

Doing Business in Algeria (2018) : The private sector's challenges for the Algerian economic diversification

¹Nassira AOUDIA

¹PhD student in National High School of Statistics and Applied Economics and researcher in the Centre for Research in Applied Economics for Development- Algeria-Division of Firms and Industrial Economic (DFEIn)
e-mail: aoudiaa.nassiraa@mail.com

Abstract:

The main objective of this article is to highlight the importance of developing the national and international private sector for the economic diversification. By the analysis of Business Climate 2018, in Algeria, the results show that national and foreign investors demonstrate a reluctance to invest, that seriously challenges the government's credibility about the implementation of diversification programs.

Keywords: economic diversification; Business Climate ; Private sector ; SMEs ; Institutions

ملخص :

الهدف الرئيس لهذا المقال هو إيضاح أهمية تطوير القطاع الخاص الوطني أو الأجنبي في التنوع الاقتصادي. من خلال تحليل مناخ الأعمال في الجزائر لسنة 2018 , تشير النتائج إلى أن مناخ الأعمال في الجزائر سيء و هذا ما يبعث الشك في المستثمرين المحليين و الأجانب بشأن مصداقية الأهداف المنشودة لبرامج التنوع الاقتصادي التي قد ينتهي بها المطاف إلى حبر على ورق.

الكلمات المفتاحية : التنوع الاقتصادي, مناخ الأعمال , القطاع الخاص , المؤسسات الصغيرة والمتوسطة , المؤسسات.

Nassira AOUDIA, E-mail: aoudiaa.nassiraa@mail.com

1-Introduction

The World Bank calculates an index of Business Climate (referred to below as “Index”) which is the average of 11 indicators that cover the general regulatory framework of some socio-economic policies, on the basis of a survey of which the sample unit is the *private domestic small and medium-size firm*.

The fifteen report of the World Bank on the Business Climate (referred to below as “Report”) is a continuing evaluation of the improvement of the business regulation for the private sector established since 2004 (World Bank, 2004)¹.

The Report helps nudging investors in the national and international private investors for the completion of their projects across 190 countries (World Bank, 2018)². It helps also governments to identify the regulatory obstacles that enhance private business activity and those that constrain it, in order to implement the necessary reforms. It also provides a list of the reforms undertaken in the different countries covered by this survey for inspiration.

Algeria recognizes the benefits of the Index, especially since the (enduring) falling oil price in mid-2014. Algeria has felt the need of improving its Doing Business ranking in order to develop other sources of financing, other than that of oil. Algeria has indeed adopted a new model of economic growth, on 26 July 2016, which she chose to call “The New Growth Model” (referred to below as “Model”)³.

The objectives set out in the Model are structured in two parts : “a *rigorous* budgetary policy” over the period 2016-2019 and “prospects for diversification and transformation of the economy” by 2030⁴ (République Algérienne Démocratique et Populaire (Ministère des Finances), 2016). We limit our communication on the second part of this Model. Indeed, the purpose of the Model, in terms of investment policy, is “to liberalize private investment, through the initiation of growth-generating structural transformations”

In the same context, another program comes to blacken some blank record sheets calling for reforms that have been discussed since 1962! It’s the “Industrial Diversification and Business Climate Improvement Support Program (IDBCSP)”⁵, covering the period 2018-2030⁶. It has several objectives, including “improving the global business environment of firms”⁷. To achieve that, it was necessary to “support the activity of the national committee in charge of improving the Business Climate to carry out legal and economic studies and/or coaching activities to the benefit of the guardianship involved in the formulation of the legislative and regulatory reform of the business environment in Algeria”⁸.

I.1. Problematic of the study :

This study will shed light on whether **the Business Climate in Algeria is attractive for domestic and foreign private industrial investors as part of the national economic diversification programs.**

It is structured in two essential parts related to the presentation of the Business Climate concept and to the analysis of its state in 2018 respectively.

I.2. Importance of study :

Improving Business Climate (or business regulation for private sector) has economic and social benefits. Transparent rules create an environment where new projects can come true, create new jobs and generate income. In developing economies, 90% of employment are creating by the private sector (World Bank, 2018). Conversely, strengthening laws ‘can distort resource allocation by stifling entrepreneurial endeavors in favor of maintaining a less optimal status quo’ (World Bank, 2018).

II– Methods and Matériels :**II.1. Sample and data**

The data employed in this paper are those of the 15th Report. The World Bank carries out a survey in the largest business city of the concerned country (or the the second largest business city for only 11 countries). In the case of Algeria is Algiers.

