

BTI 2008 | Algeria Country Report

Status Index	1-10	4.72	# 84 of 125	
Democracy	1-10	4.27	# 83 of 125	➔
Market Economy	1-10	5.18	# 71 of 125	↗
Management Index	1-10	3.88	# 97 of 125	

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

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Key Indicators

Population	mn.	32.9	HDI	0.73	GDP p.c.	\$	6,283
Pop. growth ¹	% p.a.	1.5	HDI rank of 177	102	Gini Index		35.3
Life expectancy	years	72	UN Education Index	0.71	Poverty ³	%	15.1
Urban population	%	63.3	Gender equality ²	-	Aid per capita	\$	11.3

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, political liberalization and market reform in Algeria have been faced with a series of potential threats. Although electoral practices considered “free –and fair” – at least by the European Union – were said to have been reflected in the 2004 presidential elections, the referendum result for the charter for national reconciliation and peace in February 2006 seemed to show that old habits had not disappeared. In a similar fashion, despite the regime’s neoliberal economic leanings, political considerations may overshadow attempts to change economic policy. This has been the case, for example, with the amendments made to the hydrocarbons law in late 2006, the new industrial strategy, Algeria’s relationship with Russia regarding gas, and with the modifications to the privatization program, which allow the state to retain control over key industries. Following the army command’s July 2003 decision to step back from the political arena, the Bouteflika regime has since sought to bring the political process under its exclusive control. It has unified the three important pro-government parties into one “alliance,” replacing the National Rally for Democracy (Rassemblement Nationale Démocratique, RND) with the National Liberation Front (Front de Libération Nationale, FLN) as the ruling party. The Bouteflika regime has also persuaded the employers’ federations to cooperate with government and the trade union movement in agreeing to a social and economic pact to establish future salary levels. And it did so even after having contradicted its own policies by agreeing to across-the-board increases in minimum wages and public sector salaries that were not linked, as previously insisted upon, to productivity increases. The government is now proposing a constitutional amendment that would extend the presidential term from five to seven years and remove the bar on an incumbent serving more than two consecutive terms. The proposed reforms would also make government answerable to the presidency, not – as at present – to the parliamentary assembly. The reforms are also expected to provide for a succession process; an important

consideration in view of the president's illness in late 2005. Although the political parties have accepted the proposed changes, some elements of the political elite still, however, seem to resist such changes, which have not yet been submitted to popular approval by referendum. Once this has been done, however, the president will control a revived system of pyramidal power, now focused on his office, which will look suspiciously like a corporate "façade democracy."

History and Characteristics of Transformation

Algeria's political liberalization is conventionally dated to the country-wide October 1988 riots, at a time when the need for economic restructuring had become too evident to ignore. In reality, the process of economic and political liberalization should be dated back to the riots in Kabylia in April 1980, when Amazigh (Berber) protest over cultural suppression became a catalyst for protest against political repression across a wider range of social and cultural groups, leading 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 pressures for a more explicit social and political role for Islam in an initiative which would eventually backfire profoundly. 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 occurred as a result of the military-backed coup in January 1992, which abrogated results of legislative elections that favored Islamists and brought three years of multiparty democracy to an end. The hurried introduction of a democratic political system in 1989 was, paradoxically, 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, enshrined in the Front Islamique du Salut (FIS), which had emerged from the democratic reforms.

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, both declared and presumed. Interestingly

enough, the incipient economic reforms were also aborted some months later, in the wake of the assassination of titular president, Mohamed Boudiaf, when Belaid Abdesslam was appointed premier. Even though his period in office was relatively brief, the energies of the state were, thereafter, absorbed by the civil war itself. The war developed after 1992 as a contest in asserting the legitimacy of the ideals and institutions of the Algerian revolution, itself divided between secular and religious challenges, against an Islamic vision of what the state should become, as well as an attempt to preserve elite privilege.

The complex ideological nature of this struggle was highlighted by an attempt to negotiate an end to the crisis through the political parties and institutions, including the FIS, which was mediated by the Sant' Egidio community in 1995. This attempt was rejected by the government. Instead, having contained the insurgency, it organized presidential elections in 1996 to legitimize the authority of President Liamine Zerouel, who had been appointed to his post in 1994. Then, in the wake of a new constitution which provided for new parliamentary institutions, it 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, the regime was able to initiate a new program of institution-building and economic restructuring, even though the violence of the civil war peaked in 1997 and 1998.

Algeria had 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 of the state sector, involving lay-offs of up to 400,000 workers in preparation of 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 over the electoral process which 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 an amnesty, in rebuilding Algeria's shattered international image, and in furthering economic restructuring.

Although the violence rapidly subsided at the start of the new millennium, such that it was marginal to Algeria's domestic situation at the time of writing, scattered resistance persists, particularly in western Kabylia and rural areas around Jijel and Skikda, as well as in the desert, close to the border with Mali. The reasons for the unexpected rapid decline in violence are unclear, but probably had to do with improved army equipment and declining morale amongst the terrorist groups still operating. Exhausted after eight years of violence, a declining morale among the wider population likely played a role as well. 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 the events of the last fifteen years and criticism of their behavior was made a crime. The Amazigh movements, which had 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 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 and the Workers' Party (Parti des Travailleurs, PT) and others, at a cost of at least a further 100,000 jobs. New laws have encouraged private foreign direct investment, especially in the hydrocarbons sector. Major infrastructural improvement programs have been pushed forward, together with job creation and housing programs. Due to the current high price of oil and gas, all of the above programs were funded through oil revenues.

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, generally agreed to have been subject to less interference than in the past. However, in the wake of the election, he provoked a split in what had been the country's single political party, the National Liberation Front (Front de Libération Nationale, FLN), forcing out its leader who had stood against him. President Bouteflika then transformed the party into a vehicle for presidential power. He has also restructured the political and economic scene along corporatist lines, despite the formal persistence of a democratic system – now known by Algerians as a “façade democracy.” He is now seeking to extend his period in office and to focus political power on the presidency by constitutional amendment. In short, the presidency continues to seek the same nondemocratic goals as it did in 1988, whilst 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 late 1980s and the three years between 1988 and 1991, when a formally multiparty democratic system was first introduced. While the violence that accompanied political liberalization in 1990 and 1991 has disappeared, so has real political choice, as a result of presidential influence over the pro-government coalition, the Presidential Alliance (Alliance Présidentielle, AP), in general and the FLN and the RND in particular. The major legal Islamist party, the Movement for a Peaceful Society (Mouvement pour une Société de Paix, MSP), the third member of the coalition, has been marginalized as a result of this influence and the favoritism implicit therein. The proposed constitutional amendments are likely to degrade the democratic nature of the state even further.

