

2003 | 2006 | 2008 | 2010 | 2012

*Bertelsmann Stiftung (ed.)*

# Transformation Index BTI 2012: Regional Findings Middle East and North Africa

*Bertelsmann Stiftung (ed.)*

## **Transformation Index BTI 2012:**

## **Regional Findings Middle East and North Africa**

Bibliographic information published by the Deutsche Nationalbibliothek

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available on the Internet at <http://dnb.d-nb.de>.

© *E-Book Edition 2012 Verlag Bertelsmann Stiftung, Gütersloh*

*Responsible: Matthias Jäger*

*Production editor: Christiane Raffel*

*Cover illustration: Getty Images; kopfstand GbR, Bielefeld*

*ISBN 978-3-86793-450-3 (PDF)*

*ISBN 978-3-86793-451-0 (EPUB)*

*[www.bertelsmann-stiftung.org/publications](http://www.bertelsmann-stiftung.org/publications)*

# Contents

## BTI 2012 | Regional Findings: Middle East and North Africa

### Country Reports:

Algeria

Bahrain

Egypt

Iran

Iraq

Jordan

Kuwait

Lebanon

Libya

Morocco

Oman

Qatar

Saudia Arabia

Sudan

Syria

Tunisia

Turkey

United Arab Emirates

Yemen

# BTI 2012 | Regional Findings

## Middle East and North Africa

By Jan Claudius Völkel\*

An overview of development and transformation in Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, Turkey, the United Arab Emirates and Yemen.

---



---

This report presents the regional findings of the Bertelsmann Stiftung's Transformation Index (BTI) 2012 for Middle East and North Africa. More on the BTI at <http://www.bti-project.org>.

---

\* Dr. Jan Claudius Völkel is research assistant in the Borderlands project at the Robert Schuman Centre for Advanced Studies at the European University Institute in Florence, and BTI Regional Coordinator for the Middle East and North Africa region.

Egypt's development, and thus in a certain sense that of the region as a whole, took a decisive turn on 28 January 2011. On that day, President Hosni Mubarak bluntly reprimanded longtime Interior Minister Habib al-Adli because security forces had lost control of events despite their use of live ammunition. Mubarak relieved al-Adli of responsibility, and ordered his own military forces to shut down the nationwide demonstrations and restore internal security. In doing so, Mubarak sealed his own fate. For, contrary to his expectation, the generals made it quickly and unmistakably clear that although the military would protect public buildings and facilities, they would not take action against their own compatriots. Their loyalty to the president remained unchanged, they asserted; but Mubarak nonetheless had to come to terms with demonstrators' demands and find a political solution. Mubarak thus lost control of two major pillars of his rule, the police and military, in a very short space of time. He resigned just two weeks later.

The wave of demonstrations that had in the meantime swept across the entire region was now unstoppable. Tunisia had set the movement in motion only few weeks before; citizens and foreign observers alike were taken aback by the rapid resignation of President Ben Ali on 14 January 2011. But it was the success in large, powerful Egypt – the ability to sweep away Mubarak's 30-year-old dictatorship through peaceful demonstrations – that triggered the subsequent protest movements in Bahrain, Yemen, Libya, Syria and other countries in the region.

Are there hints within the BTI 2012 data that help explain the outbreak of these demonstrations? Yes and no. No, because the preceding period reveals no clearly uniform development in the countries that ultimately mounted the strongest protests against repression and social injustice. Yes, because the region *as a whole*, despite positive developments in recent years, showed no improvement in any of the BTI's three dimensions during the period currently under review. Thus, on regional average, the low state of political transformation, economic transformation and management performance remained stagnant. Apart from a few country-specific improvements, regimes failed to consolidate the positive changes noted in the BTI 2010, and even reversed them in some countries. This is undoubtedly a key reason for the cross-generational and cross-national discontent demonstrated by the populations of many of the countries surveyed here.

The limited degree to which most governments in the region demonstrate a willingness to reform and the consequent pressure for change that erupted in the spring of 2011 are reflected in all three of the BTI's analytical dimensions. In terms of political transformation, just two countries – Kuwait (+0.27 points) and Iraq (+0.18) – showed notable improvement; all other countries remained at the same level or declined, with Iran (–0.20) and Yemen (–0.53) showing the most significant deterioration. In terms of political transformation, the region as a whole stagnated at its previous low level, with Turkey, Lebanon and Iraq remaining the region's only three democratic states.

In terms of economic transformation, only Iraq and – to a lesser extent – Morocco underwent significantly positive changes. Even regional leader Turkey showed no gains in this respect, but sustained its relatively advanced state of development. Saudi Arabia clearly showed the most dramatic decline in the area of economic transformation, with a fall of 0.46 points. Only Iraq

demonstrated notable progress in the dimensions of both political and economic transformation, with an average gain of 0.27 points.

Finally, there are significant differences in terms of management performance among the region's individual regimes. The strong improvement in Syria (+0.38 points) may seem surprising in view of the violent clashes that broke out between government forces and protesters in the spring of 2011; however, this reflects genuine steps toward reform made by the Asad government in recent years. Few positive developments can be noted in the government of Sudanese president Omar al-Bashir, however. The country saw a drastic decline of 0.70 points in this category, driven in particular by the uncompromising approach to international aid organizations, which were banned from Darfur in the summer of 2009, but also by the hesitant implementation of the Comprehensive Peace Agreement (CPA) that in 2005 ended the civil war between North and South Sudan.

## Political transformation

Between 2005 and 2008, numerous countries in the region showed promising developments in terms of political transformation, which translated into gains in the BTI 2010. However, following this period, hopes turned to disillusionment virtually across the region. Once celebrated as the “Cairo,” “Beirut” or “Damascus Spring,” a respectable array of political advancements were in recent years left incomplete or even withdrawn by governing regimes. The most widely known example, the growth in political repression in Egypt following the relatively free presidential and parliamentary elections of 2005, was representative of the standstill that came to define the state of affairs in most of the region's countries.

The average score for all 19 states in the area of political transformation decreased from 4.21 points in the BTI 2010 to the current 4.13 points. The region is in this regard by far the lowest-scoring of all BTI regions. With the exception of Turkey (7.65 points, rank 28 in this dimension), Lebanon (6.15 points, rank 57) and Iraq (4.40 points, rank 85), autocratic rule is the norm. In Turkey, the state of democracy has remained largely stable; in Lebanon, however, setbacks were noted relative to the BTI 2010 in the areas of the state's monopoly on the use of force and the institutional separation of powers, while association and assembly rights were the only areas to show improvement. Iraq is classified within the BTI as a highly defective democracy. In the latest reporting period, the country continued along the path of positive development begun in 2007. Improvements were seen in both the independence of the judiciary and the professionalism of the public administration. In addition, steps were taken toward consolidating the party system, which remains limited in its functional capacity.

All other states, as seen in Table 1, remain classified within the BTI 2012 as autocracies. With a score of 4.95, Kuwait exceeds Iraq, but its lack of sufficiently free and fair elections ensures that it

is still counted as an autocracy – even if by far it is the most open and political liberal autocracy in the region.

The most notable change in Kuwait was the seating of women delegates in parliament for the first time following the 2009 elections. For this reason, the assessment of the performance of democratic institutions and their public support recorded slight improvements.

**Table 1: State of political transformation**

Democracies in consolidation	Defective democracies	Highly defective democracies	Moderate autocracies	Hard-line autocracies
Score 10 to 8	Score < 8 to 6	Score < 6	Score > 4	Score < 4
	Turkey	Iraq	Kuwait	Jordan ▼
	Lebanon		Bahrain	Morocco ▼
			Algeria	Oman
			United Arab Emirates	Tunisia
			Egypt	Yemen ▼
			Qatar	Iran
				Syria
				Libya
				Sudan
				Saudi Arabia

The table is derived from the BTI 2012 index data for the "political transformation" dimension. Countries are listed in order of their democracy status scores. Arrows indicate a change in category relative to the BTI 2010, while dots indicate "failing states."

Developments within the region's remaining authoritarian states offered little ground for optimism. Only the United Arab Emirates (ranked 90th) and Tunisia (ranked 100th) managed some minimal improvement – all other states showed a trend of stagnation or even decline. In Tunisia, progress in the areas of speech and assembly freedoms tipped the scales in favor of an improved classification. In the case of the United Arab Emirates, the most notable progress was made in the area of anti-corruption; however, press and speech rights suffered setbacks.

Beyond these examples, the region showed exclusively negative developments. Yemen registers the most significant drop in terms of political transformation, with a decline of 0.53 points (finishing at rank 104). Seen as a beacon of hope in the 1990s, and cited for improvements as recently as the BTI 2010, the country this time saw occasionally significant declines in seven of the 18 individual scores associated with political transformation. Alarming deterioration was noted in the area of stateness as well as the freedoms of expression and of the press. The country report describes in detail how President Ali Abdallah Salih slowly but steadily lost his grip on authority. The mass rallies and subsequent bitter clashes between protesters and security forces in spring 2011 appeared as the latest installment in a series of developments begun long before.



Developments also came to a head in Sudan after the International Criminal Court issued an arrest warrant for President Omar al-Bashir in early summer 2009. High hopes had been placed in Sudan's establishment of a government of national unity, and in fact some progress was made in this regard after 2005. However, the current edition of the BTI shows a decline of 0.15 points with respect to political transformation, leaving Sudan ranked at only 119th place of 128 countries in this dimension. Although the provisions of the Comprehensive Peace Agreement of 2005 – which officially ended the decade-long conflict between the country's north and south – were largely implemented, the most impressive step was the long-awaited 9 January 2011 referendum in southern Sudan, held after several delays, on independence from the north. However, civil rights and civil liberties were constrained to a significant enough extent, and civil society groups hampered strongly enough in their work, that setbacks outweighed the improvements.

A similar picture is presented by Iran, where political transformation scores already showing significant decline in the BTI 2010 tumbled another 0.20 points in this edition, leaving the country at rank 114. The outlook for democratization is cloudier here than in most of the region's countries, because the struggle between democratic reformers and the government, similar to that ongoing in so many of the region's countries today, was in Iran concluded in the regime's favor in the summer of 2009. Following the demonstrably manipulated presidential elections of 12 June 2009, week-long protests against President Mahmoud Ahmadinejad broke out in the country's large cities; the government succeeded in crushing this "Green Movement" through the use of massive police and military force. Many opposition figures were executed and many others remain in prison to date.

With the exception of the United Arab Emirates and Kuwait, the states of the Gulf Cooperation Council also showed setbacks with respect to political transformation, despite their many positive changes in the BTI 2010. While Bahrain now ranks at 88th place in terms of political transformation, Oman and Saudi Arabia each fell by 0.10 points, and lie respectively at 99th and 123th place. Saudi Arabia remains the most authoritarian country in the region. This was driven by declines in basic administrative performance as well as deteriorations in press and speech freedoms and the separation of powers. This latter issue also led to a decline in Oman, reinforced by increasing limitations on the independence of the judiciary.

At rank 91, Qatar too left its recent, promising path of liberalization, tumbling back by 0.12 points. On the one hand, religious officials have gained stronger influence over the tiny emirate's political process, while on the other, civil liberties and the separation of powers are increasingly subject to violation. Also leading to lower scores was the fact that a parliamentary ballot originally scheduled for 2004 was delayed once again during the reporting period, and is now slated for 2013.

The North African states (with the exception of Tunisia) and the countries of the Levant have all lost ground in political transformation. Syria's scores remained at extremely low levels, as it has made no notable progress with respect to political transformation since its withdrawal from Lebanon in 2005; as before, it is ranked 115th among the 128 BTI countries. The government's harsh crackdown on demonstrators in 2011 offers chilling testimony to the inhumanity of

technocratic regimes, and has driven Syria back to a state of affairs that many believed had been left behind with the death of Hafiz al-Asad.

The same applies to Libya. Already languishing under an extremely low standard of political transformation in recent years, the country saw another overall decline of 0.10 points, to 117th place, as a result of constraints on the freedoms of expression and of the press – now accorded the lowest possible scores – and on judicial freedom. Although Muammar al-Qadhafi's regime always presented the country as a paragon of functioning direct democracy, even promoting it as a model for the rest of the world, the reality is that nothing in the way of a functioning democracy was apparent. This evaluation holds even though the brutal crackdown on the opposition movement began on 16 February 2011, *after* the close of the BTI 2012 investigation period.

In Egypt, the trend of political decline noted in the previous edition of the BTI continued until the end of Hosni Mubarak's presidency on 11 February 2011. The country suffered a decline of 0.13 points, leaving Egypt at 91st place in the current democracy status ranking. Although its score of 4.08 placed the Mubarak regime among the moderate autocracies, it put it only a hairsbreadth from the lowest category of hard-line autocracies (4.00 points and lower). Setbacks were evident particularly in the areas of freedom of assembly, the separation of powers and judicial independence. In this last area, the decisive stroke was the curtailment of the judiciary's right to oversee the implementation of national elections, which was first granted and then withdrawn. In addition, the Mubarak regime installed parallel special courts, seeking to bring more and more judicial processes under direct control. These special courts were subject to no civil control, clearly constraining the basic civil rights of the accused.

