, tax is paid on the coupon date
- Bonds with a maturity of more than five years are tax exempt.

#### 2) Foreign Investment

Under **the regulation n ° 2000-03 of April 2, 2000** relating to foreign investments, any fixed asset financed from external contributions are considered as foreign investments, namely:

- Equity in foreign currencies regularly imported.
- Contributions in kind of external origin, recognised in accordance with legal and regulatory provisions.
- External financing not guaranteed by a bank or a financial institution governed by Algerian law.

#### 3) Benefits:

Foreign investments in Algeria benefit from the transfer of net profits. This transfer is authorised by the exchange control of the Bank of Algeria within a period not exceeding sixty (60) days from the filing of the transfer request.

The amount of transfers authorised is set in proportion to the external contributions compared to the overall investment if the latter has been the subject of mixed financing with a quota in Algerian dinars and/or local contributions in kind.

In the event of cessation of activity or transfer, the proceeds of the divestment to be transferred are authorised by the foreign exchange control of the Bank of Algeria, subject to the presentation of an authentic deed establishing the transfer.

### Regulation No. 07-01 relates to the rules applicable to current transactions abroad and currency accounts of the Bank of Algeria

**Art. 3.** - Without prejudice to the legal and regulatory provisions in force, payments and transfers relating to current international transactions are free. They are carried out through approved intermediaries.

**Art. 4.** - It is understood, within the meaning of these regulations, by payments and transfers relating to current international transactions, in particular:

Payments and transfers made for foreign trade operations on goods services, including technical assistance and current operations related to production;

Payments made as interest on loans and net income from other investments

Loan repayments

**Art. 7.** - the currency and credit council delegates the application of foreign exchange regulations to banks and financial institutions, authorised intermediaries, the only ones authorised to deal with trade and change transactions. The latter must ensure their regularity with regard to the laws and regulations in force.

The financial services of Algeria Post are empowered, within the limits of the prerogatives devolved to them by the law applicable to them, to make certain payments and transfers/repatriations of funds.

The Bank of Algeria exercises a posteriori control to ensure the regularity of transactions carried out under this Regulation.

**Art. 21.** - Exchange transactions between Algerian dinars and freely convertible foreign currencies can only be carried out through approved intermediaries and/or the Bank of Algeria

**Art. 65.** - Receipts from exports excluding hydrocarbons and mining products can only be collected from the authorised intermediary domiciliary of the contract.

**Art. 67.** - upon repatriation of export earnings excluding hydrocarbons and mining products, goods and services, the approved intermediary makes available to the exporter:

The part in foreign currencies due to him, in accordance with the regulations in force and which is lodged in his foreign currency account

The equivalent in dinars of the balance of receipts from exports subject to the obligation to transfer

## 4 DIAGNOSTIC OF THE CURRENT CHALLENGES AND FINANCING SOURCES FOR SMES IN ALGERIA

Until 2001, the concept of small and medium-sized enterprise was not clear, the SME had no official definition. The National Statistics Office (ONS) defined the SME in different contexts based on the number of employees. In 2001, Algeria adopted the definition given by the European Union to SMEs, which has been recommended by the OECD to a large number of countries. The official definition of an SME is, therefore that given by law 01-18 of 21 December 2001 on the orientation law for the promotion of SMEs and which defined the SME and the tools for its promotion.

This law, in its fourth article, defines the SME as being "Any enterprise producing goods and/or services; employing 1 to 250 people; whose annual turnover does not exceed 2 Billion of Dinars or whose annual balance sheet total does not exceed 500 million Dinars and whose capital is not held at 25% or more by one or more others companies". In addition, law 01-18 distinguishes, in these articles 05.06 and 07, three categories of SMEs summarised in the table below.

Enterprises	Staff number	Turnover in DZD
Very Small	from 01 to 09	< 20 millions
Small	from 10 to 49	< 200 millions
Medium	from 50 to 250	< 02 milliards

### 4.1 SMEs Financing Sources

The financing of SMEs is the most important phase for the smooth running of its production cycles. The seed capital that allows the creation of the company is provided by the close circle of friends. More often, entrepreneurs use internal resources in the early stages of the company's development. Then when they have the required size, SMEs can resort to external resources such as bank loans.

