

Analytic study of Algerian business climate: Evaluation of doing business indicators in comparison with Maghreb countries (Morocco and Tunisia) for the year 2020.

دراسة تحليلية لمناخ الاعمال في الجزائر: مؤشر ممارسة الأعمال مقارنة بدول المغرب العربي (المغرب وتونس) لسنة 2020.

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ABSTRACT:

This research aims to analyze the attractiveness of Algerian business climate towards – FDI. To be more rational, our study is based on a comparison between the Maghreb countries (Algeria, Morocco and Tunisia) using the published data of the world bank organization (Doing Business) and taking into consideration the evaluation of five indicators. The result has shown that Algeria is classified in the third position after Morocco and Tunisia. Undoubtedly, this classification is affecting negatively the country's attractiveness and denying it from the increased of FDI inflows.

Keywords: Business climate, FDI, Doing business, Attractiveness, Algeria.

Jel Classification Codes : F14, F21, F53, G24.

ملخص:

يهدف هذا البحث إلى تحليل مدى جاذبية مناخ الأعمال الجزائري للاستثمار الأجنبي المباشر. وللتوصل إلى نتائج مرجعية موثوقة، اعتمدنا على دراسة مقارنة لدول المغرب العربي (الجزائر، المغرب وتونس) بناءً على البيانات التي نشرتها منظمة البنك الدولي (Doing Business) مع مراعاة تقييم خمسة مؤشرات. أظهرت النتائج تصنيف الجزائر في المرتبة الثالثة بعد المغرب وتونس، ومما لا شك فيه أن هذا التصنيف يؤثر سلباً على جاذبية البلاد ويحرمها من زيادة تدفقات الاستثمار الأجنبي المباشر.

كلمات مفتاحية: مناخ الأعمال، الاستثمار المباشر، جاذبية، الجزائر

تصنيفات JEL: F14، F21، F53، G24.

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1. Introduction :

Foreign direct investment (FDI) has become even more important than trade. In the last decade, we assisted a third wave of globalization where the economic link between countries has been strengthened mainly by FDI flows.

FDI aimed at the creation, development or takeover of companies operating outside the national territory. At one time, they were viewed with caution. They posed a threat to local businesses and many states had banned their takeovers by foreign companies, or imposed very heavy conditions for such operations. Today, on the contrary, FDI is in high demand around the world. Many countries have programs in place to attract foreign capital and they often compete directly with their neighbors for large-scale investments (ADDA, 2004,p78). In this context, the developing countries open their borders to global markets to avoid losing their competitive advantages, and they become promoters of globalization by creating a favorable investment climate

The purpose of this study is to analyze Algeria's business climate based on the data published by the reports of doing business for the three countries (Algeria, Morocco and Tunisia) to evaluate the attractiveness of the country to the FDI in the Maghreb region, for this reason we opted for the following main question:

Is Algeria attractive to FDI more than Morocco and Tunisia?

In order to reach effective results, we adopted a research methodology that is both descriptive where we will talk in general way about the theoretical framework of the business climate and analytical where we will try to evaluate the Algerian business climate in practically with a special comparison to the ones of Morocco and Tunisia.

2 .Theoretical Framework of the business climate:

2.1 Definition of business climate:

Business climate is the general economic environment within a society of enterprises and location(s) comprising of the attitude of the government, politicians, labor organizations, financial and lending institutions toward businesses and business activity, attitude of labor unions toward employers, current taxation regimen, inflation statistics through which forecast generally explore a positive twist regarding a financial system (definitions.uslegal.com, 2021).

A favorable business climate is a climate that makes it easy for operators to develop their activities effectively and efficiently, so that they can be full players in the country's economic growth (Mainguy , 2004). It designates all the provisions, both regulatory and legislative measures put in place by the State to ensure the management of the activities of economic operators.

When evaluating the business climate of a particular company or an entire industry, you must consider the following:

- Possible effects of inflation ;
- Taxation practices ;
- Relationships between unions and employers;
- Relationships between financial institutions and businesses;
- Political attitudes towards businesses.

2.2 The business climate determinants:

There are several elements which determine the attractiveness of particular business climate, we can regroup it into two classes according to the links they have with public or economic action.