In Algeria, constraints on interest groups' opportunities for political participation were a primary problem. Along with the official trade union, the Union générale des travailleurs, smaller autonomous unions found it increasingly difficult to defend the interests of their members. For example, the state apparatus reacted in a markedly repressive manner against several 2009 protests launched by the Conseil national des enseignants contractuels, a teachers' union; participants in the demonstrations were arrested or beaten by police in the streets, sometimes to the point of requiring hospitalization. Several other unions were also subjected to this kind of treatment. The fact that Algeria's internal political situation has remained relatively quiet, at least in comparison to other Arab countries, is attributable to two primary causes: First, President Abdelaziz Bouteflika's regime reacted relatively quickly to the emerging protests in January 2011, lifting the 19-year-old state of emergency on 23 February 2011; second, the trauma of the civil war (1992 – 2000) remains fresh within Algerian society, so that a majority of the population today prioritizes peace and public order over demands for democracy.

With respect to political transformation, Jordan remains ranked at place 97, although its score has fallen by 0.10 points (to 3.92). This was due to declines in the areas of state identity and the state's monopoly on the use of force, driven by clashes between clans in rural areas around Ajlun, Mafraq and other cities. The peak of the violent conflicts came with the November 2010 parliamentary elections, which led to riots in various parts of the country.

Overall, the majority of countries under review showed evidence of mild to significant setbacks in terms of political transformation. The signs of political opening visible around the year 2005 proved to be temporary exceptions rather than a true turnaround in this “democracy-resistant” region. By contrast, the current wave of democratization is borne from below rather than dictated from above, giving reason to hope that genuinely sustainable steps toward democratization can be taken, at least in Tunisia and Egypt.

## Economic transformation

In the realm of economic transformation, recent developments in the region can be summed up in the word “stagnation.” The only notable development was the advancement of Qatar from second place to the role as top scorer in the category – as a consequence, the tiny emirate is the sole developed market economy in the region. On the other end of the spectrum is Sudan, which has replaced Iraq as the region’s lowest scorer. On a positive note, Morocco jumped from the second-worst to the middle category, and is now classified as a market economy with functional flaws. However, Oman has fallen back into this same category, after rising to the next highest in the previous edition of the BTI. The remaining 16 countries saw no change in their classification. As before, four countries fall within the second-best category of functioning market economies, seven remain unchanged in the middle category of market economies with functional flaws, and five are in the second-worst category of poorly functioning market economies (see Table 2).

**Table 2: State of economic transformation**

Developed market economies	Functioning market economies	Market economies with functional flaws	Poorly functioning market economies	Rudimentary market economies
Score 10 to 8	Score < 8 to 7	Score < 7 to 5	Score < 5 to 3	Score < 3
Qatar ▲	Bahrain	Oman ▼	Syria	
	Turkey	Lebanon	Iraq	
	United Arab Emirates	Jordan	Iran	
	Kuwait	Tunisia	Yemen	
		Saudi Arabia	Sudan	
		Libya		
		Egypt		
		Algeria		
		Morocco ▲		

The table is derived from the BTI 2012 index data for the “economic transformation” dimension. Countries are listed in order of their market economy status scores. Arrows indicate a change in category relative to the BTI 2010.

Qatar (+0.18 points, placing it at rank 14 out of the BTI's 128 countries in this dimension) continued its avowed transformation process from a rent-based to a knowledge-based society, and showed improvement particularly in the areas of anti-monopoly policy, the strengthening of private enterprise and environmental protection. Thus, on 1 March 2009, Vodafone launched its entry into the Qatar market as the country's first competitor in a mobile communications sector previously restricted exclusively to the state-owned QTel. Improvements also included changes to the investment law in 2010, which expanded the participation opportunities afforded to foreign investors.

The decline of Oman (rank 33) by 0.14 points is attributable to setbacks in the areas of environmental protection and education. In this latter area, a huge gap remains between the level of education and the needs of Oman's labor market. Morocco's improved classification (+0.21 points, to rank 79), is primarily based on the facilitation of foreign trade by new customs regulations and a higher level of attention to environmental concerns. The National Charter for Environment and Sustainable Development, adopted in April 2010, provides a solid, eco-friendly framework for all economic activities, and offers a set of benchmark values for compliance with policy-driven environmental standards. Although it is doubtful whether this can in fact lead to genuine progress, this is the first time that concern with the environment has been made the subject of an official statement of intent in the country.

The most significant improvements were achieved by Iraq, which gave up the region's last-place role to Sudan, and with a gain of +0.36 points climbed nine places to rank 107. To be sure, the country remains in very difficult circumstances, but the steadily improving security situation has enabled some of the foundations for market competition to be created, including anti-monopoly policies, protection for property rights and environmental protection. The March 2010 establishment of a Council for Competitiveness and the Prevention of Monopoly serves as one impressive example of the improvements being made.

The biggest declines in economic transformation, however, were registered by Saudi Arabia. In recent years, fiscal discipline has been sacrificed to increasingly short-term economic interests, resulting in a tripling of nominal state expenditure. In addition, the Saudi economy relies too heavily on oil exports (and especially on a high oil price), with too little investment in productive economic sectors and an insufficient diversification of economic structures.

Saudi Arabia and Oman are the only members of the Gulf Cooperation Council that are not considered to be at least functioning market economies. With a score of 7.14 points, Kuwait's showing remained unchanged from the BTI 2010. However, the United Arab Emirates (ranked 23rd overall) and Bahrain (ranked 21st) each saw declines, respectively of 0.21 points and 0.25 points.

In the United Arab Emirates, anti-monopoly legislation did take some small steps forward, but declines were evident in the areas of banking and inflation control; the financial center of Dubai suffered particular setbacks due to the global financial crisis of 2008 – 2009. The lack of proper

supervision and oversight mechanisms within the banking sector were here painfully clear: In this sector, a 24 percent decline in profits was registered in 2009. After a growth rate of 13 percent in 2006, the overall economy grew by just 2.1 percent in 2010. Backward steps were also evident in the area of environmental protection, where the rapidly increasing population and the correspondingly rising consumption of natural resources have not been adequately addressed by environmental policy. In international comparison, the population of the United Arab Emirates has the world's worst record of per-capita CO<sub>2</sub> production. Although Bahrain has improved its banking system, and according to World Economic Forum analysts has the world's most liberalized finance sector, the country demonstrated setbacks with respect to welfare regimes and the equality of opportunity. The former issue refers essentially to the large number of foreign guest workers, who were – for example – excluded from the April 2010 increase in the minimum wage; the latter issue is concerned above all with the Shi'ite majority population, which compared to the Sunni minority is significantly underrepresented within the political, military and public administrative spheres.

In Turkey, despite continued efforts oriented toward EU accession, the economic transformation process has stagnated. As in the BTI 2010, the country achieved a total score of 7.43 points, earning it a ranking of 21st within this analytical dimension for the BTI 2012. Slight improvements in the area of property rights were counterposed with declines within the social system. As in previous years, only about 80 percent of the Turkish population participates in social insurance mechanisms.

In Egypt too, economic transformation processes faltered. With a score of 5.43, the country retained its previous rank of 67. Economic stagnation and the above-noted constraints on political participation were clear contributors to the discontent evident throughout many parts of the population. This disaffection has mounted in recent years, and finally erupted in the mass protests in Tahrir Square in January and February 2011.

Much the same can be said about Tunisia, where the Arab Spring originated. Here, declines were seen particularly in the environment for market competition, driven in large part by high corruption and sluggish administrative work. For the population, the rise in gasoline prices by four percent in 2010 – a measure through which the government sought to slow rising subsidy expenditures – proved particularly palpable. This, in combination with rising food prices and the slowdown in economic growth (3.2 percent in 2010, as compared to 6.3 percent in 2007), has left the population feeling increased economic pressure in recent years. Tunisia was also the only country in the region to reduce its contributions to the social security system after 2008, further intensifying pressure on the population. The self-immolation of the young vegetable seller Mohamed Bouazizi on 17 December 2010 in front of the provincial administrative headquarters in Sidi Bouzid – in protest against arbitrary state action – and the subsequent mass protests against the regime would have been difficult to foresee, but were in retrospect an understandable development.

Iran, which in the BTI 2010 was the only country besides Tunisia to lose ground in economic transformation, this time showed slight improvements. The Ahmadinejad government again evinced declines in terms of anti-monopoly policy and support for private enterprise, as the

government and its various militia-affiliated allies were among the biggest beneficiaries of the current monopolistic economic structures. However, progress was made in controlling inflation (just 8.5 percent in 2010, as compared with 25.5 percent in 2008).

Lebanon's score rose by 0.14 points to reach 6.32 points, placing the country at rank 45 within this dimension (as compared to 51st place in the BTI 2010). Increased liberalization of foreign trade, improvements in the banking system and progress in controlling inflation all contributed significantly to this positive development, although macroeconomic deterioration and flaws within the education system clouded the picture somewhat. Government spending on education as a share of total government expenditure declined from 12 percent in 2002 to about eight percent in 2010.

The situation in Sudan can be described as exceptionally disastrous. Numerous conflicts and mismanagement on the part of the Bashir government were reflected in a deterioration of 0.25 points to just 3.79 points in terms of economic transformation. Driving the decline were a number of factors, including worsening control over inflation, a lack of provision for private property rights and gaps in education policy. Indeed, education policy reveals the country's decline most saliently: Though it had one of Africa's best education systems at the time of independence, Sudan is today very far from the United Nations target of providing primary education for all children by the year 2015. In 2010, only 71 percent of children in the north and 48 percent in the south of the country were enrolled in school. In general, a sharp difference can be noted between North and South Sudan in terms of economic environment; the framework conditions for South Sudan, which gained its independence on 9 July 2011, are extremely unfavorable. For example, the current literacy rate for adults is 78 percent in North Sudan, but just 37 percent in South Sudan. The development outlook for South Sudan is quite poor from an economic as well as political perspective, despite the presence of mineral resources.

Yemen's state of affairs is only slightly better. With a score of 4.00 points, the country has shown some marginal improvement (thanks solely to improved environmental protections), but ranks at only 110th place in terms of economic transformation. Libya and Syria too showed only slight improvements. With a score of 4.61 points and a ranking of 91st place, Syria still belongs to the category of poorly functioning market economies; Libya's score of 5.86 points (rank 58) qualifies it as a market economy with functional flaws.

Syria's technocratic regime made progress in the areas of market-based competition, anti-monopoly policy, macrostability and the banking system. Within this latter area, new banking legislation in 2010 proved particularly important, as it enabled foreign participation of up to 60 percent in Syrian banks for the first time. By contrast, Libya's improvements resulted primarily from educational reforms, which were announced in April 2009 and were slated to provide \$9 billion in new investment for the Libyan educational system.

The region-wide economic stagnation represents one significant cause of wave of protest that gathered in early 2011. Dissatisfaction went beyond the fact that regimes' redistributive policies, based on rents derived from oil sales or international aid, had increasingly reached their practical

limits. Above all, it was driven by the growing gap between the decadent ruling classes and the impoverished, fast-growing underclasses – a gap that affected the economic situation and rendered regimes' exploitation of their countries all too plain.

## Transformation management

Political management performance in the region as a whole remained at the low average level of 4.15 points. However, there is a clear division between winners and losers: While Syria (+0.38 points) and Qatar (+0.34) in particular showed better management performance, Lebanon (–0.32) and Yemen (–0.37) declined to virtually the same extent. Seven of the region's 19 states were assigned a different management category in the BTI 2012 than in the BTI 2010 (see Table 3).

The situation in Sudan showed itself to be catastrophic: Here, the assessed management performance of President Omar al-Bashir and his regime tumbled by a dramatic 0.70 points; with just 2.56 points, the country now sits at rank 118 in this dimension, falling for the first time into the category of failed transformation management. Yet Sudan remains better governed than the region's worst performer: Following its deterioration of 0.17 points, Iran is now ranked at 122nd place. However, Iran and Sudan are not the only states deemed to show failed transformation management: Libya, which the BTI 2010 assessed as showing weak management performance under Muammar al-Qadhafi, fell by 0.16 points to a total of 2.89 (rank 115), pushing it too into this bottom category. Syria and Qatar, on the other hand, were able to improve their classifications.

**Table 3: Quality of transformation management**

Very good	Good	Moderate	Weak	Failed or nonexistent
Score 10 to 7	Score < 7 to 5.6	Score < 5.6 to 4.3	Score < 4.3 to 3	Score < 3
	Turkey	United Arab Emirates	Egypt ▼	Libya ▼
	Qatar ▲	Oman	Morocco	Sudan ▼
		Jordan	Bahrain ▼	Iran
		Kuwait	Lebanon ▼	
		Tunisia	Iraq	
			Saudi Arabia	
			Algeria	
			Yemen	
			Syria ▲	

The table is derived from the BTI 2012 index data for the "transformation management" dimension. Countries are listed in order of their democracy status scores. Arrows indicate a change in category relative to the BTI 2010.

The two countries in the top group each showed improvements in the area of management. Despite a hesitant reaction to the global economic and financial crisis of 2008 – 2009, Turkey continued its positive path of development, improving by 0.26 points in the area of transformation management to a total of 6.60 and a ranking of 17th place (up from 23rd place in the BTI 2010). Decisive factors included the Erdogan government's improved anti-corruption efforts, the weakening of the military as a potential veto actor (symbolized by the discovery of the Ergenekon conspiracy), an improved approach to the Kurdish question through the provision of numerous new (if comparatively small) concessions, and greater regional cooperation, particularly with regard to Iraq, Armenia and Greece. Qatar showed particular strengths in the form of improved conflict management, stronger inclusion of civil society and increased credibility on the international stage. For instance, conflicts between native and immigrant workers, which led to strikes and conflicts in 2007, were largely mediated and resolved by the government.