II.2. Variables of the study :

Doing Business measures eleven (11) indicator on business regulation : starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation.

It should be noted that the World Bank presents rankings of economies on all indicators, except for that of « labor market regulation » which is not included in the Doing Business ranking.

These eleven (11) indicators can be classified in *five specific categories* (World Bank, 2018) : *the start-up of business* includes the indicators : “starting a business” and “labor market regulation” ; *Getting a location* (“dealing with construction permits”, “getting electricity” and “registering property”) ; *Dealing with day-to-day operations* (“paying taxes”, and “trading across borders”) ; *Accessing finance* (“Getting credit”, and “protecting minority investors”) ; *Operating in a secure business environment* (“enforcing contracts” and “resolving insolvency”).

II.2.1. Variables of the start-up of business

-the “labor market regulation” indicator concerns about the labor regulation of a supermarket or a grocery store (has 60 employees) and where the worker is a cashier (19 years old, with one year of work experience). It studies the flexibility of regulation of employment, specifically as it relates to four (04) areas : hiring, redundancy, working hours and job quality :

--data on hiring cover five (05) questions: (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; (iii) the ratio of the minimum wage to the average value added per worker ; (iv) the minimum wage for a cashier ; and (v) the length of the maximum probationary period (in months) for permanent employees.

--data on redundancy reflect the fragility of laws vis-à-vis the “labor market regulation”. They cover eight (08) yes/no questions (for redundancy rules) about the employee’s rights and the employer’s obligations.

--data on working hours cover eight (08) questions : maximum number of working (days per week), the different premium (for night work, for work on a weekly rest day, for

overtime work) as a percentage of hourly pay, the different restrictions (on night work especially for nonpregnant and non-nursing women, on weekly holiday work, on overtime work) and the average paid annual leave for workers with 01 year of tenure, 05 years of tenure and 10 years of tenure).

--data on job quality cover eight (08) areas: the gender treatment (remuneration and gender discrimination) ; maternity leave (paid or unpaid maternity leave, minimum length of paid maternity leave (in days), reception of 100% of wages on the maternity leave or not) ; paid sick leave (paid or unpaid sick leave) ; the eligibility for an unemployment protection scheme after 01 year of service, and the minimum duration of the contribution period (in months) required for unemployment protection.

-the “starting a business” indicator evaluates les procedures (number), time (days), cost and minimum capita (% income per capita).

Less important are the procedures, deadlines and costs, the higher will be the score (it is the same logic that adopts the indicators below).

II.2.2. Variables de of getting a location

-the “dealing with construction permits” indicator evaluates the construction of a warehouse, in accordance with the standards to obtain a title. It includes procedures (number), time (days) and the cost (% of warehouse value) related to the execution of all the required formalitie for the construction of a warehouse (whose value is supposed to be 50 times the income per capita) and the building quality control index (0-15). This indicator measures the quality of the land administration system in the country.

-the “getting electricity” indicator calculates procedures (number), time (days), cost (% of income per capita) and the reliability of supply and transparency of tariffs index (0-8). For the latter, the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI) are used to measure the duration and frequency of

power outages. An economy is eligible to obtain a score on the reliability of supply and transparency of tariffs index if it satisfies two conditions : collecting data on all types of outages and having a SAIDI value below a threshold of 100 hours and a SAIFI value under 100 outages. This indicator gives an idea about the functioning of the electricity sector (price of electricity, the transparency of tariffs, and electricity distribution) in the country.

- the “registering property” indicator records all procedures (number), time (days), cost (% property value) for the buyer to purchase a property from the seller and to transfer the property title to the buyer’s name so that the buyer can use the property for its business. It calculates the quality of land administration index (0-30).

II.2.3. Variables of dealing with day-to-day operations

-the “paying taxes” indicator records the taxes and mandatory contributions that a firm must pay in a given year, the administrative burden of paying taxes and contributions (payments (number and hours per year), total tax and contributions rate (% of profit), postfiling index (0-100). This indicator concerns the tax system of the country.

-the “trading across borders” indicator records the time and cost associated with the logistical process of exporting and importing of a shipment of goods.

To make the results comparable between countries, the Report neutralizes, a priori, the cost effect due to the distances between the two partners and the weight effect of the exported (or imported) goods and takes into account some hypotheses of which :

--it is assumed that a shipment is located in a warehouse in the largest business city of the exporting economy and travels to a warehouse in the largest business city of the importing economy.

--it is assumed that each economy imports a standardized shipment of 15 metric tons of containerized auto parts (HS 8708) from its natural import partner.