1 | Stateness

The key challenge to the state's monopoly on the use of force is represented by dissident groups, which today are largely subsumed by the Groupe Salafiste de Predication et du Combat (GSPC), recently renamed al-Qaeda in the Islamic Maghrib (AQIM). Aside from this group, there is no meaningful challenge to the Algerian state's 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 Tamazight-speaking population also accepts the state's authority. The one geographic region in which the state's authority could be challenged, both by Islamist dissidence and by organized smuggling, 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.

Monopoly on the use of force

This situation is reflected in widespread popular acceptance of the state's legitimacy, despite the organization of political life. Apart from Amazigh extremists linked to movements such as the Berber Cultural Movement and, several hundred Islamist extremists, the existing concept of citizenship in Algeria is not challenged.

State identity

The country is predominantly Muslim, but the several thousand Christian Algerians do not suffer severe discrimination, and foreign non-Muslim residents are free to practice their religions. The state controls religious institutions closely through the Ministry of Awqaf, which also monitors religious speech. The major threat to the acceptance of the state arises from social discontent, especially over living conditions and employment, amongst youth who now form a majority of the population. This has meant that electoral turnout has declined, a tendency that is likely to be demonstrated in spectacular fashion in upcoming 2007 legislative and municipal elections.

No interference of religious dogmas

State institutions providing medical services, and education and public administration operate effectively throughout the country, though this efficiency is subject to considerable criticism, as demonstrated by the endless cycle of local protest and rioting demonstrates. In addition, despite ample state revenues resulting from high international oil and gas prices, the public sector is underfunded. Public sector debt thus continues to grow, which negatively affects service provision. Under Algeria's ambitious development plans, which include the creation of one million new housing units by 2009 as well as one million new jobs, infrastructure is undergoing modernization. Nonetheless, public administration also tends to be insensitive and corrupt, particularly within elected public bodies, which frequently ignore popular needs and demand. It is against this framework that we can see the widespread and frequent localized disturbances for what they are: a mechanism to attract the attention of an unsympathetic and unresponsive administrative elite.

Basic administration

2 | Political Participation

Since 1989 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 with the exception of the Front Islamique du Salut (FIS), which was banned in March 1992. Although legislative, municipal and presidential elections in the 1990s were not considered to have been free and fair in any meaningful sense, there was less interference in the 2002 legislative elections, although the municipal elections were marred by a boycott in Kabylia. In the legislative elections in 2002, the FLN won 51% of the vote and 199 seats, While the RND won 13% and 47 seats, and the MSP gained 10% and 38 seats on a 46.2% voter turnout. These three parties form a pro-government alliance, the AP. The opposition consisted primarily of another major Islamist party, the al-Islah which, although it won 11% of the vote, only gained 43 seats, and the PT with 21 seats in the 389 member assembly. Four other parties shared eleven seats and independents gained thirty seats. Two parties, the Socialist Forces Front (Front des Forces Socialistes, FFS) and the Cultural Rally for Democracy

Free and fair elections

(Rassemblement Culturelle Démocratique, RCD), both Amazigh in origin, boycotted the legislative 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. Considerable attention will therefore be directed toward the conduct of elections in 2007, when both the municipalities and the legislature will be involved. Most observers predict that the FLN will achieve an even greater victory and that the RND, which is really a break-away movement, may be re-absorbed by it. In other words, Algeria will have, in effect, a single party political system once again – the apparent objective of the president who is the party's patron.

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. Together they form a kind of nomenklatura, "Le Pouvoir" (the power) or "les décideurs," (the deciders) perceived by Algerians as an economic mafia and politically as the "hizb fransa" (the "party of France") which covertly furthers French interests as part of its own. Indeed, certainly 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 presidency has discharged its part in the bargain, and thus avoided political interference. However, there are clear limits to the president's authority which, if he transgresses, will lead to his replacement. The president himself has attempted to counter this by constructing a political system that depends on the presidency, thus buttressing his position. One consequence of this is the inertia manifested by the People's National Assembly (Assemblée Populaire Nationale, APN) which, although it is tasked with initiating legislation, has failed to do so throughout the whole of the last parliamentary session. This reflects the persistence of a political culture stretching back to the pre-1988 period, as well as the discipline imposed on its activities by the AP and the president's treatment of the FLN in 2004, when he forced out its leader for having run against him in the presidential election. 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.

Effective power
to govern

In theory, political and civic groups can associate freely. However, they 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

Association /
assembly rights

interference and operate in accordance with the whims of the regime. Political parties, moreover, must observe the electoral law excluding parties which reflect religious or ethnic concerns in their party names or their programs. Two political parties – Ahmed Taleb Ibrahimi’s Wafa movement and Sid Ahmed Ghozali’s Front Démocratique – have been excluded from the political process by the government’s refusal to register them. Trade unions that emerged outside the official trade union federation, the UGTA, were treated with the same disregard, but were integrated socioeconomically once they demonstrated a potential for disruptive political action! Interestingly enough, much greater tolerance seems to have been shown to Islamic charities provided that they are resolutely non-political.

Rights of association and assembly, guaranteed by the constitution, are limited in practice under the state of emergency that continues to operate in Algeria. Subject to annual renewal by presidential decree, the state of emergency was introduced fifteen years ago in February 1992. All demonstrations in Algiers, the capital, have been banned since June 2001. Freedom of speech enjoys a wide license, as the state has learned that this does not threaten its own power base, and there is a vibrant private press, although the state monopolizes radio and television. There are, however, areas not open to comment, such as presidential policy – although the person of the president is not immune – 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 which state institutions have been eager to invoke and has meant that at least one newspaper publisher, Mohamed Benchicou of *Le Matin*, a prominent daily, faces years in prison on trumped-up charges. Despite the fact that the president ostensibly made his peace with the press by offering an amnesty for imprisoned journalists in July 2006, *Reporteurs sans Frontières* has pointed to almost as much repression against the press in 2006 as in 2005.

