Ismael Chikhoune – President, US-ABC, Algeria



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Ismael Chikhoune of the US-Algeria Business Council (US-ABC) expounds upon the evolving levels of business cooperation between the USA and Algeria, opportunities for US healthcare companies in Algeria, and the structural changes needed to cement Algeria as a top investment destination.

Could you inform our readers on your background and experience in promoting business cooperation between the USA and Algeria?

I have co-founded several organizations operating between the US and Algeria. One such example is the start-up initiative that we began from Silicon Valley, where I previously worked. This project was scaled up beyond Algerian borders by the US State Department to become a Maghreb-wide initiative. Following this, we began the Kasbah business Angels concept and sourced funding for young entrepreneurs with a business plan, mostly linked to software development, by hooking them up with appropriate venture capitalists.

I also sat on the board of the AAFF, the Algerian American Foundation for Science Technology covering activities outside the focus of the USABC such as science in education. This was chaired by Elias Zerhouni, previously the director for NIH under the Bush Administration and a special envoy of the Obama administration, and, until recently, head of worldwide R&D operations for Sanofi.

How has the work of the US-Algeria Business Council developed during your tenure?

The USABC was founded in 2002. During the initial two years there were difficulties attracting US companies. For this reason, it became preferable to have the organization led by an Algerian-American who understood the workings of both nations, so I was invited to take up the role in 2004. Essentially, I function as a facilitator and matchmaker, linking up Algerian and American businessmen.

Following my appointment, we decided to diversify the portfolio. At that time, we worked with only 30 companies, 25 in the oil and gas sector, and 5 in defence. Today we are comprised of 125 companies covering a real diversification of sectors. Of course, a large proportion remains oil and gas due to the nature of most American operations in Algeria. However, life sciences now represent the second largest sector, followed by defence and agriculture. We represent almost all sectors of the economy.

We are a non-profit private organization, independent of either government, and do not accept government funds. This allows us to maintain credibility and advocate for companies, and is why today we are a major player in business between the US and Algeria.

How does the USABC's operations differentiate from those of AmCham Algeria? Is there not a risk of duplication of tasks?

The function of AmCham Algeria is to follow up the US companies after the USABC brings them to Algeria. My role is to promote Algeria to US businesses, identifying opportunities in Algeria to do business. AmCham Algeria's work really begins once the business arrives in Algeria, advising on the rules, regulations, and key players within the local business community.

The US chamber came to Algeria last May for the first time and two senior Vice Presidents of AmCham in Washington visited Algeria. This is a part of the new US administration´s strategy to invest more in Africa. Algeria, after South Africa, is actually nowadays the main country the US is targeting in Africa.

I was pleased to discover that, two months ago, AmCham Algeria elected a new board and new executive director. This will enable them to implement a more thorough business plan. During the last 15 years the level of engagement between AmCham Algeria and the business community was, quite frankly, pretty low, organizing perhaps only one business event per year.

Moreover, AmCham Algeria only very recently received accreditation from the US Chamber of Commerce, so is now affiliated with official US AmCham system and thus a true local chapter, unlike a great many so-called “AmChams” operating in the Arab world that actually function independently of the US Chamber of Commerce, but free-ride on the name.

How would you describe the capabilities and the services that you offer your clients, particularly in the Life-Sciences & Healthcare domain?

Focusing specifically on healthcare, all the big US Pharma corporations are members of the council. This is because we initially assist them in initiating operations in Algeria, identifying indigenous partner companies, and, providing insider perspectives into the dynamics and trends of the Algerian market place. We also assist in arranging meetings with government agencies when this is proving difficult.

In June 2011, we organised the US Algerian healthcare forum and invited the major US companies active in this domain. The Algerian Ministers of health, labour, industry, and finance also attended. This helped to demonstrate to the Algerian government American enterprises’ staunch and enduring interest Algeria.

Last time we were in Algeria, the government announced its Algeria 2020 plan to boost the life sciences industry? We understand the original idea has been somewhat modified? Could you explain the origins of the plan and comment on what the changes might tangibly mean for the life science industry in Algeria?

In 2012, we planned to develop a biotechnology hub in Algeria, covering Africa and the Middle East, emulating the highly successful model of Singapore. Algeria, after all, possesses a very qualified cadre of scientific graduates with many physicians, pharmacists, as well as students of biotechnology. We estimate that Algeria has more than 800 students who are qualified to perform R&D in the life sciences domain.

In 2013, we arranged a meeting between American innovative pharma multinationals, before adding stakeholders from other countries, such as the Swiss and the Germans, with the aim of securing the participation of most of the innovative drug developers with a presence or interest in Algeria. We followed this up with auxiliary events in Boston, beginning discussions with Harvard, MIT, and other universities with a view to drawing up a roadmap, to realise the ambition of

rendering Algerian a launch-pad and hub for biotech activity in North Africa and the greater region.

