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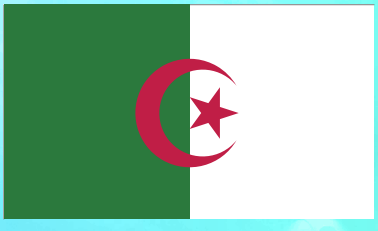
Financing the Energy Transition in Algeria



Financing the Energy Transition in Algeria

Algeria's energy sector is undergoing a strategic shift toward diversifying funding sources for energy-transition projects (renewable energy and energy efficiency). These projects rely on a mix of public financing (the state budget and dedicated funds), international financing (grants and loans from institutions and donor countries), and private financing (investments by domestic and foreign companies). Below is a detailed overview of the available funding sources, the role of the Algerian state, international partners and the private sector, as well as the main financing mechanisms in use, the challenges to attracting finance, and future opportunities and forthcoming programmes supporting Algeria's energy transition.

Available funding sources for energy-transition projects

1. Domestic public financing

The Algerian government is allocating increasing resources to support renewable-energy projects, either through the state budget or via dedicated funds. For example, the National Fund for Energy Management and Renewable and Cogeneration Energies was created to finance energy-efficiency programmes and renewable-energy projects. Major state-owned companies also play an important role; for instance, the national power utility Sonelgaz is investing in large new solar plants under a government programme aiming to add 2,000 MW of solar capacity through Sonelgaz.

2. International financing and donor grants

Algeria benefits from support from international and regional institutions to finance its energy-transition plans. This includes European Union programmes and bilateral partners (such as Germany) providing grants and technical cooperation, alongside interest from major institutions such as the World Bank and the European Bank for Reconstruction and Development (EBRD) in financing green infrastructure projects. Algeria is also seeking to benefit from international climate funds (such as the Green Climate Fund and the Clean Technology Fund) through technical assistance programmes and concessional financing for specific projects, including concentrated solar power (CSP) technologies.

3. Private-sector investment

The domestic and foreign private sector is playing a growing role in financing renewable-energy projects. Tenders are launched for solar and wind plants under partnership schemes or through Independent Power Producer (IPP) models, attracting national and international companies to contribute capital and expertise. Recent legal and investment-framework reforms have expanded opportunities for the private sector through tax incentives and sovereign guarantees for large-scale projects.

The Algerian state's contribution to financing the energy transition

The Algerian state has adopted an active support policy to finance energy-transition projects through multiple tools. The government provides direct funding for some large projects, leveraging oil and gas revenues to finance the shift toward clean energy. As an initial step, it established the National Fund mentioned above, which finances many projects in renewable-energy development and energy efficiency. The fund supports, for example, projects to generate

electricity from renewable sources (solar plants and others), incentives for purchasing electric vehicles, and the development of energy-efficient equipment manufacturing. It also covers the costs of studies on national renewable-energy strategies, training programmes, and technical capacity-building in this field.

The fund's resources are linked to the traditional energy sector. Under a joint ministerial decision in 2022, its revenues include an allocation equal to 1% of oil royalty fees, in addition to charges and taxes on national energy consumption and on energy-intensive appliances, as well as a share of proceeds from energy-efficiency fees. This mechanism reflects the state's intention to redirect part of hydrocarbon rents to support a sustainable energy transition.

In parallel, the government has introduced important financial and tax incentives to encourage investment in clean energy. The 2026 Finance Law includes an unprecedented package of measures supporting renewables, including tax exemptions of up to 5% for investors (Article 99) and a reduction of customs duties on renewable-energy equipment from 30% to 15%. These measures represent a strategic turning point confirming political will to accelerate the energy transition. The recent elevation of the State Secretariat in charge of renewable energies into a standalone ministry also reflects the growing importance of this file in the government's structure.

State-owned enterprises are also investing directly in renewables under the national plan. For example, Sonelgaz launched a programme to build solar plants totalling 3,200 MW, with 400 MW expected to be connected to the grid before the end of 2025. The Ministry of Energy also announced a national programme targeting 15,000 MW of renewable capacity by 2035 through phases including both public and private projects. All of this confirms tangible financial and technical state engagement in achieving new energy targets.

Beyond direct financing, the state uses indirect support policies such as exemptions and facilitation measures to stimulate the market. For instance, through the National Agency for the Promotion and Rationalisation of Energy Use (APRUE), the government supports local energy-efficiency projects (such as covering 50% of the cost of installing energy-saving lighting in municipalities) to reduce consumption. These state contributions whether financial or incentive-based constitute a core pillar of energy-transition finance.