Freedom of
expression

3 | Rule of Law

The Algerian constitution guarantees the autonomy of the parliamentary system and subjects the presidency to the rule of law. The government formally answers to the APN and thus is separate from the presidency. In practice, matters are not quite so simple. The president also leads the ruling party, the FLN, after having forced the party hierarchy from office in 2004 after the then-party leader, Ali Benflis, ran against him for the presidency. The FLN, therefore, is effectively a presidential tool, as it demonstrated over the issue of proposed constitutional amendment in 2006. The president also enjoys powers of patronage over one-third of the seats in the Senate, thus compromising the independence of the

Separation of
powers

legislature, which is effectively subordinated to the presidency. In practice, this is further compromised by the fact that the ANP has never initiated legislation since 2002, even though this forms part of its function. Instead, legislation has either been initiated by government or by presidential decree, which is later approved by the ANP. Should the proposed constitutional amendments be passed later this year (2007), the parliamentary legislature will be rendered even less powerful, as it will lose its oversight of government which will revert to the presidency instead.

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. Decisions about judicial competence are made, in practice, by the Conseil Supérieur de la Magistrature (Supreme Judicial Council) which, in January 2007, demoted fourteen judges and dismissed three for judicial incompetence. Despite recent judicial reforms, it is noticeable that the judiciary is still perceived to be subject to political interference, a perception which has been confirmed by qualified observers.

Independent
judiciary

Corruption amongst public officials is a serious problem in Algeria which, although proscribed by the penal code as well as by new laws passed in 2004 and 2005, seems to flourish unchecked. Cases of corruption are only sanctioned by law if they cause significant public criticism, as happened in 2005 to the wali (governor) of Blida, and then only because of presidential intervention. Currently a major corruption and fraud trial involving the Khalifa Bank – the largest such trial since the events of 1988 – is taking place in Blida. Several ministers have been called as witnesses and other leading officials have fled abroad 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 financial, not political, in nature.

Prosecution of
office abuse

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 observatory, 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). 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.

Civil rights

4 | Stability of Democratic Institutions

The formal stability of democratic institutions is not in doubt but serious questions must be raised about their efficacy. The evidence of the past three years suggests that the presidency is determined to dominate the political process and is prepared to make formal changes to the constitution to facilitate this. At the same time there is effective control of the institutions of the state and decisions taken by the central authorities are executed by the administration and the reform program undertaken since 2004 has strengthened this tendency. The result is that the Algerian state has now re-acquired a pyramidal structure, centered around the presidency, in which the practical effect is a dramatic increase in presidential power at the expense of other branches of government, although the security services and the senior army leadership retain their independence in practice. 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 even constitutional constraints are unlikely to be effective as there is no institution capable of enforcing them. At the same time, the formal structure of the separation of powers and the institutions through which this is designed to be articulated will persist. There is, however, no reform program designed to reinforce the separation of powers and, in the current climate, no such program will be seriously envisaged.

Performance of
democratic
institutions

In addition, the administration, either through the centralized administrative system or within democratically-elected local bodies which have executive as well as consultative functions – the *Assemblées Populaires des Wilayas* (People’s Regional Assembly) and the *Assemblées Populaires des Communes* (People’s Assembly of the Commons), which, respectively, handle provincial and municipal affairs– is plagued, as it has been traditionally, with inefficiency, corruption and patronage-clientalism. As a result, Algerians rely on either personal influence (“piston”) or violence to force the bureaucracy to react, the latter being a tendency which has been accentuated in recent years as both oil revenues and frustration over the lack of economic betterment have increased. Violent protest over local social and economic conditions, particularly by 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 client 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, encouraging people instead to turn either to non-governmental organizations such as Islamic charities to satisfy their needs, or to turn to violence.

Commitment to
democratic
institutions

5 | Political and Social Integration

Despite the plethora of political parties in Algeria, there is not a functioning political party system. Seventy-five percent of the seats in the 389-seat directly elected APN are controlled by the three allied pro-regime parties – the FLN, the RND and the MSP. Six other parties and independents shared the rest and the two major – and Amazigh – parties boycotted the legislative elections. The opposition is, in other words, fragmented and ineffective. This will not be the case in 2007 when the Amazigh parties at least may form a coherent oppositional block but the fragmentation which seriously weakens opposition will remain. Given the lack of effective checks and balances, electoral success depends on political parties and their patrons “delivering the goods” – in other words, living up to their electoral promises, something which the pro-government parties, dominated by the FLN, which alone controlled more than half the parliamentary seats in the last lower house, can easily achieve. This, in turn, encourages support for them and further distorts the political system. The next legislative and municipal elections should reveal the degree to which these factors have influenced the electorate.

Party system

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 its 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 which arose from the crisis of the “Black Spring” in April 1980 and the Arouch movements, which have been discredited by their failure to obtain their objectives in negotiations with the government.

Interest groups

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 which has 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 denote a traditional Kabylia form of democratic assembly that operates within villages and tribes. Despite the failure of the Arouch movement,

Consent to democratic norms

seen by some as the unwitting tool of the security services, it remains a template for future agitation along ethnic lines. The 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 in 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. There are no precise figures for the size of the current movements but the “best-guess” estimate by Algeria’s security services suggests that there are between 500 and 800 activists remaining, located mainly in Kabylia and the Sahara, close to the Malian border, with scattered remnants around the wilayas (provinces) of Jijel, Skikda, Ain Defla and Sidi Bel Abbes. Its leaders have recently pledged allegiance to al-Qaeda, although such a pledge is largely symbolic in nature. The government has attempted to smooth over the divisions caused by the 1990s civil war through a general, albeit partial, amnesty in 2006. It was, however, singularly unsuccessful in persuading the remaining armed groups to submit to its authority, with only about 200 persons taking advantage of its terms, although over 2,000 persons were released from prison. Unofficial figures suggest that 2,226 persons have directly benefited from its terms. 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 action – underlined this failure and the population remains as divided as ever about the issue.