2.2.1 Economic determinants:

The most important determinants for the establishment of FDI are economic considerations we can distinguish (T.MAYER ,2002, p29.30)

- **The economic growth:** The growth of an economy can be an important parameter for the potentials. It is a determining factor of attractiveness. Indeed, the investor is more interested in the potential of an economy than in its present state.
- **National investment:** Foreign investors interpret an increase in domestic investment as a signal of the existence of opportunities in the country in question.
- **The rate of inflation:** This indicator can provide information on the country's monetary policy, in fact, a high rate of inflation would lead to credit restrictions and lead to an anti-inflation monetary policy which thus makes obtaining local capital more efficient.
- **The cost and quality of the workforce:** The existence of a local supply of skilled labor is an important factor for the foreign investor. Labor qualifications, training opportunities, general education level and work experience are of considerable importance to the investor.

- **Natural resources:** Firms are naturally sensitive to the exogenous characteristics of territories. Each country, each region has natural endowments influencing the productivity and profit of companies. Likewise, the presence of land to be cultivated, mineral resources, access to the sea with strong sunshine or any other natural advantage, therefore makes it possible to explain certain choice of location, in particular for companies using these production factors.

2.2.2 institutional determinants: Beside the Economic considerations, the foreign investors are also affected by the institutional factors, according to michalet there a several elements which determine the settlement decision of foreign investors (C.A.MICHALET, 1999, p78.79)

- **Political, social and social stability:** This factor is most often a determinant targeted by investors, is looking above all for a stable political and social environment.
- **Tax incentives:** The general objective is to reduce the rate of the overall tax burden on the foreign investor. It can take a wide variety of forms, such as reduction or exemption from taxation on profits, on turnover, on value added, reduction or exemption from import and export taxes.
- **The legal environment:** The foreign investor is also interested in the stability of the legal framework of the host country and in the possibility of resorting to international arbitration for the settlement of disputes. Thus, the reliability of legal and regulatory systems with the existence of competent independent, impartial and honest courts is a foundation of investor confidence

3.Overview of doing business report:

3.1 Definition of doing business: The Doing Business project provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the sub national and regional level.

The Doing Business project at domestic small and medium-size companies and measures the regulations applying to them through their life cycle.

By gathering and analyzing comprehensive quantitative data to compare business regulation environments across economies and over time, Doing Business encourages economies to compete towards more efficient regulation; offers

measurable benchmarks for reform; and serves as a resource for academics, journalists, private sector researchers and others interested in the business climate of each economy.

In addition, Doing Business offers detailed sub national studies, which exhaustively cover business regulation and reform in different cities and regions within a nation. These studies provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas. Selected cities can compare their business regulations with other cities in the economy or region and with the 190 economies that Doing Business has ranked (doingbusiness/About.org, 2021).

3.2 Doing business Criteria: To evaluate the business climate, the combination of a number of parameters is essential. Indeed, according to the assessment made by the World Bank, there are ten of these parameters:

Figure N° 01: Doing Business indicators



Source: Word Bank Group, Doing business Algeria, 2020

Starting a business: Starting a business is a process that takes place in a particular environment, it consists of grouping together different factors of production that are necessary for the production of goods or services which generate an income distribution through their sale (Coster M, 1990; Lakhlef B, 2008). Taken as an evaluation parameter, Doing Business evaluates through the creation of a business the degree of ease that a given economy offers to investors to set up their own business by measuring the number of stages, the duration, the

costs but also the minimum capital necessary for a company so that it can legally start its activity.

Getting building permits: Doing Business lists all the procedures that must be acquiring by the company. These procedures include obtaining and filing with the competent authorities all documents required for that specific project (for example, architectural plans for the building and site plans); obtaining all required permits, authorizations, licenses and certificates; hiring external supervisors, engineers and inspectors if necessary, observing all notification and inspection obligations (if inspections are not carried out by a private external inspector). Doing Business also covers the procedures followed to be connected to water and wastewater networks.

Connection to electricity: Doing Business lists all the procedures that a company must complete to obtain a permanent electrical connection as well as the supply of a standardized warehouse. These procedures encompass the requests filed with the electricity companies as well as the contracts concluded with them, all the inspections and authorizations to be requested from the electricity companies.

Transfer of Ownership: Doing Business traces the entire chain of procedures that a business (the acquirer) has to perform to purchase a property from another business (the seller), and to transfer title to that property on behalf of the acquirer. , so that the latter can use said property for the purpose of expanding his business, as collateral to take out new loans, or, if necessary, transfer the property to another business.