#### 4.1.3 Internal resources

##### 1) Self-financing:

Self-financing is considered as the financing carried out by internal resources (equity capital), or the wealth generated by the enterprise and kept to finance its future operating or investment needs. On another level, self-financing results from the self-financing capacity (CAF) minus the dividends distributed during the financial year

##### 2) Disposal of assets:

The sale of assets, whether operating or non-operating, provides the company with additional resources that it can use for modernisation, renewal or investment. As for non-operating assets, assets considered as non-productive, such as unused land, their disposal provides the company with considerable financial support. As for operating assets, it is the disposal of assets that the company uses but could do without; in this case, it is the sale of non-strategic activities or the disposal of certain activities with a subcontracting contract; these are financial operations whose purpose is to release cash.

##### Use of working capital:

The working capital is a surplus resource available to the company to cope with unforeseen events; it depends on the type of activity of the company, opportunities and obstacles to growth, relations with suppliers and customers, the speed of the operating cycle and the variation of this speed. It allows the company to survive if all short-term financial support is withdrawn. It enables the company to finance current assets, fixed assets and working capital requirements.

#### 4.1.4 External resources

##### 1) Short-term loans

###### i) Operating loans:

These are loans taken out with banks or specialised financial organisations, or simply loans that have been the subject of mobilisation agreements with the national credit or the deposit and consignment office.

###### ii) Global credits:

Those are credits of very short duration; they can go from a few days to a few weeks, even one year. They are there to help the company to face its daily expenses, independently of the receipts perceived at the time of the sale of the produced goods and services. That said, compared to installment loans, they are riskier and increasingly expensive, but they allow the applicant flexibility in granting, using and amortising them, "which is why they are preferred by SMEs. "

##### The global credits that exist are:

###### a) The overdraft facility:

The overdraft facility is a credit intended to cover the short-term differences between expenses and receipts; it is therefore utilised when the company wants to pay its expenses, and its receipts will be cashed only a few days later. It is repaid from the expected receipts.

*How it is obtained:* a request (written or verbal) is preliminary to any operation source of debit such as an emission of check.

*Its duration:* If it is an exceptional need, the facility is subscribed for a few days; in the case of a need that is renewed periodically, the bank will set up an authorisation valid one year.

###### b) The overdraft:

The overdraft is considered as a cash credit granted to a particular customer over a much longer period of time than the overdraft facility, which can reach several weeks or even several months. It allows a company to temporarily meet a need for working capital that exceeds the possibilities of its working capital. It is therefore used by a company when it has a momentary shortage of working capital due to an increase in current assets and consequently an increase in working capital requirements.

In Algeria, the Central Bank requires banks to ensure that the overdraft is exceptionally authorised in the maximum limit of 15 days of the turnover of the companies.

*Methods of obtaining:* To obtain it a request (written or verbal) is preliminary to any operation source of debit such as an emission of check.

*Use:* It is generally done in one time, but can be divided into several uses. The customer may use this authorisation by any means of payment available to him.

*Repayment:* Repayment is made at the end of the overdraft in one go for the full amount authorised.

###### c) The campaign credits:

This credit is made available to industrial or commercial companies whose activity is seasonal in order to build up stocks and finance their production cycle, thus bridging the gap between expenses and receipts; the company can therefore produce goods and services throughout the year and sell them over a short period, as well as buy over a short period and sell throughout the year.

*Repayment:* It is made when the product of its sales is cashed in.

*Duration and amount:* To determine the amount of the credit (determined on the basis of the highest need in amount) and its duration (which can reach several months), the banker establishes a financing plan for the campaign.

**d) The bridging loan:**

The bridging loan is linked to a specific operation outside exploitation; it is intended to allow the company to anticipate an inflow of funds (transfer of an asset, increase in capital, bond loan) which will ensure its repayment. This loan occurs within a determined period and for a precise amount.

**e) Specific appropriations:**

These are appropriations intended to cover the need shown in a specific item and can only be used to finance that item.

The following are some of the credit lines that exist:

▶ **The one-off credit:**

When the client needs exceptional financing, they apply for a one-time loan to finance their need, which is generally used in emergency situations since it is an operation that does not require much time to be carried out, but it can only be used by the client very rarely.

▶ **Securities advance:**

It is an exceptional credit granted as a guarantee of a pledge of securities, it is an advance of funds to the credit of the account of the client holding the investment securities (savings bonds, shares, bonds)

Its amount does not exceed 80% of the total amount of the pledged securities and the interest is paid on the total used.

▶ **Advance on invoice:**

The advance on invoice is a form of credit intended to finance the receivables of companies; their customers are generally public administrations that pay their debt by orderly transfer at the level of the public treasury.