International financing and the role of foreign partners

Algeria has sought to strengthen international partnerships to secure external funding for its energy-transition plans through grants, concessional loans, and knowledge transfer. These efforts have produced several important cooperation programmes in recent years, including:

- EU-funded "TaqatHy+" programme: A flagship example is the launch of "TaqatHy+ (TaqatHy 2)" in April 2025, jointly funded by the European Union and Germany with a budget of €28 million. The programme runs until 2029 under the supervision of Algeria's Ministry of Energy in cooperation with Germany's GIZ. It aims to accelerate renewable-energy deployment, develop a green-hydrogen economy, and improve energy efficiency across sectors. It includes institutional and technical capacity-building, preparation of the regulatory environment, the development of financing and support tools for

green-hydrogen projects, and the creation of a national potential database. The programme reflects a shared commitment by Algeria and its European partners and highlights a key channel of international support: grants and technical assistance.

- Loans and financing from international institutions: Beyond grants, the World Bank and other financiers have shown interest in supporting Algeria's energy-transition projects. For example, Algerian officials discussed practical financing solutions with the World Bank's Multilateral Investment Guarantee Agency (MIGA) to accelerate planned projects potentially opening the door to instruments such as loan guarantees that encourage foreign investors by reducing political and credit risks.

- Bilateral partnerships: In addition to European partners, cooperation with countries such as China and Turkey has featured prominently in financing and implementing renewable-energy projects, with Chinese and Turkish companies participating in major solar tenders. Italy is also interested in partnerships on green hydrogen and electricity transmission, reflected in its support together with the EU—for the "Medlink" interconnection project (see below) and the hydrogen export corridor toward Europe.

- Climate institutions and funds: Algeria has joined programmes under the Clean Technology Fund (CTF) to support studies developing technologies such as CSP in cooperation with the African Development Bank and the World Bank. Such programmes provide technical assistance and concessional loans to establish pilot projects and fund feasibility studies, paving the way for larger projects. Algeria is also exploring opportunities under the Green Climate Fund for renewable-energy and climate-adaptation projects, in line with its emissions-reduction commitments under its Nationally Determined Contribution (NDC).

The role of the private sector and domestic and foreign investors

Algeria is increasingly focused on engaging the private sector domestic and foreign to finance and implement renewable-energy projects, recognising its importance in accelerating the energy transition and reducing pressure on public finances. The state has translated this direction into legislative and regulatory reforms that open space for investors and offer incentives and attractive returns. Key areas of private-sector contribution include:

- Independent Power Producer (IPP) projects: Algeria launched major tenders inviting private companies (from Algeria and abroad) to build, own, and operate clean-energy plants and sell electricity to the state under long-term contracts. A prominent example is the "Solar 1000" tender, whose results were announced in late 2023. The project covers five PV plants totalling 1,000 MW, and attracted several national and foreign bidders. The outcome consortia combining local and international firms demonstrates public–private partnership in practice. For example, the Algerian firm Amimer Energy won two projects totalling 150 MW, while a Turkish–Algerian consortium won the largest 300 MW plant, and the Chinese company CSCEC won another 300 MW plant. These results underline foreign investor interest while also reflecting the government's intention to give local firms a role in gaining experience and technology. A table showing the winning companies under the "Solar 1000" tender and the awarded plants (capacities and contract values in local currency) highlights the partnership model: national companies won 3 of the 5 plants, while Turkish and Chinese companies won the two largest.

- Foreign direct investment and partnerships: Beyond competitive tenders, state energy companies may enter direct partnerships with foreign investors for specific projects. For instance, Sonatrach has a programme to install solar plants at its fields and facilities with foreign partners to transfer know-how and localise technology. Global energy companies such as TotalEnergies have also expressed interest in entering Algeria's renewable-energy market and have participated in events and forums to explore investment opportunities.

- Growing role of domestic investors: In recent years, Algerian private firms specialising in clean energy have emerged, seeking to invest in large projects or work as subcontractors. They have benefited from government support (such as prioritisation in some projects) and the growth of their technical capacities. The "Solar 1000" case where two Algerian companies were selected to execute three of the five sites illustrates the approach of empowering national capabilities. As these firms' technical and financial capacity increases, their contribution to project financing as reliable partners for foreign investors is expected to rise.

- New markets and export opportunities: Investors increasingly view Algeria not only as a domestic market but as an export gateway: large renewable projects could allow surplus exports to Europe and Africa, improving returns. For example, the Medlink power interconnection to Italy could enable private producers to export electricity to a European market at competitive prices making investment more attractive and profitable.

