

Received: 2024-11-01

Accepted: 2024-12-10

## **Legal Mechanisms for Promoting Thermal Tourism Investment: Case Study of Algeria**

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### **Abstract:**

This study aims to elucidate the legal mechanisms that foster investments in thermal tourism by providing a conducive legal investment climate essential for the development and promotion of thermal tourism, thereby transforming it into a real tool for the country's economic development. Given Algeria's significant potential in this field, highlighted by 282 thermal springs with therapeutic properties, these assets position Algeria as a regional and international hub for thermal tourism .

This potential for development is facilitated by the implementation of a thermal tourism development plan, with the nation striving to utilize these assets and encourage investment through creating a favorable environment as stipulated by Law No. 22-18, which includes incentives and guarantees, and the establishment of the Algerian Investment Promotion Agency.

**Keywords:** Thermal Springs; Thermal Investment; Exploitation Licenses; Concession; Tax Incentives; Financial Incentives.

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## **INTRODUCTION**

Tourism is a purposeful activity that results in individuals traveling from their original residences to destinations beyond their borders, for periods ranging from more than a day to less than a year. There are various forms of tourism including recreational, religious, cultural, beach, and therapeutic tourism, each distinguished by characteristics unique to its natural assets. These types of tourism are underpinned by elements that are partly common and partly unique, including the tourist, the physical environment, and the accompanying services.

In Algeria, tourism is a pivotal sector that must be emphasized to rejuvenate the national economy, especially given the recent instability affecting oil prices. Since 2008, the tourism sector has been integrated into the country's development plans and strategies with significant funding allocated and programs and policies designed to achieve returns that meet the conditions set by these programs, in addition to exploiting the natural assets that qualify the country as a tourist destination. By the end of 2030, with the anticipated decline in oil prices and consequently its financial revenues, these programs are seen as an essential alternative endorsed by the state.

Thermal tourism represents a substantial wealth and a strategic natural resource for the Algerian tourism sector, requiring a precise vision and effective, earnest management and supervision, thus opening the market to attract a large number of tourists both domestically and internationally.

Some Algerian spas are internationally significant, especially in terms of water temperature, mineral water uniqueness, and their historical and cultural significance, making them landmarks that invite visitation and exploration. Therefore, the focus on thermal activity to generate wealth should be based on specific, short-term goals, as well as on capitalizing on these benefits through providing legal facilitations for exploiting these assets and investing in them.

As a result, the government is working to foster a suitable investment climate by implementing structural reforms, setting up the Algerian Agency for Investment Promotion, and

introducing the new law 18-22. This law encourages investment by offering attractive incentives and guarantees.

**Research Problem:**

Based on the preceding discussion, the central research question of this study can be articulated as follows:

- What role does the legal investment environment play in the development of thermal tourism investments?

**Study Objectives:**

- To examine and elucidate the legal mechanisms that facilitate the promotion of investment in thermal tourism.
- To delineate the primary mechanisms and procedures for awarding concessions and exploitation licenses for thermal facilities.
- To illustrate the present condition and future potential of thermal tourist investment in Algeria from 2018 to 2022.
- To underline the importance of the tax breaks given for tourist initiatives.
- To highlight the necessity of investing in thermal assets, which generates substantial economic and social impacts.

**Study Significance:**

This kind of tourism is highly important in the global market because of the distinct features found in thermal regions around the world. In the near future, these areas are anticipated to transform into major tourist attractions, contributing to significant economic growth and creating lasting job opportunities in both rural and remote locations.

This development is anticipated to transform the often dismal conditions of these regions, alleviating isolation and turning them into vibrant areas bustling with tourists seeking leisure and natural therapeutic treatments through thermal stations and modern sea water therapy centers. Thus, it is paramount to provide an investment-friendly environment bolstered by a wide range of facilities and investment incentives to enhance the tourism sector.

**Study Methodology:**

To thoroughly enrich the discussion and achieve the study's objectives, a descriptive-analytical approach was adopted. This approach involves discussing the most encouraging laws for investment and presenting statistics about thermal tourism in Algeria. The aim is to provide a legal and economic interpretation through the laws and legislation related to investment promotion in Algeria.

The study is structured into three main sections, and the boundaries of our study can be divided as follows:

**Spatial Boundaries:**

The study encompasses a case study of Algeria at both a national and regional level due to its regional, geographical, and natural diversity.

