

BTI 2010 | Algeria Country Report

Status Index	1-10	4.86	# 85 of 128	
Democracy	1-10	4.37	# 86 of 128	➔
Market Economy	1-10	5.36	# 70 of 128	➔
Management Index	1-10	3.92	# 102 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	33.9	HDI	0.75	GDP p.c.	\$	7748
Pop. growth	% p.a.	1.5	HDI rank of 182	104	Gini Index		35.3
Life expectancy	years	72	UN Education Index	0.75	Poverty ²	%	23.6
Urban population	%	64.6	Gender equality ¹	0.31	Aid per capita	\$	11.5

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Over the past two years, Algeria's economy grew with a GDP growth rate of 3.1% for 2007 and an estimated rate of 4.9% for 2008. But because this was essentially due to high stock market prices for oil and gas – which account for 98% of exports and for 45.1% of GDP – the country is in serious trouble due to the sudden price drop since mid-2008. Windfall gains were mainly invested in ambitious infrastructure and housing projects, which have not been particularly effective in resolving the deep structural problems affecting Algerian society and the economy. High unemployment rates, especially among young people, and a declining purchasing power affect the majority of the population, and the situation of the former middle class in particular continues to deteriorate. Barriers to investment, such as insufficient access to financing, major bureaucratic hurdles and widespread corruption, paralyze entrepreneurship and innovation and clearly favor the import sector, which is a major part of the Algerian market: more than 80% of basic food products and almost all pharmaceutical products are imported, and a new elite has emerged from these activities.

In its economic reforms, Algeria seems to move two steps forward towards liberalization and one step back. While liberalization in certain sectors was started in a hurry and foreign investors were wooed for some time, the government stepped back from certain laws and measures and decided to protect strategic sectors from foreign and/or private domination. This was done primarily by holding a majority stake in projects, such as those related to the hydrocarbon sector, by raising taxes on profits made by foreign companies, or even by canceling contracts. Banking reform is progressing slowly as well, and was affected by the current global financial crisis as suspicions arose concerning the solvency of Western banks affected by credit crunches.

Political discussion in the period under observation was very much focused on the constitutional amendments, eventually passed by parliamentary vote in November 2008, which allowed President Bouteflika to run for a third term in April 2009 and further augment presidential prerogatives and the hierarchical power structure. The head of state is from now on also the head

of government, which means that, under the period of observation, the system has definitely become a presidential one. Even though this was the political practice before, it contradicted the constitution. The composition of the National Parliamentary Assembly resulting from the legislative elections in May 2007 remains largely the same with a clear majority backing the president. While a democracy in theory and by name, Algeria has authoritarian features, such as laws limiting the freedom of expression (allowing the imprisonment of journalists and lawyers), the ongoing state of emergency (which was established in 1992 and is still upheld), and the continuing influence of the military (although this has been less visible since 2003). The military's role is not likely to change fundamentally, as security issues remain central: violence is still recurring, even if the civil war of the 1990s has receded from public consciousness since the beginning of the new millennium. Major terror attacks continue to make headlines, especially since the renaming of the last active terrorist group, GSPC ("Groupe Salafiste pour la Predication et le Combat"), into "al-Qaeda in the Islamic Maghreb" (AQIM). Terrorism will certainly remain a major preoccupation for the years to come, and the constantly growing security apparatus has not managed to successfully contain terrorism yet. This does not mean, however, that the stability of the central government is threatened. Its prospects for democratization and economic diversification, however, remain bleak.

History and Characteristics of Transformation

Conventionally, Algeria's political liberalization is dated to the countrywide October 1988 riots, which occurred at a time when the need for economic restructuring had become too evident to ignore. In reality, however, the process of economic and political liberalization should be dated back to the riots in Kabylia in April 1980, when Amazigh (Berber) protests against cultural suppression became a catalyst for protests against political repression across a wider range of social and cultural groups. All of this led the government to initiate a policy of officially sanctioned economic liberalization. This economic reform was incremental and conservative in nature, and accompanied by an official determination to resist similar pressures for political reform. In the hope that political liberalization could be contained, the regime mobilized popular pressure for a more explicit social and political role for Islam in an initiative which would eventually profoundly backfire. The catalyst for unrest in the late 1980s, however, was the sharp decline in oil revenues in 1986 and the concomitant increase in the debt service ratio, to which the regime reacted by compressing imports and thus unintentionally provoking popular discontent, which exploded in late 1988.

The transformation of Algeria, however, can only be understood against the background of the civil war during the 1990s, which broke out after a military-backed coup in January 1992. This coup abrogated the legislative elections favoring Islamists and thereby brought a halt to the pluralization of the political system, which for three years had included a considerable range of

competing political parties. The hurried liberalization of the political system in 1989, paradoxically, was a strategic move designed to sustain the power balance of the previous single-party system, in which real power was exercised by informal but immensely powerful political clans operating largely through and in parallel with the army command structure. This was exploited by the new premier, Mouloud Hamrouche, and his team as a means of making essential economic reforms palatable, despite growing tensions with the powerful Islamist movement. This movement was enshrined in the Front Islamique du Salut (FIS), which had emerged during the liberalization of the political system and was not forbidden as other parties had been.

The coup itself was, in essence, an expression of the secular elites' alliance with covert power structures and the state's unreformed institutions. The coup also demonstrated their rejection of the Islamists' objectives. Interestingly enough, the incipient economic reforms were also abandoned some months later in the wake of the assassination of the titular president, Mohamed Boudiaf, when Belaid Abdessalam was appointed premier. During his period in office, even if it was relatively brief, the energies of the state were soon consumed by the civil war, and remained so for years. The war developed after 1992 both as an attempt to preserve elite privilege and as a contest for the right to control the legitimacy of the ideals and institutions of the Algerian revolution, which was itself divided between secular and religious challenges and defined vis-à-vis an Islamic vision of what the state should become.

The complex ideological nature of this struggle was highlighted by an attempt by political parties and institutions to negotiate an end to the crisis; these talks including the FIS, were mediated by the Sant' Egidio community in 1995. The government rejected this attempt. Instead, having contained the insurgency, the government sought to legitimize the authority of President Liamine Zéroual, who had been appointed to his post in 1994, by holding presidential elections in 1996. The new president was also supported by Islamists, as large parts of the population were weary of the terrorist activities of radical Islamists and therefore rejected other candidates from the Islamist factions that they considered incapable of putting an end to the violence. Then, in the wake of a new constitution that provided for new parliamentary institutions, the army organized new legislative elections in 1997, having created a new political party out of the "Revolutionary Family" of the state's institutions to articulate its objectives – the National Rally for Democracy (Rassemblement Nationale Démocratique, RND). Despite serious concerns about the credibility of the electoral process, and, despite the civil war's violent apogee in 1997 and 1998, the regime was able to initiate a new program of institution building and economic restructuring.

Algeria accepted an IMF restructuring program in 1994 that was designed to ease its crippling debt burden and to liberalize the economy. The new premier, Ahmed Ouyahia, built upon this by implementing radical reforms in the state sector that involved lay-offs of up to 400,000 workers in preparation for privatization. In 1999, as a result of disagreements between the president and the army command, new presidential elections were held that brought a former foreign minister, Abdelaziz Bouteflika, to power, despite severe doubts about an electoral process that led to the withdrawal of six of the seven candidates the day before the elections commenced. The new

president lost no time in seeking to end the civil war through provision of amnesty, to rebuild Algeria's shattered international image, and to promote economic restructuring.

After a few years with a lower level of violence at the start of the new millennium – probably because the fighters were exhausted after eight years of violence and their support in the wider population was drastically reduced by the atrocities of the late 1990s – terror attacks continue to occur, including, since 2006, the new phenomenon of suicide attacks. Aside from recurring attacks and kidnappings in several towns in Kabylia, there were a series of terror attacks between April 2007 and mid-2008 in the capital with a high number of deaths and injuries; some of these attacks were directed explicitly at expatriates, such as the attack on the U.N. headquarters.

Also, scattered terrorist activities persist, particularly in western Kabylia and rural areas around Jijel and Skikda, as well as in the desert close to the border with Mali. The security forces have upgraded their equipment and are aggressively recruiting. The state of emergency introduced in January 1992 still remains in force, to the advantage of the army and the security services, despite widespread pressure for it to end. A further amnesty was declared in 2006, in which the security services were given blanket immunity from prosecution for past events and criticism of their behavior was made a crime. The Amazigh movements, which led massive protests after 9/11, were able to secure national status for Tamazight (the term used to denote the group of closely related languages spoken by the Amazigh or Berber peoples in Algeria and Morocco), but have failed to obtain their other political goals.

Economic restructuring has been pushed forward, including a controversial privatization program that has been resisted by the General Union of Algerian Workers (Union Générale des Travailleurs Algériens, UGTA), the autonomous union sector, the Workers' Party (Parti des Travailleurs, PT) and others. New laws have encouraged private foreign direct investment, especially in the hydrocarbons sector, but only to be limited afterwards. Major infrastructure projects have been pushed forward, together with job creation and housing programs. Due to high increases in oil and gas prices from 2003 to the second half of 2008, all of the above programs were funded through oil revenues. The sudden drop in oil prices since July 2008 has been a setback to the regime's plans, but the government still has enough reserve funds to finance its projects for at least a few years. Nevertheless, a further drop or stagnation of the oil price –in combination with a deepening of the worldwide recession – could cause serious shortages in the state's budget.

Political change has been less impressive. After the army agreed to end its interference in political affairs in July 2003, President Bouteflika went on to win the April 2004 presidential election, which many agreed was subject to less interference than in the past. However, in the wake of the election, Bouteflika provoked a split in the country's most influential political party, the National Liberation Front (Front de Libération Nationale, FLN), forcing out the party's leader, who had stood against him. He has also restructured the political and economic system along corporatist lines, despite the formal persistence of a democratic system that Algerians suggestively describe as a "façade democracy." One controversial issue in this regard was the extension of the president's stay in office to a third term, legislation passed in November 2008

that further augmented the president's political power. In short, the presidency continues to seek the same nondemocratic goals as it did in 1988, while the civil war has resolved none of the crucial problems highlighted by the events of the years from 1988 to 1992.

Transformation Status

I. Democracy

The opportunities for political liberalization in Algeria have diminished since the three years between 1988 and 1991, when a formal multiparty system with some basic principles of democracy was first introduced. While the violence that accompanied political liberalization in 1990 and 1991 has disappeared, so has real political choice; presidential influence over the pro-government coalition, the Presidential Alliance (Alliance Présidentielle, AP), in general, and the FLN and the RND in particular, leaves little space for parliamentary opposition. The major legal Islamist party, the Movement of Society for Peace (Mouvement de la Société pour la Paix, MSP), the third member of the coalition, has been marginalized as a result of this influence and the favoritism thereby implied. The constitutional amendments passed on 12 November 2008 erode the state's democratic quality even further.