Obtaining loans: Obtaining a loan, for an investor, means obtaining the financial assistance necessary to start or expand their activity. This loan is granted by banking establishments. By this criterion Doing Business assesses the level of security or legal protection that an economy offers to borrowers as well as to lenders in the context of guaranteed transactions through a series of indicators. It also assesses the sharing of credit information through another indicator. The first set of indicators examines the existence of measures that facilitate lending in applicable laws regarding collateral and bankruptcy. The second series measures the coverage, extent and accessibility of credit information available by credit reporting agencies, such as credit bureaus or credit registries.

Protection of minority investors: This indicator assesses the transparency of transactions, the manager's responsibility, the power of shareholders and the various protections offered to shareholders. Doing Business assesses the level of protection of minority investors in the event of conflicts of interest by a set of indicators and the rights of shareholders in corporate governance.

Payment of taxes: Doing Business identifies the taxes, levies and mandatory contributions that an average business must pay or which are withheld from it each year, and assesses the administrative procedures necessary for their payment.

Cross-border trade: Doing Business identifies the time and cost (excluding Customs) associated with the export and import of a standard cargo of goods by sea. All delays and costs of official export and import procedures are listed; however, delays and cost of shipping are excluded. In addition, all the documents that the operator needs for the export or import of goods are also listed.

Execution of contracts: A contract is an agreement of wills which creates obligations at the Charge of the parties that take part. Contract enforcement indicators measure the effectiveness of the judicial system in resolving commercial disputes. The data is compiled by following, step by step, the evolution of a non-payment of a commercial debt dispute in local courts. The data is obtained from the study of civil procedure codes and other legal regulations, as well as from surveys carried out among judges and local lawyers specializing in commercial litigation.

Settlement of insolvency: Insolvency expresses the situation through which a company, due to insufficient assets, finds itself unable to honor its debts which can lead to bankruptcy or bankruptcy. . Regarding this parameter, it is also a question of time, costs and procedures. But, also of the solidity of the legal framework of insolvency in order to assess the solidity and integrity of the legal framework applicable to liquidation and reorganization proceedings and this concerns national companies.

4. The committee of business climate in Algeria:

4.1 Presentation of the committee: A committee dedicated to improving the business climate is set up by the mission letter of the Prime Minister's office n ° 731 / DC / PM of December 1, 2012. The committee is also called "Doing Business Algeria".

It was installed by Chérif Rahmani the Minister of Industry, SMEs and Investment on March 10, 2013 with the participation of the representative of the World Bank resident in Algeria, the Secretary General of UGTA, Presidents of employers' organizations, heads of professional associations, representatives of state institutions, directors of research and advisory offices as well as national experts.

The stakeholders, for their part, are respectively: MIPMEPI; Commerce (CNRC); Finance; MHU; Transport; MAE; Justice; MTESS; MRE; MPTIC; Bank of Algeria;

SONELGAZ; UGTA; Employers' Associations (FCE, CAP, CGP-BTPH, CIPA); ABEF; National Chamber of Notaries; National experts.

4.2 The committee goal: The aim of the public authorities to promote entrepreneurship and productive investment, to meet the expectations of the private sector and provide concrete solutions to the needs of entrepreneurs and national or international investors, was reflected in 2013 , by the installation of the National Committee dedicated to the Improve the Business Environment (CNAEA) on 03/10/2013 by the Minister in charge of Industry, SMEs and Investment Promotion, in accordance with the instruction of the Prime Minister n ° 731 / DC / PM of December 1, 2012. (climatdesaffaires.dz, 2021).

Currently, the CNAEA is made up of members representing the various ministerial departments, organizations and professional associations, listed below, directly or indirectly involved in the process of setting up businesses and the act of investing:

Ministry of Industry and Mines-ANDI;

Ministry of Commerce - CNRC;

Ministry of Finance (Directorate General of Taxes (DGI), Directorate General of the National Domain (DGDN), Directorate General of Customs (DGD), National Land Registry Agency (ANC);

Minister of Housing, Urbanism and the City (MHUV);

Ministry of Public Works and Transport (Algiers Port Company);
Ministry of Foreign Affairs;
Ministry of Justice;
Ministry of Labor, Employment and Social Security (MTESS), (CNAS, CASNOS);
Ministry of Water Resources (MRE), (SEAAL);
Minister of the Interior, Local Authorities and Regional Planning;
Ministry of Post and Information and Communication Technologies;
Bank of Algeria;
Ministry of Energy;
Association of Banks and Financial Institutions (ABEF);
National Chamber of Notaries (CNN).