--it is assumed that each economy exports the product of its comparative advantage (defined by the largest export value) to its natural export partner. Are excluded from the list of export product, precious metal and gems, mineral fuels, oil products, live animals, residues and waste of foods and products as pharmaceuticals. However, in these cases the second largest export product is taken into consideration.

--the mode of transport is the one most widely used for the chosen export or import product (to/from) the trading partner, as is the seaport or land border crossing.

II.2.4. Variables of accessing finance

-the "getting credit" indicator calculates two (02) indexes: strength of legal rights index (0-12) and depth of credit information index (0-8). It provides information about the credit bureau coverage and credit coverage, both as a percentage of the of adults. This indicator provides informations, to both borrowers and lenders. It concerns the banking sector.

-the « protecting minority investors » indicator records six (06) indexes : extent of disclosure, extent of director liability, ease of shareholder suits, ease of shareholder rights, extent of ownership and control, and the extent of corporate transparency index, on a scale of 10.

II.2.5. Variables of operating in a secure business environment

-the ‘‘enforcing contracts’’ indicator measures cost, time (procedures) for resolving a commercial dispute through a local first-instance court. It records also the quality of judicial processes index (0-18).

Data on this indicator are mainly collected through study of the codes of civil procedure and questionnaires completed by local litigation lawyers and judges, under some assumptions whose the court⁹ is the one with jurisdiction over disputes worth 200% of income per capita or \$5,000.

This means that this indicator reveals the degree of performance of the judicial system in the country (whether a specialized commercial court to commercial disputes or an electronic case management system exist, gender discrimination’s testimony). A list of good practices on this subject has been provided by Gramckow, and al., 2016¹⁰.

The philosophy of this indicator is based on the principle that the more likely a company is to obtain a contract, the more it will be encouraged to develop relationships with more suppliers and customers. On the other hand, if the settlement of commercial disputes takes too much time, this can encourage the company to reduce, to the detriment of its profit, the number of its partners (Banque mondiale, 2008)¹¹.

-the ‘‘resolving insolvency’’ indicator measures the time (year), cost (% estate) and recovery rate (cents on the dollar). It records also the strength of the legal framework index (0-16), under some assumptions about the business, the case, cost and outcome. We select the following :

--the firm has 201 employees and 50 suppliers, each of which is owed money for the last delivery ;

--the firm has a 10-year loan agreement with a domestic bank secured by a mortgage over the hotel’s real estate property, has observed the payment schedule and all

other conditions of the loan up to now and has a market value of 100 times income per capita or \$200,000.

--the amount outstanding under the loan agreement is exactly equal to the market value of the hotel business and represents 74% of the company's total debt.

It should be noted that this indicators on efficient insolvency systems were created with the help of Professor Oliver Hart from Harvard University, the 2016 Nobel Prize winner in economics.

III-Results and Discussion :

III. 1. Variables of the start-up of business

-the regulation of "labor market regulation", reveals the employee's rights and the employer's obligations and obligations whose details are given in Table (1).

-“starting a business” is relatively complicated and expensive : 12 procedures, 20 days and 474\$, to create its own firm. Numbers are reported in table (2) with all the other nine (09) indicators.

III. 2. Variables of getting a location

-“dealing with construction permits” requires 19 procedures, 146 days and 8,1% of warehouse value with a building quality control index equals to 10 out of 15. This indicator records 47 places lower than its ranking in last year's index¹² (See table (3) for 2017-2018 Doing Business indicators ranking).

-for “getting electricity”, the firm has to spend 180 days in 5 procedures, which cost, at average, 57.00\$. The reliability of supply and transparency of tariffs is estimated to 5 out of 8.

-“registering property” needs 10 procedures, 55 days and costs 7,1% of the value of property to be done. This is due to the quality of land administration evaluated to only 7 out of 30.

III. 3. Variables of dealing with day-to-day operations

- the ‘‘paying taxes’’ indicator shows 27 procedures, 265 hours per year for paying taxes, 65,6% of profit is the total tax and contribution rate. The postfiling index is estimated to about 50 out of 100.

-‘‘trading across borders’’ records a very bad ranking, incomparision to other indicators. For exports, it needs 149 and 118 hours per year for successively documentary compliance and for border compliance and cost 374 and 593\$,. As for imports, documentary compliance and for border compliance take successively 249 and 327 hours per year, and cost 400 and 466\$.

III. 4. Variables of accessing finance

-the ‘‘getting credit’’ indicator is not in a good state : strength of legal rights index equals to 2 out of 12, the depth of credit information index of credit bureau coverage records null values, and only 2,9% of adults of credit registry coberage is registered .