This credit is also called advance on situation; the realising company establishes a situation of works valued for the account of the SME, which this one transmits to the bank for exploitation.

Modalities of obtaining: The customer, to benefit from this type of credit, must present a purchase order, a delivery order, the invoice, irrevocable commitment of his customer to pay his debt through the current account of the customer opened on the books of the bank,

The amount: It must not exceed 70% of the amount written on the invoice. Repayment: The customer has a 90 days deadline.

▶ **Advance on goods:**

It is a credit intended to finance the stocks, and in guarantee, the goods will be put in pledge at the bank; it can be kept in the premises of the customer, the bank or a third person, as they can be placed in general stores (establishment approved by the State whose warehouses allow to receive in deposit and to preserve any not prohibited goods), in this case, a receipt-warrant will be delivered.

*The receipt:* the receipt represents the receipt of the goods; it is transmissible by endorsement.

*The warrant:* the warrant is a pledge form attached to the receipt of goods deposited in the general stores.

It is specified that this method of financing does not exist in Algeria.

## **f) Discounting:**

Discounting is a form of credit that allows the company to meet a possible need for cash. This is done through the payment of bills representing customer receivables that have not yet reached maturity. It will therefore discount them with the bank, i.e. it will sell this receivable to the bank by an endorsement which grants the bank the right to ownership and recourse in case of default of the debtor. According to Article 152 of the Commercial Code "the persons who discount the bills created in representation of the said credits are defined by right to the creditors. "

## **g) Financing of public contracts:**

The public contract is a written contract between the State, public authorities, public establishments of an administrative nature, specific public establishments, public establishments of an industrial and commercial nature and public economic enterprises, when they are responsible for carrying out an operation financed, totally or partially, with temporary or definitive assistance from the State" and "contractors or suppliers; with a view to carrying out work, acquiring supplies, carrying out studies, or providing services. "

There are three types of government contract financing:

### *Pre-financing credit for government contracts:*

The pre-financing credit is set up during the period when the holder of the public contract has no claim on the administration.

This credit allows it to cover the financing needs related to the execution of the contract, which will be reimbursed when the administration makes its payments.

### *Advances on delegated contracts:*

This appropriation allows for the mobilisation of receivables due from the government pending their settlement.

### *Contract bonds:*

The contract sureties that can be obtained by a client are of great help to the holder of a public contract because they allow him, depending on the case, to avoid an outflow of funds or to receive advances and payments on account.

The provisional award bond: guarantee that the bidder intends to carry out the contract.

Performance bond: also called performance bond or final bond, which guarantees the proper execution of the contract.

Advance payment bond: this allows the contractor to receive advances or payments on account even before the start of the contract.

The guarantee of retention of guarantee: it allows the advance reimbursement of the retention of guarantee contractually imposed on the contractor to cover the necessary repairs detected at the reception of the contract.

## **h) Factoring:**

Factoring is an act under the terms of which a specialised company, called a factor, becomes subrogated to the rights of its client, called a member, by paying the latter the full amount of a fixed-term invoice resulting from a contract and by taking over, in return for remuneration, the risks of non-repayment.

In other words, the factoring contract involves both the transfer of the debt by conventional subrogation and the guarantee of the risk of non-payment. As soon as the contract is concluded, the debtor must be informed, by registered letter with acknowledgement of receipt, of the transfer of the trade debt to the factor.

This form of credit is not used in Algeria because of the absence of factor companies.

**i) Credits by signature:**

The credits by signature are the banking loans which take the form of commitment, i.e., the bank commits itself with its customer to pay in his place his suppliers if he does not have enough funds to discharge himself his debt at the foreseen deadline. They are used to defer certain disbursements, avoid them or accelerate certain cash receipts. Unlike cash credits on the bank's balance sheet, signature commitments are recorded off-balance sheet.

Among the signature credits that exist there are:

*Endorsement:*

The guarantee is an undertaking, given on the bill of exchange or by a separate deed, by a third party or even by a signatory to the bill of exchange, to pay all or part of the amount of the bill of exchange in the event of default by the principal on the due date. In the case of a bank guarantee, it is the bank that acts as guarantor.

The Commercial Code, according to article 409, defines the guarantee as follows: "The payment of a bill of exchange may be guaranteed for all or part of its amount by an endorsement.

This guarantee is provided by a third party or even by a signatory of the bill.