1 | Stateness

The key challenge to the state's monopoly on the use of force are dissident groups that today are largely subsumed within the Groupe Salafiste pour la Predication et le Combat (GSPC), which in 2007 was officially renamed to al-Qaeda in the Islamic Maghreb (AQIM). They have claimed responsibility for the terrorist attacks of 11 April 2007 on the Government Palace and of 11 December 2007 on the Constitutional Court and the U.N. headquarters in Algiers, as well as a series of suicide attacks in August 2008. These attacks have led to a reinforcement of the security forces, which already have a prominent position in the country. The security minister and head of the security police (Direction générale de la sûreté nationale), Ali Tounsi, has been recruiting tens of thousands of new police officers; beginning in 2009, 15,000 policemen will be recruited annually. The security personnel staffing is to be increased from 120,000 to 200,000 by the end of 2009. There are uniformed and plain-clothes officers at almost every corner in Algiers, and this will soon be the case in most of the other towns in the country. The importance placed on internal security and defense is also reflected by the president's new powers; since 2004, Abdelaziz Bouteflika is not only president, but also minister of national defense and commander-in-chief of the Algerian armed forces.

Aside from the AQIM, there is no meaningful challenge to the Algerian state's

Monopoly on the
use of force

monopoly on the use of legitimate force. Although groups linked to the Arouch movement in Kabylia would like to see the structure and nature of the state altered, and a marginal fringe would like to secede, the Tamazigh-speaking population largely accepts the state's authority. The one geographic region in which the state's authority could be challenged, both by Islamist dissidents and by organized smugglers, is along the country's southern borders with Sahelian states. However, the security forces are well aware of the threat and, in conjunction with neighboring states and the United States, have taken steps to minimize this threat. The Bush administration was very interested in establishing a large military base in the Algerian Sahara as part of its "war on terror" strategy in an attempt to relocate the U.S. Africa Command (Africom), which was set up in October 2007, from Germany to Algeria, but this clashed with the sovereignty interests of the Algerian government and the move has been officially abandoned (a 2008 decision permanently established Africom in Stuttgart, Germany). It is not yet clear how committed the Obama administration is to "Operation Enduring Freedom Trans-Sahara."

The Algerian nation derives much of its legitimacy and national pride from the war of independence against former colonial power France, which, in fact, established the country's borders. The price that the Algerians had to pay for their independence is still memorialized and valorized, but Algerian pride has been wounded, as the presumed misdeeds of some former revolutionary heroes who later became high-ranking decision makers have given room for disappointment. With the new constitutional amendment, the revolution's symbols are protected from defacement by law, and the state will contribute much more to the writing and teaching of history. Journalists or lawyers who criticize state actors may face far-reaching consequences, since such acts are legally punishable. But popular acceptance of the state's legitimacy is widespread. Apart from Amazigh extremists linked to movements such as the Berber Cultural Movement, and Islamist extremists who are probably fighting for a broader Islamic state that includes other Maghrebian areas, the existing concept of citizenship in Algeria is not challenged. The major threat to the acceptance of the state arises from social discontent among the country's youth, who now form a majority of the population. They are especially dissatisfied with living conditions and employment, where they are clearly the hardest-hit. The phenomenon of young people – the so-called "harraga" – fleeing the country in boats in the pursuit of a better life on the other side of the Mediterranean can be interpreted as a silent rejection of living in Algeria. As legal immigration has become very difficult, their actions reveal that, while they may accept their Algerian citizenship, they do not value it highly.

There are no official religious authorities that exercise remarkable influence on Algeria's politics, as the state controls religious institutions through the Ministry of Religious Affairs and Awqaf (religious endowments), which also monitors religious speech. After the 1992 landslide victory of FIS, the secular government is extremely

State identity

No interference of religious dogmas

sensitive to any influence coming from this direction. However, “correct abidance” to the rules of Islam is subject to judicial supervision. In late September 2008, for instance, three young construction workers were sentenced to three years in prison and fined for having publicly smoked during Ramadan, thus breaking the fasting rules. This law was also applied in 2006 against two Algerian editors who reprinted the Danish cartoons defaming the Prophet Muhammad.

State institutions providing medical services, education and public administration operate effectively throughout the country, although this efficiency is subject to considerable criticism, as demonstrated by recurring local protests and rioting. In addition, despite ample state revenues resulting from high international oil and gas prices, the public sector is under-funded. Public sector debt was reduced, however, before the end of the period under review, to less than 15% of GDP at the end of 2007 and to an estimated 13.8% of GDP at the end of 2008 (attaining the predefined goal of DZD 700 billion). Infrastructure is currently being modernized under Algeria’s ambitious development plans. This included the creation of 1.4 million new housing units by 2009 as well as one million new jobs. Responding to the loss of purchasing power due to inflation and rising world market prices of food, the president also announced a rise in subsidies for basic food, such as grains and milk. But public administration still tends to be insensitive and corrupt, particularly within elected public bodies, which frequently ignore popular needs and demands. It is against this backdrop that we can see the widespread and frequent localized disturbances for what they are: mechanisms to attract the attention of an unsympathetic and unresponsive administrative elite.

Basic
administration

2 | Political Participation

Although legislative, municipal and presidential elections in the 1990s were not considered free and fair in any meaningful sense, there was less interference in the 2002 and 2007 legislative elections. However, the low voter turnout might be a sign of serious alienation between the state and its citizens; the 35.51% voter turnout rate for the 17 May 2007 parliamentary election was the lowest since independence in 1962. The voter turnout for the district (wilaya, 43%) and municipal elections (44%) of 29 November 2007 was slightly better. The results also favored the three parties of the Alliance Présidentielle (FLN, RND and MSP). The FNA (Algerian National Front) and the PT (Workers’ Party) received more votes, and the FFS did not boycott this election as it had done for the national elections. The senatorial elections are indirect and serve to elect only two-thirds of the chamber’s membership, with the other third being appointed by the president. Like other elections, the 2004 presidential elections were also questionable, although most complaints were directed at the manner in which candidates’ campaigns were adversely affected. The results of the 9 April 2009 presidential election seem a

Free and fair
elections

foregone conclusion; if Bouteflika announces his candidature – and he will very likely do so 60 days before election day – it is almost certain that he will win the election.

In reality, neither the presidency nor the legislature is free from interference. The military security services have long been the locus of real power in Algeria, together with the clans within the army command and the military's tentacles into the political elite, but they seem to be losing their grip now. Together they form a kind of nomenklatura, "Le Pouvoir" (the power) or "les décideurs" (the deciders), which Algerians view as an economic mafia and politically as the "hezb fransa" (the "party of France"), covertly promoting French interests as part of its own. Indeed, in the first half of the 1990s and for most of the rest of the decade, such interests effectively dominated the political process. The key actors in this informal power structure – the army command – voluntarily abandoned active engagement in day-to-day politics in July 2003 in return for guarantees that their interests would be protected. After this, most of the leading members retired or were encouraged to leave the political scene. To date, the president has upheld his end of the bargain and thus avoided political interference. He succeeded in consolidating a political system that heavily depends on the presidency, thus buttressing his position. One consequence of this is the inertia of the People's National Assembly (Assemblée Populaire Nationale, APN), which rarely initiates legislation. The Conseil de la Nation (Senate) has a purely negative function, capable of blocking laws passed by the lower house, which cannot be enacted without a two-thirds majority in the upper house. The constitutional amendments of 12 November 2008 – which were passed without any debate by much more than the necessary two-thirds majority (500 for, 21 against, 8 abstentions) of both the parliament and the Senate – led to a fundamental strengthening of the president's prerogatives. The president thereby avoided a referendum, which could have led to more ambivalent results. Not only can the president now run for a third term in April 2009, but he also appoints all the ministers and the prime minister, who has lost his function as head of government. The prime minister will only be answerable to the APN once a year, which can force him to resign. Two vice-prime ministers will be appointed as well, which could further weaken the main prime minister's strength.

In theory, political and civic groups can associate freely. But rights of association and assembly, guaranteed by the constitution, are limited in practice under the state of emergency that has been in place in Algeria since 1992. However, political and civic associations require formal registration by government and can be sanctioned by the judiciary. This has meant, in effect, that such groups are still subject to government control and interference. Algerian and international human rights NGOs for instance had planned to hold a "Seminar for Truth, Peace and Conciliation," but this was prohibited by the authorities in February 2007. The legal basis for such decisions is the state of emergency, and, in this case, the 2006 charter of national reconciliation and peace, which precludes the arrest of subjects linked to

Effective power to govern

Association / assembly rights

crimes committed during the civil war. Political parties, moreover, are subject to the electoral law, which excludes parties that incorporate religious or ethnic concerns in their party names or their programs. Two political parties – the Wafa movement and the Front Démocratique – were excluded from the political process when the government refused to register them. Trade unions that emerged outside the official trade union federation, the UGTA, were treated with the same disregard. Much greater tolerance seems to have been shown to Islamic charities as long as they are resolutely non-political. All demonstrations in Algiers, the capital, have been banned since June 2001. Nevertheless, demonstrations have taken place, although they were violently repressed by security forces. These demonstrations include the gathering in mid-April 2008 of public service officers and teachers asking for a pay raise, or the spontaneous expression of solidarity with the people of Gaza, which brought many Algerians to the streets at the end of December 2008. The demonstration on 9 January 2009 in Algiers consisted of over 100,000 people expressing their disagreement with the ruling class' silence over the war in Gaza and also their general discontent with governmental policies. The UGTA has become heavily politicized. It is accused of acting in the regime's interest and of collaborating with the Algerian government in order to undermine union pluralism. The government refuses to engage with autonomous unions, many of which have reported acts of harassment and repression.

Freedom of speech enjoys a wide license, as the state has learned that this does not threaten its own power base, and, although the state monopolizes radio and television, there is a vibrant private press. There are, however, areas not open to comment, such as presidential policy – although the president is frequently the subject of critical articles and cartoons – and the security services. Under the provisions of the charter for national reconciliation and peace, the security services are not to be criticized for their role in the civil war, on pain of imprisonment. The press, furthermore, operates under a very restrictive libel law passed in 2001 that allows prison sentences for press offences, a law which state institutions have been quick to enforce. Despite the fact that the president ostensibly made his peace with the press by offering an amnesty for imprisoned journalists in July 2006, Reporters Without Borders has pointed to similar levels of press repression in 2006 and 2005, but noted an improvement in 2007 with less prosecutions and violence. This does not mean, however, that press freedom received any more respect; during the period under review, Omar Belhouchet, head of the daily El Watan, and columnist Chawki Amari were given two-month prison sentences and fined DZD 1 million (\$13,500) for supposedly libeling a certain prefect as corrupt. Another correspondent of El Watan was manhandled by security forces after taking pictures of the site of terrorist attacks in Constantine on 16 May 2007, and his equipment was seized. In April 2008, new rules for journalists clarified some of their rights and duties, but the 2001 law penalizing journalism is still in force.