**Temporal Boundaries:**

The study period has received significant attention from the authorities as the state revealed its sincere intention during this period to promote tourism as an economic alternative, facilitated by the suitable climate and the political and economic stability it experiences. Therefore, we specifically chose to study and analyze this period, spanning from 2018 to 2022.

**First Section: The Legal Environment Encouraging the Promotion of Thermal Tourism Investment****First Subsection: Definition of Thermal Waters**

Based on Executive Decree No. 94-41 issued on January 29, 1994, thermal waters are defined as waters drawn from a natural spring or a drilled well. These waters may contain medicinal properties derived from their distinctive elements and the stability of their natural characteristics and chemical components.

The protection of thermal waters is considered a public utility managed by the relevant state authorities. The waters of mineral baths are subject to continuous monitoring by state bodies. No drilling or underground work within the protection range of a well declared of public utility is permissible without a license from the specialized services.<sup>1</sup>

Article 02 of Decree 150/19 states,<sup>2</sup> "A thermal spring is defined as any natural spring or a group of springs from which thermal waters emerge, or a drilled well that allows the extraction of these waters." According to Article 03, thermal waters and their derivatives are used for therapeutic purposes and/or for physical fitness recovery.

### **Second Subsection: Protection and Monitoring of Thermal Waters**

- Thermal waters must be clearly identified and are subject to mandatory bacteriological analysis.
- The identification of thermal waters involves evaluating the significance of their resources, diagnosing their characteristics, and determining their therapeutic properties and the corresponding health treatments. Accredited laboratories, in accordance with existing regulations, are responsible for this verification.<sup>3</sup>
- Any holder of a water research and extraction license, according to current provisions in this field, may request the identification of thermal waters. These bodies are keen to inventory and ensure the protection of thermal waters.
- The identification of thermal waters, as specified in Article 8 above, is validated by a decree from the Minister responsible for thermal waters.
- The classification of thermal waters is influenced by several factors, including geological location, water level, gas concentration, temperature, electrical resistance, relevant radioactivity, physicochemical composition, and medicinal applications. Following consultations with the Minister of Water Resources, the Minister of Tourism officially announces this classification based on the recommendations from the Technical Committee for Thermal Waters. The minister is required to respond within one month from the date of notification.
- Thermal waters must be under continuous surveillance by the competent state institutions. This monitoring, dictated by decree, aims to oversee their stability and quality and may extend to the facilities involved in their extraction, transformation, and transportation.

- Only those waters that are free from turbidity, pollution, or bacterial contamination may be used for therapeutic and recuperative treatments.<sup>4</sup>

### **Third Subsection: Procedures for Awarding Concessions for Thermal Water Exploitation**

#### **First Sub-subsection: Methods for Awarding Concessions for Thermal Water Exploitation**

The procedures specified in Executive Decree No. 69-07, issued on February 19, 2007, and later amended by Decree 19-150 on April 29, 2019, must be adhered to by treatment centers seeking to obtain a concession for the use of thermal or seawater. According to Article 37 of Decree 69-07, "The concession is granted for a period of twenty (20) years and is renewable."

Article 05 of Decree No. 150/19 states that the concession is revocable and only valid for a limited time in exchange for the payment of a royalty that is determined by financial legislation and deposited into a fund. Unless one of the parties indicates in writing that they would want to end the agreement before the allotted period has passed, the concession is implicitly renewable for twenty (20) years. Decree No. 69/07 states in Article 38 that "The concession holder must pay a royalty, the amount of which is determined by the financial law."

Executive Decree No. 69/07, which was published on February 19, 2007, authorizes the concession for the use and exploitation of hot waters. The terms and processes required to get a concession for the use and exploitation of thermal waters are outlined in this Act. All of the rights and responsibilities related to this concession are listed in the specifications booklet's second annex.<sup>5</sup>

#### **Second Sub-subsection: Legal Requirements for Concessions for Thermal Water Exploitation**

Under current legislation, an investor seeking a concession to utilize and exploit thermal waters must follow specific procedures to obtain approval. Initially, the application must be submitted to the appropriate legal authorities responsible for

granting such permits. These officials must then verify that the application meets the specific criteria required for the activity.