In view of recent events, it may be surprising that Syria showed the most improvement. Yet though the Bashar al-Asad regime remained far from achieving an overall positive assessment, it showed improvements particularly in the area of international cooperation. This represented the first successes of the regime's strategy of filling an increasing number of positions with well-trained technocrats rather than relying primarily on obedient Baath party members. These Western-trained and internationally experienced diplomats are a characteristic face of Syria's new leadership elite, whose policies have increasingly eschewed the traditional pan-Arab and anti-Israeli propaganda in favor of economically sound decisions. However, the fact that the Syrian leadership has followed a development path that is wholly economically determined and lacks attention to social equity is hardly a sufficient basis for long-term legitimation. Indeed, the ongoing, nationwide protest actions against the regime are a strong signal of discontent from a large part of the population.

A more detailed look at the three countries showing the biggest deterioration in management performance – Lebanon, Yemen and Sudan – is also worthwhile. Lebanon's decline (–0.32 points, to rank 92) is attributable primarily to the political stalemate between the March 8 (Hezbollah-supported) and March 14 (supported by the Western-oriented forces around former Prime Minister Saad Hariri) coalitions. This paralyzed parliament for months, making it impossible to form a government effectively. Confessional differences, always a defining characteristic in this country, proved resistant to being minimized in favor of a "general state interest," and indeed gained new prominence during the review period. As a consequence, Lebanon too has lost international credibility; particularly since the failure of the pro-Western government coalition in January 2011 and the subsequent change in government to the Hezbollah-led March 8 Alliance, doubts have risen as to Lebanon's future reliability within the difficult Middle East diplomatic environment.

In Yemen (–0.37 points, rank 102), the supplantation of long-term policy goals by short-term interests in recent years has become an increasingly significant problem. The steering capability of President Ali Abdallah Salih's regime was weakened not only by the poor implementation of policy decisions, but even more importantly by the almost nonexistent ability to learn from past mistakes. Thus, on the country's most pressing issues (water scarcity, food insecurity, tribal



conflicts, state failure), no innovative answers could be found. Rather, the government sought to impose solutions to the country's numerous problems by force, with the help of the military.

Sudan's government (-0.70 points, rank 118) operated largely without any convincing policy concept. Enormous weaknesses were evident throughout the development, coordination and implementation of policy. There is increasing uncertainty as to the government's precise goals as well as its level of commitment in managing conflict. Although the question of South Sudan's possible independence was not handled by the regime as restrictively as initially feared, significant progress in the Darfur conflict – ongoing since 2003 – has been altogether absent. On the contrary: The March 2009 expulsion of 13 international aid organizations from the region served to undermine al-Bashir's credibility, and has further isolated the country on the international diplomatic stage.

## Outlook

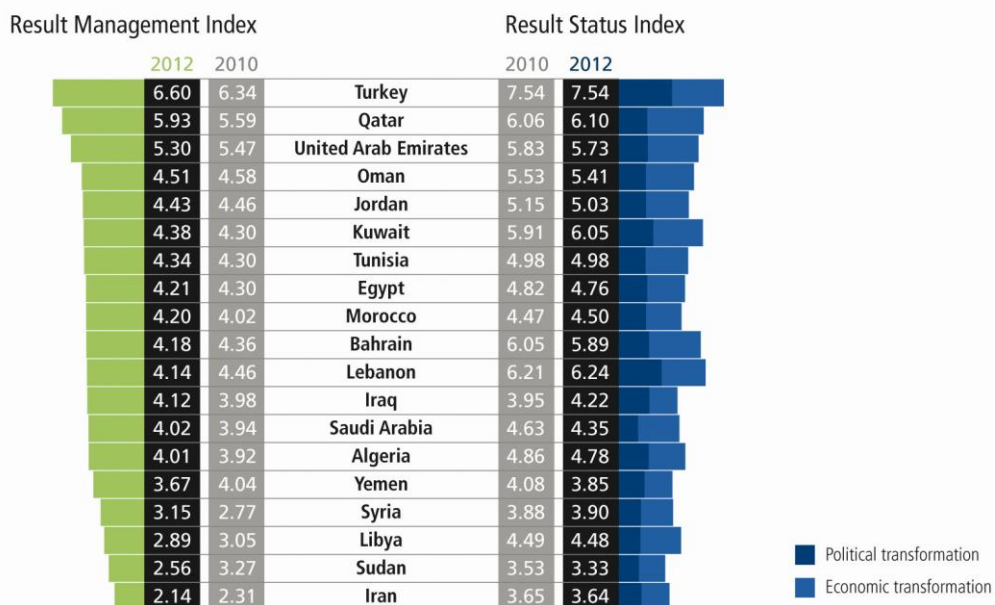
The BTI 2012's findings for the Middle East and North Africa region impressively illustrate the reform pressure that has mounted in recent years, and which has been only marginally allayed by the few, often cosmetic steps toward liberalization taken by authoritarian regimes. Although a majority of rulers did make some concessions to demands for political and economic participation in recent decades, the stagnant results of the BTI 2012 reflect the near-complete immobility and aversion to reform on the part of Arab regimes through the end of the current review period on 31 January 2011; for the first time since 2006, the BTI shows deadlock rather than progress in this region, with respect to both political and economic transformation. With a decline of 0.08 points, the overall average regional score for political transformation remained at a low level, with only Kuwait, Iraq, Tunisia and the United Arab Emirates showing improved scores. Both "winners" and "losers" were evident in the area of economic transformation, with Iraq proving to be the best performer, and Saudi Arabia the worst performer. The consideration of transformation management completes these sobering findings: Significant improvements in this area were evident only in Syria, Qatar and Turkey. "Stagnation" thus best describes the overall state of affairs in North Africa and the Middle East.

Until the revolution in Tunisia, this profound stagnation appeared to be a successful means on the part of governing regimes to suppress social protest and the popular desire for participation. The quickly crushed protests against Ahmadinejad's falsified 2009 election results in Iran enabled some to draw the conclusion that although social and political protest could be articulated with impressive strength even under repressive conditions, reactionary forces would nevertheless prevail in the end.

But this stalemate evidently represented only the calm before the storm. Governments' inability to engage in renewal and modernization, the persistent neglect of broad segments of society, and

progressive economic deterioration – caused not only by the above-described mismanagement, but also by strong population growth and food prices that began to rise rapidly in 2008 – led to persistently mounting discontent. Tensions were ultimately explosively released in the slogans and demands of demonstrators in Tunis, Cairo and other cities across the Arab world. The force of events came not only from their surprise, but also from the fact that this was the first time since the revolutions of the 1950s and 1960s (particularly since the military coups in Egypt and Libya, but also those of the Baathists in Syria and Iraq) that real reforms had been forced from below. To this point, transformation steps undertaken within the region had been almost wholly imposed from above, to satisfy and pacify either internal critics or the international community.

Given this diagnosis of stagnation in the region, the events of 2011 came as a true surprise. Who would have thought that Ben Ali and Hosni Mubarak would have relinquished power not for reasons of age or due to a military intervention, but instead because of multi-week, largely peaceful mass protests? Who would have thought that civil society groups and actors, strictly controlled and repressed for decades by governing regimes, would suddenly develop and generate this kind of power – bringing together people across classes to force their hated regime from power? The data of the BTI cannot be used as a forecasting tool for the prediction of coming events, but can serve as a diagnostic tool for existing flaws in the political and economic systems of the assessed countries. What analysts and observers of the region can learn from the BTI data and the events of 2011 is that though undemocratic regimes may secure their power across decades using strict authoritarian measures, the attraction and appeal of democracy, freedom and self-determination cannot be suppressed in the long run.



# BTI 2012 | Algeria Country Report

Status Index	1-10	4.78	# 87 of 128	
Political Transformation	1-10	4.30	# 89 of 128	➔
Economic Transformation	1-10	5.25	# 72 of 128	➔
Management Index	1-10	4.01	# 97 of 128	

scale: 1 (lowest) to 10 (highest)

score

rank

trend

## Key Indicators

Population	mn.	35.5	HDI	0.698	GDP p.c.	\$	8384
Pop. growth <sup>1</sup>	% p.a.	1.5	HDI rank of 187	96	Gini Index		-
Life expectancy	years	73	UN Education Index	0.652	Poverty <sup>3</sup>	%	-
Urban population	%	66.5	Gender inequality <sup>2</sup>	0.412	Aid per capita	\$	9.1

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the review period (January 2009 – January 2011), setbacks were observed in Algeria with regard to both democratization and establishing a market economy grounded in socially responsible principles. After a late 2008 constitutional modification allowing President Bouteflika to run for a third term, Bouteflika won in a landslide victory on 9 April 2009 with 90.24% of the votes. The president continued to enjoy the backing of several (potential) veto-players within the military, security forces and the “presidential coalition” in parliament. Although Islamist-inspired acts of violence measurably decreased, individual attacks primarily on security forces in the east that were carried out by dispersed groups of Al-Qaeda in the Islamic Maghreb (AQIM) continued to make headlines.

During the review period, the Algerian government refrained from further liberalizing state-owned companies and banks. Existing liberalization measures were watered down, and strategic sectors were protected from foreign and private domination. Barriers to investment, such as corruption, bureaucratic hurdles and difficult access to finance continued to paralyze entrepreneurship. Although Algeria weathered the global economic downturn in 2007 – 2008 with relative ease, the country’s balance of payments suffered as global oil prices dropped in mid-2008, resulting in a significant reduction in (hydrocarbon) export revenues. Higher oil and gas prices in 2010, together with the government’s ambitious public infrastructure programs, have since helped macroeconomic performance to improve measurably.

In January 2011, Algerian citizens took to the streets in unprecedented numbers to protest their living conditions. By February 2011, the riots and protests were widespread enough that President Bouteflika, with an eye toward the Tunisian revolt underway, introduced several social measures as he gave in to the opposition’s demands to finally lift the state of emergency that had been in force since 1992. Both the riots and the government’s response to them highlight the intrinsic weaknesses of the Algerian development model. Highly dependent on windfall gains from hydrocarbon exports, Algeria’s economy continues to feature a narrow productive

industrial base, relatively high structural unemployment among youth, and a population whose purchasing power continues to decline.

## History and Characteristics of Transformation

Following the fall in oil and gas prices on world markets in 1986, the rent-based, military-backed authoritarian Algerian regime suffered an outbreak of socially motivated violence in October 1988. The constitution of 1989 abolished the monopoly of the National Liberation Front (Front de Libération Nationale, FLN); political pluralism was introduced after 25 years of single-party rule.

When the newly legalized Islamic Salvation Front (Front Islamique du Salut, FIS) won the first round of legislative elections on 26 December 1991, the army stepped in in early 1992 and stopped the election process. President Chadli Bendjedid was forced to resign. The security situation deteriorated with the suspension of the FIS, the declaration of a state of emergency in March 1992, and the formation of different armed Islamist movements. In the following years, Algeria suffered from an ongoing and escalating confrontation between security forces and clandestine Islamist groups, a conflict which has resulted in the deaths of an estimated 100,000 to 200,000 Algerians.

Attempts by the military to progressively endow the regime with a renewed civilian institutional basis led to the presidential elections of 16 November 1995, which resulted in the victory of Liamine Zéroual. A new constitution enacted by referendum on 26 November 1996 was a setback to the country's democratization, most notably with its establishment of a second parliamentary chamber, the Council of the Nation (Conseil de la Nation, one-third of the members of which were appointed by the president), which de facto controls legislation. Elections for the lower house on 5 June 1997 and indirect elections for the Council of the Nation on 26 December 1997 completed the new institutional framework.

In 1999, new presidential elections were held that brought the "army candidate," former foreign minister Abdelaziz Bouteflika, into power. Bouteflika opened the way for a pacification of Algerian society by offering an amnesty for Islamists who had taken up arms against the government during the 1990s but had not committed bloodshed. Voters approved this "civil concord" policy in a referendum in September 2000. Subsequently, the president initiated the charter for peace and national reconciliation, which was subject to another referendum on 29 September 2005. The civil concord policy has undoubtedly and dramatically reduced the level of Islamist-inspired acts.

In recent years, Algeria has increasingly assumed the qualities of a façade democracy with regular formally pluralistic elections, controlled party pluralism and a weak parliament. Abdelaziz Bouteflika has been re-elected twice in formally pluralistic elections, the first in April 2005 (85% of votes) and the second on 9 April 2009 (90% of votes). Since 1999, he has formally

consolidated his power in both parliamentary chambers in the “presidential coalition,” which consists of the former single-party FLN, the National Democratic Rally (Rassemblement National Démocratique, RND, a party formed by a group of former FLN members close to Liamine Zéroual before the 1997 elections), and the moderate Islamist party Movement of the Society for Peace (Mouvement de la Société pour la Paix, MSP). While the army officially agreed to end its interference in political affairs in July 2003, it is still a relevant power player in Algerian politics.