Freedom of
expression

3 | Rule of Law

The Algerian constitution of 1996 guarantees the autonomy of the parliamentary body and subjects the presidency to the rule of law. Theoretically, the system is a semi-presidential system, with a president and a prime minister responsible to the executive, and a cabinet responsible to the parliament. With the changes over the past few years, power has become more and more concentrated in the presidency. Before the amendment of the constitution in 2008, the prime minister formally answered to the APN, but now he is only responsible to the president, who also appoints the prime minister. The president is thus not only the head of government, but also leads the ruling party, the FLN, after having forced the then-party leader Ali Benflis from office in 2004, angry that Benflis had dared to run against him for the presidency. The FLN, therefore, is effectively a presidential tool, as it was also demonstrated over the issue of the constitutional amendment. The president also enjoys patronage powers over one-third of the seats in the Senate, thus compromising the independence of the legislature, which is effectively subordinated to the presidency and thus cannot check its power. The APN has rarely initiated legislation since 2002, even though this is part of its function – one of the few exceptions is the initiative of a law abrogating the death penalty, which was tabled in December 2008. Legislation has instead in most cases either been initiated by government or by presidential decree, and is approved later by the APN. At other times, proposals for laws were not taken seriously by the APN office, such as the law initiated by the MSP to abolish the harsh legal treatment of journalists and imams. It was proposed in 2003, but still not presented to the parliament. In April 2008, the MSP complained publicly about this maneuver. This incident suggests the assembly's futility and powerlessness. After the passage of the constitutional amendments, the parliament lost more of its oversight role and is now unable to counterbalance the powers of the presidency.

Separation of powers

In short, there is no separation of powers in Algeria. Current conditions clearly favor the executive (i.e., the president), and there is no reform program designed to reinforce the separation of powers. In the current climate, no such program will be seriously considered.

Formally speaking, the Algerian constitution provides for an independent judiciary. In practice, this is difficult to sustain because the minister of justice is in charge of the administration of the judiciary and the president appoints and dismisses judges. The Constitutional Council (Conseil Constitutionnel), established in 1989, judges the validity of elections and referenda and handles constitutional matters. The Council is composed of nine members, three of which are appointed by the president, two by each parliamentary chamber, one by the Supreme Court and one by the State Council. Practical decisions about judicial competence are made by the

Independent judiciary

Conseil national de la magistrature (Supreme Judicial Council), which in April 2008 demoted twelve judges who had been accused of corruption. Despite recent judicial reforms under the auspices of Kaddour Berradja, chief judge of the Supreme Court, qualified observers suspect that Algerian judges, especially when dealing with “delicate topics,” are frequently under pressure to opt for a decision responding to the interests of certain decision-making centers.

Sometimes, court decisions appear distorted. For instance, Algerian lawyer and human rights defender Amine Sidhoum, who has pressed for an investigation into the cases of thousands of disappeared during the 1990s, was sentenced on 12 November 2008 to six months in prison (which is suspended) and a fine of DZD 20,000 (\$300). By contrast, there were several reports on two men identified as high-ranking terrorists – Amari Saïfi alias Abderrezak El Para, a leading figure of the GSPC responsible for the kidnapping of German tourists in 2003, and Hassan Hattab, one of the “emirs” of the GIA (Armed Islamic Groupes) – during their respective trials. However, given the fact that they were held in custody by Algerian officials throughout their trials, it is difficult to say just how reliable the news about them was.

In 2008, the Code of Civil Procedure (Code de procédure civile) has become the Code of Civil and Administrative Procedure (Code de procédure civile et administrative), with several important changes. These changes are aimed at rendering procedures more efficient by shortening the duration of court recesses and simplifying procedural bureaucracy. In the new penal code, approved on 31 August 2008 by the Council of Ministers, “harragas” (illegal emigrants who leave the Algerian coast in boats for Europe) may receive prison sentences of up to six months – and even their relatives can be subject to punishment. Harsher penalties are conceived for the traffickers who coordinate the migration networks, allowing sentences up to ten years. This, again, does not address the root causes of illegal emigration attempts, and is harshly criticized by the media.

Public servants and politicians are rarely held accountable, even if corruption amongst them remains a serious problem in Algeria. Public officials are only prosecuted if they attract significant public criticism. Prosecution of military personnel for crimes committed during the civil war is made impossible by the general amnesty, and raising this question is considered a crime. Also, public criticism of officeholders can quickly lead to libel charges, which makes it difficult for journalists to investigate public officials.

Since 2007 a major corruption and fraud trial involving the Khalifa Bank has been underway in Blida. Several ministers have been called as witnesses and other leading officials have fled the country to avoid investigation. Despite government promises of action if ministers are implicated in wrongdoing, however, few expect this to occur, especially as the government insists that the scandal is purely

Prosecution of
office abuse

financial, and not political, in nature. The president has also failed to meet his pre-election promises to remunerate former clients who lost their lost money. Abdelmoumen Khalifa himself was arrested in Britain on 27 March 2007 and brought to court for “fraudulent bankruptcy” and “money-laundering and misuse of public goods.” Currently, the British courts are examining a demand for extradition lodged by the Algerian government, and the decision will presumably be made in mid-February 2009. The court in Blida has already condemned Khalifa to life imprisonment.

Basic civil rights are guaranteed in theory, but in practice are subject to abuse. This is the case in spite of the existence of a semi-official human rights observing body, the National Commission for the Protection and the Promotion of Human Rights (Commission Nationale pour la Protection et la Promotion des Droits de l’Homme, CNPPDH), which is led by Mustapha Farouk Ksentini. In fact, protection is limited and legal guarantees against torture and wrongful imprisonment are weak, while freedoms of assembly are restricted under the state of emergency. Algeria’s two human rights organizations and other non-governmental organizations, especially those committed to the issue of the “disappeared,” constantly criticize the government’s record in these regards. The security services are effectively immune from criticism and have formal legal protection for any abuses committed during the civil war in the 1990s, such as torture and extrajudicial executions. This is an element of the Charter for National Reconciliation of 2006. Any public criticism of their crimes can be prosecuted and punished by three to five years in prison and a financial fine. In September 2007, the minister of national solidarity, Djamel Ould Abbas, closed the file on people “disappeared” during this period.

Civil rights

Freedom of religion is comparatively well developed. Notwithstanding the country’s clear Muslim majority, the several thousand Christian Algerians do not suffer severe discrimination, and (especially foreign) non-Muslim residents are free to practice their religion in designated locations. In February 2006, however, in response to increasing evangelical activism in Northern Algeria, a law was passed that forbids proselytizing activities. A person caught attempting to convert Muslims to Christianity or any other religion can be punished with a five-year prison sentence and a fine of about €10,000. The American pastor Hugh Johnson, former president of the Protestant Church of Algeria, was forced to leave the country in early 2008.

4 | Stability of Democratic Institutions

While the state institutions are formally following democratic principles, serious questions must be raised about their quality and efficiency. The presidency is determined to further dominate the political process and has made formal changes to the constitution to facilitate this. The decisions made by the central authorities are

Performance of
democratic
institutions

executed by the administration. The result is that the Algerian state has now re-acquired a hierarchical structure centered around the presidency, which dramatically increases presidential power at the expense of other branches of government, although the security services and the senior army leadership have retained their independence. The result of this situation is that, outside the covert and informal power of “Le Pouvoir” or “les décideurs,” there are now very few checks on the power of the executive, and constitutional constraints are unlikely to be effective as there is no institution capable of enforcing them.

The administration is plagued, as it has been traditionally, with inefficiency, corruption and patronage. This is the case for both the centralized administrative system and the democratically elected local bodies, which have executive as well as consultative functions – the *Assemblées Populaires des Wilayas* (People’s Regional Assemblies) and the *Assemblées Populaires des Communes* (People’s Assemblies of the Commons), which, respectively, handle provincial and municipal affairs. As a result, Algerians rely on either personal influence (“piston”) or violence to force the bureaucracy to react, the latter becoming more frequent in recent years as both oil revenues and frustration over the lack of economic improvement have increased. Violent protest over social and economic conditions, particularly among unemployed youth, is frequent and poses a threat to public order. The situation is inevitably worsened by a significant degree of nepotism within the elected executive and legislative bodies. Thus, both at the local and the national level, elected representatives tend to prioritize personal and clientelist interests over those of the electorate. This further estranges the population from the institutions that it has elected and which are supposed to represent its interests, and encourages people instead to turn either to non-governmental organizations such as Islamic charities to satisfy their needs, or to turn to violence.

There is also a significant degree of voter alienation. The youth are essentially apolitical in terms of the formal political arena because they have little conviction that politicians will address their problems, despite plans to create jobs and a declining official unemployment rate. The only political movements that have touched this group have been either the Amazigh movements in Kabylia and elsewhere which prioritize “Amazighté” – the idea of the cultural and political separateness of the Amazigh populations – or the movements in the southern regions, which have focused on youth employment issues and which have been encouraged by the FFS. The Amazigh movements include the Movement for the Autonomy of Kabylia (*Mouvement pour l’Autonomie de la Kabylie*, MAK), founded by Ferhat Mehenni, the more important Berber Cultural Movement that arose from the crisis of the “Black Spring” in April 1980, and the Arouch movements, which have been discredited by their failure to realize their objectives in negotiations with the government.

Commitment to
democratic
institutions

5 | Political and Social Integration

With the electoral reform of 1989, which brought an end to the one-party-system, Algeria has had a multiplicity of political parties and, although political liberalization was suspended between 1992 and 1996, political parties continued to enjoy a legal existence; exceptions were the Front Islamique du Salut (FIS), banned in March 1992, the Wafa party, and the Front démocratique, banned in 2000. Despite the plethora of political parties in Algeria – there were 24, for instance, participating in the legislative elections of 2007 – it cannot be considered a functioning political party system. The legislative elections of 17 May 2007 produced the same political configuration as those of 2002. 64%, or 249 out of 389, directly elected APN seats are controlled by the three allied pro-regime parties – the FLN, the RND and the MSP, forming the pro-government alliance, the AP (Alliance présidentielle). The FLN lost the absolute majority, however, with only 22.9% of the vote and 136 seats, while the RND won 10.3% and 62 seats – less votes but more seats than last time. The MSP gained 9.6% and 51 seats. The opposition is still highly fragmented, weak and ineffective, with 19 other parties and independents sharing the rest of seats. Their opposition activities are rather disorganized and opportunistic, and they do not represent an effective balance for the governmental parties. One major opposition party, the Socialist Forces Front (FFS), Amazigh in origin, boycotted the legislative elections. The Workers Party (PT), led by Louisa Hanoune, has become the first opposition force with 5% of the votes and 26 seats, and the Rally for Culture and Democracy (RCD), which boycotted the elections in 2002 as well, won 19 seats this time. The Algerian National Front (FNA) raised to 13 seats with 4% of the votes. 44 seats were distributed to several smaller parties, and 33 seats to independents. The Islamist al-Islah movement was the main loser of the elections, emerging with only three seats – a significant drop from the 43 seats they won in the 2002 election. In sum, the opposition is very weak and fragmented in Algeria.