The guarantee is given either on the bill of exchange or on an allonge, or by a separate deed indicating the place where it was given.

It is expressed by the term "good for endorsement" or by any other equivalent formula; it is signed by the giver of the endorsement.

It is considered to result from the signature of the giver of the guarantee on the face of the bill of exchange alone, except when it is the signature of the drawee or the drawer.

The guarantee must indicate on whose behalf it is given. In the absence of this indication, it is deemed to be given for the drawer.

The giver of the endorsement is bound in the same way as the person for whom he has acted as guarantor.

His commitment is valid even if the obligation he has guaranteed is void for any reason other than a defect in form.

When he pays the bill of exchange, the giver of the guarantee acquires the rights resulting from the bill of exchange, against the guaranteed party and against those who are bound to the latter by virtue of the bill of exchange. "

*Acceptance:*

Acceptance is an undertaking by the banker through his signature on a bill of exchange guaranteeing its payment at maturity. The banker becomes the principal obligor towards the creditor. This form of credit by signature can be used in national or international trade.

According to Article 405 of the Commercial Code: "- Acceptance is written on the bill of exchange. It is expressed by the word "accepted" or any other equivalent word; it is signed by the drawee. The mere signature of the drawee on the face of the bill of exchange shall constitute acceptance.

*Guarantee:*

The bank guarantee can be defined as a signature loan by which the banker undertakes to pay the customs services, the tax authorities or the public administrations in the context of public contracts, in the place of his client in the event of the latter's default on the due date.

It must be in writing and include an amount and a duration (a deadline).

This form of credit offers the company the possibility of optimising its cash flow management by allowing it to defer payments, avoid disbursements, or accelerate collections.

The different types of guarantees that exist are:

- **The administrative bond:** relating to public contracts.

**The customs bond:** It represents an important part of the bank's commitments. Indeed, the customs duties are due as soon as the imported goods enter the national territory. The importer will face, therefore, an important charge of treasury that he would like to delay until the resale of the product in the state, its transformation.

- **Tax bonds:** A customer can ask his bank for a tax bond guaranteeing the tax authorities the payment of duties and taxes by a certain deadline, and allowing the customer to defer this disbursement. This guarantee is very rarely granted.
- **The documentary credit:** This operation of settlement of the foreign trade operations ensures to the exporters the maximum security to obtain the payment of their transactions. It allows the importer's commitment to be substituted for that of his bank.

**The settlement of the documentary credit:**

**Sight settlement:**

Sight settlement of a CREDOC involves the transfer of funds against receipt of proper documentation. Payment must be made within ten working days from the day following the call for funds message.

**Deferred payment/acceptance:**

The supplier usually grants a payment term of 59 days for the importing customer, and in this case, the latter will only pay the invoice amount on a pre-determined date in the letter of credit. The Middle Office (MO) comex manager of the file must ensure that the file is programmed on time and in accordance with the deadline set out in the Letter of Credit.

BNP Paribas' acceptance or commitment to pay the presenting bank on the due date is executed upon receipt of the compliant documents, or upon receipt of the lifting of reservations relating to the same types of files.

## 2) Short and long-term borrowings

### i) Investment loans:

An investment loan can be defined as a loan that finances the upper part of the balance sheet (fixed assets) and whose repayment period is more than two (2) years. They are divided into two (2) types: medium and long term.

### ii) Medium-term credits:

This type of credit finances the acquisition of goods and equipment, materials or light constructions whose amortisation period is compatible with that of the credit. The repayment period is generally from two (2) to seven (7) years and may include a deferment period of two (2) years maximum.

### iii) Long-term credits:

These are loans intended to finance heavy fixed assets (large machinery, building) whose amortisation period exceeds seven (7) years. The repayment period, which is similar to that of the Medium-term credits, i.e., staggered, can range from 12 to 15 years but does not exceed 30 years; this period sometimes includes deferral years ranging from 2 to 5 years.

An SME can use this credit, for example, the acquisition of land, construction of premises or storage sheds.

#### **iv) Leasing:**

It is a modern means of financing movable goods (or real estate) in particular the equipment, which took a considerable extent in the developed countries but remains all the same limited in Algeria, because relatively recent.

#### **v) Capital increase:**

The increase of capital is an external financing operation because the company addresses partners who are legally third parties with respect to it, although this operation does not engage repayment. This form of financing is used when the self-financing capacity is insufficient to cover the needs arising from investments.