The requirements and application procedures are detailed in Decree 150/19, which amends Executive Decree No. 69/07. An investor looking to benefit from the use and exploitation of thermal waters, particularly in relation to expanding tourism investments, must complete several preliminary actions and meet specific criteria outlined in the requirements booklet. The application for the concession must outline the processes for permitting the use and exploitation of thermal waters as follows:<sup>6</sup>

Thermal waters play a crucial role in overall national development, especially given the unique characteristics of the tourism industry. Allowing the use and exploitation of thermal waters as a means to encourage tourism investment depends on the investor meeting several criteria outlined in Article 25 of Decree 69/07, which includes the following requirements:

- Ownership of the land where the thermal spring is located.
- Holding the rights or having a written lease agreement that clearly indicates the thermal waters will be utilized and developed for at least the duration of the concession.
- Proof of professional competence relating to the activity or resort to permanent and effective collaboration with a natural person responsible for administering the therapeutic and physical fitness recovery facilities, satisfying one of the following requirements:

–Holder of a medical degree.

–Holder of a senior technician certificate in public health, working under the supervision of a contracted doctor.

If the legislator's aim in setting these conditions is to ensure that the concession for using thermal water in the context of promoting tourism investment is granted only to those who meet the conditions for optimal exploitation and preservation of its therapeutic and tourism purposes, this is considered a positive step.<sup>7</sup>

### **Third Sub-subsection: Procedures for Granting the Right to Exploit Thermal Waters**

As stated in Article 28, to apply for a concession, three copies of the application file must be submitted to the Directorate of Tourism in the relevant province, along with permission from the governor responsible for that region. The administrative committee for thermal waters will then review this documentation.

The governor responsible for the area will issue a decision to grant the concession only after receiving approval from the committee. Along with this decision, a specification booklet detailing all the requirements related to thermal activities will be provided. The concession holder is required to adhere to these guidelines.

#### **Application File for the Right to Use and Exploit Thermal or Sea Waters:**

- Provide the name of the permit application, along with your last name and location. For formal organizations, include the company's name and primary address.
- The name of the beach or hot spring where seawater is being sought for the concession.
- Geographical coordinates defining the location of the thermal spring or sea water attraction point requested for the concession.
- For sea water treatment facilities, the distance between the sea water attraction point and the beach's start, as well as the geographic coordinates for drawing in sea water:
- Approval of the regionally responsible governor.
- Copy of the ownership, lease, or concession contract for the land where the establishment will be built.
- Descriptive statement and appropriately scaled plan for the expected water attraction and distribution installations, with precise information on the daily volume of thermal water required.
- Descriptive statement and appropriately scaled plans for the institution's installations, including all expected or completed installations.

- Bacteriological tests of the water at the attraction point.
- If the thermal spring that was being sought for the concession was not recorded when the thermal balance was issued, then the physicochemical analyses and therapeutic properties of the waters were not assessed.
- The thermal project's technical and financial analysis.
- The company's articles of organization, when appropriate.<sup>8</sup>

After the minister receives the request along with the file and the governor's opinion, he forwards the application to the technical committee responsible for thermal waters for evaluation. The technical committee is required to submit its opinion within one month of being notified by the minister.

The governor responsible for the area has one month from the date of receiving the committee's recommendation to decide on the concession application. Once the concession is granted, the concession holder is required to begin the necessary activities to utilize the thermal waters within a maximum of three months.<sup>9</sup>

#### **Fourth Subsection: New Mechanisms - Digital Platform for Investors**

A "Digital Platform for Investors" is constructed, controlled by the agency, to give all essential information, notably regarding investment prospects in Algeria, real estate offers, investment incentives and advantages, and associated processes.

The information systems of the organizations and agencies responsible for the investment process are linked to this digital platform, removing the need for physical interactions in all procedures and enabling them to be carried out online. Additionally, the platform acts as a resource for guiding, supporting, and monitoring investments from their registration to the operational phase.

For investors, real estate is regarded as one of the essential assurances. In this case, state-owned private property lands are made available to investment projects that profit from incentive

programs. The appropriate real estate organizations distribute these lands.

The digital platform plays a crucial role in accessing data related to available real estate for investment, in addition to obtaining the necessary licenses and related documents. In a related context, under the new Investment Law, a Supreme Appeals Committee affiliated with the President of the State has been established.

This committee is in charge of reviewing investment-related appeals filed by investors who feel they have been treated unjustly in accordance with the Investment Law's requirements. Judges, impartial financial and economic specialists, and a presidential representative make up the committee.<sup>10</sup>

The investor is required to inform the committee of any disagreement pertaining to the investment, including withdrawals or refusals to give benefits, as well as refusals by the appropriate agencies to make decisions, papers, and licenses. The investor must, however, file a grievance with the agency within a month of learning of the judgment being reviewed in order for the appeal to be granted.

The agency must resolve this matter within 15 days. The committee is required to reach a decision on the appeal within one month of receiving it, whether submitted directly to the committee or through the platform.

