

PRINCIPAL AXIS OF THE FINANCIAL MARKET REFORM IN ALGERIA

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FINANCIAL LANDSCAPE in ALGERIA

Contexte National

OBSERVATORS' LOOK AT THE FINANCIAL MARKET

Observers' look at the situation of financial markets in Algeria is as follows:

- **TIREDFNESS**: the long waiting time for the admission of public and private enterprises for reviving the Algerian stock market.
- **IMPATIENCE** : for having a financial market in Algeria to support the development of public and private enterprises
- **HOPE**: of achieving the transition and the emergence of a national economy at regional and international level

LOTS OF REALIZATIONS AND INSUFFICIENT RESULTS

- **Algerian Stock Market was established by the Directive 93 /10 dated 1993** , joint stock company belonging to professionals: intermediaries in stock market operations (IOB) practiced by 6 public banks under the control of COSOB Authority.

This Law was amended and completed by the Law 03/04 dated 17 February 2003 to establish a central securities depository (clearing house).

- **Actually, it quotes three enterprises (2 public and 1 private)**
Since, beside the Algerian stock market, the State privatized a significant number of public companies between 2003 and 2008
- The stock market quotes also five (5) bond issues (debenture loans) issued (offered) to the general public by the public and private enterprises and 22 fungible treasury bonds of which the duration exceeds 5 years

FAVORABLE FACTORS

- The banks have been familiar with syndication and investment (on primary market)
- The market features an operational stock exchange and especially a central securities depository which guarantees the dematerialization of securities by registration to securities account
- Recognized banks as IOB control the bookkeeping – conservation and routing of orders and transaction settlement.

CONTINUATION:FAVORABLE FACTORS

- A State Capital Market organized by D.G.Treasury (MF)
- An active national partnership research policy in grand enterprises
- A public policy to support and upgrade the private companies and SMEs.
- A particular interest of foreign investors in our market

INSUFFICIENT PRINCIPALS

- The secondary market is animated by the IOB of six (6) public banks only : absence of strategy , of interest and of professionalism.
- Absence of market profoundness (very few stocks) has been accompanied by a structural illiquidity .
- The legal and regulatory framework dates 1993 and is uncompleted : there have been some arrangements in 2003 related to the opening of IOB activities to banks , central securities depository institute (settlement agency) and to the status of the Commission.
- Investment services necessary for the market are not existant (asset and fund management , portfolio , independent analysis , information , consultation , evaluation , assistance).
- Lack of consensus, organization scheme and visibility in the organization and actual functioning of the market.

PERCEPTION of the Algerian STOCK MARKET

- The performance realized by the Algerian stock market since 1999 (date of second market's opening) has been marked by the absence of objective conditions of its development
- The absence of depth of the Algerain market did not convince the professionals, **issuers, investors and even the authorities** .
- **The image and perception of the Algerian Stock Market** by the general public, investors and issuers remained “not clear”