## **4.2 Support Organisations for the Development of SMEs**

On the political level, one attends a multiplicity and a multiplication of the programs and organisations aiming at the encouragement and the help of the SME in almost all the countries of the world. Algeria has not escaped this wave; several organisations and structures have been created in order to develop this sector.

### **1) Local facilitation structures**

The local animation structures are designated by the facilitation center and the business incubators.

#### **i) The facilitation center**

The facilitation center was created by decree N° 03-78 of February 25, 2003. The facilitation center is a Public Establishment with an administrative character "EPA". It has legal personality and financial autonomy.

Its missions are to:

- Develop the culture of companies
- Offer a window adapted to the needs of business creators and entrepreneurs
- Verify the good adequacy between the project, the sector of activity and the profile of the candidate and his motivations
- Reduce the time needed to create, expand and take over a business;
- Accompany small and medium-sized enterprises in national and international economic integration;
- Accompany the creators of projects and entrepreneurs in the field of training and management
- Encourage the development of new technologies among project leaders
- Promote and encourage the dissemination of know-how; and
- Disseminate the aid and support systems for SMEs.

#### **ii) Business incubators**

The business incubator was created by decree N° 03-78 of February 25, 2003. The business incubator is a Public Establishment of an industrial and commercial nature "EPIC", it is endowed with legal personality and financial autonomy.

#### **The mission of the Business Incubator is to:**

- Offer personalised advice;
- Accompany and follow the project holders before and after the creation of their company;
- Examine the business plans of the future tenants carrying projects within the incubator;
- Study all forms of assistance and follow-up;
- Elaborate a plan of orientation for the various sectors sheltered by the nursery;
- Study and propose the means and the instruments of promotion and implantation of the new companies;

- Help the companies to overcome the difficulties and the obstacles which they are confronted with; and
- Encourage the emergence of innovative projects;

## 2) **Investment support agencies (they are also called: job creation support agencies)**

The devices of support to the investment are concretised in Algeria by two public agencies: The National Agency of Development of Investments (ANDI) and the National Agency of Support to the Employment of Young people (ANSEJ).

In addition to these two mechanisms, a National Agency for the Management of Microcredits (ANGEM) was created.

### **i) National Agency for the Support of Youth Employment (ANSEJ)**

It is a public institution created in 1996, in charge of encouraging, supporting and accompanying young unemployed people who have an idea for a business creation project. It manages, in accordance with the legislation and regulations in force, the allocations of the National Fund for the Support of Youth Employment, in particular aid and interest rate subsidies, within the limits of the envelopes made available to it by the Minister of Labor and Employment<sup>23</sup>.

This scheme has been in place since 1997 to enable young people between the ages of 19 and 35 (for the manager the age can be up to 40) to set up small businesses (generally micro-businesses) with a total cost of no more than 10 million dinars. It can concern two types of investment: the creation or the extension of the project.

### **ii) The National Agency for Investment Development (ANDI)**

The National Agency for Investment Development is a public establishment with legal personality and financial autonomy. Its main mission is to develop and monitor investments by facilitating the completion of administrative formalities relating to the launch of business creation projects through a single operational window.

Investment projects can benefit from tax exemptions and reductions depending on the location and the impact of the projects on economic and social development.

### **Projects carried out in the NORTH:**

#### **a) Implementation phase:**

- Exemption from customs duties for goods imported and directly involved in the realisation of the investment.
- VAT exemption for goods and services imported or acquired locally and directly involved in the realisation of the investment.
- Exemption from transfer duty and land registration tax for all real estate acquisitions made within the framework of the investment concerned.
- Exemption from registration fees, land registration tax, as well as the state fee for concessions of built and unbuilt real estate intended for the realisation of investment projects. These advantages apply for the minimum duration of the concession granted.
- 90% discount on the amount of the annual rental fee set by the domain services during the period of realisation of the investment.
- Exemption from real estate tax on real estate properties within the framework of the investment, for a period of ten (10) years, starting from the date of acquisition.
- Exemption from registration fees on the constitutive acts of companies and capital increases.

#### **b) Exploitation phase:**

- For a period of three (3) years for projects creating up to one hundred (100) jobs at the time of the start of the activity and after establishment of entry into activity by the tax authorities at the request of the investor:
- Exemption from the tax on corporate profits (IBS).
- Exemption from the tax on professional activity (TAP).
- 50% discount on the annual rental fee set by the estate services.