Besides the methods outlined in the Investment legislation, investors have the right to initiate legal proceedings in the courts, as detailed in Article 12 of this law. Additionally, according to Article 11, any disputes arising from the enforcement of the law between the involved parties are subject to judicial scrutiny.

This applies unless Algeria has ratified agreements that contain specific clauses for reconciliation, mediation, and arbitration. Alternatively, if there is an agreement between the Algerian Agency for Investment Promotion and the investor that permits the parties to seek arbitration, then this would also apply.<sup>11</sup>

## **Second Section: Tax Incentives Granted to Promote Thermal Tourism Investment**

### **First Subsection: Common Benefits**

#### **First Sub-subsection: Construction Phase**

- Customs taxes on imported products required for the realization of an investment are waived.
- Exemption from value-added tax on imported or local items utilized in the investment.
- All real estate properties acquired as part of the investment in question are exempt from paying fees associated with real estate advertising and property transfer rights.
- During the minimum term of the concession right, properties utilized in investment projects are exempt from registration rights, real estate advertising costs, and sums associated with the concession rights.<sup>12</sup>
- During the investment implementation phase, the yearly rental royalty will be reduced by 90%.<sup>13</sup>
- Properties used in the venture will be exempt from real estate tax for a period of 10 years, starting from the date of purchase..
- The company's founding contracts and capital increases are not subject to registration rights.

#### **Second Sub-subsection: Exploitation Phase**

- After receiving approval from the tax authorities at the request of the investor, those who create up to 100 jobs during the establishment phase of their investment and maintain them for three years are entitled to the following incentives:
  - Corporate profit tax exemption.
  - Professional fees are not required.
  - The rental royalty fee set by the nation's property agency will be lowered by 50% during the exploitation phase and for 10 years.<sup>14</sup>
- Exemption from business earnings tax.
- Exemption from professional fees.
- These benefits extend for an additional five years for investments that create more than 100 jobs at the time of

investment registration, lasting until the end of the first year of operation at the latest.

### **Third Subsection: Additional Benefits**

#### **1. Specialized Activities**

The advantages stated by the common system are not restricted to tax and financial incentives for tourist, industrial, and agricultural activities as decided according to the relevant legal texts. The existence of numerous preferences of the same character, whether those stated by Legislation 09-16 to stimulate investment or those decided according to current legislation, shall not lead to their simultaneous implementation.

Investors have access to more favorable incentives in this context. Activities that generate jobs can lead to significant benefits: if over 100 permanent jobs are created from the registration date to the end of the first year of the exploitation phase, the duration of the exploitation benefits under the common system will range from three to five years.

### **Second Subsection: Exceptional Benefits**

The exceptional benefits can extend to:

- The possibility of extending the benefits of the operational phase for up to 10 years.
- Providing exemptions or reductions, according to current legislation, from customs duties, taxes, subsidies, and facilities that may be used during the necessary period to complete the project. For common benefits, these are granted to projects implemented in the southern regions, the high plateaus, and the states requiring substantial state contribution.

### **First Sub-subsection: Construction Phase**

In addition to the advantages described above:

- The government partially or fully funds the costs related to the essential infrastructure needed for the implementation of the investment project.
- A decrease in the annual rental royalty determined by state property services for land allocation.
- The state covers part or all of the costs associated with essential infrastructure required for the implementation of the investment project.

- A reduction in the annual rental fee charged by state property services for granting land concessions for investment projects:
- A nominal fee of one dinar per square meter (m<sup>2</sup>) will be charged for a duration of 10 years. After this period, the amount will increase to 50% of the state property royalty for investment projects in the high plateau and other areas requiring special state development.
- A nominal fee of one dinar per square meter (m<sup>2</sup>) will be charged for 15 years. Following this period, the fee will rise to 50% of the property royalty for investment projects in the southern states.

### **Obtaining Financing: How to Obtain a Bank Loan**

The Ministry responsible for tourism is affiliated with financial entities and guarantee devices giving special concession conditions for financing:

- The growth of institutions in the tourist industry, their investment program, and their needs
- Activities related to certifying hotel constructions, granting loans, and guaranteeing them.<sup>15</sup>

### **Third Section: Financial Incentives Granted for Financing Thermal Tourism Investment Projects**

#### **First Subsection: Loan Reductions Granted**

There is a 4.50% decrease for tourist project investments made in the southern states and high plateau states (Finance Law 2009).