EXPECTATIONS and CHALLENGES

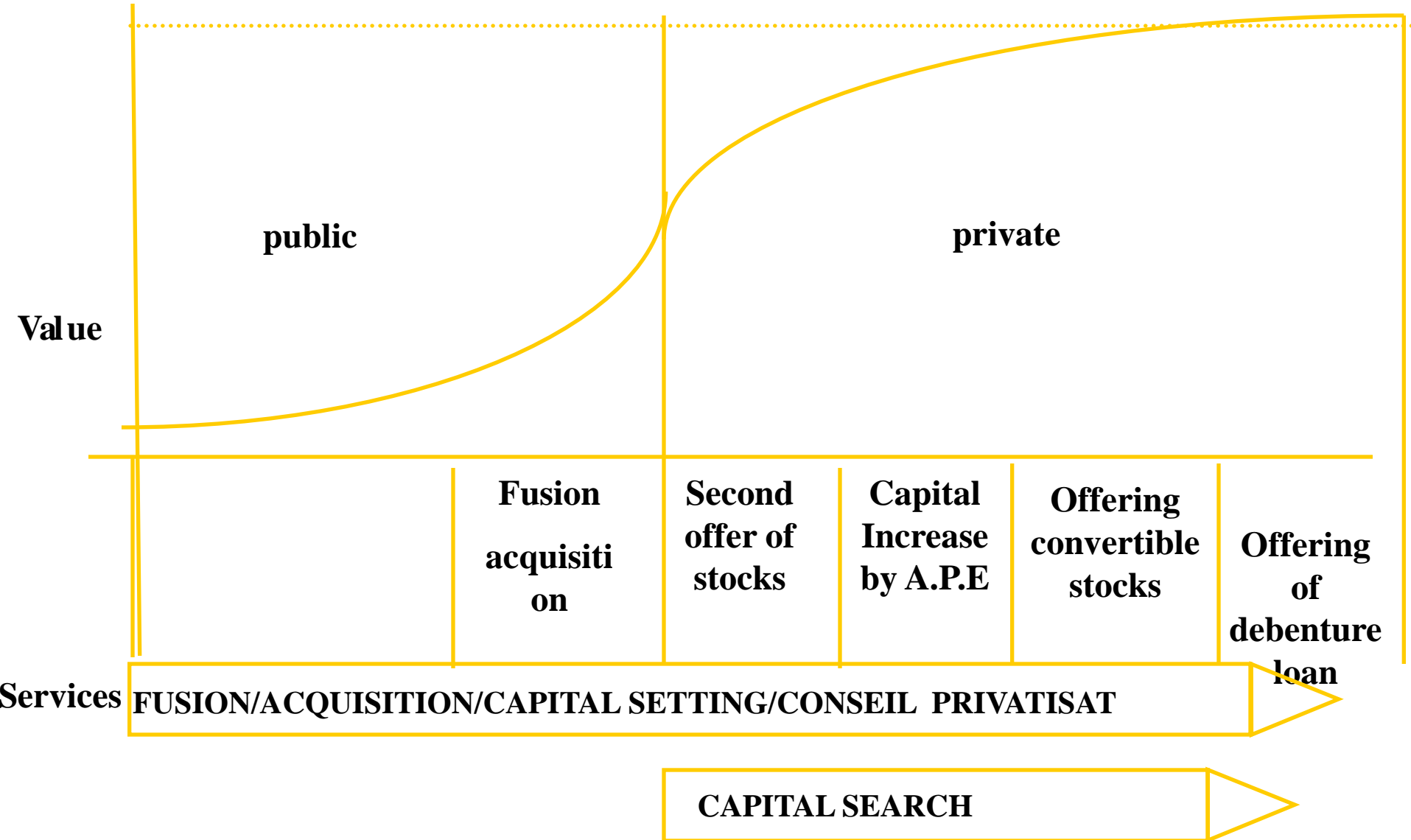
At microeconomic ,macroeconomic
and institutional level

EXPECTATIONS AT MICROECONOMIC LEVEL

REMINDING OF COMPANIES' EXPECTATIONS:

- **To have long-term resources and less debts** (with a stable financing strategy and an improved negotiation power)
- **To renew and enlarge the shareholding , if necessary,** to strategic, commercial, social, technological and financial partnerships (capital movement)
- **To facilitate the external growth operations** (fusion – absorption , exchange , ..)
- **To ensure the sustainability of enterprises**

Privatization Techniques (A Company's Life Cycle)