### **Projects conducted in the SOUTH, the HIGHLANDS, and the areas whose development requires a particular contribution from the State**

#### **a) Phase of realisation:**

- Exemption from customs duties for goods imported and entering directly into the realisation of the investment.
- VAT exemption for goods and services imported or acquired locally and directly involved in the realisation of the investment.
- Exemption from transfer duty and land registration tax for all real estate acquisitions made within the framework of the investment concerned.
- Exemption from registration fees, land registration tax, as well as the state fee for concessions of built and unbuilt real estate intended for the realisation of investment projects. These advantages apply for the minimum duration of the concession granted.
- Exemption from the real estate tax on real estate properties entering within the framework of the investment, for a period of ten (10) years, as from the date of acquisition.
- Exemption from registration fees on the constitutive acts of companies and capital increases.
- Partial or total coverage by the State, after evaluation by the agency of the expenses for the infrastructure works necessary for the realisation of the investment.
- The reduction of the annual rental fee set by the domain services for the concession of land for the realisation of investment projects
- At the symbolic Dinar the square meter (m<sup>2</sup>) during a period of ten (10) years and 50 % of the amount of the state fee beyond this period for the investments implanted in the localities belonging to the High-Plateaus and the other zones whose development requires a particular contribution of the State.
- At the symbolic Dinar the square meter (m<sup>2</sup>) during a period of fifteen (15) years and 50 % of the amount of the state fee beyond this period for the investment projects implanted in the wilayas of the Great South.
- Operating phase and for a period of ten (10) years:
- Exemption from corporate profit tax.
- Exemption from the tax on professional activity.
- 50% discount on the annual rental fee set by the domain services.

#### **iii) The National Agency for the Management of Microcredit (ANGEM)**

The National Agency for the Management of Microcredit develops a device (microcredit) aimed at developing the individual capacities of people to take charge of themselves by creating their own activity. The Micro Credit is a loan allowing the purchase of small equipment and raw materials to start an activity or a trade.

#### **3) Tax advantages:**

- A total exemption from global income tax or corporate income tax for a period of three (3) years.
- An exemption from property tax on buildings used for the activities carried out, for a period of three (3) years.
- Are exempted from the transfer duty, the real estate acquisitions carried out by the promoters, with a view to the creation of industrial activities.

- The acts bearing constitution of companies created by the promoters are exempted from all registration duties
- An abatement of tax on the global income or the tax on the profits of the companies, as well as on the tax on the professional activity, due at the end of the period of exemptions, during the first three years of taxation, as follows
  - 1st year of taxation: a deduction of 70%.
  - 2nd year of taxation: a deduction of 50%.
  - 3rd year of taxation: a 25% allowance.
- Customs duties on imported equipment directly involved in the investment are determined by applying a rate of 5%.

#### **4) Support by the investment guarantee funds:**

The investment guarantee funds are represented by the SME Credit Guarantee Fund and the Investment Credit Guarantee Fund.

##### **i) FGAR: The Guarantee Fund for Credits to SMEs**

It was created by executive decree n° 02-373 of November 11, 200227. This decree sets out the statutes of the Guarantee Fund. Placed under the supervision of the Ministry of Small and Medium-sized Enterprises and Handicrafts, the FGAR has legal personality and financial autonomy.

The purpose of the Fund is to guarantee the credits necessary for investments to be made by SMEs as defined by Law No. 01-18 of December 12, 2001 on the orientation law on the promotion of small and medium-sized enterprises, in particular its article 14. The main objective of FGAR is to facilitate access to medium-term bank financing in order to support the start-up and expansion of SMEs, by granting credit guarantees to commercial banks, in order to complete the financial package of business projects, viable and oriented towards the creation and/or development of enterprises.

##### **Its missions:**

- Intervene in the granting of guarantees in favor of the SME realising investments in: creation of companies, renovation of equipment, extension of the company and taking of participation
- Manage, in accordance with the legislation and the regulation in force, the resources put at its disposal;
- Decide on the eligibility of projects and the guarantees requested;
- Guarantee the relays of the programs set up in favor of the SME by the international institutions;
- Ensure the advice and the technical assistance in favor of the SMEs benefiting from the Fund
- Promote specialised agreements that take on the risks between SMEs, banks and financial institutions;
- Undertake any partnership project with institutions operating within the framework of the promotion and development of SMEs;
- Undertake all measures or investigations concerning the evaluation of the guarantee systems put in place;
- Establish agreements with banks and financial institutions.