Deloitte was actually tasked with conducting an in-depth study, which was used as a benchmark for how Algeria could follow the example of other biotech hubs such as Boston, Dublin, or Singapore, and become internationally competitive in this field. The idea was that the Ministry of Finance would stump up the financing and the industry would set up showcase projects for different therapeutic areas that would directly benefit Algerian patients and nurture a thriving local life sciences community in the field of biologics. This, in essence, was the Algeria vision 2020 biotech plan.

What the led the original plan to change?

Progress was more sluggish than anticipated. We requested that the industry set up an organizational structure tasked with implementation of the vision, but that was slow to materialize. The initial roadmap focused on R&D and how students could graduate directly from the universities and progress to businesses where they would be working on R&D. The plan was for primarily US innovative drug developers to launch their own in-country R&D programs.

In 2014, during the biotechnology conference in San Diego a landmark MoU was signed to great fanfare between the association, PhRMA, and the Algerian Ministry of Health, which formalized short, mid, and long-term goals. However, following a switch of minister, and changes in leadership within the pharmaceutical industry, and with the onset of economic recession linked to the dwindling price of oil, the initiative ran into some difficulties and bottlenecks. Imposing a mega project involving the participation of multiple ministries, an array of private enterprises each scoping in on their areas of speciality and some 48 ministries was always going to be a tough feat to accomplish without some sort of coordinating body and focal point driving the initiative forward.

Essentially, the technocratic new minister of health, Mokhtar Hasbellaoui has taken a different, more modest and incremental approach and is advocating an alternative pathway to get to more or less the same destination. What he suggested last year was to shift focus from building a biotech hub by 2020, crafting healthcare clusters in which industry players assist in training up a new cadre of biotech entrepreneurs based on their speciality. What we have done so far this year is to identify all of the key players: universities, government departments, and also the incubators, as well as the pharmaceutical companies with most to offer.

We required greater oversight of the project. This is why the previous plan was insufficient because we have been dealing with diverse streams that need to be coordinated. Moreover, it was originally difficult to determine who was responsible for areas of funding with the result that no department was taking real responsibility.

I personally believe that the Minister is correct with his decision to start small with individual healthcare clusters because, if it works with health, we can potentially expand these structures to other industries as well. Starting small and scaling up the elements that work best appears a sensible way of going about this type of program. One very encouraging sign is that it has finally been resolved that a dedicated agency will be established to oversee the healthcare clusters and which will be empowered to can act as a single point of engagement.

What sort of time frame are you estimating with regard to setting up this new agency?

We envisage this to begin by the end of this year, as there is now real momentum behind the project. Algeria’s biotech vision is not dead. It is simply that the route has been revised, starting from the bottom up, rather than top down, and the timeframe has been recalibrated to match the prevailing economic context.

How would you describe the current business winds in Algeria right now? And how has international investor confidence in the country evolved?

This is a good time for business in Algeria due to the willingness of the US administration to invest here. Nonetheless, Algeria remains a non-traditional destination for US companies outside of the oil and gas industry and is certainly not the easiest country to operate a business in. Sometimes enterprises in the US rely on consulting groups in Washington DC who for political reasons advise against investment in Arab countries.

Many others simply fail to differentiate between the Middle East and North Africa, believing Algeria to be an identical business environment to Saudi Arabia, despite them being almost incomparable. The reality on the ground is that even the Maghreb is not a monolithic block and each market in this region requires a bespoke, tailor-made approach. Trying to import and apply the same cookie-cutter business model is certainly not advisable. Businesses very much need to adapt and align to the local context if they are to make any tangible headway.

US companies tend to have other misconceptions about the country: notably around security, political stability and the French connection. It was previously believed that to do business in Algeria as a foreign company, one had to go through France. While this may well have been the case back in the 70s, today this of course no longer holds true. Nor is the security environment anything particular to worry about.

With the right patience, doing business with Algeria can certainly prove fruitful and decent returns on investment are most definitely achievable, if not always guaranteed. Algeria is not only the largest country in Africa, but serves somewhat as the gateway to Sub Saharan Africa thanks to the good relationships that the country has established have with Southern countries. This means any US company manufacturing in Algeria can potentially also succeed in exporting across Africa.

Where do you see most opportunities in life science domain? Are there any recent success stories that you can tell us about?

The best example is Varian that has been highly successful here in treating cancer patients. The company is already a world-beater due to its state-of-the-art radiotherapy equipment, and has teamed up with an Algerian partner to equip some 22 new cancer centres, of which 12 have opened so far.