4.3 Committee principles: The committee is based in its approach on three fundamental principles which are:

-The principle of freedom to undertake and invest: Through this principle, the committee places the entrepreneur and the investor, whether private or public, as the engine of economic growth and in fact encourages market economy.

-The principle of stability of the legal framework: Ensuring stability of the legal rules governing the organization of the economy for investors is synonymous with protection against any risk associated with any modification of the legislation or the legal framework. Legal stability helps build investor confidence.

-The principle of the primacy of public service and accountability of public institutions and bodies: This involves definitively establishing within public administrations and bodies the principle of public service and accountability, and definitively removing them from inclinations of behavior bureaucratic, even financial profitability objectives that do not fit into their vocation. As well as modernizing the administrations and public bodies by providing them with the organizational, human and material resources necessary for the exercise of their missions and binding them to the Government through performance contracts. Administration as a whole by interconnecting administrations and public bodies and networking them, so as to no longer make companies and citizens bear the

redundant and unnecessary administrative constraints that induce exorbitant transaction costs.

5. Analysis of Algerian business climate according to the determinants of doing business: The aim of this study is to compare Algeria's rank for the year 2020 with its neighbors Morocco and Tunisia in order to highlight the obstacles and constraints which affect negatively the FDI inflows to the country.

5.1 Algeria Rank:

According to the report of doing business Algeria published by the Word Bank institution for the year 2020, Algeria has been classified 157 in total of 190 countries (World Bank Group, Doing Business Algeria, 2020), in contrary to morocco and Tunisia which have been classified successively 53 (World Bank Group, Doing Business Morocco, 2020) and 78(World Bank Group, Doing Business Tunisia, 2020).

Table N° 01: Doing Business Rank/Global Comparison

Country	Algeria	Morooco	Tunisia
Rank	157	53	78

Source :(World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

5.2 The variation of Algeria classification (Comparison with Morocco and Tunisia):

- Starting a Business

Table N° 02: Strating a Business (Rank)

Country	Algeria	Morocco	Tunisia
Procedures (number)	12	4	3
Time(Days)	18	9	9
Cost (Number)	11.3	3.6	2.9
Paid-in min.Capital (% of income per	0.00	0.00	0.00
Score	78	93	94.6
Rank	152	43	19

Source: (World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

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According to the above table, Algeria rank still insufficient (152) comparing it with the both countries (Morocco, Tunisia) which have been classified successively (43 and 19).

- Dealing with Construction Permits:

Table N° 03: Dealing with Construction Permits (Rank)

Country	Algeria	Morocco	Tunisia
Procedures (number)	19	12	14
Time(Days)	131	58	133
Cost(%of warehouse value)	6.5	3.3	3.4
Buildingquality control	19	13	14
Score	65.3	83.2	77.4
Rank	121	16	32

Source: (World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

As mentioned previously, there is a very remarkable difference of rank between Algeria and its neighbors (-105 with Morocco and -89 with Tunisia), getting construction permits is one of the huge constraints that foreign investors face after their settlement in our country.

- Registering Property:

Table N° 04: Registering Property (Rank)

Country	Algeria	Morocco	Tunisia
Procedures (number)	10	6	5
Time(Days)	55	20	35
Cost (% of property value)	7.1	6.4	6.1
Quality of the land administration	7.5	17	13.5
Score	44.3	65.8	63.7
Rank	165	81	94

Source: (World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

According to the above table, Algeria has been classified 165 in total of 190 countries, with difference of (-84) with Morocco and (-71) with Tunisia

Registering property is also considered as constraint to the FDI inflows with more waste of time and cost.