Other institutions designed to bridge society and the polity exist outside the formal and informal political spheres. These include the official trade union movement, the UGTA, and its autonomous counterparts, all of which seek to cooperate – to a greater or lesser degree – with the government. There are also other formal associations, often relics from the coordinated single-party system of the pre-1988 period. There is a significant number of organizations within civil society, some 80,000 associations overall. However, the majority are dormant and only about 6-to-7% actually play an active intermediary role.

Associational
activities

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 deeply embedded and have been resuscitated by the interference of political priorities in the economic process.

6 | Level of Socioeconomic Development

For a country with Algeria's massive wealth in hydrocarbon resources, the country's rating on the United Nations Human Development Index (HDI) is depressing. Algeria ranks 102nd in the list of 177 countries with an index of 0.728, placing it within the medium development range. However, when that figure is deconstructed, its real implications become evident. Although life expectancy is 71.4 years and school enrolment has reached 73%, these statistics place it only 79th and 86th respectively in the descending order of the 177 countries concerned – well within the lower half of the list. A similar analysis of its Human Poverty Index is even more revealing. Although the proportion of the population below the absolute poverty line has dropped dramatically, from 15.1% to 2%, the figure is deceptive as it reflects changes in the national minimum wage level. A more accurate indication is provided by the Human Poverty Index of 21.5%, placing Algeria 46th out of the 177 countries investigated in 2004. Furthermore, 7.8% 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 an "improved" (i.e., potable) water supply and 10% of children below the age of five years are underweight. For an oil-rich country, such statistics are shocking and reflect both the consequences of the civil war and a sustained economic development failure. Unemployment is dropping but still high. In 2004, according to the National Statistics Office (Office Nationale de Statistique, ONS), unemployment was above 23%, falling in 2005 to 15.5% and to 12.3% in 2006. The overall figure conceals, however, the disproportionate number of persons below the age of 30 years who are unemployed, and the large numbers of university graduates who have no work. It is also a reflection of low wage levels, despite the increase in the minimum wage from DZD12,000 to DZD15,000 per month last September – still far below the UGTA-recommended level of DZD21,000 per month and the parallel increases in public sector wages, which will push up private sector wages as well. These aggregated figures are, however, deceptive insofar as there are significant imbalances between the urban and rural populations, the latter representing 40% of the total population in 2005 and growing far more slowly than the urban population. In 2002 urban growth rates were 4.2% while rural growth rates were only 0.8%. 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 and cost well in excess of \$30 billion. Many of the displaced populations have yet to return to their homes and projects helping them do so are still small in scale. Massive shanty towns have thus continued to develop around urban centers, although some are now being cleared in accordance with the government's project to build one million new housing units by 2009. Clearings are generally accompanied by massive protests from residents. There is, in short,

Socioeconomic
barriers

a significant underclass that is excluded from the formal economy and suffers disproportionately as a result. The final issue in this pattern of deficient socioeconomic integration is the government's commitment to social service provision. The Algerian government, unlike other governments that have faced civil violence, has not sacrificed its social services to military expenditure. Thus the defense expenditure in 2004 accounted for only 3.5% of GDP, just slightly above public health expenditure the previous year (3.3% of GDP, at a time when private expenditure was only 0.8%). Expenditure on education has also been maintained at around 6% of GDP per year. However praiseworthy this might have been, the absolute levels of funding are still low given the demand. It is possible that the expanded development plans over the past two years may significantly alter this situation. Given the level of demand, however, this is not certain. Thus the government is anxious to restrict medical imports but cannot yet manufacture sufficient generic products domestically to avoid its reliance on the expensive European market. An estimated 50% of all drugs are imported at a cost of €350 million a year.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	57,053	68,019	85,014	102,256
Growth of GDP	%	4.7	6.9	5.2	5.3
Inflation (CPI)	%	1.4	2.6	3.6	1.6
Unemployment	%	-	23.7	20.1	-
Foreign direct investment	% of GDP	1.9	0.9	1.0	1.1
Export growth	%	5.5	7.9	3.1	5.8
Import growth	%	19.5	2.4	11.5	7.8
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	21,283.4	21,830.7	20,391.8	15,475.9
External debt	\$ mn.	22,827.9	23,522.5	22,175.7	16,879.2
External debt service	% of GNI	7.6	6.6	7	6.1
Cash surplus or deficit	% of GDP	1.2	-	-	-
Tax Revenue	% of GDP	31.4	-	-	-
Government consumption	% of GDP	15.4	14.8	13.8	12.1
Public expnd. on edu.	% of GDP	-	-	-	-

		2002	2003	2004	2005
Public expnd. on health	% of GDP	2.6	2.7	2.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.7	3.3	3.4	2.9

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | 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 its massive foreign debt. Progress toward full liberalization, however, has been faltering, largely because of political obstructionism from within the elites and because of official political opportunism designed to improve the standing of the presidency. At present, it seems extremely unlikely that further steps toward liberalizing the economy will be seriously contemplated until the municipal and legislative elections have been completed. If a referendum on the proposed constitutional amendment is held this year, as expected, this would further delay meaningful reform.

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 as well as the privatization program both allow the state to retain control over key industries, such as the oil, gas and the 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 but came into effect in September 2005 and has liberalized trade with the European Union. Some tariffs were removed immediately; others are being removed progressively over a seven-year period and the majority over twelve years. Quite apart from the implications of the European Union's free trade area agreement with Algeria, there have been other problems regarding external trade. For instance, legislation was passed in mid-2004 to address corruption, a problem recognized toward the end of the 1990s as profoundly affecting the import process. All traders were obliged to register with the authorities and those engaged in export-import activities were required to post substantial bonds. This registration process was expected to force out corrupt traders but there still are 22,220 traders out of the

Liberalization of foreign trade

original figure of 27,000 traders operating abroad, mainly in eastern and central Algeria (almost half of all such traders are located in the capital, Algiers) alongside the one million-strong domestic trading community. There were 99,000 trading offences recorded last year, costing the economy DZD6 billion. It is believed that the import-export business is dominated by Algeria's mafia, which makes most of its illicit wealth through such means. Domestic trade is slightly better off, as a large part of all domestic trading activity – generally estimated at 40% – takes place within the informal sector beyond the reach of state regulation. There are 1.23 million people participating in Algeria's informal sector, including 850,000 street vendors (2003). Attempts are now to be made to incorporate at least half the alleged 400 informal markets operating in Algeria into the formal sector. 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 inactive, continue to exist. 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 four state banks.