-‘‘protecting minority investors’’ is not a guaranteed fact in Algeria. It has been registred, in decreasing order. : 1 out of 10 for extent of director liability ; 3 out of 10 for the ease of shareholder rights and for the extent of corporate transparency ; 4 out of 10 for extent of disclosure and for the extent of ownership and control ; and 5 out of 10 for ease of shareholder suits.

IV. 5. Variables of operating in a secure business environment

-‘‘enforcing contracts’’ takes more than one year and costs 20% of the claim. The quality of judicial process index is estimated to 5,5 out of 18.

-finally, a firm needs 15 months and 7% of estate for ‘‘resolving insolvency’’. The strenght of insolvency index equals to 7 out of 16.

IV- Conclusion and recommendations

It is too early to analyze the impact of the Model or the IDBCSP (they will respectively be completed in 2019 and in 2030) on the Algerian economy, especially if we take into consideration that every Report is the evaluation of the private sector activity done the year before.

But the idea that the Business Climate will be slow to get improved is certain. Algerian Doing Business is not satisfactory. Firstly, in view of its ranking which reaches, in 2018, 166 out of 190 countries, losing 10 ranks comparing to 2017 Doing Business ranking. In view of the scores of its indicators, in decreasing order : 181 for "trading across borders", 177 for "getting credit", 170 for "protecting minority investors", 163 for "registering property", 157 for "paying taxes", 146 for "dealing with construction permits", 145 for "starting a business", 120 for "getting electricity", 103 for "enforcing contracts", and 71 for "resolving insolvency".

These are the twelve (12) private sector's challenges that should be resolved in Algeria towards becoming a diversified economy. Certainly, the most problematic factor in Algeria is the one of "trading across borders". However, all other indicators, in view of their rankings, require an interest of the State in order to make business easy for domestic and foreign private industrial investors by simplifying regulation.

Un other kind of recommendations that can be noted is to review the composition of the Doing Business Committee, by including not only relevant representatives of the government and the private sector, but also **Algerian researchers and consultants** whose contributions will bring scientific rigor¹³ (République Algérienne Démocratique et Populaire (Ministère des Finances), 2016).

- Annexes :**Table (1) : 2018 Doing Business indicators in Algeria : ‘labor market regulation’**

‘Labor market regulation’ indicator	Value
Hiring	
Is the fixed-term contracts prohibited for permanent tasks?	yes
Maximum length of fixed-term contracts, including renewals (months)	no limit
Minimum wage for a cashier, age 19, with one year of work experience (US \$/ months)	187,1
Ratio of minimum wage to value added per worker	0,3
Maximum length of probationary period (months)	6
Working hours	
Maximum number of working (days per week)	6
Premium for night work (%hourly pay)	0
Premium for work on weekly rest day (%hourly pay)	0
Premium for overtime work (%of hourly pay)	50
Are there any restrictions on night work?	yes
Do women who are neither pregnant nor non-nursing work the same night hours as men ?	no
Are there any restrictions on weekly holiday work?	no
Are there any restrictions on overtime work?	no
Paid annual leave (working days)	22
Redundancy rules	
Is dismissal due to redundancy allowed by law?	yes

Is third-party notification if 1 worker is dismissed applicable?	yes
Is third-party approval if 1 worker is dismissed applicable?	no
Is third-party notification if 9 worker are dismissed applicable?	yes
Is third-party approval if 9 worker are dismissed applicable?	no
Does the law require the employer to reassign or retain a worker before making the worker redundant ?	yes
Are ther any priority rules for redundancies?	yes
Are there any priority rules for reemployment?	no
Redundancy cost	
Notice period for redundancy dismissal (weeks of salary)	4,3
Severance pay for redundancy dismissal (weeks of salary)	13
Job quality	
Does law approve equal remuneration for work of equal value?	yes
Is there a gender non-discrimination in hiring?	no
Is paid/unpaid maternity leave mandated by law (if no maternity leave is mandated by law, parental leave is measured if applicable)?	yes
Minimum length of maternity leave (calendar days)	98
Is the 100% of wages on maternity leave received?	Yes
Is there an availability of five fully paid days of sick leave?	no
Does an unemployment protection scheme exist after one year of employment ?	no
Minimum duration of contribution period (in months) for unemployment protection	36

World Bank (2018), Doing Business : Reforming to create jobs, 15th ed.