Financing mechanisms used in renewable-energy projects

Algeria uses a range of financing mechanisms, combining traditional and innovative tools to ensure liquidity on concessional terms. Key mechanisms include:

- Direct public financing: Through budget allocations or dedicated funds. The government earmarked part of a $60 billion investment plan (2025–2029) to support the development of hydrogen and clean-energy industries alongside oil and gas. Although most of these investments target hydrocarbons (the Minister of Energy, Mohamed Arkab, indicated that 80% is for exploration and oil production), remaining allocations support refining, petrochemicals, and gas-flaring reduction technologies, contributing to emissions reduction. Additionally, the government directly funds solar deployment in remote areas and hybridisation of diesel stations with solar in the south to reduce fuel use.

- Concessional loans and bank financing: Algeria encourages local and international banks to provide concessional loans for green projects either through state-backed credit lines for small-scale projects (such as low-interest loans for household solar water heaters) or through cooperation with international development banks to provide long-term loans for large infrastructure. The EBRD's interest in financing the European interconnection project suggests potential access to concessional loans backed by sovereign guarantees. The OPEC Fund for International Development or the European Investment Bank could also participate through concessional financing, especially as some projects align with Europe partnership priorities.

- Public–Private Partnerships (PPP): PPP models are central to mobilising finance by sharing costs and risks between the state and private investors. In Algeria's renewables sector, this is evident in projects like "Solar 1000," where a Special Purpose Vehicle (SPV) may be created for each plant, combining the private investor with a state company (such as "Shams," affiliated with Sonelgaz) under a long-term Power Purchase Agreement (PPA). The government is considering expanding PPP models to future wind projects and grid infrastructure. To enhance attractiveness, authorities have signalled readiness to provide sovereign guarantees to secure investor receivables in large projects, lowering commercial and political risk.

- International grants and support: Grants are especially important from the EU and donor countries, reducing fiscal burden and enabling pilot projects and preparatory studies without increasing public debt. Examples include the EU–Germany €28 million grant for TaqatHy+ and Germany-supported programmes such as "Green Municipalities" to improve municipal energy efficiency. Grants often come with technical assistance, amplifying their impact.

- Green bonds and Islamic sukuk: Algeria is exploring capital-market instruments such as green bonds dedicated to sustainable energy projects. The 2023/2024 Finance Law mentioned the possibility of issuing sovereign sukuk to finance infrastructure more broadly, and part of these could be directed toward renewable projects ("green sukuk"). Such Sharia-compliant instruments can attract local and regional investors seeking sustainable, compliant investments. Issuance requires a more active financial market and suitable credit ratings areas being addressed through broader financial reforms.

- Other innovative mechanisms: Long-term Power Purchase Agreements (PPAs) are not a financing instrument per se, but they guarantee project revenue through electricity sales, making it easier to secure bank financing. Algeria is also exploring competitive auctions for feed-in tariffs (FiT) to attract low-price bids, where the state guarantees a fixed purchase price for clean power over many years. These incentive mechanisms reduce commercial risk and support better financing terms.

In short, Algeria blends public financing, international grants, and private investment, using a wide range of mechanisms to secure the funding needed for clean-energy projects in a timely and cost-effective manner.

Challenges to attracting financing

Despite current momentum in policies and legislation supporting the energy transition, Algeria faces challenges that could hinder or slow efforts to attract domestic and foreign financing, including:

- Regulatory framework and bureaucracy: Bureaucratic delays have long been a traditional obstacle to investment project implementation. Licensing and approvals can still take considerable time, discouraging investors and delaying financing flows. The "Solar 1000" project itself experienced multi-year delays due to institutional restructuring and slow administrative processes. While the government has begun addressing this through simplification and a one-stop shop for investors, strengthening governance and transparency in tendering and project management remains important for building financier confidence.

- Price distortions and energy subsidies: Algeria historically maintains very low electricity and fuel prices due to strong state subsidies funded by oil and gas revenues. While socially important, this creates distortions in renewables' profitability: clean electricity production costs can appear higher than the current subsidised retail tariffs. As long as end-user prices are very low, the state must either subsidise the purchase price of renewable electricity from IPPs or reform the pricing system. Subsidy reform is politically sensitive, but experts stress it is necessary to create a more competitive energy market and attract investment. Gradual subsidy reform and better targeting could free resources for clean projects and improve private-sector viability without relying heavily on government incentives.

- Political and economic risks: Some foreign investors are concerned about sovereign risks such as regulatory instability or difficulty repatriating profits in hard currency. Algeria has seen tighter capital controls during periods of foreign-exchange pressure, which can worry international financiers. Authorities have taken steps to improve the investment climate (e.g., the 2022 investment law) and reduce bureaucracy. Maintaining policy stability, contractual reliability, and adherence to offered guarantees will remain essential for investor trust.