According to the tourism planning directive, investments in projects located in the northern states can qualify for a reduction of up to 3% for a period of five years at most (as per the Supplementary Finance Law of 2016). Furthermore, investors have the opportunity to engage in the "Algeria" tourism quality plan by signing an efficiency contract with the tourism ministry, ensuring that hotel establishments maintain high standards of quality.

Interest rates on bank loans are reduced by 3% and 4.50%, respectively, for tourism and hotel institutions' modernization-related operations planned in the northern and southern states

and accomplished within the scope of the tourist efficiency plan (Finance Law 2009).

Purchasing furnishings and equipment that are not locally produced, in line with hotel requirements for modernization and qualification processes, qualifies for a reduced customs duty rate until December 31, 2015. (Finance Law 2009/2015).

### **Second Subsection: Banks and Financial Institutions that have an Agreement with the Ministry of Tourism**

- Local Development Bank.
- National Fund for Insurance and Savings;
- Agricultural and Rural Development Bank;
- Credit Fund;
- Al Baraka Bank;
- Trust Bank;
- Societe Generale;
- Gulf Bank Algeria;
- Al Salam Bank;
- Investment Bank.

### **Third Subsection: State Investment Funds**

The goal of government investment funds is to enhance the ability of small and medium-sized enterprises to secure financing by acquiring equity shares. As outlined in Article 100 of the Supplementary Finance Law of 2009, a total of 48 investment funds have been established across all national states. At present, six firms have been created, with three of them currently in operational:

- **Investment Company:** The National Savings and Insurance Fund contributed 30% while the Agricultural and Rural Development Bank contributed 70%.
- **Sovinance:** Five (05) national corporations founded it.
- **FinAlab:** A mixed Algerian-European company.<sup>16</sup>

### **Conclusion:**

Algeria is blessed with substantial thermal capacities and qualifications, spread throughout the country. A significant portion of these resources remains in its natural state, currently unexploited, yet characterized by numerous therapeutic properties. These attributes provide a solid foundation for the

development of "thermal and therapeutic tourism," enhancing competitiveness and offering substantial investment opportunities.

The national thermal balance report has identified 282 thermal springs, of which 100 are prioritized and earmarked for exploitation through new thermal projects. In addition to the springs currently exploited and those granted under concession contracts, approximately 100 thermal springs are recognized as viable for investment to initiate new projects. Of these, about 30 are traditionally exploited and are considered a priority for further investment due to their therapeutic properties.

To transform thermal tourism in Algeria into an active, year-round mechanism for economic and social growth, these resources can significantly contribute to the economic revitalization of the regions where they are located and augment treasury revenues, given their popularity across various seasons. The strategic development of these thermal assets not only promises to stimulate local economies but also positions Algeria as a leading destination for therapeutic tourism on both a regional and global scale.

### **Results:**

- Thermal tourism is distinguished by its enormous potential, including 282 thermal springs distributed across the national territory, but characterized by their underutilization, allowing for the construction of competitive thermal tourism on a continental and global scale, with only 33% currently being exploited.
- These contain a vast wealth of thermal springs, mostly spread across the southern states, making it a specialized hub for thermal tourism throughout the year.
- There is progress in granting exploitation licenses for thermal springs, allowing for the construction of diverse thermal investments from treatment centers to thermal complexes offering various services to tourists.
- Thermal tourism is evolving under a strategic plan to develop thermal tourism, through the implementation of

programs within the investment framework by granting licenses for optimal exploitation of thermal springs.

- The laws governing the management of thermal water exploitation have been updated through Decree No. 94-41, dated January 29, 1994, along with Decree No. 69-07 and Decree No. 150/19. These decrees establish the procedures for acquiring rights to use and exploit thermal waters.
- The Algerian Agency for Investment Promotion is launching a "Digital Platform for Investors" that will provide comprehensive information, especially regarding real estate opportunities, as well as the incentives and benefits associated with investing in Algeria.
- Enhancing the investment climate through Law No. 22-18, which provided incentives and guarantees encouraging Algerian investors.
- Financing successfully completed projected investment projects while lowering bank loan interest rates by 3% and 4.50%.

#### **Study Recommendations:**

- Utilize the expertise of other nations in tourism to expand and strengthen the sector.
  - Recognize the relevance of thermal activity in diversifying the Algerian economy, hence the state should pay greater attention to this field by streamlining legal processes and ways for exploiting and utilizing thermal waters to attract more investors.
- Amend the specifications booklet annexed in Decree No. 69/07 to introduce modifications that enhance the conditions for attracting a greater number of investors.

#### **References:**

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