Algeria's domestic financial market is moribund, with the stock exchange handling virtually no stock or shares apart from one or two state companies being prepared for privatization. There are no apparent plans to revive the financial market, and it has not been used as a vehicle for privatization since the initial postings. Currency convertibility in Algeria is restricted, with fixed rates to major foreign currencies, although foreigners may hold foreign currency accounts. Although steps have been taken to ease investment and to form companies, the long-planned for privatization program has been severely delayed. The government has promised that 1,200 state companies would be privatized but already essential "strategic" companies have been removed from the list under pressure from the trade unions and from some political parties, such as the Parti des Travailleurs. To date, apart from the privatization of the Annaba steel plant, most privatizations have involved worker buyouts of small-scale construction companies or the uncontested sale of assets such as hotels to selected investors. There are plans now to begin the partial privatization of the state banks, beginning with the Crédit Populaire d'Algérie. To much surprise, the hydrocarbons law passed in 2005 was amended in 2006. The amendments limit foreign partner benefits by ensuring that Sonatrach, which is government-owned

Banking system

and the world's second largest liquid gas exporter, captures windfall profits and is the majority partner in joint ventures. Algeria's Sonatrach is also to engage in strategic cooperation with Russia's Gazprom in what observers fear will be the start of a "Gas Opec" – something both partners deny. This cooperation has evoked serious concern in the Italian government, which has registered complaints with the European Commission.

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. In 2005, inflation was at 2.7% and is estimated to have risen to 3.8% in 2006 under the pressure of the dramatic rise in export earnings and Algeria's ambitious infrastructure development plans. It has also been affected by the ongoing devaluation of the U.S. dollar, as Algeria's hydrocarbon earnings are still denominated in dollars. Given the sums involved in both earnings and development, the control of inflation is impressive. Some estimates, however, indicate that it may rise by a further 1% to 4.8% in 2007. While the Banque d'Algérie is not independent of 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 of the minister of finance. It 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 for 2006, Algeria was able to pay off in advance a number of its foreign debts, reducing the country's debt burden from \$16.8 billion to \$7.7 billion.

Anti-inflation /
forex policy

Government policy has been directed toward prudent financial management and restraining inflation. As a result, wage increases of all kinds were limited until September 2006. Despite considerable social distress resulting from this policy, the president insisted that increases be modeled on productivity increases as the sole criteria. This stipulation fell apart in July 2006, largely because the president sought political consensus around the amnesty offered to dissidents and the proposed constitutional amendments, which have now been delayed. Eventually, after the signature of the social and economic pact in September 2006, general wage increases were agreed upon.

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

Property rights

been wrongfully expropriated. At the same time, insofar the institutions of the state, including the courts, are not free from corruption and political manipulation, Individual rights may be adversely affected.

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 both from domestic and foreign sources, which has required the provision of effective legal safeguards. One major problem facing the state is a spate of intellectual and product piracy which particularly affects the eastern region of the country. As discussed above, privatization of state companies has been very slow and the government still seems ambivalent about its plans.

Private
enterprise

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. Essential goods and services continue to receive subsidies, despite the government's proclaimed intention to eliminate them. Such items are either directly subsidized by the state or manipulated through price controls. In recent years, bakers and the state energy supplier have protested the effects of price controls, which cause them to operate at a loss. The latest complaints of this kind have come from powdered milk manufacturers. 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. This increase in revenue has 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.

Social safety nets

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 provision. Social attitudes mean that women suffer significant disadvantages in access to employment, although this is improving. However, despite recent reforms in the

Equal opportunity

family law, formal discrimination against women persists in gender relations and in legal rights. One potential aspect of inequality of opportunity in education was removed last year when the state insisted that private schools provide instruction in Arabic and should adopt the state educational curriculum.

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 of the civil war and the stresses of the 1980s. The return of this rentier economy has meant that GDP growth rates, GDP per capita and foreign exchange reserve figures have been impressive 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 12.3%, and its efforts to bring it below 10% by the end of the decade. Similarly, government's success in holding inflation rates below 5% has been impressive, given the inflationary pressures that exist as a result of high hydrocarbon energy prices. Algeria's nominal GDP was estimated at \$89.34 billion in 2006, compared with \$81.33 billion in 2005 and \$77.34 billion in 2004. Its real growth rate for 2006 at 5.5% compared with 5.3% in 2005. GDP per capita has risen in parallel (albeit balanced by population growth) to \$2,679 last year, compared with \$2,476 in 2005 and \$2,390 in 2004. Foreign currency reserves have increased dramatically, from \$43 billion in 2004 to \$75.7 billion in 2006. Correspondingly, foreign debt fell from \$21.8 billion in 2004 to \$16.8 billion in 2005 and \$7.7 billion – some sources claim to as little as \$5 billion – in 2006. Import cover has, in consequence, also risen dramatically from 28.9 months in 2004 to 32.5 months in 2005 at a time when imports themselves have risen from \$17.95 billion in 2004 to an estimated \$28 billion in 2006. However, this must be contextualized against the fact that 98% of exports (which more than doubled between 2004 and 2006, jumping from \$32.22 billion to \$66.12 billion) are generated — by oil and gas. Algeria's current economic success is based on the windfall of high oil prices and will be victim to their decline. It does not represent reproducible economic policy but rather rent incomes. That is the weakness of Algeria's economic success 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 Hautes Plateaux. The latest budget, published at the end of December 2006, gives some idea of the pattern of public spending. The budget anticipates a GDP of DZD 6,233 billion next year, implying a growth rate of 5.2%, with non-oil and