It was not until 1994 that the Algerian government took steps toward the establishment of a market economy in the context of a restructuring program with the IMF. This program led to the implementation of radical reforms in the state sector that involved lay-offs of up to 400,000 workers in preparation for privatization. Since 2000, the state has been recovering its financial and investment leeway due to increasing hydrocarbon exports; the government therefore seems hesitant to pursue a stronger market economy backed by institutions, to implement fair rules for market participants and to reduce state intervention in segments perceived as strategically important. The government, which does not believe that such reforms would result in gains and contends that interest among international investors would be low, have stopped the privatization process almost completely. At the same time, a major infrastructure project has been pushed forward, together with job creation and housing programs.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

After the 1992 – 1999 civil war and its 100,000 deaths (official figure), the regime regained full control over the territory and its people with a combination of military repression of dissidents and President Bouteflika's policy of national reconciliation (as of 1999); the government has also had relative success in dealing with the population's urgent social needs. In an effort to further improve the security situation – and create badly needed jobs, too – security forces have been continually reinforced in recent years, from 120,000 in 1999 to around 200,000 by the end of 2009.

Monopoly on the  
use of force

7

During the evaluation period, scattered dissident groups have again constituted the key challenge to the state's monopoly on the use of force. Operating autonomously in principle, these groups have joined together as the Salafist Group for Call and Combat (Groupe Salafiste pour la Predication et le Combat, GSPC) since the late 1990s; they officially renamed themselves as Al-Qaeda in the Islamic Maghreb (AQIM) in 2006. Although by the end of the 1990s some 30,000 dissident Islamist groups were operating in the eastern part of Algeria, counterterrorism efforts by the Algerian government had reduced the group's ranks to fewer than 1,000 by the end of 2010.

Although groups linked to the Arouch movement in the Kabylie region would like to alter the structure and nature of the state, and a marginal fringe would like to secede, the Tamazight-speaking population largely accepts the state's authority.

The one geographic region in which the state's authority could be challenged, both by Islamist dissidents and by organized smugglers, is along the country's southern borders with Sahelian states. In order to fight terrorism, as well as arms and drugs trafficking, Algeria is part of the Trans-Saharan Counterterrorism Initiative, a U.S.-

led initiative among nine Saharan countries that combines their efforts to counter terrorist influences in the region and assist governments so that they can better control their territory.

The large majority of the population accepts the nation-state as legitimate. The Algerian nation derives much of its legitimacy and national pride from the war of independence against its former French colonial rulers. However, the regularly memorialized war of liberation has also led to some disenchantment among Algerians in recent years, given the presumed misdeeds of some former revolutionary heroes who later became high-ranking decision makers. The constitutional reform of 2008 stipulated that the revolution's symbols are protected from defacement by law. Journalists or lawyers who criticize state actors may face far-reaching consequences, since such acts are legally punishable.

State identity  
8

The legitimacy of the state is questioned by some extremists, whether they are Islamist extremists fighting for an Islamic state or, on the other hand, Amazigh extremists linked to movements such as the Berber Cultural Movement.

More importantly, however, the major threat in recent years to the state's acceptance has stemmed from social discontent. Important groups of Algerian youth, who have long formed the majority of the population, are dissatisfied with their living conditions and employment prospects. The phenomenon of young people – the so-called “harraga” – fleeing the country in boats in the pursuit of a better life on the other side of the Mediterranean is an indirect rejection of life in Algeria.

While social problems most clearly make life difficult for young Algerians, broader categories of Algerians have participated in socially motivated demonstrations. Social discontent has manifested itself in riots ever since the uprising in Kabylie in April 2001. In spring 2008, the town of Berriane in the Mزاب region was shaken by inter-communal violence between Malekite Sunni groups (the majority in Algeria) and Ibadite (Kharijite) groups (minorities in Algeria but concentrated in that region). These clashes, which left several people dead and 500 families homeless, suggest an upsurge of religious strife in Algerian society. But this conflict, which was settled in the short term by the signing of a peace charter on 31 March 2009, may also be seen in the overall context of an emergent “culture of rioting” that is linked mainly to social discontent, is perceptible at numerous levels in Algerian society and is easy to unleash, even by means of minor incidents.

These riots can also be perceived as the tip of the iceberg of significant social discontent with the “state,” which is understood here not in terms of the Algerian nation, but as the government system and its representatives, the political class, party leaders, civil society representatives close to the regime, and the security forces. Aside from the social turmoil in early 2011, this deeply-rooted discontent in



Algerian society surfaces not only in the persistence of violent Islamist-inspired dissidence, but also in the clandestine support structures that extend far more widely through Algerian society and are often linked to latent criminality. The consequence is that the Algerian state's legitimacy still remains open to contention. At the same time, the overt expression of state power is familiar and reassuring to the conservatism of Algerian society, as much as it repels the elites who seek to promote political participation.

Islam is the official religion in Algeria. While not all followers are orthodox, Islam shapes Algeria's cultural and social identity, and religion permeates Algerian society in practically every aspect of life. This trend has been stronger rather than weaker in recent years, particularly among the younger generation and the middle classes.

There are no official religious authorities that exercise remarkable influence on Algeria's politics, as the state controls religious institutions through the Ministry of Religious Affairs and Awqaf (religious endowments), which also monitors religious speech. Given the emergence of radical political Islam in the 1990s, most prominently manifested in the landslide victory of the FIS in the first round of parliamentary elections on 26 December 1991, the secular elites in the government, administration posts and the security forces are extremely sensitive to any influence coming from this direction.

Religion has also been gaining ground among political and administrative elites since the 1980s, even within the then-single party FLN, before the introduction of pluralism in 1989. The moderate Islamist party MSP has been part of the governing coalitions since 1997 under President Liamine Zéroual (1995 – 1999), and again since 2003 under President Abdelaziz Bouteflika. The religiously inspired essence of the conservative family law, first introduced in 1984, has been retained despite minor modifications in recent years.

Commercial and criminal laws are mostly (but not exclusively) based on European models. However, criminal law also theoretically punishes offenses against what can be considered moral under Islam. In recent years, these rules were enforced more strictly, for instance with Algerians being fined for not adhering to fasting rules during Ramadan.

Basic public administration provides medical services, education and other basic public services throughout the country. According to World Bank data, 83% of Algerians have reasonable access to an adequate amount of water from an improved source, and 95% have adequate access to waste disposal facilities that can effectively prevent human, animal and insect contact with waste. The government,

No interference of religious dogmas

6

Basic administration

7

responding to a loss of purchasing power due to inflation and rising world market prices for food, continuously provides subsidies for basic food, such as grains and milk.

Bolstered by high revenues from oil and gas exports, the government has accomplished major infrastructure projects under the development plan for the period from 2005 to 2009, such as the 1,216-km-long East-West Highway (\$11 billion). Under this scheme, 912,000 housing units were delivered by mid-2009, bringing the number of units completed since 1999 to 1.5 million (of which 29% were social housing). Under the ambitious five-year national development plan for the years 2010 – 2014, another one million housing units will be built (at an estimated cost of \$14.5 billion), along with investments in the construction of roads (the High Plateaux Highway) and railroads. Dams are also planned to enhance the mobilization of limited water resources.

Public administration is subject to increasing levels of criticism, as demonstrated by recurring local protests and rioting. Despite ample state revenues from high international oil and gas prices, the public sector remains underfunded. Also, public administration tends to be insensitive and corrupt, particularly within elected public bodies, which frequently ignore popular needs and demands.

## 2 | Political Participation

President Abdelaziz Bouteflika was reelected in presidential elections on 9 April 2009 for a third term (which demanded an amendment to the constitution beforehand in 2008). Bouteflika officially received 90% of the vote; he ran against five other competitors (Louisa Hanoune of the Parti des Travailleurs (PT) came in second with 4.2%; Moussa Touati of the Front National Algérien (FNA) came in third with 2.3%). Turnout was 74% according to official figures.

Free and fair  
elections

4

Contrary to the relatively free and fair municipal elections of 1990 and the first round of parliamentary polls in 1991, elections have not been free and fair since the end of the 1990s. While universal suffrage and the secrecy of the ballot for the most part seem to be respected, the quality of elections is flawed in a number of ways. Elections have taken place in the context of a controlled pluralism, excluding anti-regime parties (such as extreme Islamists) from competition. Pro-regime parties such as President Abdelaziz Bouteflika's party, the FLN, and the RND, each representing different factions of the former single-party FLN, have dominated the administration and therefore the electoral process. As a result, parliamentary elections have been conducted under a formula favoring pro-government parties,

most notably by means of electoral districting (predominance of small and medium-size districts, over-representation of rural areas).

While the overall electoral process is difficult to assess in the absence of meaningful observation missions, the conduct of electoral campaigns, the impartiality of the electoral management body and the transparency of registration procedures for voters, candidates and parties are questionable at best, as are polling procedures including vote counting, result verification and complaint resolution. Given the preferential coverage of the president and governing parties on (exclusively) state television, fair and equal media access is far from being ensured for all candidates and parties. Opposition forces lack programmatic substance, cohesion, members and the resources to conduct meaningful nationwide campaigns.

Under these circumstances, the FLN and RND, together with smaller pro-regime parties (mostly offshoots from the former single-party FLN, such as the FNA) and loyal independent members of parliament, have held comfortable majorities in the lower house (National Popular Assembly) since 1997 as well as in the indirectly elected upper house (Council of the Nation). The moderate, “system-compliant” Islamist party, the MSP, has been joining in presidential majorities since the late 1990s.

Nevertheless, the electoral results (and hence the parliamentary presence) of opposition forces such as the Rally for Culture and Democracy (Rassemblement pour la Culture et la Démocratie, RCD), based in the Berber regions, and the PT prove that party pluralism does exist to some extent in Algeria, and that raising dissident voices is possible.

However, low voter turnout can be seen as a sign of alienation between those who want to represent the population and the citizens themselves; the 35.51% voter turnout rate for the 17 May 2007 parliamentary election was the lowest since independence in 1962.

Despite formally guaranteed party pluralism and regularly held elections, rulers are not democratically elected. As enshrined in the constitution, effective power lies with the president and his personal entourage. In addition, 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 connections within the political elite.

Due to the implication of these groups in the economy, Algerians tend to view this nomenclatura (also called “les décideurs” (decision makers) or “le pouvoir” (the power)) as an economic mafia.

Today, this old nomenclatura seems to be losing its grip on the reins of power. The key actors in this informal power structure – the army command – publicly

Effective power to govern

2

distanced themselves in July 2003 from further active engagement in day-to-day politics 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. In return, the president succeeded in consolidating a political system that formally depends on the presidency, thus buttressing his position. One consequence of this is the inertia of the National People's Assembly (Assemblée Populaire Nationale, APN) which rarely initiates legislation. The upper house, the Council of the Nation, or Senate, acts as an institutional watchdog at the service of the president. With one-third of its members appointed by the president, the latter has de facto veto power in the legislative process. In fact, no law passed by the National People's Assembly can be enacted without a two-thirds majority in the upper house. The constitutional amendments of 12 November 2008 – which were passed without any debate by much more than the necessary two-thirds majority (500 in favor, 21 against, 8 abstentions) of both the lower house and the senate – even led to a strengthening of the president's prerogatives. The president thereby avoided a referendum, which could have led to more ambivalent results. Not only was the president thereby allowed to run for a third term in April 2009, but now he also appoints all the ministers and the prime minister, who has lost his function as head of government. The prime minister will only be answerable to the APN once a year, which can theoretically force him to resign. Two vice prime ministers will be appointed as well, which could further weaken the main prime minister's strength.

In theory, political and civic groups can associate freely. But rights of association and assembly, guaranteed by the constitution, are limited in practice under the state of emergency that had been in place in Algeria since 1992; the state of emergency, however, was lifted on 23 February 2011.

Association /  
assembly rights  
5

Political and civic associations require formal registration by the Ministry of the Interior, and they can be sanctioned by the judiciary. This has meant, in effect, that such groups are still subject to government control and interference. The law governing political parties excludes parties that incorporate religious or ethnic concerns in their party names or programs. It was on these grounds, for instance, that the Wafa movement of former foreign minister and presidential candidate (in 1999) Ahmed Taleb Ibrahimi was excluded from the political process in 2001.

There is a tendency to integrate legalized civic organizations into the regime. This is particularly true of the formerly single trade union UGTA. With some four million members, UGTA remains an important organization that performs an important organizational task with regard to the authoritarian corporatist aspects of the regime (controlled wage negotiations). Autonomous unions, which have been developing since 2000 (especially in the education sector), regularly accuse UGTA of acting in the regime's interests and of collaborating with the Algerian government in order to undermine union pluralism. In fact, the government refuses to engage with autonomous unions, many of which have reported acts of harassment and

repression. Greater tolerance is shown to Islamic charity associations, as long as they are resolutely non-political.

Public gatherings and demonstrations have been illegal in Algiers since a decree issued in June 2001, and organizations must obtain authorization from the local governor before holding indoor public meetings. Meetings organized by human rights organizations or associations working on behalf of Algeria's Kabylie population are frequently banned. For instance, the authorities refused permission for the Algerian League for the Defense of Human Rights (Ligue Algérienne pour la Défense des Droits de l'Homme, LADDH) to hold its national congress from March 25 to March 26, 2010, at a public venue in an Algiers suburb.

Defying the ban on demonstrations, rioters, most of them young, gathered on several occasions in early January 2011 to air their grievances about rising costs of living. Police intervention left five dead and some 800 persons injured. On 22 January 2011, some 300 people gathered in Algiers to promote democratic reforms and political change. The gathering was initiated by opposition leader Said Saadi from the Rally for Culture and Democracy (Rassemblement pour la Culture et la Démocratie, RCD), which currently has 19 seats (out of 389) in the National People's Assembly.