Party system

Some societal interests are expressed by associations and parties, but representation is not complete because of difficulties in obtaining legal status. One major group is the official trade union movement, UGTA, which has around four million members, and its autonomous counterparts, all of which seek to cooperate – to a greater or lesser degree – with the government. Up to now, the authorities only consider the UGTA as representative.

Interest groups

According to many observers, informal but major influence is exercised by “clans” that press through interests of their loose member network by influencing decision makers and key officeholders. A precise definition of these “clans,” let alone evidence of their actual existence, remains elusive, though.

No exact survey data exists on the strength of democratic values in society. The disappointing voter turnout (35.51% for the 2007 legislative elections, with one of seven votes being void) can be interpreted in different ways – if the reason is disinterest in elections in general, it could be a sign for distrust in democracy, but it is more plausible to interpret it as a lack of confidence in the difference the elections make and thus in the responsiveness of the government to the public will. Militant “radical Islamist” groups clearly have objections to democracy and continue to combat it actively in Algeria by attacking, among other things, buildings symbolizing the state and its democratic institutions (such as the Constitutional Court). But the size of these groups may be less impressive than the number of headlines generated by their terrorist acts, and their support in the population has significantly diminished since the massacres of the late 1990s. Because no viable surveys exist, it is not known to what extent Algerians actually share democratic values at this stage, but it is probable that many prefer to sustain the hierarchical, strong state that they are used to, provided it is stable and avoids significant violence. Islam and democracy are not viewed as incompatible, as suggested by the participation of Islamist parties in elections and their delegates in parliament, who explicitly abide by democratic norms. The definition of democracy, however, differs, and the recent changes in the constitution, along with other amendments envisaged for the near future, lead to the suspicion that the current rulers’s definition of democracy does not include transitions in power. In any event, the military, which has significantly influenced the fate of the country, does not impact democratic legitimacy.

Consent to
democratic norms

There is a significant number of organizations within civil society; there were some 81,000 associations counted in 2008 in the whole country. This number has significantly risen in the last decade, with approximately 30,000 associations in 1990. However, the majority are dormant and only about 6% to 7% actually play an active intermediary role. Only 6%, for instance, report annually on their activities.

Associational
activities

It is, however, not an exaggeration to say that non-governmental organizations sometimes work in pursuit of political and/or economic goals in consort with the government. But there are many organizations that are very committed to improving living conditions, reducing conflict risks, increasing the number of available cultural activities and providing education, all of which may contribute to resolving the many challenges facing Algerian society. These organizations also represent a major potential for employment. Social self-organization has a tradition in Algeria (for example Arouchs or Islamic zakat) and helps to cultivate social capital.

II. Market Economy

Since 1994, Algeria has accepted the need for economic reform, initially to deal with its problems of external debt. At the end of the 1990s it also actively embraced economic restructuring and, under the presidency of Abdelaziz Bouteflika, has espoused the principles of neoliberal economic management. However, the habits of a centrally planned economy are difficult to change, and the privatization procedures have sometimes encountered deficits in transparency, opening new spaces for corruption.

6 | Level of Socioeconomic Development

For a country with Algeria's massive wealth in hydrocarbon resources, the country's rating on UNDP's Human Development Index (HDI) is depressing. In its 2007/2008 edition, Algeria was ranked at 100th out of 179 countries with an index of 0.748, placing it within the medium development range. However, when that figure is deconstructed, its real implications become evident. Although life expectancy is 72 years and school enrollment has reached 73.6%, these statistics place it only 82nd and 89th respectively in the descending order of the 179 countries concerned – well within the lower half of the list. A similar analysis of the 2004 Human Poverty Index is even more revealing, placing Algeria at 51st out of 177 countries, with 21.5% of the population living under the poverty line. Furthermore, 7.7% of the population will not survive beyond 40 years of age, 30.1% of adults are illiterate, 15% of the population does not have access to potable water supply and 10% of children below the age of five years are underweight.

Socioeconomic
barriers

For an oil and gas rich country, such statistics are shocking and reflect both the consequences of the civil war and sustained failures in economic development. Unemployment is dropping but still high. In 2004, according to the National Statistics Office (Office Nationale de Statistique, ONS), unemployment was above 23%, falling to 15.5% in 2005 and to 12.3% in 2006, before rising again to an estimated 13.8% in October 2007 (the latest official figure), with a number of 1.24 million unemployed for 10.51 million people working. The overall figure conceals, however, the disproportionate number of persons below the age of 30 who are unemployed – in 2001 around 48%, a little less in 2005 with 31%, and still around 30% in 2007, which means that 72% of the unemployed are young people. There are also large numbers of university graduates who do not have any work. Every year, approximately 300,000 additional job seekers enter the labor market. It is also a reflection of low wage levels, which prevents households from saving, especially when confronted with the continuing increase in world market prices and inflation.

These aggregated figures are, however, deceptive insofar as there are significant imbalances between the urban and rural populations, the latter representing less than 40% of the total population and growing far more slowly than the urban population. Rural populations, although partially integrated into the national economy, still depend in part on subsistence activities, particularly in the wake of the civil war, which displaced 1.5 million people. Many of the displaced persons have yet to return to their homes, and projects helping them to do so are still small in scale. Massive shantytowns have thus continued to develop around urban centers, although some are now being cleared in accordance with the government's project to build 1.4 million new housing units by 2009. Clearings are generally accompanied by massive protests from residents. So, there is a significant underclass that is excluded from the formal economy and suffers disproportionately.

The final issue in this pattern of deficient socioeconomic integration is the government's commitment to social service provisioning. The Algerian government, unlike other governments that have faced civil unrest, has not sacrificed its social services to military expenditure. Thus defense expenditures in 2007 accounted for only 2.9% of GDP, just slightly above public health expenditures for the previous year (2.6% of GDP). Education expenditures are more than double the amount of health spending. However praiseworthy this might have been, the absolute levels of funding are still low given the demand.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	85013.9	102339.1	116460.4	134304.1
Growth of GDP	%	5.2	5.1	2.0	3.0
Inflation (CPI)	%	3.6	1.6	2.5	3.5
Unemployment	%	17.7	15.3	12.3	13.8
Foreign direct investment	% of GDP	1.0	1.1	1.5	1.2
Export growth	%	4.1	6.1	-2.4	-0.6
Import growth	%	13.1	9.5	-1.8	7.6
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	20394.6	15480.2	3872.0	3755.6
External debt	\$ mn.	22178.5	16862.2	5716.7	5540.7
Total debt service	% of GNI	7.0	6.2	12.0	1.1

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	5.3	13.5	14.0	6.2
Tax Revenue	% of GDP	26.9	31.0	32.4	29.8
Government consumption	% of GDP	13.8	11.5	11.3	12.0
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.7	2.6	3.4	-
R&D expenditure	% of GDP	0.2	0.1	-	-
Military expenditure	% of GDP	3.3	2.9	2.7	2.9

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

After a false start in 1991, Algeria began building a market economy after it accepted an IMF standby facility in 1994 to help it reschedule the massive foreign debt Algeria accumulated after the rapid downfall of the oil prices in the 1980s. Progress toward full liberalization, however, has been faltering, largely because of political obstructionism from within the elites and because of political concentration on improving the standing of the presidency. At present, falling oil prices will very probably have an effect on future decision-making, reducing the euphoria of recent years.

Market-based competition

Although some attempts were made to break up state monopolies, these adjustments were of a cosmetic nature. The adjustments made to the hydrocarbons law in 2006 and to the privatization program both allow the state to retain control over key industries, such as the oil and gas industries and the broadcast media.

Anti-monopoly policy

Foreign trade was liberalized early on as a result of the IMF counterpart requirements for its standby support. Stiff tariff barriers were retained, however, particularly on imports. The government has only recently begun to remove these tariffs under the EU Association Agreement, which was signed in 2002 and came into effect in September 2005. It foresees a gradual establishment of a free trade area in accordance with WTO rules, between the EU and Algeria, over a maximum period of 12 years. Some tariffs were removed immediately; others are being removed progressively. While Algeria is a candidate for WTO membership, it excludes categorically its claims to also liberalize hydrocarbon trade and the car market. The Union of the Mediterranean, following the initiative of French President Nicolas Sarkozy, was not favored by Algeria in the beginning, but it

Liberalization of foreign trade

became a member when it was launched in July 2008. On 1 January 2009, Algeria also joined the Arab free-trade zone (AFTZ), which will lead to a progressive abolition of tariffs and a liberalization of the markets for industrial and later agricultural goods between the 22 member states of the Arab League. This is received with great skepticism by many Algerian entrepreneurs, who consider this to be an inestimable gift for the “importers’ lobby.” According to estimates by the vice president of the National Association of Algerian Exporters, up to now, the free trade agreement with the European Union has already led to a loss of approximately \$600 million per year. Once the free-trade zone has been established in 2017 and the tariff barriers have been abolished, total losses to the Algerian economy could amount to \$3 billion, according to the same estimations.

Since 2001, several reforms were launched which should ultimately lead to an opening of the Algerian market and its resources to foreign companies. Some laws have been passed, but due to a lot of skepticism about the sustainability of an uncontrolled opening, the process was slowed down. And indeed, the Algerian market has a lot of consumers and not so many producing companies, the latter of which would profit from a total liberalization.

In production, Algeria is also interested in cartelization. Being an active member of the OPEC for the regulation of oil production, it was also interested in constructing a “gas OPEC” together with Russia, Iran and Qatar. Due to less flexibility regarding the transportation of natural gas, which is mostly bound to pipeline routes and fixed clients, this project has failed up to now. An intensification of the production of liquified natural gas (LNG) could change this, however.

The shadow side of foreign trade is contraband. Informal economic activity was tacitly encouraged in the late 1980s as a means of overcoming the constraints of import compression and unemployment, thus forming the infamous “trabando” sector (a term derived from the French word for contraband or smuggled goods). The trabando sector became highly organized and, in the 1990s, formed the backbone of the semi-religious, semi-criminal and violent urban terrorism networks that, though less active, continue to exist.