Output strength

gas GDP growing at 6.1%. The inflation is expected to grow by 3.5%, at an exchange rate of DZD 74=\$1 and a per-barrel oil price that is kept, as in the past, at \$19 for budgetary purposes (despite the fact that the average price in November 2006 was far higher; \$42.6.) Imports were expected to rise by 8% and exports would grow by 2.1% over the year. The state expects to collect a total of DZD 1,803 billion (\$24 billion) in taxes, 7.1% more than in 2006, of which DZD 23 billion will come from direct and indirect taxation and DZD 676 billion from customs dues. The largest component, however – DZD 973 billion (\$13 billion) – comes from hydrocarbon taxes, compared with DZD 916 billion in the 2006 budget. All of this constitutes a vast underestimate of the real level of receipts because of the fiction maintained in all Algerian budgets that oil prices remain at \$19 per barrel. Budgetary expenditure will total DZD 3,624 billion (\$49 billion), a 1.9% increase, with DZD 1,575 billion (\$21 billion) in current expenditure and DZD 2,049 billion (\$28 billion) in capital expenditure. The resulting budget deficit of DZD 1,821 billion (\$25 billion) will be 29% of GDP and will be covered from the Fonds de Régulation des Recettes (Fund for Regulation and Revenues, the fund into which excess oil revenues are paid and from which foreign debt has been repaid. The Programme Complémentaire de Soutien à la Croissance is the annual supplementary development plan which has formed a regular part of the budget in recent years but which is financed directly by surplus oil and gas revenues. This was allocated DZD 998 billion (\$13.5 billion) for next year with the southern regions receiving DZD 102 billion (\$1.4 billion) and the Hautes Plateaux region, DZD 199 billion (\$2.7 billion). Between 2005 and 2009, the Algerian state expects to spend \$80 billion on its economic growth support program. The problem with this is simply that infrastructural projects do not, in themselves, generate reproductive 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 6.1% growth in non-oil GDP, 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 has been only temporary in nature. Thus, according to the finance minister, Mourad Medelci, between 2000 and 2004 Algeria made \$40 billion in public investment and received \$30 billion in private investment. In 2005, it received \$16 billion in direct private foreign investment but only \$2.8 billion of this went into the non-oil sector and most of it was used for privatization purchases.

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 Hautes Plateaux region which borders the Sahara desert. Desertification proceeds at an average of 16 km a year northwards and this rate is expected to increase as a result of global climate change. Attempts made since the 1970s to arrest desertification, through 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. The Gendarmerie Nationale formed a series of environmental inspection units which have been operating in four wilayas (provinces) – Algiers, Oran, Annaba and Ouarghla – since mid-2005. Three of these wilayas contain the majority of Algeria’s industrial sites and the fourth, Ouarghla, is the focus of part of the Sahara-based oil and gas industry. Between 2001 and 2006, the Gendarmerie Nationale handled 4,471 cases involving environmental crime – 3,412 cases (76%) of illegal sand quarrying (mainly because many legal quarries closed) and 658 cases (15%) of illegal well-drilling for irrigation. Some 6,361 persons were arrested in connection with these offences. Perhaps the worst case involved the Spanish company, Repsol, in Adrar, where, because the company refused to provide a proper drainage sump, its discharges polluted aquifers between 150 and 350 meters below the surface with oil and chemicals. 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 to combat bayoud, a disease of date palms that is widespread in Algeria and Morocco and which threatens Algeria’s deglat nour date crop.

Environmental
policy

The education sector has been plagued over the last three years 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. Along with the health sector, the education sector has been leading the struggle to force government recognition of the autonomous trade unions – a battle finally won in 2006. Both issues have particularly affected the secondary school sector, where a disastrous strike in 2005 affected end-of-year examinations. However, in 2006 they also affected universities where, for several years, final examinations have also been disrupted by strike action. Because pay

Education policy
/ R&D

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. In 2005, it also organized a project (“Operation Ousratec”) to provide one laptop computer per family, whereby banks were to provide cheap loans for computer purchase, although the project now appears to have fizzled out. The university sector is being significantly expanded to accommodate 1.4 million students by the end of the decade. However, there are still serious problems over both secondary and tertiary sector curricula, which are not considered appropriate for the contemporary world and are being revised. In 2004, the ratio of female to male primary school enrolments was 0.98, with 95% of eligible girls and 97% of all eligible children attending primary school. At secondary school, the ratio of female to male enrolments was 1.05, indicating that a greater proportion of girls than boys were in secondary education. However, only 68% of eligible girls attended secondary school, compared with 66% of all eligible children, indicating that a third of all children did not obtain a secondary school education. Numerical values of educational expenditure are difficult to obtain, but Algeria spent the equivalent of 4.8% of GDP on public education in 1996, compared with 5.4% in 1995 and 5.7% in 1994. Expenditure was estimated to have been 6% of GDP in 1999 and 4.5% of Gross National Income in 2000. Between 1995 and 1997, 16.4% of all government expenditure was directed toward education. A decade earlier it had comprised 27% of total government expenditure. Expenditure on research and development is not available.

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, the administrative institutions' freedom of action increases with both geographical and political distance from the center. Thus local and provincial administration exercises considerable autonomy of power until it is reined in by the presidency – as opposed to actual government embodied in the state's legal framework – and political parties manifest an increasing fragmentation of power in local party organizations. This feeds in to 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 degree of political autonomy. In short, local administration lacks the appearance of efficiency that colors 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 in the clandestine support structures for dissidence that extend far more widely through Algerian society and often reflect the latent criminality of much of the dissidence. 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 of an authoritarian state and a decade of 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

Structural
constraints

overt expression of the power of the state 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.

One of the consequences of the unresponsiveness of the state is that informal organizations have had to substitute for the deficiencies of the state. The result has been a major expansion of service provision for the population at large by civil society. In part, these are “traditional” or modernized versions of traditional social activities, such as the Islamic charities that stem from the tradition of Islamic charity (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, 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 Defense 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 1,500 of 70,000 associations is actually operative), non-governmental organizations form an increasingly important part of the Algerian political fabric and help to counter the growing trend to pyramidal corporatism.

Civil society
traditions

Officially, the violent confrontation of the 1990s is effectively over as violence has significantly decreased since 2001. This relative peace has been anchored by two partial amnesties, the latest being in 2006. Although the government claims that the amnesties have ended violence and introduced national reconciliation, however, the evidence is 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. Insofar as they have shown an increased degree of professionalism recently, army action against them has been ineffective. It is not certain that violence is ended – Algeria may be entering a period in which permanent low-level violence in certain parts of the country could spill over into urban areas once again.

Conflict intensity

II. Management Performance

One of the most significant problems facing the Algerian government is the actual managing of the economy, given the issues corruption and bureaucratic inefficiency highlighted above.