Algeria is probably the 4th country for Pharma in the Middle East after Saudi Arabia, Egypt, and the UAE. These are the countries where the US wants to do more business. At this moment, many of the big US companies who don’t already have an Algerian partner, are actively searching for one so as to be able to initiate local manufacturing.

What do you see as the potential barriers to entry?

The 51-49 percent joint venture regulation still presents stumbling block, especially for SMEs who are often reluctant to cede that amount of power. According to this law, any foreign investor must cede 51% of the Algerian business to a local partner. There has been some progress recently, however, in amending this legislation. Previously the regulation was categorised under parliamentary law, but it is nowadays instead listed under the country’s financial law. This shift in semantics potentially carries big implications, because the governing party can reverse financial laws without necessarily having to go through the parliament. Hopefully it is the first step in a softening up of the joint venture rules. We are monitoring the situation carefully, because changes

to this stipulation are no longer unthinkable.

How much has the freezing of the CHU construction program and corresponding disbandment of the agency ARES damaged business confidence?

The initial intention was to build 7 brand new turnkey university hospitals. However, due to the dramatic fall in the price of oil, comprising oil 98% of government revenue, the government took the decision to freeze all major projects indefinitely. This was not specific to life sciences, and a multitude of industries were affected, especially infrastructure. Nevertheless, nothing rules out the possibility of these projects being restarted once the government manages to diversify the national economy away from oil and gas. Let's also remember that this is a phenomenon that we have observed all over the world, not uniquely in Algeria: in the wake of a financial crisis or recession, it is the big-ticket infrastructure projects such as the construction of highways and hospitals that are the first to be placed on hold.

More irksome for the pharma industry has been the sudden and unexpected import restrictions that practically overnight disrupted many multinationals' business models. I believe the government should have consulted the industry first. If there is one thing that worries potential investors, it is an uncertain operating environment where there is little or no predictability. Ultimately there needs to be more trust on both sides because the private sector is not entirely free from responsibility either. The USABC seeks to bridge that gap and rebuild trust.

When you talk about the private sector needing to assume their share of responsibility what exactly are you referring to?

Well, for example, pharma and medical device firms need to start playing by the rules when in comes to the use of representative offices. Algerian law is crystal clear on the matter: after two years you can renew once your 'rep office' status for a further two years. In other words, the structure is intended to be temporary and gives a foreign entity a grace period to work out the optimum business strategy prior to localization. The trouble is that many multinationals have gone against the spirit of this legislation and after a decade of operating are continuing renew their rep office statuses so as to avoid the need to partner with an indigenous firm or set up an Algerian company. The government is well within its right to demand multinationals to produce locally as far as possible and companies that have been playing fast with the rules should not be surprised if

their renewal requests are not granted.

The Algerian government wanted to encourage foreign companies to partner with Algerian companies and produce in-country by reducing external competition. In the past, there were complaints that domestically produced products were struggling against analogous imported products and that not enough was being done to protect the fledgling domestic pharma manufacturing industry. As the economic crisis began to bite, the authorities needed to insulate local industry and simultaneously reduce a pharma import bill valued at around 3 billion dollars a year. The obvious solution was import restrictions and many of the international private firms that were most impacted were those that had been exploiting the ‘rep office’ structure beyond the allocated time period.

What is being done to rebuild trust and shore up business confidence?

The minster decided to create a committee, called RP, for the industry, which would be consulted in advance of all major future developments. This covers the entirety of the pharma industry. RP is now one of the mechanisms for maturing the concept of the healthcare clusters. We are expecting, in September, to discuss the project with them and also the issues that international drug developers in Algeria are experiencing. This is a highly positive step and emblematic of a new spirit of positivity.

Looking forwards, what are your priorities for the USABC in the life sciences domain?

We now see a growing interest in medical devices. Many small and medium US companies are interested in gaining a slice of the pie in Algeria. Meanwhile, a number of American pharma companies are starting to localize for the first time or increase their local manufacturing footprints. Pfizer, for instance are due to open their second factory here.

The market in Algeria may be tough, but it exists nonetheless and that can mean big rewards for those who dare. For many investors that go about their business in the right manner, there is a lot of promise. At the end of the day we’re talking about a 42 million population, which is growing fast. The ages where there is a proportionately higher usage of medicines are between 0 to 6 and between 60 to 80. Just so long as you have a large population with new births, you are assured of rising demand.

My job to convince people to look at Algeria and explore the multitude of great opportunities to be encountered in this country as well as to counsel them on how to go about making a success of this market and avoid the pitfalls.

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