In theory, the Algerian banking sector is open to a free partnership between economic actors and the primary banks. This has been the case since October 2007, when the instruction of 4 August 2004 ordering public enterprises in Algeria to deposit all their commercial activities in public banks, was abolished. Up to then, private banks were hesitant to behave like business banks, concentrating rather on deposits and on credit for consumption, which led to a paralyzing business climate – and takes time to change. It is hoped that the opening of the banking sector will lead to profound changes within the sector and the economy, and that it will promote the absorption of the enormous financial resources in the informal currency market, and that local SMEs (small & medium enterprises) and SMIs (small & medium

Banking system

industries) will be able to better finance themselves. Up to now, reforms did not make a lot of changes to modernize the system, to make it less bureaucratic and encourage investment. The World Economic Forum's Global Competitiveness Report classifies the soundness of Algeria's banks at 134 out of 134 countries. According to this study, the most important impediment for doing business is the access to financing, followed by an inefficient state bureaucracy and corruption. This situation is also ineffective for ordinary clients, as estimations (by Bank of Algeria) consider that there was one cashier's desk per 25,700 citizens (and for 7,850 active account holders) in 2007, which is a very poor and time-consuming ratio.

The planned privatization of the *Crédit Populaire Algérien* (CPA), which should have been followed by the privatization of the Algerian Rural Development Bank (*Banque Algérienne de Développement Rural*, BADR) and the Local Development Bank (*Banque de Développement Local*, BDL), was in the end deferred. The reason given for this near-term cancellation in November 2007 – only shortly before the applicants wanted to deposit – was the American subprime crisis and its impact on the world financial markets. Therefore, it may have been shortsighted to have directed the call for tenders primarily to big Western banks, and to have excluded smaller but liquid Arab banks.

Currency convertibility in Algeria is restricted, with fixed rates to major foreign currencies – the dinar is pegged to a basket of currencies – although foreigners may hold foreign currency accounts. Currency liberalization is governed by the monetary and credit law passed in April 1990, which allowed foreign banks to enter the domestic market. To date, however, they have not in aggregate been able to control more than 10% of the market, partly because, since the Khalifa Bank scandal in 2003 and the subsequent collapse of *Banque Commerciale et Industrielle d'Algérie* (Commercial and Industrial Bank of Algeria) in 2005, state organizations are required to bank with one of the six state banks. The remaining 10% are managed by a little more than 25 privately owned banks and nine finance companies.

8 | Currency and Price Stability

Algeria's state bank (*Banque d'Algérie*), which acts as a last resort regulator of the financial sector, has effectively controlled monetary policy in recent years, but inflation has risen under the pressure of the dramatic rise in export earnings and Algeria's ambitious infrastructure development plans. It has also been affected by the devaluation of the U.S. dollar, as Algeria's hydrocarbon earnings are still denominated in dollars, while more than half of its importations are paid in euros. Given the sums involved in both earnings and development, the control of inflation has been impressive. Since mid-2007, there have been difficulties, however, to

Anti-inflation /
forex policy

remain below this level, with an inflation rate above 6% in April 2008, for instance. Some estimates indicate that the rate of inflation averaged 4.1% in 2008. While the Banque d'Algérie is not independent from the government, under the 1991 Money and Credit Law, it has wide-ranging autonomy in its role as controller of monetary policy and regulator of the financial sector. Its governor and governing council are appointed by the president, who is advised in this decision by the minister of finance. The Banque d'Algérie is required to carry out the general contours of government monetary and fiscal policy. As a result of its dramatic increase in oil and gas revenues, Algeria was able to pay off in advance a number of its foreign debts, reducing the country's debt burden from \$16.8 billion in 2005 to \$600 million in the end of August 2008.

Government policy has been directed toward prudent financial management and restraining inflation. Also, the concentration on its comparative advantages (of energy resource production) to improve growth and its will to protect the national economy from too much liberalization can be understood as a measure for stabilizing the macroeconomy. There are also ambitious primary and supplementary programs currently underway to launch economic growth. The reduction of both external and internal debts before term is also meant to sanitize the economy – and prepare it for a post-hydrocarbon era. However, the one-sidedness of the economy and rising dependency on imports for almost all consumer products remain risk factors for this stability. The Algerian economy remains highly vulnerable to price shocks – both for its exports, as observed during the fall in oil prices, and for its imports, as seen in the dramatic rise of food prices last year. And economic developments can lead to social crisis – as has already been the case in Algeria's past.

Macrostability

9 | Private Property

Private property is guaranteed by law and citizens have the right to acquire it, although zoning regulations can limit land use. Generally, however, the state respects individual rights in this respect unless the title is ambiguous or land has been wrongfully expropriated. But as the institutions of the state, including the courts, are not free from corruption and political manipulation, individual rights may be adversely affected. Purchase of land for foreign companies is limited to avoid speculation; instead, the system of concession is favored.

Property rights

The government is promoting the protection of intellectual property rights, but progress remains slow. In Algeria, counterfeit is rampant, and virtually no product is safe from it. It is estimated that 48% of the counterfeit products are of local production, 48% from importation (with more than the half coming from Asia, 8% from Arab countries and 22% from the European Union). The origin of the remaining 12% is not clear. As this is also a question affecting the health and

security of consumers, as well as the rights of companies and inventors, the government needs to confront the issue and has already started with some measures. A law passed in June 2004 declares imitation of brands and products without the permission of the holder as illegal commercial activity.

The regime officially encourages the private sector, and legislation designed to facilitate company formation was passed in 2006. There have also been measures taken to encourage investment from both domestic and foreign sources, which has required the provision of effective legal safeguards. As discussed above, privatization of state companies has been very slow and the government still seems ambivalent about its plans. A number of 987 public enterprises were opened to privatization in August 2001, but only around 100 were privatized by 2008. These were mainly based in the private sector, such as construction, food, services etc. A supplementary clause has also been introduced to protect employees' status in the event that stock shares are sold in the process of privatization – though such a case has not yet occurred. Also the planned privatization of Algeria Telecom was delayed for two or three years. Concerning SMEs, the Algerian companies – numbering around 300,000 – are the most fragile in the Mediterranean region. Thus, despite their accounting for 70% of non-hydrocarbon GDP and their more than 200,000 employees, they urgently need support. A national program was established to help SMEs to meet the highly competitive conditions of the world market, but there is still a long way to go.

Private enterprise

One major problem facing the state is a spate of intellectual and product piracy cases that particularly affect the eastern region of the country. At present, an estimated 60% of economic activity takes place within the informal sector, beyond the reach of state regulation. Attempts are now being made to incorporate at least half the alleged 450 informal markets – in the capital, there are 78 informal markets – operating in Algeria into the formal sector. This is an urgent issue, as the competition from this sector has made over 20,000 craftsmen and 10,000 registered businesses stop their activities.

10 | Welfare Regime

Social support in Algeria is linked to employment. Thus, workers and pensioners receive state-supported health care, as do their families. Access to public hospitals is free and the cost of prescription medicine is reimbursed. Pensioners receive a minimum of 75% of the national minimum wage after fifteen years of employment, and anomalies in the system were eliminated last year after noisy protests by the national association for pensioners. In 2008, the government also decided to increase low pensions by 5% to improve the purchasing power of their recipients, who are currently under pressure due to price increases. Essential goods and services continue to receive subsidies, despite the government's proclaimed

Social safety nets

intention to eliminate them. Such items are either directly subsidized by the state or manipulated through price controls. The only breach in this panoply of state support for the consumer has come with the privatization of service provision in the water industry, where state-controlled prices will eventually reflect production costs. The massive increase in oil and gas revenues over the past three years can in part account for the delays in removing subsidies. There was a further increase announced in 2008, raising the amount of subsidies for basic nutrition from \$5 billion to \$10 billion. The increase in revenue had made it virtually impossible to persuade parliament to accept neoliberal economic logic. For their part, government ministers, interested in maintaining their political advantages, have not pushed the issue very hard. In fact, as with other economic reforms, political expediency has won out and real reform of the social provision systems is not to be expected, beyond the hospital reform program currently underway. The sudden fall in oil prices, however, makes the situation different. For now, the government remains optimistic, and the financial windfall is big enough to remain independent from much interference of international financial institutions.

With the higher oil prices, an additional budget was passed in June 2008, which foresaw an increase from the original budget of 12.9% (rising from DZD 4.32 trillion to DZD 4.89 trillion). The expenditures were largely going to additional subsidies of basic food products to shield Algerian consumers from rising world market prices. DZD 22 billion will also go to the debt relief of local governments and to increase pensions for war veterans (mujahedeen) and their dependents.

Equality of opportunity exists under the law, but the persistence of patron-client relations that permeate social and political life means that there is no genuine equality of opportunity in practice. There are structural limitations on equality of access to social support because of the strong link to employment in its provisioning. Social attitudes mean that women suffer significant disadvantages in access to employment, although this is improving. However, despite recent reforms in the family law, discrimination against women persists in gender relations and in legal rights.

Equal opportunity

The Family Law, adopted in 1984, is a conservative text with elements of the Shari'ah, and was partly changed by presidential decree in 2005, giving women slightly more rights. Also the new nationality code has eliminated most discrimination against women. Women will now be able to pass on nationality rights to their children and husbands on an equal basis with men. Some legal differences remain, however, as for example concerning the choice of marriage (women still needing a tutor), limited right to divorce, and clearly less rights with regard to inheritance. Many women are very dissatisfied with these rules and have called for true reform, but others comply with it as it is (partly) compatible with the Shari'ah rules.

One element in the constitutional amendment of November 2008 was to add the political rights of women to the constitution, pushing the state to raise the number of women in the elected assemblies.

11 | Economic Performance

Given the fact that the Algerian economy is based on petroleum products, its recent performance has been necessarily impressive, particularly in comparison with the economic stagnation under the civil war and the stresses of the 1980s. The reemergence of this rentier economy has led to impressive GDP growth rates, GDP per capita and foreign exchange reserve figures in recent years. They are, of course, profoundly deceptive, and the praise that has been heaped upon Algeria for its good economic management by international institutions should be ignored unless the gross figures are deconstructed. At the same time, credit is due for the government's success in reducing unemployment from figures hovering in the high teens in the late 1990s to the current figure of 12.8% (2008), and its efforts to bring it below 10% by the end of the decade.

Output strength

Algeria's nominal GDP was estimated at \$150 billion in 2008, compared with \$135.29 billion in 2007 and \$116.46 billion in 2006, \$102.34 billion in 2005 and \$85.01 billion in 2004. Its real growth rate for 2008 was 4.9% compared to 3.1% in 2007 and is estimated to rise to 5.4% in 2010 after a temporary reduction to under 3.8% in 2009 (following World Bank estimations). GDP per capita has risen in parallel (albeit balanced by population growth) to \$3,996 in 2007, compared with \$3,492 in 2006 and \$3,115 in 2005. Foreign currency reserves have increased dramatically, from \$43 billion in 2004 to \$138 billion in 2008 – plus an extra of \$76 billion in the Fund for Regulation and Revenues (Fond de régulation de recettes), destined to be saved for times of lower oil prices. Correspondingly, foreign debt fell from \$21.8 billion in 2004 to \$16.8 billion in 2005 and \$5.6 billion in 2006, \$4.9 in 2007 (3.6% of GDP) and finally less than \$600 million in 2008 (0.4% of GDP). Imports have exploded, tripling in a period of 6 years and attaining \$30 billion in 2008. However, this must be contextualized against the fact that 98% of exports (which more than doubled between 2004 and 2008, jumping from \$32.22 billion to \$68 billion) are generated by oil and gas.