The state controls the broadcast media, which air almost no critical coverage of government policies. While privately-owned newspapers have a somewhat freer hand, they suffer from the government's de facto control of most printing and distribution facilities. Only the dailies al-Khabar and al-Watan have managed to create and share an independent company that operates printing presses and an independent distribution system. The press' dependence on revenues from public sector advertising limits their freedom to criticize the government and the military, as stated by Human Rights Watch. In terms of content, some areas are clearly not open to comment from the written press, such as presidential policy 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 of the 1990s, on pain of imprisonment.

Despite President Bouteflika's repeated pledges that he will ensure freedom of the press, written media still operate under a very restrictive libel law passed in 2001 that allows prison sentences for press offences, a law which state institutions have been quick to enforce. In April 2008, new rules for journalists clarified some of their rights and duties, but the 2001 law penalizing journalism is still in force. Reporters without Borders and Human Rights Watch, in their reports covering the year 2010, again pointed to cases where journalists and independent publications

Freedom of  
expression  
6

were being prosecuted, sentenced to prison and charged with heavy fines for defaming or insulting public officials. Appeals courts often overturn or suspend such sentences.

The case of Rabah Lemouchi, documented by Human Rights Watch, provides one example of such prosecutions. Rabah Lemouchi, a correspondent for the national Arabic daily an-Nahar in Tebessa, was convicted by a court of first instance on 14 July 2009 to six months' imprisonment for defamation and insulting state institutions, mainly due to a personal letter he had addressed in 2006 to President Bouteflika.

### 3 | Rule of Law

On paper, the Algerian constitution of 1996 established the rudiments of a semi-presidential system with an extremely powerful president, a prime minister and a cabinet. The cabinet requires formal approval from the directly elected lower house of parliament, the National People's Assembly (Assemblée Populaire Nationale, APN), and is, theoretically, subject to parliamentary sanctions.

Separation of  
powers  
4

Yet a closer look at constitutional provisions makes it clear that parliamentary components within the formal political system are underdeveloped. Regarding parliamentary control, the option of censuring the government remains merely theoretical, insofar as a motion of censure, in order to succeed, demands the support of two-thirds of lower house members. In addition, a motion of censure can be initiated only on the occasion of the prime minister's annual declaration of the general policy of his government.

In legislative matters, the president can rule by decree in most fields, and the parliament's legislative field of action is strictly limited. In addition, the constitution of 1996 reduced the role of the lower house – compared to the constitution of 1989 – by establishing the Council of the Nation, or the Senate. For laws to become legally binding, the constitution demands the consent of three quarters of the Senate's members. Given that the president nominates one-third of the senators, this rule endows the president with a de facto, indirect veto power with regard to the senate's vote.

Within the executive, the balance of power has recently tilted towards the president. Thus, the constitutional amendment of 16 November 2008 downgraded the former "head of government" to a mere prime minister who no longer presides over the cabinet (now a prerogative of the president) and can henceforth be framed by one or several vice prime ministers. In addition, the prime minister's role in the choice of ministers was reduced and the prime minister is now explicitly supposed to coordinate the president's program. This modification resulted from a history of

past friction within the executive, when in 2004 the then-prime minister and party leader Ali Benflis had dared to run against Abdelaziz Bouteflika for the presidency.

The country's overall authoritarian context and the governing coalition's hegemony (RND, FLN, MSP) in both parliamentary houses have so far rendered the effectiveness of the already rudimentary separation of powers all the more theoretical. The executive has an ongoing formal and informal monopoly on power. Power is held by the president together with high-ranking officers within the security forces. The president enjoys patronage powers over the majority of the APN and the senate members, which he exercises through his coalition partners. Parliament, especially the more conservative Council of the Nation, rubber stamps government decisions. The APN has rarely initiated legislation since 2002; instead, legislation has in most cases either been initiated by the government or by presidential decree, and has been approved after the fact by the APN. Currently no reform program is being seriously considered to reinforce the separation of powers.

Formally speaking, the Algerian constitution provides for an independent judiciary. The judiciary is based upon the French administrative model. The differentiated organizational model formally includes legal education, jurisprudence, regulated appointment of the judiciary, rational proceedings, professionalism, channels of appeal, and court administration.

Independent  
judiciary  
4

In practice, however, the judiciary's centralized character in an overall authoritarian context is highly problematic with regard to its independence. In the political realm, the constitutional council, which is in charge of validating elections, referenda and constitutional laws, is composed of nine members, three of which are appointed by the president, two by each parliamentary chamber, one by the supreme court and one by the state council.

As far as civil and criminal law are concerned, the Supreme Judicial Council (Conseil Supérieur de la Magistrature, CSM), headed by the president, is constitutionally responsible for assigning, promoting and transferring judges. Technically, the Ministry of Justice plays a leading role in determining the career paths of judges. Thus, judges, prosecutors and magistrates seem subject to different kinds of political pressures for fear of endangering their careers. The "Democracy Coalition Project" NGO has pointed out that training of these groups is often inadequate, resources are scarce and caseloads are overwhelming.

In 2010, NGOs such as Human Rights Watch or Reporters without Borders, as well as some voices in the Algerian press, have again asserted that the Algerian judiciary is subject to political interference or bribery. When judges are dealing with particularly delicate topics, they are frequently under pressure to make decisions based on political concerns.

In the economic realm, according to the Heritage Foundation, the weakness of the judiciary has manifested itself in recent years in the inconsistent application of commercial law, thus undermining regulatory frameworks.

Algeria remains plagued with high levels of corruption at the state level and different levels of the administration. In fact, pervasive corruption is one of the factors that most hampers Algerian competitiveness according to the 2010 – 2011 Global Competitiveness Report (World Economic Forum). Currently, there are so many construction and privatization contracts being processed that it is difficult to ensure that tender results are always transparent. Ambitious infrastructure programs, with considerable financial resources being assigned at the provincial and local levels, seem to have fueled corruption at these administration levels, creating new venues for civil servants to ask for bribes.

The revelations at the Khalifa Bank and Banque Commerciale et Industrielle de l'Algérie (BCIA) trials in 2006 provided a penetrating glance into the state of bureaucratic corruption and inefficiency. Public servants and politicians are rarely held accountable for cases of corruption and seem to be prosecuted only if they attract significant public criticism. Public criticism of officeholders on the part of journalists, though, can quickly lead to libel charges, which makes it difficult for journalists to investigate public officials.

In recent years however, there have been some spectacular cases of corruption charges brought against high-ranking managers and civil servants. On 13 January 2010, 15 senior officials of the state-owned oil and gas company Sonatrach, including CEO Mohammed Meziane and three of the company's four vice-presidents, were placed under 'judicial control' due to alleged irregularities in the awarding of consulting and procurement contracts. In December 2009, several high-ranking officials of the Ministry of Public Works were charged for corrupt practices in connection with tender procedures for the 1,216-km East-West Highway.

On 23 February 2011, the 19-year long state of emergency was finally lifted by President Bouteflika as a reaction to the demonstrations across the country. This may lead to improvements in the rule of law, but not necessarily. The Algerian human rights record is also complicated, albeit on a smaller scale, by the perseverance of terrorism in some eastern parts of the country, together with the long-standing policy of "eradication" of Islamist terrorism. In addition, the security services have been granted legal immunity for any abuses committed during the 1990s and for the repression of demonstrations in the region of Kabylia in December 2001.

While the state of emergency facilitated the regime's incarceration of "suspects" and the right to demonstrate was formally abrogated, basic civil rights were

Prosecution of  
office abuse

4

Civil rights

5



theoretically guaranteed within the limits of tight laws. Over the past 19 years, international associations have repeatedly pointed out the weakness of legal guarantees against torture and wrongful imprisonment under the state of emergency. Moreover, the state of emergency did not effectively protect the population from Islamist-inspired terrorism, although it did serve as a “blanket of impunity” (Amnesty International) for human rights abuses by security forces. This all went on despite the existence of Algeria’s semi-official human rights observing body, the National Commission for the Protection and the Promotion of Human Rights (Commission Nationale pour la Protection et la Promotion des Droits de l’Homme, CNPPDH).

During the evaluation period, human rights organizations inside the country – such as LADDH, as well as international NGOs such as the Paris-based “Algeria Watch” (which has close connections to the Algerian opposition), Amnesty International or Human Rights Watch – repeatedly criticized the government’s failure to account for the fate of more than 6,000 people who disappeared during the 1990s. Human rights reports consistently point out alleged incidences of arbitrary arrest, prolonged pretrial detention, denial of due process, and abuse and torture of detainees (especially those charged with allegations of ‘terrorism’). NGOs have also complained about the intimidation of human rights activists, the impunity of security forces and high-ranking civil servants with regard to alleged past and recent human rights violations, the ongoing discrimination against women in civil law, and different forms of discrimination against the Berber minorities.

Freedom of religion in Algeria is comparatively well developed. Notwithstanding the country’s clear Muslim majority, several thousand Christian Algerians do not suffer severe discrimination, and (especially foreign) non-Muslim residents are free to practice their religion in designated locations. In February 2006, however, in response to increasing evangelical activism in northern Algeria, a law was passed that forbids proselytizing.

#### 4 | Stability of Democratic Institutions

The Algerian political system remains essentially authoritarian in character and there are no democratic institutions as such. Political power is highly concentrated in the hands of the president, both formally and in practice. The presidency seems determined to further dominate the political process and made formal changes to the constitution to facilitate this in 2008. The administration implements decisions made by the central authorities. However, the security services and the senior army leadership have retained their independence and potentially may act as veto powers to formal state institutions (including the president).

Performance of  
democratic  
institutions  
2

Within this overall authoritarian context, the separation of powers, although formally enshrined in the constitution, remains largely theoretical in nature, although there are rudiments of a separation of powers. There is (controlled) party pluralism, and regular and pluralistic (albeit not free and fair) elections to the National People's Assembly. As a result, the lower house provides at least minimal representation of opposition parties and hence dissident views. Opposition parties in parliament can criticize the government on day-to-day issues, but there are "red lines" that cannot be crossed, such as criticizing the military or demanding an accounting for human rights violations during the 1990s. Overall though, the executive, via the "presidential majority" in both parliamentary chambers, dominates the current affairs of the state. As a result, aside from the covert and informal power of "le pouvoir" or "les décideurs," there are very few checks on executive power, and constitutional constraints are unlikely to be effective as there is no institution capable of enforcing them.

Even considering the limited leeway of these formal-democratic political institutions, serious questions must be raised about their quality and efficiency. Institutions outside of the presidency, ministerial technocrats and the military lack funding and qualified administrative staff. Also, given the lack of representativeness of the so-called "democratic opposition," together with its deeply entrenched anti-democratic, clan-based and authoritarian political culture, the potential for future democratization of these formal-democratic institutions is limited.

Although there are no democratic institutions as such, central political actors – high-ranking officers, decision makers within the former single-party FLN – do accept formal democratic institutions as window dressing within the context of a "modernized" authoritarian regime. In fact, the ruling class has gone to great lengths to set up the constitutional and legislative framework and controlled party pluralism until institutions such as a formally pluralistic bicameral parliament were again established in 1997.

In the context of this regime renewal, the elected bodies at the national, regional and local levels nourish the illusion of pluralistic structures domestically as well as internationally. At the same time, the elected chambers serve a consultative function at the different levels of state administration and offer leeway for patronage. In the overall authoritarian context, it is clear that any of these institutions may be circumvented as soon as their purpose clashes with the interests of the ruling elite.

Like the different levels of state administration, the elected bodies are plagued with inefficiency, corruption and a significant degree of nepotism. Both at the local and the national level, elected representatives tend to prioritize personal and clientelistic interests over those of the electorate. This has further estranged the population from

Commitment to  
democratic  
institutions  
2

formal political institutions and has encouraged people instead to turn either to non-governmental organizations such as Islamic charities to satisfy their needs, or to turn to violence. This situation explains also the significant degree of voter alienation, as evidenced in low turnouts in recent elections.

## 5 | Political and Social Integration

Since the introduction of party pluralism in 1989, Algeria has had several political parties, and although political liberalization was suspended between 1992 and 1996, political parties continued to enjoy a legal existence; exceptions were the Front Islamique du Salut (FIS), banned in March 1992, the Wafa party, which was never granted legal status, and the Front Démocratique, which was banned in 2000.

Party system

4

Despite the abundance of political parties in Algeria – there were 24, for instance, that participated in the 2007 legislative elections – most Algerian parties have rudimentary political programs and hardly serve a mediating role between society and the state comparable to that in functioning democracies. Instead, the two governing pro-regime parties, the FLN and the RND, represent two factions and distinct patronage networks that issued from the former single-party FLN in 1997. The moderate Islamist party MSP, the third partner in the presidential alliance since the 1997 elections, has been integrating part of the former Islamist electorate into the political system.

Since the legislative elections of 17 May 2007, three allied pro-regime parties control 249 out of 389 seats (64%) in the directly elected National People's Assembly. The FLN lost its absolute majority, however, with only 22.9% of the vote and 136 seats, while the RND won 10.3% of the votes and 62 seats – fewer votes but more seats than in the period before. The MSP gained 9.6% of the vote and 51 seats.

The opposition is weak, ineffective and highly fragmented, with 19 other parties and independents sharing the rest of the seats. These parties have shallow roots in society and cover a broad spectrum of programmatic orientations. Their opposition activities are rather disorganized and for the most part opportunistic, and they do not represent an effective counterweight to the governmental parties. The Workers' Party (PT), led by Louisa Hanoune, has become the first opposition force with 5% of the votes and 26 seats. Nineteen seats went to the Rally for Culture and Democracy (RCD). One major opposition party, the Socialist Forces Front (FFS), a long-time competitor of the RCD for the Amazigh electorate, boycotted the legislative elections.