14 | Steering Capability

President Bouteflika was brought to power in 1999 by his army patrons with three quite 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. One factor that hampered his ability to control the political system was the fact that his election as president was not seen as legitimate because six of the seven candidates stood down the day before the election, expressing concerns that the popular vote would not be free or fair. The president was highly successful 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 Algerian crisis had ended and that the transnational violence they faced also reflected the problems with which Algeria had successfully struggled in the 1990s. Improving 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 an (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.

Prioritization

As a result, the president has been able to centralize the political system around himself and on the institution of the presidency. He has disciplined the leading political parties and re-established the primacy of the FLN as an effective single political party. Before he became ill, he ensured popular support to the presidency with an endless series of “progresses” around Algeria in which

Implementation

presidential largess was distributed to local governments. He has persuaded and coerced workers and employers federations into a cooperative structure through the social and economic pact signed last September, in order to ensure social peace – although this agreement has yet to fully achieve this goal. The ambitious development plans have been, in part at least, conceived toward the same ends. Finally, a constitutional amendment has been proposed to establish a dynastic succession of authority which would allow his long-term plans to be developed, as well as satisfying 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. In theory, the objectives are to create an effective democratic political system and an efficient market economy which 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 to see them through and no political will. In part, too, 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 entrenching women's normatively inferior position socially and politically whilst easing the practical consequences. Similarly, the privatization program has been delayed and now modified to remove "strategic industries" from the list of those to be privatized. The principle that wage increase must to be tied to productivity increase was abandoned last September in a successful bid to co-opt popular support. Finally, the hydrocarbons law – delayed for two years by trade union opposition because of its threat to national economic sovereignty – was finally accepted by the UGTA and passed last April, only to be amended to ensure Algeria's majority participation in concessions late last year.

In effect, short-term expediency always wins over coherent long-term objectives both because of the overriding imperative to cement presidential power in advance of the anticipated referendum over constitutional amendments later this year, 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 new European Neighbourhood Policy (ENP) 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

Policy learning

Initiative (USMEPI) and is also expected enter the World Trade Organization (WTO) soon. Again, however, few domestic initiatives are expected to materialize as a result, although external trade will certainly be affected.

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 often exploit their local status both to achieve election and then to dispense of the fruits of office – usually to family, friends and clients. The result is that local administration is seriously deficient and often takes place through riots, which senior administrative officials have to resolve.

Efficient use of assets

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, and finally the army, remain the key actors in Algerian politics, they have frequently used this prerogative to intervene in the work of the government and have thus contributed to its lack of effectiveness.

Policy coordination

At the level of provincial governors (walis) the situation is slightly better, even though they form part of a centralized administrative hierarchy, despite recent attempt to devolve to them responsibility for development projects in the regions they administer. Thirteen walis have been forced out of office by the presidency, and at least two of them have been tried for fraud and corruption. However the real insight into the state of bureaucratic corruption and inefficiency has been provided by the revelations at the Khalifa Bank and Banque Commerciale et Industrielle (Commercial and Industrial Bank) trials currently taking place. The simple fact is that Algeria deserves its place as 84th on the list of 163 countries listed in Transparency International's CPI, which places Algeria below both Morocco (at 79th) and Tunisia (at 51st.) Nor is there much evidence that the government is prepared to confront the issue of corruption, even though a new anti-corruption law was enacted in early 2006. The other conclusion that can be drawn from these 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

Anti-corruption policy

court system, is subject to political interference. The Conseil National Economique et Social (National Social and Economic Council) is also vulnerable. Indeed, two years ago its director was forced from office because of his criticisms of governmental practice. These are important considerations given the size of Algeria's development plans. Its main plan for 2004 to 2009 is estimated at \$60 million and annual subsidiary support plans directed toward specific needs will add more to this number. In addition, supplementary expenditure is met from the Fonds de Regulation des Recettes (Fund for Regulation and Revenue), which holds a proportion of surplus oil and gas revenues and seems to be open to the arbitrary use of this money by the government. This allows Algeria to run a massive budget deficit – itself illusory since it is based on an artificially low per-barrel oil price of \$19, rather than the \$42.6 that reflected market rates at the time of writing. There is also no 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. At present, however, governmental inefficiency can be camouflaged by surplus oil and gas revenues.

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 be 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 very prepared to exploit such divisions to ensure its own hegemonic control, despite its own rhetoric of national unity. It also marginalizes civil society organizations because it sees them as threatening its own political hegemony, often quite ruthlessly and brutally.

Consensus on goals

Secularists tend to completely distrust any interpretation of terms such as democracy by groups sympathetic to any interpretation of political Islam, to the extent that they reject any possibility of negotiation or compromise on such issues. Similarly, Amazigh groups such as the FFS or the RCD, distrust the majority of secularist renderings of concepts of democracy, to such an extent that, during recent years, some Amazigh groups close to the RCD have seen themselves as a much broader "citizens movement" seeking a new distribution of political power for the country in addition to the separatist tendencies of groups such as the MAK. Their target, however, has traditionally been the centralized nature of the Algerian state and the role of the presidency as a mechanism undermining democratic outcomes.

Anti-democratic veto actors

The same problems also exist in the economic sphere. Thus socialist groups – the PT and the Democratic Social Movement (Mouvement Démocrate Social, MDS) reject the abandonment of “economic sovereignty,” despite the fact that they have essentially accepted the concept of a market economy. The MDS is essentially a communist party, better known during the single-party epoch as the Parti de l’Avant-Garde Socialiste (The Avant-Garde Socialist Party, PAGS). The trade unions, led by the UGTA, seem to have accepted the government’s neoliberal economic vision and corporate practice, as evinced by the social and economic pact. Yet the influence of the socialist left has not disappeared, as many in the wider popular sphere, having suffered the massive job losses of the late 1990s and early years of this decade, also distrust the government’s intentions. In fact, the best opportunity for consensus over economic transformation was lost in 1991, when the Hamrouche government, together with Mouloud Hamrouche’s economics minister, Ghazi Hidouci, was forced from office. Under the current regime, economic orthodoxy will always be sacrificed for political expediency and the momentum for real reform in the economic sphere has been lost. In political terms, the hegemony enjoyed by the presidency ensures that real commitment to democratic transition will be long-delayed.