In 2008, GDP per sector was split as follows (following official data): 46.9% from oil and gas, 30.7% services, 9.2% construction and civil engineering, 8.2% agriculture, and 5% manufacturing industries. The latter sector represents one of the lowest rates worldwide, even if it is the most important for the creation of employment and the promotion of SME activity.

Algeria's economic success is based on the windfall of high oil prices and can be victim to their current decline. It does not represent reproducible economic policy but rather rent incomes. That is the weakness of Algeria's economic performance

and the explanation for the speed with which the Algerian government is pushing through economic development – the housing program, the job creation program, the east-west motorway and the development of new cities at Hassi Messaoud and in the Hauts Plateaux. In the 2008 financial law, the decision-makers have confirmed that they want to attract investors by also liberalizing the real estate market. But as there are still few direct investments in productive activities to date, they prefer a system of concessions within a limited period and palette of opportunity so as to not facilitate wild speculation. The budget for 2009 gives some idea of the pattern of public spending. The budget anticipates a growth rate of 4.1%, with non-oil and gas GDP growing at 6.6%. Inflation is expected to grow by 3.5 percentage points in 2009, at an exchange rate of DZD 65=\$1 and a per-barrel oil price that is kept now at \$37 for budgetary purposes (compared to \$19 per barrel in the 2008 budget; the supplementary budget adopted in July 2008 was also based on the new benchmark). The state expects to collect a total of DZD 1,628 billion from taxes deriving from the hydrocarbon sector and DZD 1,158 billion in ordinary revenues, 10% more than in 2008.

While the fiction was maintained in all Algerian budgets for a long time that oil prices remained at \$19 per barrel, even when they were exceeding \$100, this changed during the period of observation. Now that it is raised to \$37 per barrel, it is ironically not certain that this threshold is not above the actual price. Budgetary (current) expenditure will total DZD 2,594 billion (\$39.9 billion), with allocations to national defense rising by almost 30% to DZD 384 billion (\$5.9 billion), education by 33.4% to DZD 374 billion (\$5.8 billion) and health services by 38% to DZD 178 billion (\$2.7 billion). The Annual Supplementary Development Plan (Programme Complémentaire de Soutien à la Croissance) has formed a regular part of the budget in recent years but is financed directly by surplus oil and gas revenues.

Between 2005 and 2009, the Algerian state expects to spend \$155 billion on its economic growth support program – three times more than the initial budget. Another budget for an infrastructure development plan, aimed at pushing the aforementioned four-year plan, was decided in December 2008 and amounts to \$150 billion. The problem with this is simply that infrastructural projects do not, in themselves, generate sustainable economic activity; they can only create the climate against which such activities can be generated, preferably by private investment. However, outside the oil and gas sector, private investment, whether foreign or domestic, has been disappointingly low. As a result, despite government projections of a 6.6% growth in non-oil GDP for 2009, the growth in permanent jobs – the key to lasting economic success – has been disappointingly slow. In fact, to date, most of the employment that has been generated was only temporary in nature. Despite the clear cut in earnings due to falling oil prices and the international financial crisis, the plans will not be scaled down.

12 | Sustainability

The Algerian environment is heavily polluted, both because of a lack of regulation in the past and because the laws in force have been deliberately ignored by both domestic and foreign commercial operators. In addition, it is a fragile environment and there are serious threats to the southern flank of the Atlas mountains and the Hauts Plateaux region which borders the Sahara desert. Desertification is proceeding at an average of 16 km a year northwards and this rate is expected to increase as a result of global warming. Attempts made since the 1970s to arrest desertification, though projects such as “La Ligne Verte” (the Green Line) have only been partially successful. The government has, however, taken a greater interest in environmental protection in recent years and set up a funding facility (the Agence Nationale pour la Protection de l’Environnement) in 2001. Several laws have been passed to organize concrete measures of environmental policy, such as waste disposal, sustainable development and water distribution and protection. In the framework of the five-year plan of stimulation of economic growth 2005-2009, the government has invested DZD 36.5 billion (€425 million) to waste disposal, €15 billion to the water and sewage sector (including probably “environmentally incorrect” construction of dams, which will pass from a number of 47 in 2006 to 72 until 2010). Around 40 sewage treatment plants are slated for construction and 20 others for restoration, which will raise the treatment capacity to 600 million cubic meters per year. The governmental plan also includes the construction of 13 seawater desalination plants, of which 2 are already in service (in Arzew and Algiers).

Environmental
policy

Renewable energy resources have not been a governmental priority as there is insufficient reliable water flow for hydroelectricity, and photovoltaic power generation is still in its infancy. In other respects, however, the government is developing the tools for a policy to protect biodiversity and to improve the environment. One major concern has been the inundation of the desert oasis city of Ghardaia. While it is known that the underground river overflows approximately every fifty years, this was not taken into account in the area’s urban planning. Consequently the demographic boom and wild urbanism of recent years has provoked the “natural” catastrophe. It remains to be seen to what extent environmental concerns are being respected in other oasis towns and in the planned new cities planned that will soon emerge in the Sahara.

Since its independence in 1962, Algeria has made school education for children a constitutional right. Since 1975, the government has offered a universal education, free and obligatory, for children between 6 and 14. In 2004, 90% of the children had passed the average level of 9 years of education. Girls living in rural areas are more likely to abandon school, for financial reasons and for the prioritization of many

Education policy /
R&D

rural families on boys' education. The literacy rate is 90.1% for young people and 69.8% for adults (data for 2005). The difference between girls and boys in school enrollment is minor in basic and secondary education, and women are even in the majority at university; however, they represent only 19.7% of the workforce.

The education sector has been plagued by very poor relations between the teaching staff and the ministries of education and higher education due to inadequate pay scales for educators and the problem of union recognition. Throughout the period under observation, several teacher strikes have taken place to demand better working conditions and higher salaries. Also, high school students have decided to strike several times, as for instance in April 2008, to win a more balanced curriculum than the one that currently overloads them with work. Because pay scales have now been improved and unions have won general recognition, an uneasy calm has settled on secondary and tertiary education. The government has instituted a grant-in-aid for all secondary school pupils to ensure that essential equipment is provided.

Part of the ambitious infrastructure program and the development of Southern Algeria is also the construction of several universities. Measures to create youth employment were increased by 50% in June 2008, from DZD 27.5 billion to DZD 42.5 billion, plus additional funds to generate 20,000 jobs for young people, as part of the support for the national education program. The new budget for 2009 foresees DZD 234 billion for education and vocational training, which is an increase of 33.4% compared to the previous year. But some structural reforms of the educational sector could be more decisive to boost the level and quality of education and research.

Transformation Management

I. Level of Difficulty

The Algerian presidency seeks to give the impression that it controls a pyramidal structure in which it can exert effective power at all levels within it. This is, after all, the objective of the corporatist state that it has created. However, although this may be true at the level of the central institutions of the state – government offices, the central administration and the parliament – evidence shows that, as in any proto-dictatorial or bureaucratically inefficient system, administrative institutional freedom of action increases with both geographical and political distance from the center. Thus local and provincial administrations exercise considerable autonomy of power until reined in by the presidency – as opposed to actual government embodied in the state’s legal framework – and political parties exhibit an increasing fragmentation of power in local party organizations. This feeds into both localized corruption and bureaucratic inefficiency and autonomy, thus exacerbating local frustration with the administration in Algiers, which manifests its rule through violence. In the economic environment, the persistence of patron-client relations means that the effectiveness of the economic mafia is enhanced – which also implies a certain degree of political autonomy. In short, local administration lacks the appearance of the efficiency that shapes the centralized governmental system. These tendencies are exacerbated by the lack of skilled personnel capable of successfully introducing the kinds of separation between centralized regulation and economic autonomy that characterizes a market economy. It is also worsened by a significant degree of active disaffection with the government, manifested not only in the persistence of dissidence, but also in the clandestine support structures for it that extend far more widely through the Algerian society and are often linked to latent criminality. In other words, criminal behavior also has its political reflection in Algeria. The consequence of this is that the legitimacy of the Algerian state is still not an uncontested reality. In response, the state operates in an authoritarian manner which belies its claims to democratic legitimization. In some respects, such a presence is familiar to Algerians, for they have had thirty years of experience with an authoritarian state and a decade under a violently repressive security system. Given these circumstances, one can hardly say that the state is responsive to popular demand. At the same time, the overt expression of state power is familiar and reassuring to the conservatism of Algerian society, as much as it repels the elites seeking political participation. This in turn inhibits any real political change.

Structural
constraints

One of the consequences of the state's unresponsiveness is that informal organizations have had to substitute for the state's deficiencies. The result has been a major expansion of service provision for the population at large by civil society. In part, these are modernized versions of traditional social activities, such as the Islamic charities that stem from the tradition of "zakat" or their "modernized" adaptations, which tend to focus additionally on issues such as human rights. Significant organizations exist as independent bodies or, in some cases, are associated with political parties – for example, the Ligue Algérienne pour la Défense des Droits de l'Homme (Algerian League for the Defense of Human Rights) is independent, whereas the Ligue Algérienne des Droits de l'Homme (Algerian League for Human Rights) stems from the MSP. There are also non-governmental organizations related to political ends – the Arouch movements began in such a context and the MAK continues in this tradition. Even though the majority of registered associations (Algerian law requires that all associations be registered) may now be inactive (it is claimed that only a fractional amount of the 81,000 associations are actually operative), non-governmental organizations form an increasingly important part of the Algerian political fabric and help to counter the growing trend to hierarchical corporatism.

Civil society traditions

There are cleavages within the population along ethnic, religious and demographic lines, for Algeria is not truly a nation-state. One of the consequences of the increasingly centralized rule in Algeria has been a revival of the Arab-Amazigh divide, which is more a linguistic than an ethnic divide but has nonetheless acquired renewed political significance after the events of April 2001 during demonstrations commemorating the Black Spring of 1980. This has highlighted the political and social roles of the Amazigh organizations and the Arouch, which is a traditional Kabylia form of democratic assembly that operates within villages and tribes. Despite the failure of the Arouch movement, seen by some as a tool of the security services, it remains a template for future agitation along ethnic lines. Religious divides highlight the fact that violent extremism has not been eradicated from Algerian collective life, although the extent to which it is truly a religious movement of protest is unclear. The original movements of the 1990s, from which the current movement stems, were as much movements of social and political protest as they were movements dedicated to specific politico-religious objectives. Its leaders pledged allegiance to al-Qaeda in 2006, although such a pledge is largely symbolic in nature. The government's failure, at the same time, to deal adequately with the problem of those who "disappeared" during the violence – mainly because of security force actions – underlined this failure, and the population remains as divided as ever about this issue.