##### **ii) The Investment Credit Guarantee Fund (CGCI-PME)**

It is a company created on the initiative of the public authorities to support the creation and development of SMEs by facilitating access to credit, Presidential Decree 04-134 of 19 April 2004 on the statutes of the Fund. It is endowed with an authorised capital of 30 billion DA, subscribed up to 20 billion DA, held up to 60% by the Treasury and 40% by banks (BNA, BEA, CPA, BDL and CNEP Bank).

In addition, the possibility is given to all banks and all credit institutions of the place, to take a participation in the social capital of the Fund (art. 8 of the Presidential Decree). Its predominantly public capitalisation and

the assimilation of its financial guarantee to a state guarantee by the 2009 Finance Law reinforce its signature as a guarantor and make it a first-class institution.

#### **Its missions:**

The purpose of the Fund is to guarantee, to banks and credit institutions, the repayment of bank loans contracted by SMEs, under the financing of productive investments of goods and services for the creation, extension and renewal of the company's equipment, and this, in case of repayment incidents. -The maximum level of credits eligible for the guarantee is 500 million.

### **5) The organisations of accompaniment**

#### **i) The National Agency for the Development of SMEs (ANDPME)**

This is a public establishment of an administrative nature created by Decree No. 05-165 of 3 May 2005. It represents the operational tool which will be in charge of all the operations of support and accompaniment for the benefit of SMEs.

#### **Its missions:**

- Implement the national program of upgrading of SME and to ensure its follow-up
- Promote the expertise and the advice in direction of the SME
- Implement the sectoral strategy as regards promotion and development of the SME
- Follow the demography of the SME in term of creation of cessation and change of activities
- Collect, exploit and disseminate information specific to the field of activity of SMEs.

#### **ii) The National Unemployment Insurance Fund (CNAC)**

As part of the fight against unemployment, the CNAC was initially created to take care of unemployed people who had been made redundant by public companies. In 2004, it was transformed into a system that supports unemployed people with investment projects.

The CNAC device was created by presidential decree n° 03-514 of 30/12/2003 with the aim of supporting the creation of activities for unemployed promoters aged 35 and over. The young unemployed having obtained the favorable agreement from the selection and validation committee (C.S.V) of the CNAC and the partner bank requested for the financing of the project concerned, can claim a non-interest-bearing loan.

The CNAC offers support for promoters. Indeed, the concern to preserve the newly created micro-enterprises of an early death, training sessions in business management in the direction of unemployed promoters are provided, periodically, by facilitator advisors.

### **4.3 Challenges Faced by Algerian SMEs to Access Financing**

All recent studies show that Algerian SMEs are subject to constraints multifaceted of varying intensity. Below are a list showing the obstacles encountered by SME, according to the following descending hierarchy, which corresponds to the degree of severity of each obstacle:

<b>The competition of the informal</b>	
▪ Access to credits.	▪ Access to foreign currency.
▪ Cost of credit.	▪ Customs /regulations.
▪ Tax rates.	▪ Company registration.
▪ Uncertainties on economic policy.	▪ Qualified labor shortage.
▪ Banking deadlines.	▪ Port services.
▪ Corruption.	▪ Access to the telephone.
▪ The tax administration.	▪ Labor legislation.
▪ Access to land;	▪ Access to energy.

SMEs, even in advanced economies believe that access to finance, especially medium and long term, is one of the main obstacles that block them from developing and investing. Access to sources of finance is particularly difficult for SMEs that lack sufficient collateral, have no established credentials, and have no credit history. The Algerian environment is no exception to this challenge.

**The main constraints faced by Algerian SMEs are:**

- Bank support is inadequate to the financing needs of SMEs, the procedures of credit granting are cumbersome and not adapted to new economic conditions;
- The cost of credit is high, the guarantees required by bankers are excessive, and the processing times for credit applications and operations are too long;
- The ineffectiveness of foreign exchange regulations is unsuitable for trade in services;
- The absence of the notion of shared risk-taking among financing institutions;
- A heavy tax system, which does not have a strategic vision of development, nor a parafiscal system that encourages employment.

A reality which forces the managers of SMEs to resort often out of necessity, to family financing resources (self-financing) and to those of informal financing networks, in order to survive, while awaiting the cleaning up of the formal network and the relaxation of conditionalities judged until then insurmountable, by private investors.

