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Marko Ackermann of the German-Algerian Chamber of Commerce and Industry (AHK) discusses bringing German and Algerian companies together in partnerships, the investment landscape in Algeria, and the opportunities present in the country's healthcare and life sciences sectors.

How would you describe the capabilities and offering of AHK in Algeria?

We constitute the Algerian chapter of AHK, a network of German Chambers of Commerce and Industry around the world. This year, we have increased to 140 offices in 92 countries and there is actually quite a heavy emphasis on the African continent within our organization right now as it is some of the African economies that are exhibiting some of the highest rates of growth potential. Algeria is no exception and that is one of the key messages that we are trying to spread to German enterprise. Providing you approach market entry in an appropriate and sensible manner, it is really possible to generate a decent return on your investment in this country.

Algeria is thus very special to us. Here we provide all the consultancy services that one can find around the world when searching for market information and insights on how to conduct business operations locally, even if we focus primarily on identifying potential business partners. To the uninitiated, the Algerian marketplace can certainly come across as quite opaque and confusing and therefore we make it our business to clear some of that fog, or at the very least connect you up with someone who can fulfil that function. Sometimes, even, we are approached by local companies who are looking for a partner abroad in Germany.

You mentioned AHK's role as a matchmaker. How easy is it for German enterprises to find appropriate business partners on the ground in Algeria?

The standard of potential local JV partners here in Algeria is actually rather high. Many of our clients are pleasantly surprised by this fact. Though this is not commonly appreciated abroad, I would go as far as to say there is an abundance of professional Algerian companies in many industry sectors. What's more often these potential partners are more interested in technology and know-how transfer than in pure financial investment which they are often easily able to source locally anyhow. In the pharmaceuticals sector their main objective is often to scale the manufacturing value chain and therefore to acquire the capabilities and the competencies to produce ever more complex molecules. Incoming foreign firms, meanwhile, are obliged by law to team up with a local entity if they seek to create any kind of industrial footprint like a manufacturing plant. The local law stipulates that indigenous entities own at least 51% of the shares of any such venture.

How much of a turn off is that, particularly when it comes to small and medium size companies?

There is absolutely no doubt that the 51% ownership regulation presents a big challenge for many German investors. Even global companies have a hard time with it. It's hard to let go of that much level of control, even if it's possible to reduce the loss of power by giving off management power to the foreign partner. The international partners remain quite reluctant to commit even though the market figures may look very interesting to them. Among them, family companies are often the most reticent to take this step because they are used to having full control of their activities.

At the end of the day, German companies are used to operating under conditions of utmost transparency and stringency of quality standards. Indeed, the "Made in Germany" brand is considered, the world over, to be a hallmark of precision and quality. It is therefore difficult for many German enterprises to cede such levels of control when there are concerns that local environmental conditions might not always reach similarly high standards.

What work-around solutions can be found to mitigate this?

The obvious solution is to dilute the dominance of the Algerian partner by introducing other stakeholders into the mix. The incoming foreign investor can retain his 49% ownership of the business enter into a partnership agreement with two or more indigenous entities meaning that though he does not control over 50%, he still wields the strongest share. Yet, it still doesn't quite break the psychological barrier. What is almost certain, however, is the day that the parliament relaxes this ownership rule, we can be sure that many more foreign investors will start flooding into Algeria because the market fundamentals are highly prospective.

What, then, is the enduring appeal of Algeria to German enterprise?

The growth potential of the market is very high, especially in the pharmaceutical and medical device sectors. The numbers do not lie. We're looking at an exponentially growing population with massive unmet need and ever rising demand. It is not just that there are more and more people requiring treatments, but the expectations of the market are on the rise as well. The average Algerian patient expects a higher quality treatment pathway that would have been acceptable to him or her in the past. As purchasing power rises and the middle class starts to expand, the nature of the demand curve also shifts. When you combine this with a socially orientated government and a more mature infrastructure than you find in many parts of Africa, you have the right ingredients to get a high-performance business up and running. The rewards can be great, but they obviously have to be juxtaposed against the risks.

How do you evaluate the level of risk?

Algeria presents a very interesting investment opportunity in many different industry sectors, although we do not recommend it to small companies that are starting to export for the very first time. This is the sort of market that is best left to old hands who have sufficient experience. There are many potential pitfalls, but the biggest one is the regulatory uncertainty. The rules of the game are liable to change midway through the game and that means that, as a business, you have to have deep enough pockets and enough time and patience to be able to weather any delays that you might experience. This is certainly not the sort of market where you can saunter in, make a fast buck overnight and then withdraw. The businesses that tend to succeed are those that have the perseverance to be here for the long haul and will invest the energy, time and effort in building up trust locally.

A good example of the unexpected hurdles that you might encounter were the sudden import restrictions that entered into force, practically without warning, last Summer. As a consequence, a number of foreign businesses saw their imports completely halted from one day to the next. Over 850 products are now subjected to these restrictions which cover the entirety of business sectors combined. They are mainly products that are already being produced in Algeria and while there has been a subsequent relaxation for some areas like medical devices, government intends to continue this policy indefinitely for other sectors.

The bottom line is that this is no place for beginners. You need to be ready to weather the storms, so one must be internally strong enough and not too highly leveraged. Moreover, it helps to be experienced in exports because many of the difficulties that arise are often to do with custom delays creating havoc with business plans.