Conflict intensity

Officially, the violent confrontations of the 1990s are effectively over, as violence has significantly decreased since 2001. This relative peace has been anchored by two partial amnesties, with the most recent one introduced in 2006. Although the

government claims that the amnesties have ended violence and introduced national reconciliation, the evidence indicates that this has not really been the case – only 250 or 300 people took advantage of the latest amnesty to submit to the authorities, and even the authorities admit that there are between 500 and 800 active dissidents still at large. Hassan Hattab, founder of the GSPC, delivered himself to the Algerian authorities in late September 2007. In an announcement made on 19 January 2009, he asked the members of AQIM to surrender and put down their weapons. This open letter was published only a few hours after the current AQIM-leader, Abdelmalek Droukdel, called upon his followers to attack Western interests everywhere in the world. According to assessments by specialists, the AQIM has suffered major losses over the last few months and is facing strong pressure from the authorities, so that they will have difficulties in launching spectacular attacks such as those of 2007 or 2008. Further, dissent among its leaders contributes to rising suspicions about its future. For a while, the lower conflict intensity was also attributed to the fact that many Algerian militants left the country to fight in insurgencies in Iraq, siding with al-Qaeda. But as al-Qaeda had suffered setbacks there, many have decided to return.

Conflict intensity remains high in Kabylia with a high rate of kidnapping and blackmailing linked to criminal and/or terrorist networks. The landscape of this part of the town, rough terrain and some forests, gives criminals a good place to hide.

II. Management Performance

14 | Steering Capability

President Bouteflika was brought to power in 1999 by his army patrons with three specific mandates. He was to initiate the process of national reconciliation – as he did immediately after election through the civil concord law – continue the process of economic restructuring and revival, and rebuild Algeria's image abroad. His presidential authority was thus only partial, and day-to-day political management remained in the hands of the army command, although he was able to influence the army's decisions. Democracy was not the first priority, as was also demonstrated by the fact that at his election as president, six of the seven candidates stood down the day before the election, which led observers to suspect that the popular vote was not entirely free or fair. The president was highly successful, however, at rebuilding Algeria's image abroad. He succeeded in starting new relations with the United States, partly because of Algeria's willingness to collaborate fully in the war on terror after 2001. He also succeeded in persuading European powers that the

Prioritization

Algerian crisis had ended and that the terrorism they faced also reflected the problems with which Algeria had successfully struggled in the 1990s. Rising oil revenues also allowed the presidency to begin ambitious plans for economic redevelopment and to tackle the country's chronic unemployment crisis. During his second term, the army acquiesced to more authority for the president, withdrawing from direct control of political events. This left the president with a (almost) free hand in policy-making, requiring only that he guarantee the army's interests and protect its leading figures. The charter for national reconciliation and peace in 2006 fulfilled this part of the bargain, granting the security forces blanket immunity from prosecution for all events connected with the civil war and, furthermore, banned any public criticism of them and the actions they took during that period. This, however, gave rise to grievances from those who suffered the loss of friends or family members due to terrorist abuses or the security forces – and their impunity could damage the perceived legitimacy of the state.

In September 2008, a bill was passed to increase the salaries of the members of parliament by more than 50% (from DZD 230,000 to DZD 360,000 per month). The population and the media criticized this pay raise by comparing parliamentary salaries with the average monthly salary of DZD 12,000 to 15,000. The development of a market economy is a priority, but only as interpreted by the Algerian ruling class, which seems to live well with a system highly dependent on oil revenues and importation. Measures against this were not sufficiently implemented – at least not yet – to make a visible change.

The president has been able to centralize the political system around him and on the institution of the presidency. He has disciplined the leading political parties and can count on the “Alliance présidentielle” as a solid source of support in parliament. Before he became ill, he ensured popular support for the presidency with an endless series of “progresses” around Algeria in which presidential largess was distributed to local governments. He has persuaded and coerced workers and employers' federations into a cooperative structure in order to ensure social peace. The ambitious development plans have been, in part at least, conceived toward the same ends. Finally, the constitutional amendment has been passed, serving his long-term plans as well as his personal ambition. While these developments have provided mechanisms for coherent policy-making, it is not clear that a coherent political strategy has really been formulated.

Implementation

In theory, the objectives are to create an effective democratic political system and an efficient market economy that is integrated into the global market. These objectives have been honored in rhetorical terms but not in practice. In part, this is because they run counter to the presidential project of entrenching its own power, which explains why genuine press freedom has yet to materialize. Although reform programs have been promised or even initiated, there is simply no administrative competence and no political will to bring them through. In part, it is also because of

entrenched popular resistance, which the president is reluctant to challenge, or because of a change in state policy. The difficulty of implementing change is visible in the fact that the proposed reform of the family law – long a demand of women among the secular elite – was profoundly watered down to make it acceptable to conservative and religious groups, thereby reinforcing women's normatively inferior position socially and politically whilst alleviating the practical consequences. Similarly, the privatization program has been delayed and modified to remove "strategic industries" from the list of those to be privatized. The amendment of the hydrocarbons law to ensure Algeria's majority participation in concessions is another example of political vicissitudes, but it conforms to the main objectives.

In effect, short-term expediency always wins over coherent long-term objectives both because of the overriding imperative to cement presidential power – as was done with the constitutional amendments – and because the administrative apparatus of the state is not fully capable of carrying out meaningful reforms. Interestingly enough, the fact that Algeria has entered into an association agreement under the Euro-Mediterranean Partnership (EMP) with the European Union and intends to agree to an action plan under the European Neighborhood Policy (ENP) – even if it remains, besides Libya, the last Southern Mediterranean state that has not yet signed on – has not affected the failure of domestic reform, despite the fact that both agreements have significant implications for internal reform. Algeria is also likely to sign a free trade agreement with the United States under the U.S.-Middle East Partnership Initiative (USMEPI) and is also a candidate to enter the World Trade Organization (WTO) soon. The implications of these free-trade agreements are very controversial. While some see in them opportunities for Algeria, others point to the fact that the Algerian economy might not be ready yet for a 100% opening to the world market and its prices; this internal controversy might also contribute to the slow progress of these reforms. Therefore, few domestic initiatives are expected to materialize, although external trade will certainly be affected.

Policy learning

15 | Resource Efficiency

The Algerian government is well aware of the principles of efficient administration and resource use, and of the constraints on achieving such outcomes. There are several inhibiting factors, including widespread corruption within the public sector. Civil servants are not required to account for personal wealth, which encourages corruption, as does the widespread prevalence of patron-client relations, which often trump administrative efficiency. In addition, locally elected representatives habitually exploit their local status both to win elections and then to spread the largesse of office, usually to family, friends and clients. The result is that local administration is seriously deficient and often results in riots, which senior administrative officials have to resolve.

Efficient use of assets

The government tries to be financially effective by using parts of the resource income for investment. Investment in infrastructure is immense and is meant to give a push to the rest of the economy. The East-West highway project, which will extend over more than 1,200 km from a town bordering Tunisia to the Moroccan border, is one of the major current infrastructure projects of the continent. It costs around \$11 billion and will employ 200,000 workers between 2006 and 2010. Another major project is the highway of the Hauts Plateaux, 1,300 km long, at a cost of \$8 billion. This is hoped to launch and stimulate other economic activities. The government also plans to make better use of its agricultural resources. Currently, only 8.5 million of the total 48 million hectares of arable land are used for agriculture. The government has provided funds in a complementary program (DZD 300 billion) for launching investment in agriculture to better utilize the land, and for reforestation. As a reaction to the oil price drop, OPEC member countries have decided to slow production down, and so did Algeria by reducing its national production by 71,000 bpd since 1 November 2008 in the hope to be more efficient also with its hydrocarbon resources. The currency reserves obtained by oil and gas exportation over the past years – worth approximately \$135 billion – are placed entirely outside the country, mainly in Western central banks. This means that the state does not have free access, especially in such times as these when many European countries and the United States are facing serious financial challenges. The efficiency of this way of using its money is therefore questionable.

The use of human capital is clearly inefficient. Unemployment levels (especially among youth) are high, and large sectors of the economy could be developed to meet domestic demand and create employment. Long-term unemployment and the lost opportunity to refine and improve skills exacerbate the socioeconomic problems associated with this state of affairs.

There is a certain degree of coordination among the various ministries as regards implementation of government policies. However, this coordination has not resulted in the adoption of one coherent policy, neither with respect to full-fledged economic reform, nor with respect to political liberalization. As the president remains the key actor in Algerian politics (besides the army), he has frequently used this prerogative to intervene in the work of the government and has thus contributed to its lack of effectiveness. Now that the head of government is even more dependent on the president and less on the parliament, its coordinating role will be less significant. With the constitutional amendments, power is now more concentrated in the hands of the president, but informal networks continue to have impact.

Policy
coordination

Algeria has a poor record in tackling corruption, which is rife at every level of the public sector, and thus leads to massive waste of public funds. According to the Algerian association for the combat of corruption (AACC-Algerian section of Transparency International), foreign companies are often asked to pay bribes for

Anti-corruption
policy

getting into the Algerian market. Corruption at the state level is difficult to quantify, but is probably very frequent. When so many construction or privatization contracts are passed, tender results are not transparent. At the level of provincial governors (walis), the situation is slightly better, even though they are still part of a centralized administrative hierarchy, despite recent attempts to devolve responsibility to them for development projects in the regions they administer. The revelations at the Khalifa Bank and Banque Commerciale et Industrielle trials, which are still ongoing, have provided deep insight into the state of bureaucratic corruption and inefficiency. There is not much evidence that the government is prepared to confront the issue of corruption, even though an anti-corruption law was enacted in early 2006. The other conclusion that can be drawn from the aforementioned bank trials is that financial controls in Algeria are weak and that the state bank is a poor regulator of financial affairs. This means that not only is fraud relatively easy and widespread, but that effective control of government expenditure is also poor. The Cour des Comptes (Auditing Office) is supposed to act as a regulator in this respect but it, as with most aspects of the court system, is subject to political interference. The Conseil National Economique et Social (National Social and Economic Council) is also vulnerable. There is only weak monitoring of project progress or of the management of individual project budgets. It is therefore very difficult to measure the government's efficiency in utilizing its own finances. Up to mid-2008, however, governmental inefficiency could be camouflaged by surplus oil and gas revenues. For the coming year – dependent on the price of oil – this could be far more difficult.

16 | Consensus-Building

There is a general consensus in Algeria that the rhetorical objectives of democracy and a functioning market economy integrated into the wider global economy, alongside guarantees of individual human rights, should become the objectives of the state and society. However, there is no such consensus over precisely what these terms may mean. Worse still, the regime is prepared to exploit such divisions to ensure its own hegemonic control, despite its own rhetoric of national unity. It also marginalizes civil society organizations, often quite ruthlessly and brutally, because it sees them as threats to its own political hegemony. For many months, the only subject on which consensus was promoted in the ranks of the decision makers was the constitutional amendment.