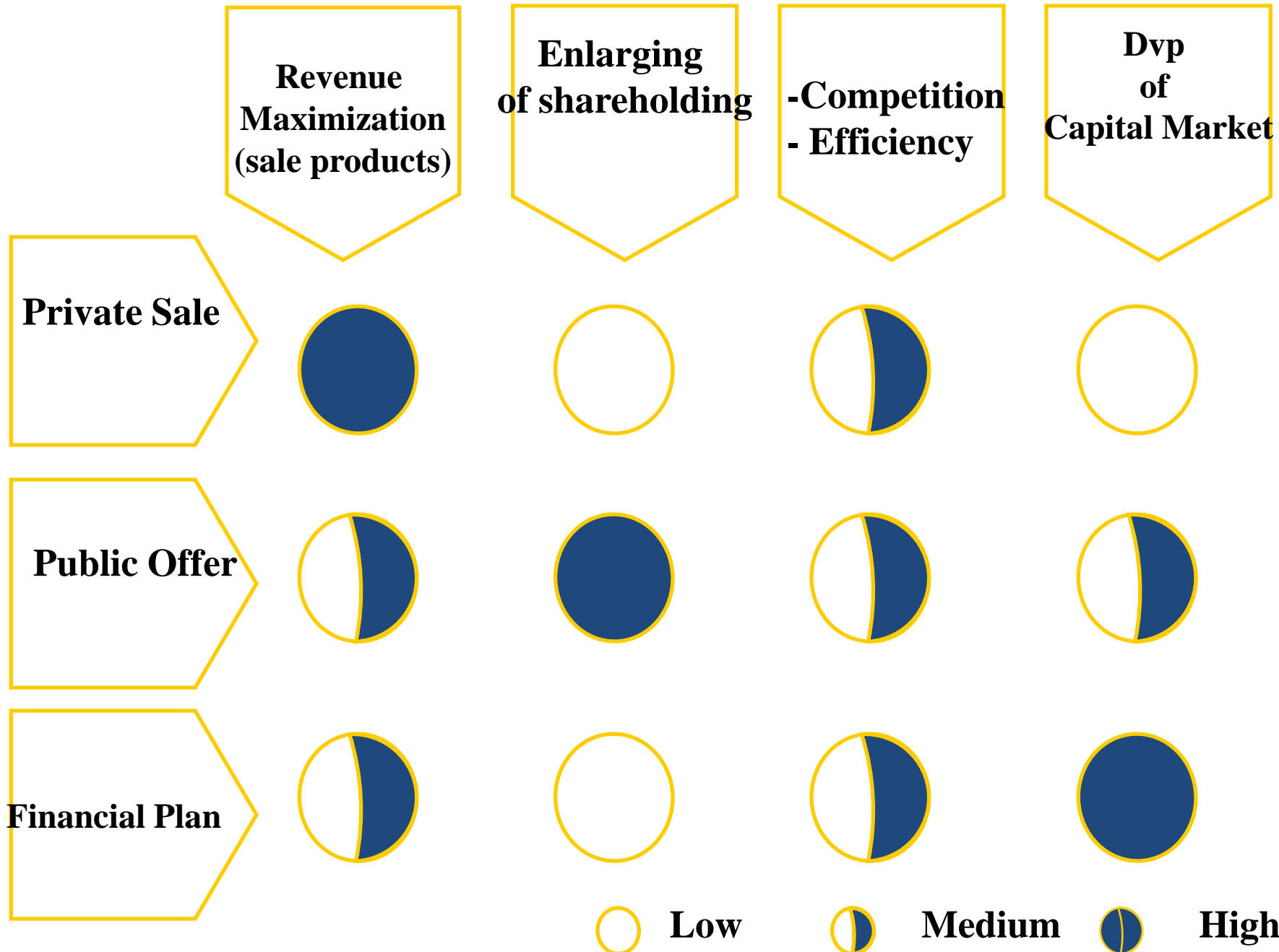
EXPECTATIONS AT MACROECONOMIC LEVEL

INSTRUMENT for the REALIZATION OF DEVELOPMENT POLICY OBJECTIVES (PQ 2010-2014)

- Allocation of available resources to performing enterprises
- To center the State budget on corporate programs
- To finance public equipments through private resources
- To dispose new fiscal sources

Objectives

Méthodology



EXPECTATIONS AT INSTITUTIONAL LEVEL

- **DEFINITE POSITIONING of FINANCIAL MARKETS IN INSTITUTIONAL, ECONOMIC, MONETARY LANDSCAPE OF ALGERIA**
- **DIMENSION OF Financial MARKET according to the NEEDS and CAPACITY of the national economy (and of its perspectives)**
- **DEFINITION and PRECISION of INTERVENTION DOMAIN OF THE REGULATORY AUTHORITY (Stock Exchange , OTC, ...)**

FINANCIAL MARKET REFORM IN ALGERIA

Principal Axis
of the Development and Modernization
of Algerian Financial Market

MIDTERM VISION : **EMERGENCE of FINANCIAL MARKET in ALGERIA**

THE ECONOMIC REFORM LAUNCHED BY THE ALGERIAN GOVERNMENT allowed to bring together the PRINCIPAL CONDITIONS OF FINANCIAL MARKET'S EMERGENCE

- The opening and the modernization of **BANKING AND FINANCE SECTOR in Algeria** is today a reality
- Application of **new SCF** in 2010 (**Financial Accounting System**) compatible with IFRS.
- Programme **to upgrade the SME, emergence of large private groups** (national and foreigner) and consultation strategy and partnership search of public companies.
- New juridical provisions **related to the foreign investment in Algeria** which facilitate the partnership forms and the professional governance.
- Presence and stronger interest of foreign investors

MAIN RECOMMENDATIONS PROPOSED : IMPORTANT STRATEGIC AXIS OF FINANCIAL MARKET STRATEGY

- Urgency of reorganization of investment services through professionalism and of dynamization of intermediaries in Stock Market Operation (IOB) :
 - by carrying out the activity for security industry as being a priority and strategic activity during the economic reform.
 - and by contributing to the partnership between the securities' professionals (abroad and in Algeria) and bankers and financial institutions .
- Importance of elaboration of a function diagram and target organization and financial market director based on clear strategic objectives, displayed responsibility and formalized relations between the different authorities and markets (monetary, exchange and mortgage market...)