An entirely free, pluralistic representation of societal interests is inconceivable in Algeria's overall authoritarian context, with its de facto restrictions on the rights of assembly, association and the media. Legalized associations and parties represent some societal interests, but representation is not complete due to difficulties in obtaining legal status.

Interest groups  
4

One major group is the trade union movement UGTA, which was the only trade union prior to 1989. As one of the few national associations, UGTA has genuine roots in society with around four million members. There seems to be an implicit deal between the political leadership and UGTA under which UGTA functions as the sole legitimate representative of workers and employees (for instance, in the triennial pay negotiations that took place at the end of 2009) in exchange for political support and pro-regime mobilization. As a result, autonomous trade unions, which have relatively deep roots in the education and health sectors, are finding it difficult to make their demands heard by the authorities. Some of these organizations have faced registration difficulties and therefore do not have legal status. Their names are sometimes used by government-backed dissidents. Also, the protest activities of autonomous trade unions have often been declared illegal and have been harshly repressed at times, as happened to the National Council of Contract Teachers (CNEC) in 2009.

Comparable mechanisms of exclusion have been applied in other fields, such as human rights associations. Although free association is not completely denied, the emergence of a free and effective network of associations or interest groups is de facto hampered in Algeria. On the other hand, the effectiveness of associations is also limited by their organizational weaknesses. Certain social interests – particularly those of the young or the unemployed – remain underrepresented.

Loosely defined clans, which are a somewhat functional equivalent to free and effective associations, exercise informal yet significant influence by exerting pressure on decision makers and key officeholders within the political system and the administration. A precise definition of these “clans,” let alone evidence of their actual existence, remains elusive, though.

There is no exact or reliable data available on the strength of democratic values in Algerian society. Nevertheless, the pervasiveness of authoritarian and hierarchical structures in much of Algerian society, including political parties and associations, bodes ill for the emergence of a democratic political culture, at least in the short and medium term. Also, owing in part to the traumatic years of civil strife and terror in the 1990s, many Algerians today seem to prefer the hierarchical, strong state to which they have become accustomed, provided that it remains stable, avoids significant violence and guarantees a reasonably equitable distribution of oil and gas revenues.

Approval of  
democracy  
n/a

Nevertheless, there is a middle-aged, well-educated (often at Western institutions) urban elite that, at least on a theoretical level, appreciates the virtues of Western democracy. This is particularly true when this concept is cast in terms of respect for human rights and legal norms. This tendency in Algerian society has long fueled calls from opposition parties and human rights groups for more democracy, and has also led to the voicing of criticism of Algeria's human rights record.

Democratic norms seem to be much less widespread, however, when it comes to accepting political dissent and the logic of party politics. Many Algerians respond with cynicism when asked about the democratic commitment of politicians and political parties, even within the so-called democratic opposition. This negative perception may account for disappointingly low voter turnouts in recent elections (35.51% for the 2007 legislative elections, with one of seven votes being void). Such data, however, is ambiguous; it could indicate a general disinterest in democracy. Alternatively, low turnout could suggest a lack of confidence in the way that elections have been conducted so far and, hence, in the responsiveness of the current government to the public will.

Algerian society is still divided on the question of whether religion and democracy are compatible. On the one hand, a number of moderate Islamist parties regularly participate in elections and their delegates in parliament explicitly abide by democratic norms. On the other hand, there are still militant Islamists, whose numbers are estimated at several hundred, who operate underground, clearly object to democracy, and continue to attack, among other things, buildings that symbolize the state and its institutions (such as the bombing of the Constitutional Court in December 2007). Popular support for these groups, however, has diminished significantly since the massacres of the late 1990s.

In the absence of reliable data, it is difficult to measure the ability of a society to organize itself. Past traditions of societal self-organization in Algeria (for example, in Arouchs or the Islamic zakat) have been crippled by 130 years of colonization and a particularly murderous war for independence. Then again, Algerian society has evinced a capacity to organize itself, since independence, albeit in an uneasy co-existence with the pretensions of a modern bureaucratic-authoritarian regime.

Since 1989, civil society has theoretically had more leeway for free association. While there were only around 30,000 associations in 1990, Algeria officially had an impressive number of some 81,000 associations over the whole country in 2008. However, according to international NGOs such as Human Rights Watch, Amnesty International or the Paris-based Algeria Watch, many NGOs face difficulties in obtaining legal status and suffer de facto from administrative restrictions in their actions.

Social capital  
4

Apart from administrative interference, many associations seem to be dormant, ineffective, badly equipped and all too often riven by internal struggles. This indicates the relatively low level of trust among the population, which also affects the capacity for self-organization. This is certainly due in part to the traumatic years of civil strife and terror in the 1990s. The authoritarian heritage of society, together with the tendency to build relationships along family lines or through cronyism, does not bode well for the construction of social capital, at least in the short and medium term.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Between 1980 and 2010, Algeria's HDI rose by 1.4% annually from 0.443 to 0.677. Compared to 2009 (and following a slightly new methodology), the country rose 20 ranks in the overall HDR ranking to the 84th position out of 169 countries. Thus, Algeria has been classified as one of the four "highly developed" African countries below Libya (53rd), Mauritius (72nd) and Tunisia (81st). Algeria is placed well above the regional average (HDI increase from 0.398 in 1980 to 0.590 in 2010) and ranks 9th among the MENA countries. Not surprisingly, according to HDR, Algeria ranks behind oil-rich Gulf countries and Libya. However, given the country's wealth in hydrocarbon resources and an overall successful macroeconomic record in recent years, it may come as a surprise to find Algeria ranking behind Tunisia and also Jordan (83rd).

Algeria is still plagued by a number of pronounced and partly structurally engrained aspects of poverty and social exclusion. Both reflect the combined impacts of centuries without development and a particularly long and devastating colonial period (1830 – 1962), as well as sustained failures in economic development since independence in 1962 and, more recently, the civil war. In 2010, GNI per capita (PPP) was at \$8,320, appreciably high by regional standards (Tunisia: \$7,979; Morocco: \$4,628; Egypt: \$5,889; Libya: \$17,068; Mauritania: \$2,118). Yet this figure hardly captures inequalities in household incomes. The latest available Gini index of 35.3 (1995) reflected the relatively equal income distribution at the time compared to more recent Gini indices of neighboring countries (Tunisia: 40.8 (2000); Morocco: 40.9 (2007); Egypt: 32.1 (2005); Mauritania: 39.0 (2000)). In the absence of more recent data, though, we can assume that rising social strife in recent years, especially recent urban riots, are representative of rising income

Question  
Score

Socioeconomic  
barriers  
5

inequalities in the wake of the traumatic decade of the 1990s and the economic liberalization initiated (albeit hesitantly) by the government.

By regional standards, Algeria features relatively high levels of social exclusion in terms of absolute poverty. According to World Bank data, 23% of the Algerians earn less than \$2 per day (Tunisia: 12.8%; Morocco: 14.0%; Egypt: 18.5%; Mauritania: 44.1%). These figures highlight growing social hardship in light of continuing price increases in widely consumed commodities, which constitute part of imported inflation.

Unemployment is dropping but still high. In 2010, according to the National Statistics Office (Office Nationale de Statistique, ONS), unemployment was 10.0% in September 2010, which was a significant improvement compared to considerably higher rates in 2004 (above 23%) and 2007 (13.8%). The overall figure conceals, however, the disproportionate number of persons below the age of 25 who are unemployed; this number hovered around 21.5% in 2010, though this was somewhat better than comparable data for 2005 and 2007 (31% and 30%, respectively). Unemployment has especially hit university graduates; around 21.4% of them were out of work in September 2010. Every year, approximately 300,000 additional job seekers enter the labor market.

These aggregated figures conceal significant imbalances between the urban and rural populations, the latter representing less than 40% of the total population and growing far more slowly than the urban population. Rural populations, although partially integrated into the national economy, still depend in part on subsistence activities. This phenomenon has been aggravated in the wake of the civil war, which displaced 1.5 million people. Massive shantytowns have thus developed around urban centers, although some are now being cleared in the context of the government's new housing projects. The data show that there is a significant underclass that has been excluded from the formal economy and is suffering disproportionately from social hardship.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	135803.6	170989.3	140576.5	<b>159425.6</b>
GDP growth	%	3.0	2.4	2.1	<b>3.0</b>
Inflation (CPI)	%	3.7	4.9	5.7	<b>3.9</b>
Unemployment	%	13.8	11.3	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	1.2	1.5	2.0	<b>1.4</b>
Export growth	%	-0.6	1.6	-3.0	-
Import growth	%	7.6	6.6	16.7	-
Current account balance	\$ mn.	30631.0	34440.0	402.0	-
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	5907.7	5934.6	5424.0	<b>5275.9</b>
Total debt service	\$ mn.	1345.5	1249.2	1017.4	<b>683.6</b>
Cash surplus or deficit	% of GDP	4.9	9.3	-4.4	-
Tax revenue	% of GDP	37.2	45.3	34.3	-
Government consumption	% of GDP	11.3	12.9	13.9	-
Public expnd. on edu.	% of GDP	-	4.3	-	-
Public expnd. on health	% of GDP	4.4	5.4	5.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.9	3.0	3.8	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Despite the removal of the constitution's reference to socialism in 1989, the Algerian government only hesitantly introduced the mechanisms of a market economy after accepting an IMF standby facility in 1994. With the state recovering its enormous financial and investment leeway since the late 1990s, progress towards liberalization has stalled somewhat. During the evaluation period, the state was even more reluctant to vow for a stronger, institutionally backed market economy with consistent rules for market participants, and to reduce state intervention in segments perceived as strategically important. The privatization of state-owned companies has stalled in recent years due to limited interest among foreign investors and the government's lack of commitment to the process, according to the Heritage Foundation.

The government intervenes traditionally through a number of regulatory measures, such as subsidies or caps on the prices of certain goods of wide consumption (such as basic food or cement) at wholesale and retail levels in order to stem rising prices.

Market-based  
competition

3



Subsidies and social transfers amounted to \$15 billion in 2009, or 19% of the total budget. Following the resurgence in oil and gas revenues, together with increasing inflation, the government has expanded the list of subsidized commodities in 2010 and endowed the government with the right to intervene in situations of “unjustified price increases” and to define allowable profit margins and prices for products and services. Faced with urban riots in early 2011, the government again announced temporary and exceptional exemptions on import duties, value-added tax and corporate tax for everyday commodities.

It is only in the last decade that private sector investment surpassed state-led investment. Outside of the oil sector and aside from a few large private groups (such as Issab Rebrab’s Cevital group, which is active among other things in the steel and chemistry sectors, and Islamic banking, as well as a partner in the European Desertec initiative), the Algerian economy is still dominated by small and medium enterprises. As a result, the sheer investment volume handled by the state can distort market competition. Huge development projects led to a rise in government spending of around 35.4% of GDP in 2009. Major infrastructure projects have been accomplished under the development plan for the period from 2005 to 2009, such as the 1,216 km long East-West Highway (\$11 billion). Building upon these infrastructure efforts, the government has set up a \$286 billion infrastructure fund for the period from 2009 to 2014, including for instance the High Plateaux Highway, the overhaul and extension of the railway system, and the construction of one million social housing units.

The state has been actively formulating plans for economic priorities in certain key sectors and has adopted a host of measures reflecting these orientations. Some of these measures represent a very far-reaching notion of desirable state intervention among Algerian decision makers and make for a more closed rather than a more open economy.

In the agriculture sector, the government is devoting €2.08 billion per year until 2014 to bring the country closer to self-sufficiency. The state has been offering subsidies and custom tariff reductions in order to facilitate the acquisition of seeds, fertilizers, livestock and equipment. Since 2008, the government has been trying to avoid speculation and sharp and sudden price increases for a number of agricultural goods by building up national reserves for these goods and putting them on the market during shortages.

In an effort to do away with Algeria’s lopsided reliance on hydrocarbons, the government has supported non-hydrocarbon industries via the promotion of certain niche segments, most notably automotive and electronics. To support the development of non-hydrocarbon manufacturing industries, 11 integrated industrial zones will be created across the country in order to improve the spatial allocation of national resources and enhance investment in these segments. The government has

also created new incentives for investments in the manufacturing industry via tax and customs exemptions, as well as reduced registration fees for startups.

The investment code is transparent, but bureaucracy and administration can be burdensome. Foreign ownership is mostly concentrated on joint ventures in the gas sector. Some recent measures manifest a clearly protectionist tendency. For instance, in an effort to ensure national ownership in newly established ventures with foreign partners, the 2009 Complementary Finance Law stipulates that foreign investments in the manufacturing sector must be realized in partnership with a local company that holds a 51% share in the venture.

Repatriation of profits from foreign investments is possible with some restrictions. According to the Heritage Foundation, tax law requires companies to reinvest within four years the value of any tax incentives received or face a 30% penalty, and foreign companies transferring profits out of Algeria are subject to a tax of 15%.

In total, there is a lack of political commitment to limit bureaucratic procedures. In the prevailing authoritarian context and in the light of widespread corruption, the situation described above can distort competition. Public procurement is often tainted with irregularities, including excessive use of private agreements. Implementation of legislation, copyright protections and related rights, trademarks, patents and integrated circuits is inconsistent, and enforcement remains inconsistent.