- Getting Credit:

Table N° 05: Getting Credit (Rank)

Country	Algeria	Morocco	Tunisia
Strength of legal rights index (0-12)	2	2	3
Depth of credit information index (0-8)	0	7	7
Credit registry coverage (% of adults)	3.6	31.6	36.4
Credit bureau coverage (% of adult)	0.00	0.00	0.00
Score	10.00	45	50
Rank	181	119	104

Source: (World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

As mentioned previously, there is a very remarkable difference of rank between Algeria and its neighbors (-62 with Morocco and -77 with Tunisia), the financial service still suffering from the lack of transparency. Algeria's financial sector is still largely dominated by the government. Access to credit or the opening of a bank account is a very long and difficult procedure. A lack of information and modern payment systems and a lack of qualified staff are also major problems for foreign investors.

- Resolving Insolvency:

Table N° 06: Resolving Insolvency (Rank)

Country	Algeria	Morocco	Tunisia
Recovery rate (Cents on the dollar)	50.8	28.7	51.3
Time (years)	1.3	3.5	1.3
Cost (% of estate)	7	18	7
Strength of insolvency framework	7	12	8.5
Score	49.2	52.9	54.2
Rank	81	73	69

Source: (World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

According to the above table, Algeria has been classified 81 in total of 190 countries, with difference of (-8) with Morocco and (-12) with Tunisia.

We can summary the previous study in the following table:

Table N° 07: Variation of Algeria's Rank (comparison with Morocco and Tunisia)

Country	Algeria	Morocco	Tunisia	Var/with Morocco	Var/with Tunisia
General Rank	157	53	78	-104	-79
Rank of Starting a business	152	43	19	-109	-133
Rank of Dealing with Construction	121	16	32	-105	-89
Rank of registering Property	165	81	94	-84	-71
Rank of Getting credit	181	119	104	-62	-15
Ranks of resolving Insolvency	81	73	69	-14	-12

Source: (World Bank Group, Doing Business Algeria, Morocco and Tunisia, 2020)

5.3 The study Results: From the previous comparison, we can conclude the following results:

-Starting Business: Tunisia is more attractive than Algeria and Morocco, unfortunately our country is classified in the third position after Morocco, this unfortunate situation is due to the several procedures imposed by the Algerian

government to the foreign investors which block the development of their business and require more investment in terms of cost and time.

-Dealing with Construction Permits: for this indicator, morocco is in the first position before Tunisia and Algeria, getting a permit is one of the huge problems that foreign investors face after their implementation in our country, waste time in getting the permits construction cause a lot of delays to investors.

-Registering Property: as the previous indicators, Algeria is also classified in the last position after morocco and Tunisia.

-Getting Credit: for this indicator, Tunisia is in the first position before Morocco, unfortunately Algeria is still in the last position.

The financial sector still so far to be attractive for the foreigners, the absence of transparency, the delays in getting the credit and the non availability of information's create a real issues to investor's domestics or foreigners.

Resolving Insolvency: Regarding this indicator, Algeria is classified in the last position Tunisia is in the first position and Morocco in the second, according to a report conducted by the Organization of Economic Cooperation and Development (OECD), and published in the national journal Liberté.« The justice and finance sectors are the essential impediments to improving the business climate in Algeria » says the document. Referring to a World Bank study that ranked Algeria between the ninth and last amongst 14 other countries in the MENA region (Middle East, North Africa) in terms of six main criteria (accountability, political stability, governance, quality of regulation, role of law and corruption). The most criticized criteria in Algeria concerns the quality of regulation and the role of the law. « It is the justice sector that is most concerned. The business community has limited confidence in the impartiality of the judicial system, which is also seen as slow and inefficient » says the report (djazair.com, 2021).

Based on the table results and scores comparison to the ones of Morocco and Tunisia of the five indicators suggested by the official report of doing business, we have been able to conclude that Algeria's business climate is

suffering from several constraints which deprive the country from the foreign direct investment inflows and favors their increase on other parts in the two other countries.

6. Conclusion :

The previous study has shown that Algeria's business climate is less attractive compared to both countries Morocco and Tunisia, Algeria's rank illustrates the huge gaps that need to be filled in order to catch up the

The choice of multinational firms for their implementation is based on their strategies and the advantages offered by the host countries. This choice is made through the evaluation of several criteria that the host countries must present, in effect the current situation is depriving the Algerian economy from several opportunities to prosper and grow into a strong and open economy built on solid foundations. However, this can only be fixed if there is a political willingness combined with the support and cooperation of the Algerian society, which would have to be ready to change things and move forward.

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