Continuation :IMPORTANT RECOMMENDATIONS PROPOSED

Important Strategic Axis of Financial Market Reform

- Importance of the implementation of new conditions on legal, regulatory, and financial plan in order to allow the issuance of equity securities received from the public and private companies to give revival to financial market
- Urgency of upgrading the participants, systems and current procedures with regard to the international practices and standards in order to improve the conditions of liquidity, security and efficiency
- The necessity of having an accessible, functional and modern site to arbitrate the head offices of the institutions: facilitate the grouping of principal actors of securities' activities to reunite the conditions for synergy.

FIVE MAIN OBJECTIVES

Simultaneous and synchronized implementation

Image

Objective 1 :

Improve the image and reestablish the confidence of transmitters and investors

Business

Objectifve 2:

Professionalize and dynamize the IOB activity :
New partnerships and adaption of the organization

Emission Flow

Objective 3:

Ensuring constant flow securities emission

Systems

Objective 4 :

Consolide and modernize the imarket by the development of the system, procedures and regulatory and legal framework

Institutions

Objectifve 5 :

Reinforce the position of market enterprises

- Professionalizing the IOB bank
- Partnership actions
- Industrie locale des métiers de marché

REORGANIZATION OF INVESTMENT SERVICES

Ministère des /
07/2008

The financial market in Algeria is in its first developments.

The future of the Algerian financial market depends strongly on the reorganization of the performance of investment services at local level.

One should take position :

1. since now
2. based on the past experiences
3. in function of the strategy of each bank
4. and considering the demand of finance of entreprises and economy

Systems

- Consolidation and modernization
- Systems and procedures
- Regulatory and legal framework

COMPLETION OF JURIDICAL AND REGULATORY FRAMEWORK

- | | | |
|--|--|---|
| 1. Regulation
: legislative and
regulatory measures | to supervise the market
and the activities | Parliament
Administration |
| 2. juridical
technical
regulation
process | to ensure a well
functioning
and transparent
market | Independent
authorities
include :
-State
- Institutions
- Professionnals |
| 3. Auto regulation
ethical norms
and good practices | to fix professional
norms
and behaviour rules
(to limit the prejudice that could
harm the markets) | Professionnals
Transmitters |

SUPPORTING NEW EMISSIONS

- **It envisages to support a national share issue program (and other products) by public and private enterprises :**
 1. Responding to the new demand of direct finance carried out by
 - Development strategy of public sector and its partnership search
 - Public program to support, upgrade and improve the SMI/SME competitiveness
 - development of national and foreign private groups and companies on Algerian law.
 - 2 . New legal and regulatory conditions of profit sharing and incentives to participants (transmitters , investment service providers , investors and others)
 - 3 . And to identify (and not design or impose), in the first phase , all eligible public and private enterprises.