This overall negative assessment of economic freedom in Algeria is corroborated by a variety of international observers. According to the World Economic Forum's Global Competitiveness Report 2010 – 2011, Algeria ranked only 86th out of 139 emerging countries (down two ranks compared to the same panel of countries in the 2009 – 2010 report). This mediocre ranking compared to neighboring countries (Tunisia: 32, Morocco: 75, Egypt: 81) is primarily due to parameters related to market-based competition. Thus, Algeria ranks particularly low in the areas of 'goods market efficiency,' 'labor market efficiency' and 'trust in state institutions.' The report also complains about pervasive corruption, the burden of customs procedures and the impact of state rules on FDI.

According to the 2011 Index of Economic Freedom (Heritage Foundation), Algeria ranks 132nd out of 179 countries, classifying the country at the lower end of "mostly unfree" economies (in regional comparison: Morocco: 93, Egypt: 96, Tunisia: 100, Libya: 173, Mauritania: 134). Algeria's downgrade compared to 2010 (its score of 52.4 is 4.5 points lower than last year) reflects the worsened investment climate and the distorting impact of government spending and corruption. Also, the ranking shows that the regulatory framework is often undermined by complex bureaucracy and an inconsistent application of commercial laws.

According to the World Bank 2011 Doing Business rankings, Algeria ranked only 136th out of 183 countries (Tunisia: 55, Egypt: 94, Morocco: 114), which is a drop of three ranks compared to the 2010 rating. Averaging the rankings on nine different topics, Algeria's mediocre result was mostly due to perceived difficulties in starting a business started and difficulties associated with burdensome property registration.

According to the Global Competitiveness Index 2010 – 2011 of the World Economic Forum, Algeria ranks 91st out of 139 countries with regard to anti-monopoly policies.

Anti-monopoly  
policy  
3

Although some attempts were made to break up state monopolies (as they existed up to the early 1990s in foreign trade and hydrocarbons), these adjustments have so far been of a cosmetic nature. Owing to the weakly developed rule of law, existing rudiments of anti-monopoly legislation are rarely enforced. On an informal level, the influence of powerful clans and practices of crony capitalism have prevented the emergence of economic freedom thus far.

The adjustments made to the hydrocarbons law in 2006 and to the privatization program both allow the state to retain control over key industries, such as the oil and gas industries and the broadcast media. With regard to the Algerian telecommunications market, which is theoretically highly interesting for foreign investors, a rule put in place in 2009 ensures that state-owned Algérie Télécom, which owns the country's second-ranked mobile operator, will have the right of first refusal. Algerian plans in late 2010 to acquire the mobile provider Djezzy, a subsidiary of the Egyptian Orascom group, were complicated by a dispute between the Algerian government and Orascom about an alleged \$597 million in back taxes; such developments do not bode well for the future of competition in this sector.

Also, more competition is not likely to come from foreign investment since the state has recently resorted to a number of disincentive regulations regarding foreign investment, such as a rule according to which new foreign investments must be realized in partnership with a local company that has a 51% share in the venture.

Among the many liberalization tasks that Algerian governments have been facing at the economic level since the late 1980s, foreign trade was liberalized early on as a result of the IMF counterpart requirements for its standby support in 1994. Stiff tariff barriers were retained though in an effort to cap imports.

Liberalization of  
foreign trade  
5

The government has only recently (and reluctantly) begun to remove these tariffs. Since 2001, several reforms have been launched that should ultimately lead to an opening of the Algerian market and its resources to foreign companies. This tendency gained momentum with the coming into effect of the EU Association Agreement in September 2005. The agreement scheduled a gradual establishment of a free trade area in accordance with WTO rules, between the European Union and

Algeria, over a maximum period of 12 years. Under this agreement some tariffs were removed immediately; others are to be removed gradually. Also, on 1 January 2009, Algeria joined the Greater Arab Free Trade Area (GAFTA). This regional association will lead to a progressive abolition of tariffs and a liberalization of the markets for industrial and later agricultural goods between the member states of the Arab League.

Despite this formal adherence to international free trade mechanisms, there remains a lot of skepticism on the Algerian side about the sustainability of uncontrolled liberalization. Indeed, due to its lack of producing companies, Algeria can expect little benefit from total trade liberalization in the short term. As a result, the process of dismantling tariff (and non-tariff) barriers has de facto been slowed down. Also, Algeria has thus far categorically excluded demands to also liberalize its hydrocarbon trade and automobile market. Thus, up until now, the European Union and the United States have opposed Algeria's admission to the WTO. Algeria first requested access to the GATT free trade mechanism (in the context of the then-Uruguay round, 1986 – 1993) as early as 1987, that is, in a quite different context of domestic policy.

During the evaluation period, there has been a noticeable trend on the part of the Algerian government to hamper uncontrolled import increases. The 2009 financial law suspended consumer loans that were vital for private consumption and mostly benefited imports. This protectionist thrust is in line with measures to reduce imports and promote the nascent local non-hydrocarbon manufacturing sector. Other measures suggest that the interests of a powerful import lobby may well be at stake too. According to an executive law that was issued in May 2009, foreign companies that export to Algeria are required to partner with a local firm that has a 30% share of any venture.

Reflecting the protectionist tendencies in Algeria's foreign trade, the World Economic Forum, in its Global Competitiveness Report 2010 – 2011, complained about a number of issues hampering freedom of trade with Algeria, such as heavy trade tariffs and non-tariff burdens, as well as cumbersome customs procedures.

This finding is in line with the 2011 Index of Economic Freedom (Heritage Foundation), which describes foreign companies' dissatisfaction with burdensome customs clearance procedures. While Algeria's weighted average tariff rate in 2009 stood at a reasonable 8.6% (Morocco: 7.1%; Tunisia: 18.3%), foreign companies, according to the same source, regard the inconsistent enforcement of import and export controls, and restrictive labeling, sanitary and phytosanitary regulations, as a major source of trade delays and cost increases.

With regard to its export products, Algeria is also interested in cartelization. As an active member of OPEC, the country was also interested in constructing a "gas

OPEC” together with Russia, Iran and Qatar. Owing to the reduced flexibility regarding the transportation of natural gas, which is mostly bound to pipeline routes and fixed clients, this project has failed thus far. An intensification of the production of liquefied natural gas (LNG) could change this however.

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

The Algerian financial system was well shielded from the consequences of the subprime crisis in 2007. Amid global financial turmoil, the dominant position of public banks, low exposure to toxic securities, and the lack of full convertibility of the Algerian dinar turned out to be a blessing. Structurally, though, the weaknesses in the Algerian financial sector remain an important factor inhibiting the emergence of a free market-based economy in Algeria. High liquidity ratios in relation to total assets (46% in 2007 compared to 40% in 2005) illustrate the ineffectiveness of the Algerian financial system in channeling excess equity into value-creating projects.

Banking system  
4

Banking and financial reforms have been uneven and slow. After a phase of reluctant liberalization throughout the 1990s, the Algerian banking sector has been open in theory to a free partnership between economic actors and the primary banks since October 2007. By introducing this slow-moving modernization, Algeria hoped that the banking sector would promote the absorption of the enormous financial resources in the informal currency market, and that local SMEs (small- to medium-size enterprises) and SMIs (small- to medium-sized industries) would be able to finance themselves more easily.

Before 2007, the privatization of banks stalled mainly due to limited interest among foreign investors and the government’s lack of confidence in the process. The global financial crisis has again put bank privatization on hold, with the government deferring the privatization of several state-owned banks. These six state-owned banks still held around 85% of Algeria’s assets at the end of 2008 (down from 90% in 2007) as well as 80% of total loans. The remaining 15% of assets are managed by 14 privately owned foreign and domestic banks, one institution specializing in agriculture and five non-deposit institutions.

Reforms have so far not effectively modernized the banking system or made it less bureaucratic, nor have they encouraged productive investments. High excess liquidity in the banking sector (related to official international reserves exceeding

\$150 billion) in combination with the prevalence of state-owned banks have often encouraged inefficient credit allocation. However, the share of non-performing loans (NPLs) dropped to 18% at the end of 2008, down from 22% in 2007. Among public banks, the ratio of NPLs stood at 20%, owing to previous credits to loss-making public enterprises. The focus put by state-owned banks on large-scale industrial projects has proven problematic with regard to the development of the non-hydrocarbon sector, which is dominated by SMEs.

Private banks have performed better than their state-owned counterparts recently. For instance, NPLs in this segment fell two percentage points, from 9% in 2007 to 7% at the end of 2008. However, in domestic and international business, private banks tend to be circumvented by state-owned companies and state institutions, which are required to bank with one of the six state banks. Also, private banks are hampered by complex procedures for foreign exchange. This is one of the reasons why private banks have been reluctant to act like business banks, concentrating instead on deposits and on consumer loans.

The financial system in general remains vulnerable to abrupt and unpredictable government interference. Faced with the global financial crisis since 2007 and benefiting from large windfall receipts from the hydrocarbon sector, the government began recapitalizing public banks in late 2008. The minimum capital requirements for financial institutions were raised to \$104 million, four times the previous amount. As a result, the capital adequacy ratio of Algerian banks rose from 12.85% in 2007 to 16% in 2009.

To rein in imports and promote local manufacturing, the 2009 financial law has temporarily suspended consumer loans outside of real estate. Also, as of 2009, a new rating for financial institutions was announced, focusing more on the solvency of financial institutions when they face a sudden rise in non-performing loans. Other recent regulation envisions the submissions of all new bank products for prior approval by the central bank, along with a variety of other measures intended to allow banks to better assess and manage credit risk.

As a result, the 2010 – 2011 Global Competitiveness Report of the World Economic Forum ranked the soundness of Algeria's banks at 121 out of 139 assessed countries. This is a clear improvement compared to the 2008 – 2009 report, which ranked the soundness of Algerian banks dead last out of 134 ranked countries. Nevertheless, the 2010 – 2011 report still complains about the poor overall performance of the financial market, especially the lack and affordability of financial services, difficult access to financing and restrictions on capital flows.

The increase in the share of private banks in overall assets from 10% (2007) to 15% in 2008 was largely due to the arrival of foreign banks on the Algerian market. The entry of foreign banks to the domestic market is governed by the monetary and

credit law passed in April 1990 with subsequent amendments. Foreign banks have been under greater scrutiny since a new banking law in 2003 introduced tightened prudential standards following the bankruptcy of the private al-Khalifa Bank. Conversely, long delays caused by bureaucratic obstacles have been a common feature of the licensing process for foreign banks. According to the Complementary Finance Law of 2009, 51% of the capital share in FDI is to be held by an Algerian company or, in the absence of an Algerian partner, by the Algerian Development Bank.

The domestic securities and stock exchange market, another instrument which could otherwise help absorb liquidity and contribute to economic diversification, lags seriously behind international standards. Only two companies have been publicly listed since 1997 on the Algiers stock exchange (the tourism company EGH El Aurassi and the pharmaceuticals producer Saidal). The stock market's feeble development can be attributed to distrust of political decision makers. Partly because of the country's socialist legacy, the government has not made the securities market a political priority. As a result, financial and legal underpinnings, as well as professional skills, lag behind other financial locations in the region, such as Casablanca. A stronger commitment on the part of the government to open state-owned enterprises for private investment could provide a more reliable picture of their true business value, which could in turn theoretically trigger investment. On the company side, most private firms are family-owned and hence have instinctively resorted to internal financing. Also, the 2006 downfall of private conglomerate al-Khalifa has made investors more wary about placing capital in private sector firms.

The recent increase in the corporate bond market shows, though, that large state-owned enterprises (such as state gas producer Sonelgaz) have at least warmed up to such medium-term debt instruments in order to realize big ventures. Private equity and venture capital are just beginning to take off in Algeria.

## 8 | Currency and Price Stability

While Algeria's state bank (Banque d'Algérie) theoretically has wide-ranging autonomy in its role as controller of monetary policy and regulator of the financial sector under the 1991 Money and Credit Law, it is de facto controlled by the government. The governor and governing council of the Banque d'Algérie are appointed by the president and the bank is required to carry out the general contours of the government's monetary and fiscal policy.

With the implementation of the macroeconomic stabilization program in the mid-1990s, inflation was brought down from near 30% averages to low single-digit rates following 2000. In recent years, inflation has increased from an average of 2.7% over the period from 2001 to 2005 to an (overall constant) average of 4.1% from

Anti-inflation /  
forex policy

6

2006 to 2009 (2009: 5.7%, 2008: 4.4%, 2007: 3.5%, 2006: 2.5%). With 4.0% inflation, domestic price pressures remained relatively high but constant in 2010. Inflation projections for 2011 stand at 4% as of January 2011.

Inflation in Algeria has been driven in recent years by a number of factors, primarily by the dramatic rise in (hydrocarbon) export earnings with the crude oil price per barrel standing at all-time records around \$140 before plummeting in mid-2008. Crude oil prices have been slowly rising again since mid-2009. Structurally, inflation has also been boosted by the devaluation of the U.S. dollar, as Algeria's hydrocarbon earnings are still denominated in dollars, while more than half of its imports are purchased in euros. Other factors contributing to the medium inflation level were Algeria's ambitious infrastructure development projects and the increase in global commodity prices, given the share of the food price segment in the consumer sector, and monopolistic price rigidity in a number of product markets. On the other hand, subsidies and direct price controls on some essential commodities, including water, energy, and agricultural products, have long had an overall moderating influence on prices.