- Limited technical studies and project preparation: A key constraint is insufficient high-quality technical and financial feasibility studies for some proposed projects. Financiers require mature project pipelines with robust technical, financial, and environmental studies. Sometimes ambitious targets are announced without fully prepared project "banks," causing delays until studies are completed. Large projects like Medlink required complex engineering studies that took time before reaching licensing stages. In newer sectors like green hydrogen, additional market and infrastructure analyses are still needed. Strengthening local consulting capacity and partnering with global expertise can increase credibility with lenders and investors.

- Supporting infrastructure constraints: Integrating large amounts of renewables requires a modern, flexible electricity infrastructure (smart grids, storage capacity, modern substations). Today, grid absorption limits exist in some areas especially in the sun-rich southern regions potentially deterring investors if grid capacity cannot reliably take project output without parallel investments. In response, Algeria has begun upgrading transmission and distribution networks, strengthening north–south interconnections, and developing regional links. Storage solutions (hydropower storage or batteries) are also being considered in the medium term. These efforts are necessary to remove technical bottlenecks and ensure efficient project operations.

Despite these challenges, strong political will and ongoing reforms are positive signals. Observers suggest a comprehensive approach combining economic and sectoral policy modernisation with stronger transparency can help Algeria overcome barriers and attract the financing required for a successful energy transition.

Future opportunities and upcoming programmes to boost financing

In the near term, Algeria has promising opportunities to increase financing flows toward sustainable energy projects. Key upcoming programmes and initiatives include:

- The "Medlink" electricity interconnection to Europe: The subsea cable project linking Algeria and Italy via Tunisia (known as Medlink) is one of the largest forthcoming strategic projects. It is expected to require about €7 billion in investment, in partnership with an Italian company and international financing. The project aims to build a 2 GW transmission link to connect Algeria's grid to Europe and includes building solar and wind plants totalling 5 GW across Algeria and Tunisia to supply the line. It has official support from Algeria, Tunisia, and Italy, and the EU has listed it among priority projects due to its role in supplying Europe with clean energy. This status opens the door to major European and international financing: alongside the developer's investment, both the EBRD and the World Bank have shown interest in financing part of the project. If successful, Medlink could become a landmark case, attracting more capital toward regional interconnections and clean-energy export projects, potentially expanding to a direct link with Spain (discussions are reportedly under way to revive a Spain interconnection project).

- The green-hydrogen export corridor (SoutH2): Algeria aims to become a major exporter of green hydrogen to Europe in the coming decade. In this context, it is pursuing the "SoutH2" project, targeting exports of 1.2 million tonnes of green hydrogen per year to Italy once completed. This large project still at an early stage will require significant investment in dedicated renewable generation for electrolysis as well as liquefaction facilities or pipelines. Estimates suggest that European financing (via the EU's Global Gateway programme) and investments from global energy firms interested in hydrogen value chains could be mobilised. Political backing exists, including prior Algeria–Germany cooperation on hydrogen development, which may translate into co-financed pilots and hydrogen transport infrastructure.

- Capacity-building and innovation programmes: Funding opportunities also exist through R&D and innovation programmes in clean energy. The EU's Horizon Europe and partnership frameworks with Southern Mediterranean countries can fund clean-energy innovation initiatives. Algerian institutions and start-ups may leverage such grants to develop solutions in storage, CSP, or smart grids. Continued support for R&D can create a more attractive ecosystem for investment, as local skills and technology availability are key investor confidence factors.

- Expanding tenders and attracting new investors: The government plans additional solar tenders reaching an extra 2,000 MW in coming years, and to introduce large-scale wind projects for the first time. These will create opportunities for new entrants. With improved investment climate, European and Asian firms have expressed interest. Implementation of projects awarded under the first 1,000 MW tender in 2024–2025 would send a positive signal that the Algerian market is workable and profitable encouraging further direct investment or partnerships.

- Improving credit ratings and the investment environment: Algeria seeks to improve its standing in global investment attractiveness indicators. Any improvement in sovereign

credit ratings or ease-of-doing-business metrics would lower the cost of sovereign and commercial borrowing for projects. As exports of green electricity or hydrogen begin, hard-currency revenues could be reinvested, creating a sustainable financing loop. Algeria is also working to attract foreign sovereign wealth funds (e.g., from the Gulf or Asia) as financing partners in major projects, leveraging strong bilateral ties and the growing global appetite for renewable-energy investments.

Conclusion

Algeria is clearly moving to mobilise all available financing channels to achieve an effective and sustainable energy transition. Despite challenges, a set of positive drivers vast solar and wind resources, political will, international support, and increasing private-sector participation points to encouraging prospects. With continued reforms and by building on existing and forthcoming programmes, Algeria can emerge as a regional model in securing the funding needed to shift toward clean energy, meet national sustainable development goals, and strengthen its role as a reliable energy supplier over the long term.

Sources

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