Multiple forces are effectively preventing Algeria from becoming a real democracy and also hindering the controlled liberalization of its markets as the existing system gives profits to many of them. The role of the military has been mentioned several times. Even if they have reduced their day-to-day interference, their importance remains palpable. A new economic class, partly coming from their ranks, is profiteering from the current system, especially in obtaining property and

Consensus on goals

Anti-democratic
veto actors

monopolies on production and importation, which has made some new millionaires or even billionaires in a very short time. The constant threat of terrorism is also a very significant impediment to democratic reforms, as it allows the upholding of measures which can be considered as antidemocratic (such as the emergency law).

The Algerian society is deeply divided over several fundamental conflicting issues; religious, regional, ethnic and class interests are all not easy to balance. The state's tabooing of certain of them – especially the question of responsibility of crimes during the intrastate war – makes real conflict resolution and civil reconciliation impossible and could contribute to rising frustration, hatred within social groups and acts of revenge. While it may be necessary – and also very typical – for a post-war society to close certain chapters to be able to go forward, the criminalization of speech about war crimes and the blanket amnesty granted to perpetrators can deepen the cleavages even further.

Cleavage /
conflict
management

Conflicts over agenda setting are also frequent, but presidential power has become so strong and its parliamentary backing so clear that they do not really matter. In reality, Algeria has become an exemplar of authoritarian pluralism with little hope of progressing far beyond the “façade democracy” that many Algerians deplore in the near future. The one actor that is significant by virtue of its absence from politics today is the Algerian army. To date, its leaders have abided by the agreement struck with President Bouteflika in July 2003 and have abandoned involvement in political affairs. Its old guard of leading members, all heavily implicated in the 1992 coup and its lengthy political aftermath – General Mohamed Lamari, Larbi Belkhair (who at one time was Abdelaziz Bouteflika's patron), Khaled Nezzar, and General Mohamed Touati – have all retired or been demoted, leading many to believe that the army has been permanently removed from political power. Recently, changes in the commands of the Algerian security architecture have taken place. One year after the Major General Smaïn Lamari, who was the domestic security chief, died of a heart attack in August 2007, he was replaced in September 2008 by Ahmed Kherfi. The head of the states' secret service (Département Renseignement et Sécurité, DRS), Major General Mohamed Médiène, the most influential person in the Algerian security apparatus, has appointed some new posts that might demonstrate rising security concerns. It would thus be most unwise to assume that the army has abandoned its oversight role.

The political leadership seems more inclined to ignore civil society actors than to consider them. Whereas some 81,000 civil society organizations exist in Algeria, the governors fail to utilize and engage the country's active associations (which are probably only 6% of the whole). Instead, they marginalize them for fear of losing their monopoly on power. This is also the case for intellectuals, scientists and journalists who are not aligned with the system. While freedom of expression (except in several core subjects) is more relaxed than for instance in Tunisia, the government keeps a tight hand on dissenters.

Civil society
participation

The interior ministry claimed to have refused 731 demands for the registration of an association as of the end of 2007. Among these refusals, religious associations as well as human rights associations are most prominent.

Even if accepted, associations run the risk of encountering problems, especially when dealing with delicate subjects such as human rights violations, victims of terrorism or the security services and disappeared people. The president of an association that assists family members of victims of terrorism, for instance, complained of being harassed and libeled for fraud and contacts to foreigners.

Aiming to bring closure to the civil war, President Bouteflika proposed the charter for peace and national reconciliation that was subject to a referendum on 29 September 2005. The charter passed with an overwhelming majority (97%) and was implemented as law in February 2006. However, even with an extended deadline for militants to end their armed activities and begin re-integration into Algerian society, only slightly more than 400 members of violent Islamic groups had surrendered their weapons. The charter has been criticized for placing both perpetrators and victims in the same basket. Due to the provision that any surrender must take place publicly, militants do not only risk stigmatizing themselves, they also need to prove that they were not involved in crimes, such as, for instance, massacres and rapes. Thus, most of those who have surrendered said that they were cooks or servants in the militants' camps. Clearly, this provision renders the logic of the entire endeavor absurd. And, as human rights organizations have repeatedly asserted, this institutionalizes a climate of impunity. In contrast, victims' families, who are to be compensated for any civil war-related loss of a family member, are victimized twice, as they are denied the right to take any legal action against the state and its security services or even comment on the state's responsibility and involvement in disappearances or killings during the civil war.

Reconciliation

17 | International Cooperation

In recent years, Algeria has taken part in a series of international cooperation initiatives which should have had implications for domestic policies. The most important of these was its admission to the Euro-Mediterranean Partnership in 1995, insofar as this implied assistance for both political and economic reform. In reality, the only effects of the association agreement with the European Union, which was signed in 2002 and entered into force in September 2005, have been in the economic sphere. Even during the civil war, the regime was able to successfully deflect two European initiatives aimed at political reform. Algeria, however, had to apply several measures of structural adjustment linked to the IMF help in the 1990s, but as long as its finances are healthy, it will not let others pressure it again in this direction. Some measures of help would have been useful, however, such as the support package for SMEs allotted in the partnership agreements with the EU.

Effective use of support

Mostly Tunisian or Moroccan companies, which are financially healthier, have benefited from this fund, which amounts to around €40 million.

Algeria has now accepted the European Commission's proposal of an action plan under the European Neighborhood Policy. Algeria, in short, is quite prepared to engage with other states in terms of economic and social change but will not tolerate political initiatives that it believes threaten its sovereignty. Thus it will continue negotiations to join the World Trade Organization (excluding strategic sectors, however) and is considering a free trade agreement with the United States. And, as in the past, it will cooperate with the IMF and the World Bank, as well as with the Paris Club and the London Committee, which have seen significant prepayment of external debt over the past years.

Credibility

Algeria's regional cooperation has been less significant than that with the European Union. Despite occasional and half-hearted Algerian attempts to revive it, the Maghreb Arab Union, initiated in 1989, remains paralyzed as a result of Algerian tensions with Morocco over the issue of the Western Sahara and the Polisario Front, still quartered on Algerian territory. Relations with the Arab League are tense but far better than they have been in the past, as the president has gone out of his way to increase Algerian participation, including holding a summit meeting in Algiers in March 2005. The Libyan-led Community of Sahel-Saharan States (CEN-SAD) remains an object of suspicion but Algeria fully participates in the African Union where, alongside South Africa and Senegal, it is a leading member of the New Partnership for Africa's Development (NEPAD). This current situation should be compared with that of 1990, when Algeria reached a watershed in terms of its external relations. To a large extent, this recovery is the personal achievement of the president but it is predicated on the principle that external interference in Algeria's domestic affairs will not be tolerated. French President Nicolas Sarkozy has acknowledged the colonial era as "deeply unjust." In a speech given in April 2008, the French ambassador to Algeria further recognized the crimes committed to Algerians shortly after the end of World War II. But these admissions appear late and insufficient to Algerians, who still have an ambiguous relationship with their former colonizer and suspect that such overtures are meant to make Algeria more inclined to participate in partnership projects with the European Union and work out bilateral trade agreements. The one relationship that has been unclouded by such concerns has been that with the United States. Predicated on the dual desire to break away from Algeria's Francophone diplomatic past and the search for allies over trans-national terrorism – for Algeria claims that its domestic struggles are part of a trans-national conspiracy – Algeria has very successfully exploited the post-9/11 world to persuade the United States that it is an appropriate international partner. This has had an effect on its relations in Europe, too, where Algeria has been able to reinforce its security cooperation with both the European Union and individual states, such as Britain and Spain, which is also an ally because of the

Regional
cooperation

supply of Algerian gas into the Iberian Peninsula. In short, Algeria has enjoyed considerable diplomatic success over recent years and has also been able to widen its range of diplomatic options. However, virtually none of these developments has a significant domestic implication, both because the Algerian state will not tolerate it, and because external actors do not seem eager to engage at such a level, and seem unlikely to do so in the future.

Strategic Outlook

Algeria is a very wealthy country in terms of natural resources, geographic space and capital. It also has a skilled workforce, and the size of its consumer market makes it an interesting location for business and industry. However, foresight and resolve are needed to address the multiplicity of economic and political challenges facing the country right now if problems are not to be exacerbated. Up to now, thanks to the high windfall gains over the past eight – and especially the last two – years, Algeria seems to be protected from the immediate effects of the global economic crisis. But if hydrocarbon prices continue to sink, the country will find it difficult to sustain its ongoing multibillion-dollar projects and welfare system. It will also be difficult for the state to access its money reserves, which are almost entirely deposited with Western central banks, which are currently focused on rescue efforts for their own economies. Algeria seeks to invest and attract investors, companies and partners for the big projects currently underway. There are several international companies and governors from the United States who have sought to woo – many of them successfully – Algerian leaders in the hopes of securing contracts and investment opportunities. From the perspective of economic actors, the conditions for project implementation are wanting, as domestic entrepreneurs have limited access to financing, and external actors have to pay additional taxes or reinvest parts of their budget in Algeria. These latter constraints, however, should be understood as an attempt to protect the economy from foreign exploitation and to stimulate badly needed diversification. Reliance on oil and gas remains heavy, and social development also seems to be paralyzed in this rent-based, import-dependent, unproductive economy. Central actors in the state and the commercial elite, however, live quite well with this system, and it is unclear whether those advocating reforms will succeed. The business climate is thus ambivalent. On the one hand, the Algerian market offers many opportunities for investors, yet on the other, serious difficulties make market entry and the survival of companies problematic. A more flexible and less bureaucratic administration of the economy would lead to a win-win situation for the national economy, businesses and those waiting for employment or wage increases.

Reforms in the political sphere have facilitated a further concentration of power in the hands of President Bouteflika. While this has surely served those actors benefiting from the current political system, it also means that Algeria has increasingly taken on the qualities of a “façade democracy” at increasing costs to civil society. The government, thanks to its attractiveness as a business partner and hydrocarbon supplier as well as its own financial opportunities, is not overly dependent on external loans and investment. It is therefore unlikely that other countries, international financial institutions and foreign development agencies can credibly exert pressure on the government to undertake reforms in one direction or another. The country’s leaders take sovereignty seriously – a stance that is rooted in the past interferences of former colonial power France and the high price paid for obtaining its independence. Consequently, the Algerian government categorically rejected investigations conducted by independent external teams on terror attacks. Such externally based analyses could, however, contribute to understanding the

reasons for recurrent terrorism on Algerian soil and help the country to find better ways of defusing terrorism in the future. The lack of security and terrorism remain major barriers to economic development and the involvement of external actors, as the risk of assets being destroyed and attacks on workforces impedes tourism and frightens off potential investors. Unstable security also means that Algerians speculate with their capital instead of using it productively. Sustainable solutions and palpable measures are thus urgently needed to prevent a potential economic crisis and frustrated expectations from leading to increased social tensions or violence.