Table (2) : 2018 indicators in Algeria

Indicator	Value
Starting a business (rank)	145
Procedures (number)	12
Time (days)	20
Cost (% income per capitat)	11,1
Minimum capita (% income per capita)	0
Dealing with construction permits (rank)	146
Procedures (number)	19
Time (days)	146
Cost (% of warehouse value)	8,1
Building quality control index (0-15)	10
Getting electricity (rank)	120
Procedures (number)	5
Time (days)	180
Cost (% income per capita)	1335,3
Reliability of supply and transparency of tariffs index (0-8)	5
Registering property (rank)	163
Procedures (number)	10
Time (days)	55
Cost (% of warehouse value)	7,1
Quality of land administration index (0-30)	7
Paying taxes (rank)	157
Payments (number per year)	27

Time (hours per year)	265
Total tax and contributions rate (% of profit)	66
Postifling index (0-100)	49,77
Trading across borders (rank)	181
<i>Time to export</i>	
Documentary compliance (hourss)	149
Border compliance (hours)	118
<i>Cost to export</i>	
Documentary compliance (\$ US)	374
Border compliance (\$ US)	593
<i>Time to import</i>	
Documentary compliance (hourss)	249
Border compliance (hours)	327
<i>cost to import</i>	
Documentary compliance (\$ US)	400
Border compliance (\$ US)	466
Getting credit (rank)	177
Strength of legal rights index (0-12)	2
Depth of credit information index (0-8)	0
Credit bureau coverage (% of adults)	0
Credit registry coverage (% of adults)	2,9
Protecting minority investors (rank)	170
Extent of disclosure index (0-10)	4
Extent of director liability index (0-10)	1

Ease of shareholder suits index (0-10)	5
Ease of shareholder rights index (0-10)	3
Extent of ownership and control index (0-10)	4
Extent of corporate transparency index (0-10)	3
Enforcing contracts (rank)	103
Time (days)	630
Cost (% of claim)	20
Quality of judicial processes index (0-18)	5,5
Resolving insolvency (rank)	71
Time (years)	1,3
Cost (% of estate)	7
Recovery rate (cents on the dollar)	51
Strength of the legal framework index (0-16)	7

World Bank (2018), Doing Business : Reforming to create jobs, 15th ed.

Table (3) : 2017-2018 Algerian Doing Business ranking for 10 indicators

	2017	2018	Evolution
General rank	156	166	-10
Trading across borders	178	181	-3
Getting credit	175	177	-2
Protecting minority investors	173	170	3
Registering property	162	163	-1
Paying taxes	155	157	-2
Dealing with construction permits	77	146	-69

Starting a business	142	145	-3
Getting electricity	118	120	-2
Enforcing contracts	102	103	-1
Resolving insolvency	74	71	3

World Bank (2017 ; 2018), Doing Business, 14 ; 15th eds.

-Références:

¹ -The first publication on the subject was in : World Bank (2004), Doing Business : Understanding Regulation, 1st ed.

-See also : Djankov, Simeon (2016), The Doing Business Project: How It Started: Correspondence, Journal of Economic Perspectives.

² World Bank (2018), Doing Business : Reforming to create jobs, 15th ed.

³ In French, it is called « Le Nouveau Modèle de Croissance 2016 ».

⁴ République Algérienne Démocratique et Populaire, Ministère des Finances (2016), Le Nouveau Modèle de Croissance (synthèse), juillet.

⁵ In French, it is called « Le Programme d'Appui à la Diversification Industrielle et à l'Amélioration du Climat des Affaires en Algérie (PADICA) ».

⁶ Voir le site du Ministère de l'Industrie et des Mines. <http://www.mdipi.gov.dz/?Synthese-diversification>

⁷ Ditto.

⁸ Ditto.

⁹ The name of the relevant court in each economy is published on the Doing Business website at : <http://www.doingbusiness.org/data/exploretopics/enforcing-contracts>.

¹⁰ Gramckow, Heike, Omniah Ebeid, Erica Bosio, and Jorge Luis Silva Mendez, (2016), Good Practices for Courts Report: Helpful Elements for Good Court Performance and the World Bank's Quality of Judicial Process Indicators, key Elements, Lessons Learned, and Good Practice Examples, Working Paper 108234, World Bank, Washington, DC.

¹¹ Banque mondiale (2008), Une évaluation indépendante : les indicateurs Doing Business de la Banque mondiale-IFC passés au crible, Groupe d'évaluation indépendant, Banque mondiale, Washington.

¹² Calculated from : World Bank (2017), Doing Business : Equal opportunity for All, 14th ed.

¹³ République Algérienne Démocratique et Populaire, Ministère des Finances (2016), le nouveau modèle de croissance (synthèse), juillet.