

Interview Part One: Deloitte Algeria - Arnaud de Rincquesen, Managing Partner



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The managing partner of one of the “big four” consultancies speaks out about market entry strategies for Algeria and how Deloitte itself went about servicing the local pharmaceuticals industry among other thriving economic sectors.

As a member of the “Big Four” professional services firms, what sort of offering does Deloitte bring to an emerging, but still relatively immature economy such as the one here in Algeria?

Deloitte applies a continent-wide strategy in which the responsibility for growing in-country operations is mainly shared between head offices in France and South Africa. Essentially, the strategic guidance for the country offices in Francophone Africa comes from France, whereas our offices in Anglophone countries, minus those in Egypt, Libya and Mauritania, are administered from South Africa. On top of that, there is a committee which meets every three months or so specifically dedicated towards coordinating the Francophone and Anglophone regional strategies and addressing any transversal issues.

More than a decade ago, Deloitte started setting up its own offices in Francophone African countries. The first two were in Morocco and Gabon simply because we had identified well-structured agencies already in existence which we were keen to acquire and harness as a decent starting point for developing our operations. Our entry into Algeria was altogether different,

because aside from a small agency of IMS which we already had some linkages to via the Paris office, we had to practically go it alone. Today Deloitte enjoys a Francophone African footprint that covers not only the three Maghreb countries – Algeria, Tunisia and Morocco – but also 13 sub-Saharan states including the Ivory Coast, Benin, Togo and Senegal. Our next step will be to open up a local office in Chad which we expect to happen in the near future.

In terms of Deloitte's offering for the Algerian market, we started off by providing audit advisory and integrated services which cover accountancy solutions and the tax and legal dimensions. More recently we have also launched business consulting and risk services, though that has yet to really take off, and we are bolstering our corporate finance offering which now includes assistance with mergers and acquisitions, IPO and restructuring.

You mentioned having to 'go in alone' in Algeria. On what criteria did Deloitte base its decision to enter the Algerian market?

Our interactions with the Algerian market actually date back to well before the current in-country office was established. As far back as 1995, Deloitte was already providing services to firms in Algeria, but with the onset of instabilities we decided to cease our activities there. Then, in 2005, we were hired to conduct some work for a couple of banks in Algeria and subsequently for the public entities Sonelgaz and Sonatrach and realised that this was the sort of market where needs could only be properly addressed if we were physically present. To effectively understand the market it was imperative to establish an on-the-ground team and that is exactly what we did. Today we have an in-country team of 60 permanent personnel, which are mainly Algerian nationals.

Deloitte has a uniform policy of systematic in-house training, so that our local workforce undergoes one or two weeks of professional development workshops every year that are conducted on a Francophone Africa regional basis. In addition to our locally sourced talent, we can also of course bring in experts from Deloitte's global labour pool as and when they are required for specific projects.

The development of the 'Big Four' within an emergent market often closely correlates with the economic and political development of that country. This is because the scope for offering business consultancy services tends to increase as an economy matures. How do you evaluate the Algerian market at this point in time? And how do you see the market evolving in the long run?

Personally, I evaluate Algeria as being at a cross roads. It is clear that the old economic model has run its course. There have been and continue to be attempts at opening up the market and establishing incentive structures for foreign enterprise to come in and assist local businesses. This is all very positive. There is a common desire on the part of the authorities to welcome foreign enterprise. It is nowadays common place to hear the ministers for commerce and industry calling for international enterprise to engage with the local market and share in its riches. It is not really viable for Algeria to try and accomplish everything by itself anymore, particularly as the country is already a good step behind the European economies and has some way to go if it is to make up the gap.

Unfortunately the strict regulations on market entry and especially the joint venture rules have the effect of distorting the market and ultimately inhibiting growth. Powerful multinationals such as Sanofi-Aventis and GlaxoSmithKline are not going to be put off by the 49 percent foreign ownership limit, and their presence in the Algerian pharmaceuticals sector demonstrates this. Their willingness is because they already wield sufficient influence through their technological prowess and global stature. Italian, Spanish and French small and medium enterprise (SMEs), by contrast, are going to be much more put off by the idea of relinquishing that amount of control to a local entity and they will be the ones that will be reluctant to enter. This is unfortunate for the Algerian economy, because, as we can see from examples all over Europe, it is the SMEs, rather than the giants, that create innovations, new jobs and are the motors to growth. It is precisely these SMEs that are absent from the Algerian market.

What other legislative changes are required for the Algerian market to flourish and attract foreign investment?

In many respects, the rules themselves are not so bad. The current fiscal burden and tax codes are neither as onerous nor as complex as the French system for example. The main problem is the frequency of changes to the rules. This makes it virtually impossible for firms to maintain a clear strategy. If a company knows what its tax burden is going to be in the future then it can factor that into its long term development plan, but here in Algeria, the rules of the game are so fluid and subject to amendment that it is tremendously difficult to formulate a development strategy that you can actually adhere to.

Which specific sectors of the Algerian economy has Deloitte been targeting?

Our workload in the energy sector is increasing because there is lot of activity going on in the upstream exploration and production of hydrocarbons. This has been having a knock on effect in

adjacent areas such as the use of water in the energy value chain. Algeria is a water stressed country and we have had a number of contracts coming from businesses engaged in the desalination of seawater.

The pharmaceuticals sector is also of strategic interest to Deloitte because it is composed of a large number of indigenous, family-run SMEs many of which require assistance in terms of financial structuring and execution of growth strategies. Pharmaceuticals also represent an industry that is growing in importance because the government has committed to dramatically raising the level of local production within the next 5 years and seeks to establish the country as a regional leader in biotechnology.

Technology, media and telecommunications (TMT), agro-industry and banking all constitute other areas of high potential for us. In the financial arena, the embryonic nature of the Algiers stock exchange and lack of insurance coverage beyond classic risk pose particular challenges for business.

Tell us more about the challenges of securing financing for start-ups.

The situation with regard to securing risk capital for promising start-ups is rather paradoxical in Algeria. On the one hand, the government is said to have made funds available via various public institutions, but on the other hand very little of these funds have actually been invested. One of the major sources of risk capital for SMEs in Algeria comes from the Tunisian outfit, Africinvest, which has been investing heavily in businesses such as NCA Roubia which floated on the stock exchange a couple of years ago. Algeria is increasingly capitalistic, but a revolution in the financial landscape has yet to take place and a proper culture of risk capital and project financing is still in progress

From your own experience in setting up Deloitte's Algerian office, what are the secrets to success in the Algerian market for incoming foreign firms?

The Algerian market has its own unique characteristics and it is crucial to understand this if you are to be successful here. It is impossible to conduct business remotely. You have to be physically present and set up a local office. A hallmark of Deloitte's own strategy for Algeria has actually been to first work with local clients so as to learn the ropes, familiarise ourselves with the detail of the domestic market, and gain a better understanding of the local dynamics. Where Deloitte can help is in facilitating and speeding up this process. We can assist with identifying partners and conducting the due diligence for acquisitions and joint ventures. We can ensure that a firm's market integration is in accordance with the local regulatory and legal frameworks and can leverage our research and analytic capabilities to assist in the formulation of appropriate business

development and exit strategies. The other main area where we can offer guidance and support is of course in the financial structuring of new entities that are being created.

Each particular sector has its own features, but for the pharmaceutical sector, for example, it is fundamental that an incoming foreign producer understands that they will have to take on responsibility for distribution and they have to consider the required effort to integrate local work forces.

[Read part two of this interview here](#), where de Rincquesen sheds light on opportunity and risk in the Algerian pharma market.

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