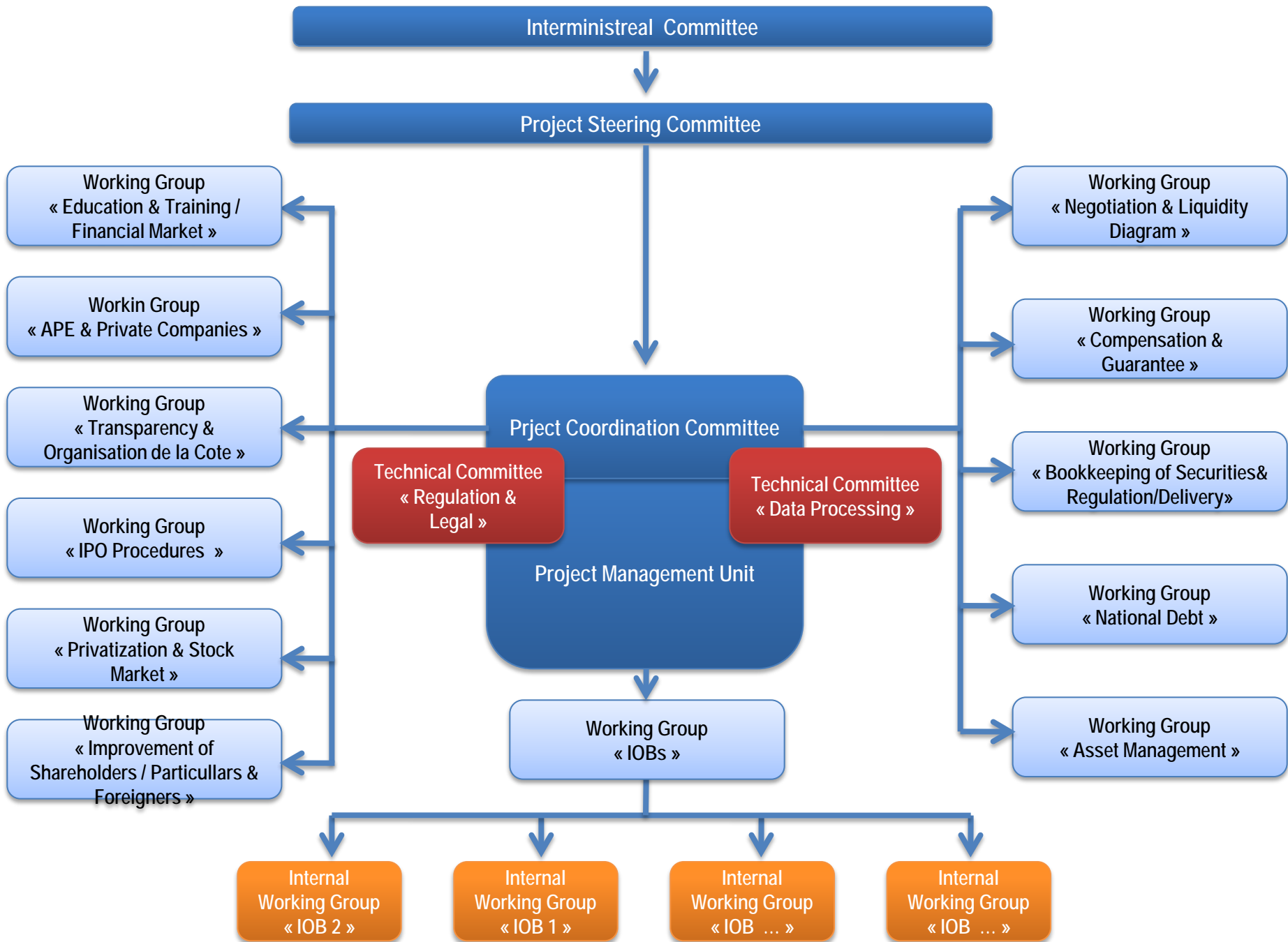
- Consolidation et modernisation
- Systems and procedures
- Legal and regulatory framework

DEFINING A SYSTEM OF INFORMATION AND DATA PROCESSING

1. **To have a functioning diagramme of Algerian stock market** : based on the needs and capacity , business model , national choice of configuration matters , relation with other authorities and markets
2. The choice and implementation of a global, integrated data processing system, **to meet the market securities and efficiency needs in general (with market guarantee funds)**
- 3 . Strengthening the technical personnel of market enterprises through recruitment or training in order to master and suit all expertise conveyed by new systems.

IMPROVING THE IMAGE AND PERCEPTION OF ALGERIAN STOCK MARKET

- One should establish a constant visibility by a communication strategy with long-term supported actions.
- Daily media presence :
 - in print media,
 - in televised media
 - on internet.
- To encourage the professionals to develop evaluation, analysis, information and consultation activities at local level
- To reinforce the capacities of market authorities and enterprises to monitor and communicate information of the market



Reminder of main issues foreseen for the road map

Public Image and Confidence

- Algerian Financial Center
- Increased Visibility

Business

- Professionalization of IOB banks
- Partnership actions
- Industrie locale des métiers de marché
- Creation of deposit office

Flow of emissions

- New Enterprises
- Privatization
- Financial Institutions
- Algerian companies with foreign capital

Systems

- Consolidation et modernization
- Systems and Procedures
- Legal and Regulatory Framework

Institutions

- To reinforce the position of market enterprises
- To facilitate an efficient functioning