How did those sudden import restrictions come about? What was the background context? Did the government, given the economic situation, realize that they were spending too much?

The Ministries of Trade, Finance and Industry, together, set it up in order to protect local industry and prevent currency flight at a time when the national economy was deteriorating. They introduced a sort of free sales certificate that the exporter had to provide, guaranteeing that the product is safe to circulate in the country of origin. But they certainly wanted not only to protect local consumers but also local production while ensuring more diversity across the economy. Obviously, it was also an

effective way to reduce spending of foreign currency at a moment when the national stocks of foreign currency reserves were under pressure.

You mentioned unpredictability earlier. Back in 2014, in the Healthcare industry, the construction of new university hospitals were announced to great fanfare, and the whole industry started working in that direction. But the government stopped it all at once, very suddenly, despite big-ticket contracts having been signed with an array of multinationals. How much of a blow was this to business confidence?

There can be no doubt that business confidence took a bit of a knock in the life sciences sector when these high-level commitments were suddenly shelved. The incident is emblematic of the kind of risks you can encounter when doing business in this country. As I recall, the impact was limited, however, mostly to the hospital construction and medical equipment segment. There was no real contagion effect to other industry sectors that I am aware of.

That said, we now sense that European companies in pharma often choose to focus on other African markets to enter, like West Africa or other parts of the Maghreb for instance. Algeria is a big market, we have 42 million inhabitants and growing demand, but we need to fix this situation about unpredictability because it increases the risk. I believe it is important not to lose the confidence of the international business community. Once confidence has drained away it is a long and difficult path to winning it back.

Algeria is in competition with its two neighboring countries: Tunisia and Morocco. Investment flows don't respect international frontiers. They will go to whichever place offers the best deal. German companies that want to invest in Maghreb usually visit the three countries. In the end, the brute reality is that most of the investments do not go to Algeria.

How do you judge trends in comparative competitiveness?

The region has high potential as a whole but each country has their own difficulties to enter their market, be it political conditions or economic stability. In Algeria, let's recognize that security is nowadays insured and the political situation is stable. These are positive factors. What international investors need now is predictability and clarity. They need to know that the rules of the game in force today will continue to be adhered to tomorrow and the day after.

Do you think that Algeria can be harnessed as a launchpad from which to penetrate the rest of the Maghreb and Africa?

Algeria can actually claim to be in a position of leadership in a number of sectors. For it to become an entry point to conquer Maghreb could happen, but presently the volume of exchanges between the three countries is among the lowest in the world. The border to Morocco is closed for instance. But opening the exchanges would be a good thing for all of Maghreb. Political integration is not advanced enough yet.

Does it appear to you that investments are escaping Algeria because the other countries are becoming more and more attractive? Or is it because Algeria has lost some of its appeal?

The two neighboring countries have a longer industrial tradition. Here, the 80s and 90s were bad times for business, and we had almost to restart everything from the beginning to catch up. Also, Morocco and Tunisia often offer easier conditions for investment, and also in terms of logistics. Control and customs in Algeria remain more challenging. There is an element of catchup that needs to happen. When it does, however, Algeria offers a much deeper demand and more prolific marketplace.

Which sectors are German firms most attracted to?

Quite a lot are in the field of construction and infrastructure. Most construction machines for instance come from Germany. Yet, they are present in a broad variety of sectors, for example DHL is leading the delivery services in the market, Linde is a top player in the gas industry, Bayer is very involved in pharma, Siemens is active in various industry sectors.

How many of them are in the life-science sector, including pharma, hospital construction, medical infrastructure, etc?

It is my impression that German firms are still to get more involved in that field, since it carries a great potential. Algeria has an ambitious program for the health sector, even if they paused the construction of new hospitals.

What would be the main "bright spots" in terms of opportunity?

German companies are very successful in machinery for the pharmaceutical industry, packaging, etc. A lot of international and local companies need this sort of equipment. Some of these partnerships and joint ventures are very successful. That is why each year, a lot of Algerian businessmen go to Düsseldorf Medica trade fair. They go there to find new products, new partners, new equipment! Algerian companies often seek to become exclusive distributors of German products, even if Chinese products are now interesting for their increasing quality and lower price.

How is demand for AHK services evolving when it comes to this life science sector? How are you adjusting?

Some companies are looking for sales representatives and agents, in medical machinery especially. It is not very often that we are approached to find partnership opportunities in this field, but it happens. Newcomers have an advantage with us when they start to look for a partner, in the sense that we take them to visit every potential local partner. It has also happened that we would offer "incubating" facilities, and we do help a lot in the matchmaking.

What was your main challenge, as a German citizen coming to Algeria and navigating this unique and quite unpredictable environment?

These challenges were exciting. At first, it is difficult to get a clear vision of how things work here. You definitely have to come over, one cannot do business on the phone nor by email, at least not at the beginning. Reliable partners in Algeria are very well organized, so synergy can happen. The challenge is to "work the crowd" until you understand the Algerian way. In order to do so, you have to come here, meet a number of people, make acquaintances and get a clear idea of their working conditions. Restrictions can be very strong, though the field is not as organized as in Europe.

On a personal level, what do you enjoy most about Algeria?

The people and their hospitality are amazing. It is easy to meet new people and discover the country. You should come over to experience it yourself!

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