**4.3 SWOT analysis identifying current barriers and bidding constraints regarding long term financing solutions adoption**

Strengths	Weaknesses
<p><b>Financing through internal resources:</b></p> <ul style="list-style-type: none"> <li>▪ Cheaper</li> <li>▪ Financial independence</li> <li>▪ Management independence</li> <li>▪ Retention of leading control</li> </ul> <p><b>Bank debt financing:</b></p> <ul style="list-style-type: none"> <li>▪ No intervention in the management of the company</li> <li>▪ Financing in the best deadlines (Providing the company has real guarantees)</li> <li>▪ Financial advice.</li> </ul>	<p><b>Financing through internal resources:</b></p> <ul style="list-style-type: none"> <li>▪ Financial capacity depends on the company</li> <li>▪ Threat of abandon of the project for insufficient funds</li> <li>▪ Loss of invested capital in the event of failure of the project</li> </ul> <p><b>Bank debt financing:</b></p> <ul style="list-style-type: none"> <li>▪ Financial dependence</li> <li>▪ Financing with the obligation of providing guarantees</li> <li>▪ Obligation to have a sound accounting</li> <li>▪ High interest rate</li> <li>▪ Administratively cumbersome;</li> <li>▪ Prior financial study.</li> </ul>
Opportunities	Threats
<p><b>Financing through internal resources:</b></p> <ul style="list-style-type: none"> <li>▪ Increase in self-financing capacity allows for less resort to loans</li> <li>▪ Limit financial constraints</li> <li>▪ Avoid the risk premium linked to</li> <li>▪ Financing of innovative projects</li> </ul> <p><b>Bank debt financing:</b></p> <ul style="list-style-type: none"> <li>▪ Granting of sequential funding covering all stages of the project</li> </ul>	<p><b>Financing through internal resources:</b></p> <ul style="list-style-type: none"> <li>▪ Insufficient internal resources blocking the implementation of the project</li> <li>▪ Lack of managerial skills for the entrepreneur.</li> <li>▪ Poor financial management with no support or strategic vision</li> </ul> <p><b>Bank debt financing:</b></p> <ul style="list-style-type: none"> <li>▪ Strong demands from banks according to the project</li> </ul>

Preservation of equity capital

- Forced collection by all legal means in case of the insolvency of the contracting company;
- Refusal of funding.

## 5 MAIN CHALLENGES AND RECOMMENDATIONS

### 5.1 Main Challenges

**Closed market for foreign investors:** The biggest challenge that a foreign bond investor has to face would be that the market remains closed to foreign investors despite several proposals from the COSOB to open it and to encourage potential new investors to participate in the Algerian Bond Market.

**Tax/Regulatory framework incomplete:** the current regulation framework is mostly about issuers, leaving a gap on the investor's regulation in general and foreign investors more precisely.

**The lack of activity and dynamism in the Algerian Bond Market as well as the stock exchange at large.**

**The excess of liquidity of banks led most companies to reach for a bank credit instead of any other means of financing:** Many companies did not see any interest in resorting to bond loans while they have the possibility to access advantageous loans granted by the National Investment Fund (FNI) and Banks in terms of duration and interest rate. All the more so as some public banks which had been involved in stock market operations have also started to offer 7-year syndicated loans, which are more attractive to them and to their clients.

**Absence of rating agency for the Bond Market:** there are no rating system nor agency for issuers of debt securities to protect savings invested in securities.

**Required guarantees (mortgage) discouraging potential issuers:** having to provide real guarantees, which led to an increase in the cost of the bond for potential issuers made them reluctant to resort to bond issuances as a type of financing.

### 5.2 Needed changes and Recommendations

- **Giving access to foreign investors to enter the Bond Market in order to boost and make its activities more dynamic.**
- **Setting up a rating agency** that will be responsible for rating issuers according to their financial situation and their ability to pay their debts, gradually eliminating the physical guarantees currently required.
- **Define a clear regulatory framework for investors** and particularly foreign investors, to facilitate their understanding and encourage them to enter the Algerian Bond Market.
- **Engage potential investors and issuers** and help them know more about the bond market, how to access it, and the advantages the market can offer.

### 5.3 Conclusions

- Despite a current context which is not favorable to the arrival of foreign investors in the Algerian bond market, ongoing monitoring is required.
- Keep an eye on a market that is in constant evolution.
- Renew the market study of the Algerian bond market every two years
- Establish contact with Algerian authorities such as the COSOB to work together towards the opening of the market

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