Cleavage / conflict
management

In reality, Algeria has become an example 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 consider that the army has been permanently removed from political power. However, the triumvirate which controls security – Mohamed Mediène is in charge of military security, while Smain Lamari runs civilian security and Ali Tounsi manages the police service – all remain in place. There is little doubt that the army still supervises the political scene, as it has demonstrated on two occasions. Firstly, there seems to have been army objections to the form of the legislation for the charter for national reconciliation and peace, which delayed the introduction of the amnesty process for five months. Also, the disputes between the political authorities and the army over the proposed constitutional amendments have still not been reconciled. There have also been hints of less significant army concern about Algeria’s political path and it would be most unwise to assume that the army has abandoned its oversight role – the president certainly has not made any such assumption.

Whereas some 80,000 civil society organizations exist in Algeria, the *pouvoir* fails to utilize and engage the country's approximately 5,000 active associations. Instead, it marginalizes them for fear of losing its monopoly on power.

Civil society participation

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, by 28 August 2006, only 250 to 300 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. 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 regional initiatives which should have had implications for domestic policies. The most important of these was its membership of 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 to the economic sphere. Even during the civil war, the regime was able to successfully deflect two European initiatives aimed at political reform— the Troika visit in 1998 and the United Nations Group in the same year.

Effective use of support

Algeria has now accepted the European Commission's proposal of an action plan under the European Neighbourhood Policy, which will be amalgamated with the Euro-Mediterranean Partnership in 2007. Detailed discussion of such plan has not yet begun however, and the Algerian government seems rather lukewarm about the prospect. If adopted, it will make the relationship with Europe bilateral and will allow Algeria to establish what the parameters of cooperation should be. Algeria, in short, is quite prepared to engage with other states in terms of economic and social change but will not tolerate political initiatives which it perceives to threaten its sovereignty. Thus it will complete negotiations to join

Credibility

the World Trade Organization in 2007 and is considering a free trade agreement with the United States, with which it voluntarily engages in social programs involving gender change. 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 pre-payment of external debt over the past two years, reducing Algeria's debt stock to \$7.7 billion.

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 Maghrib 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 last year. 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 Economic Plan for African Development (NEPAD).

Regional cooperation

This current situation should be compared with that in 1990, when Algeria was at 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. Last year, France passed a new law encouraging a positive view toward the country's colonial past. This destroyed the careful diplomacy of the Chirac presidency over the previous three years to heal the wounds of the Algerian war for independence and France has yet to find a new way to appease Algeria's outraged sensitivities.

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 EU and individual states, such as Britain and Spain, which is also an ally because of the 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 – as the recent arms agreement with Russia and the strategic linkage between Gazprom and

Sonatrach (to considerable Italian disquiet, given its dependence on Algerian gas) make clear. However, virtually none of these developments has a significant domestic implication, both because the Algerian state will not tolerate it, and because external actors seem not to wish to engage at such a level, and seem unlikely to do so in the future.

Strategic Outlook

As things stand, the outlook for Algeria is not good. Its economic reform program is stultified by the current easy access to oil and gas revenues. Even worse, in several years, oil prices will almost certainly begin to fall because massive increases in production capacity in the Gulf and in North Africa will ensure that the current price stability cannot be maintained. If the crisis in Iraq is resolved, this will also lower the price of oil. In addition, the domestic economic situation in Algeria implies further tensions as the economic development program runs up against problems of economic overheating and the social tensions engendered by unmet aspirations. The most serious problem confronting Algeria domestically is unemployment, particularly amongst disaffected youth. Beyond this, the attempt by the presidency to create a coordinated and integrated pyramidal corporate political system runs directly counter to the aspirations of civil society, both in terms of generic individual rights and in terms of the expression of cultural expression by sub-groups within Morocco, particularly the Amazigh.

In short, none of the contradictions of Algerian society, revealed by the crisis that followed the 1992 interruption of the democratic political process, have been resolved. In many ways, the situation Algeria today reflects that of 1979 more closely than that of 1992. Although marginalized, terrorist violence has not been eradicated and, more importantly, its political agenda remains, even if it is couched in increasingly Islamic terms. The attempt by the Bouteflika regime, 25 years on, to reassert the principles of Boumediennism upon the bedrock of the social and political contestations of the 1990s, cannot result in a coherent or viable project for the future. It will merely satisfy the personal aspirations of a politician marginalized in the 1980s, who returned to power only by exhausting the army command. A reform program that addresses the real problems faced by Algeria today is needed to move beyond this impasse.

The first stage in such a program is to create the conditions that will assure individuals in Algeria of their rights and of the overriding objective of social justice. Thus, individual rights must be guaranteed by the effective independence of the judiciary and the electoral process must be shown to be free and fair. This will also require political parties to abandon their dependence on patronage-clientage for political success and to articulate proper political platforms.

The second stage will be to mobilize investment to create an effective private sector. This ideally would mobilize foreign investment, but, given problems of

comparative advantage, may have to make use of domestic resources, whether from the state or from private sources. It should be targeted not only at the industrial sector but at agriculture as well, and it might seek to utilize the conditions of the Hautes Plateaux for effective arid-zone agriculture. This would have the advantage of generating work where it is most needed.

The third stage would be to carry out a program of rational economic reform, creating a viable banking sector and a domestic capital market that could be mobilized by domestic and foreign investors. Attention should also be paid to transforming the Fund for Regulation and Revenues. Currently used to hold surplus oil revenues, this could be turned into an investment vehicle in its own right, both in the domestic economy and abroad, as has been done in Kuwait and Norway. This would help wean government off its dependence on access to oil revenues to satisfy shortfalls in budgeted revenues for the sake of achieving budgetary balance.

The reality is, however, that none of these prescriptions will be adopted as the Bouteflika regime continues to seek the control over the political process it considers essential – all at the cost of a rational economic approach. Current policies will only further entrench the “Dutch Disease” and “Oil Curse” within the Algerian economy while denying meaningful basic individual rights and political participation. That, in turn, can only exacerbate the current climate of sociopolitical crisis and seems likely to eventually generate a return to the violence of the 1990s or to a situation similar to it. Algeria, in short, is wasting its breathing room, and its failure will only precipitate another violent confrontation at some time in the near-to-medium term future.