While inflation did not erode Algeria's overall macroeconomic performance in the evaluation period, as evidenced for instance in the country's sound external financial position, low external debt and stable exchange rates, the decreasing purchasing power of the Algerian population was undoubtedly a factor in the riots of 2010 and early 2011. Faced with this situation, the government's tendency to cap prices for essential commodities by means of subsidies has become even more pronounced.

The Algerian dinar is not freely convertible to foreign currencies. The rate of the national currency is pegged against a basket of 14 foreign currencies and fixed by the Banque d'Algérie. The real effective exchange rate of the Algerian dinar in recent years hovered closely around the index value of 100 (2009: 103.2, 2008: 104.3, 2007: 99.0, 2006: 100.1, 2005: 100.0). The official exchange rate of the dinar against the euro has ranged between 90-100 dinars to one euro between early 2009 and early 2011. On the black market, however, one euro was worth as much as 130 dinar in early 2011. The dinar has been partially convertible since 1995 for currency transaction transfers for foreign investors; residents as well as non-residents may hold foreign currencies (subject to some restrictions), and foreigners may hold foreign currency accounts.

Abundant hydrocarbon exports since 2000 have buttressed the Algerian state's highly active stance in developing the country. Government spending rose to 35.4% of GDP in 2010. General government expenditure increased from 11.2% of GDP in 2006 to 13.9% in 2009.

Macrostability

7



Due to pronounced state intervention and one-sided dependency on hydrocarbon exports, the Algerian economy remains highly vulnerable to price shocks – both for its exports, as observed during the sharp decline in global oil prices (2008 – 2009), and for its imports, as seen in the dramatic rise of food prices in 2008 and again in late 2010. Under these circumstances, the Algerian government was less effective than before in implementing its formerly prudent fiscal management. After budget surpluses in 2006 (13.9% of GDP), 2007 (6.1%) and 2008 (3.4%), Algeria had a budget deficit in 2009 (-10.6% of GDP). This deficit could be narrowed again in 2010, thanks to an impressive surge in liquid natural gas (LNG) export revenues, but not balanced (-4.3% of GDP). Faced with the first budget deficits in a decade, the government acknowledged in mid-2010 the need to modernize the budgetary system and improve the efficiency of public spending to maintain long-term fiscal stability. Estimations for 2011 (Business Monitor International) still predict a deficit of -3.6% in early 2011, which might turn out to be better though, if the increase in oil and gas prices in the wake of political turmoil in North Africa holds.

Faced with declining oil revenues and high debt interest payments at the beginning of the 1990s, Algeria implemented a stringent macroeconomic stabilization program and rescheduled its \$7.9 billion Paris Club debt in the mid-1990s. Thanks to abundant export revenues after 2000, the Algerian government followed a policy of paying back internal and external debts before term in order to sanitize the economy and prepare it for a post-hydrocarbon era. The dramatic decline in export earnings at the beginning of the evaluation period dealt a blow to this policy. Public debt soared to 20% in 2009 and 25% in 2010. Previously, public debt had been reduced from 37% of GDP in 2005 to 10% in 2008. This notwithstanding, public external debt was reduced over the evaluation period from \$623 million at the end of 2008 (0.4% of GDP) to \$486 million at the end of November 2010 (0.32% of GDP). Public external debt stood at \$21.8 billion in 2004.

The spike in oil prices at various times over this decade, along with the government's tight fiscal policy and positive trade surpluses based on oil exports, has led to a tremendous increase in the country's foreign exchange reserves, which reached nearly \$157 billion in early 2011.

## 9 | Private Property

Property rights are guaranteed by law, and regulations on acquisition, benefits, use and sale are well defined. Most real estate is government-owned and zoning regulations can limit land use. Often, ambiguous titles or conflicting title claims make buying and financing real estate difficult. Pervasive corruption, complex bureaucracy, the inconsistent application of legislation and possible political interference may adversely affect individual property rights, and enforcement of these rights may be cumbersome. As a result, the World Bank's Doing Business

Property rights

5

Report for 2011 cited troublesome property registration as one of the major reasons for the country's overall mediocre ranking (136 out of 183 countries).

The purchase of land by foreign companies has long been limited to avoid speculation; a system of concessions was favored instead. Legislation in 2009 made the transfer of land to foreign investors on a private basis impossible. These investors can purchase state-owned land under 33-year concessions that can be renewed twice. Foreign companies have complained about difficulties in the registration of property. In an effort to ensure national ownership in newly established ventures with foreign partners, the 2009 Complementary Finance Law stipulated that foreign investments in the manufacturing sector must be made in partnership with a local company that holds a 51% share in the venture.

The government is officially promoting the protection of intellectual property rights, but progress remains slow. A law passed in June 2004 declares imitation of brands and products without the permission of the intellectual property holder as illegal commercial activity. This notwithstanding, counterfeit is rampant in Algeria, and virtually no product is safe from it. According to the Heritage Foundation, implementation of legislation protecting intellectual property is inconsistent, and enforcement remains erratic. Weak enforcement of intellectual property rights has been a major concern in international discussions about the country's admission to the WTO.

Private companies can act freely in principle, and economic growth via the emergence of private companies in new segments is theoretically at the heart of plans for Algeria's economic development. The regime officially encourages the private sector, and legislation designed to facilitate company formation was passed in 2006. There have also been measures taken to encourage investment from both domestic and foreign sources.

Private enterprise

4

In practice, though, the legacy of an authoritarian government, backed by enormous revenues from hydrocarbon exports, means that many political and administrative elites, and even entrepreneurs, still view the state as the spearhead of societal and economic development. The fraudulent bankruptcy in 2003 of Abdelmoumen al-Khalifa, an entrepreneur who had run an industrial and service conglomerate since the 1990s, also seriously harmed the image of private entrepreneurship in Algerian society.

Privatization of state companies has been very slow and the government still seems ambivalent about its plans. Many of 987 public enterprises were opened to privatization in August 2001, but only around 100 were privatized by 2008. These were mainly based in segments such as construction, food and services. Also, the planned privatization of Algérie Télécom has been delayed for two or three years.

Aside from these “mentalities,” the private sector’s weak position is due to a number of structural weaknesses, including the small size of a productive industrial basis outside the hydrocarbon sector, the prevalence of SMEs, difficult access to financing, and all too often a blatant lack of technical equipment and knowledge, which is linked to shortcomings in education and the vocational training sector. These structural handicaps, together with the importance of investment volumes handled by the state, make for the slow development of private enterprise even in an economic environment characterized by massive public investment. Only over the last decade has the private sector surpassed state-led investment, which accounts nowadays for 70% of non-hydrocarbon GDP. A national program has been established to help SMEs to meet the highly competitive conditions of the world market, but there is still a long way to go.

Apart from these structural difficulties, the development of private enterprise is still suffering from widespread corruption, for instance in permits and the persistence of the informal sector. Public procurement is often tainted with irregularities, including excessive use of private agreements, according to the Heritage Foundation.

## 10 | Welfare Regime

The government is the biggest health care spender in Algeria, with approximately 80% of spending coming from the public sector. In neighboring Tunisia and Morocco, the public sector only accounts for around 50% of spending.

Social safety nets  
6

Social support in Algeria is linked to employment. Health care is provided to workers and their families by the Caisse Nationale de la Sécurité Sociale de Travailleurs Salariés (CNAS, National Fund for Social Security) in the case of salaried workers or, for non-salaried workers, the Caisse Nationale de Sécurité Sociale des Non-Salariés (CASNOS, National Fund for the Non-Salaried Workers). In 2007, CNAS handled 79% of the country’s illness cases. Access to public hospitals is free and money paid for prescription medicine is reimbursed.

An unemployment insurance was created in 1994, in which employer and employee each contribute 1.5% of an employee’s current salary. Employees having lost their job have access to training measures covered by the Caisse nationale d’assurance chômage (CNAC, National Unemployment Insurance).

Despite this formally generous system, significant portions of the population still lack access to quality health care. The quality of the public system is lacking in the northern coastal region and areas outside urban centers in particular. Private health care is generally not covered by public health insurance, but in some cases, CNAS has made agreements with private clinics to reimburse for care and services. Private

health facilities have been allowed since 1988, and their importance is growing slowly but steadily. There are now more than 250 private facilities in the country compared to only 2 in 1990. There is a risk that the public sector will lose experienced personnel to the private sector due to more competitive salaries paid in this sector.

Pensioners receive a minimum of 75% of the national minimum wage after fifteen years of employment. Pensions are subject to periodic increases in order to compensate for the loss of purchasing power.

Essential goods and services receive subsidies, either directly or through price controls, despite the government's proclaimed intention to eliminate them. In order to cushion the effects of soaring inflation and fight speculation on vital commodities, the government has increased subsidies and enforced price controls since 2010 (and again in early 2011). Faced with social unrest in early 2011, the government announced temporary and exceptional exemptions on import duties, value-added tax and corporate tax for sugar and food oils. The measure was made retroactive to 1 January 2011 and scheduled to remain in force until 31 August 2011 (after Ramadan).

Bolstered by recent windfall income from hydrocarbon exports, public health expenditure has increased in recent years (3.6% of GDP in 2007 in contrast to 2.7% in 2005). Algeria has sensibly improved on some basic millennium goal markers. For instance, life expectancy in Algeria in 2007 stood at 73.5 years (Tunisia: 74 years, Morocco: 71 years) against 72.2 years in 2002. Infant mortality rate declined from 34.6 to 28.2 per 1,000 live births during 2002 – 2007. Some 95% of births are now attended by a skilled professional (Tunisia: 92%, Morocco: 68%), up from 77% in 1999, and maternal mortality has decreased to 24.7 cases for 1,000 births in 2007.

From 2005 to 2009, Algeria spent around \$10 billion for health, and estimates for 2009 to 2025 suggest that more than \$24 billion will be spent on upgrading existing facilities judged to be sub-standard, the acquisition of medical equipment, and building new hospitals in order to double the number of hospital beds (currently 1.7 per 1,000 inhabitants, Tunisia: 1.9, Morocco: 0.9).

Equality of opportunity exists under the law, but the persistence of patron-client relations as well as corruption that permeate social and political life means that there is no genuine equality of opportunity in practice.

Access to and the quality of education show considerable regional discrepancies. According to Algerian sources (Association Iqraa), school enrollment (especially girls' enrolment) seems to have decreased in rural areas during the 1990s given the prevalence of terror in some rural areas. Today, nearly as many Algerian girls as boys attend primary school these days (girls 97%, boys: 99%; ratio of female and

Equal opportunity

5

male enrolment at primary level: 93.9%). This percentage lags behind Tunisia (97.7%) but makes Algeria fare better than Morocco (90.5%). Comparable to neighboring Tunisia, but in contrast to Morocco and most other African countries, the percentage of women increases with education levels, reach 139.9% at the university level.

However, inequalities of opportunity are reflected in a still moderate adult literacy rate of only 72.6%, with a clear difference between men's and women's literacy rates (respectively 81.2% and 63.9%). Recently the state has been tackling the problem of illiteracy by setting up a new literacy strategy (2007 – 2015), for which it is mobilizing DZD53 billion (appr. \$650 million). Civil society organizations, such as for the Algerian Association for Literacy "Iqraa" ("Read!"), seem to be strongly involved in government projects in this area. Iqraa claims to have taught an approximately 852,000 Algerians (among these 750,000 women) how to read and write since 1990.

Social attitudes have meant that women have suffered de facto disadvantages in society with regard to access to employment, although this is improving. Today the rights of Algerian women are accorded an average degree of respect, by regional standards. According to the UNDP Gender Inequality Index Algeria ranked 70th among 139 ranked countries in 2008 (Tunisia: 56th; Libya: 52th; Morocco: 104th; Egypt: 108). Hence, women still suffer to a relatively high degree from gender-related discrimination, especially when considering Algeria's income range.

One element in the constitutional amendment of November 2008 was to add the political rights of women to the constitution, pushing the state to raise the number of women in the elected assemblies (currently 8% of female members of parliament in the lower house). Discrimination against women persists in legal rights. The family law, adopted in 1984, is a conservative text with elements of the Shari'ah. The text was changed somewhat by presidential decree in 2005, giving women more rights. For instance, Algeria has been the first Arab country to grant women the right to pass on nationality rights to their (foreign) husbands and children and to keep the apartment and the responsibility for the children in case of divorce. Significant legal differences remain, however, as for example concerning the choice of marriage (women still needing a tutor), the limited right to divorce, and clearly less rights with regard to inheritance. Women activists consider these modifications insufficient and have called for further-reaching reforms. Unlike neighboring Tunisia, in Algeria, polygamy is not prohibited but has been subject to very strict conditions. Only around 1% of Algerians seem to live under polygamy these days.

Inequalities of opportunity due to Algerians' belonging to certain religious groups are hardly relevant. Discrimination due to Algeria's ethnic identities (mainly Amazigh/Kabyle identity) is hardly palpable as long as Berber identity is not

coupled with political goals. As the Arab part of the population, Amazigh Algerians have their own patrimonial networks.

## 11 | Economic Performance

Thanks to enormous windfall gains from hydrocarbon exports, the Algerian economy has shown solid quantitative performance, particularly in comparison with the economic stagnation under the civil war and the stresses of the 1980s. With the exception of the year 2009, Algeria has generally enjoyed solidly average GDP growth rates since 2000 (3% on average from 2005 to 2008). In the wake of dwindling revenues from hydrocarbon exports, Algeria fell into recession in 2009 with the nominal GDP plummeting from \$150 billion (2008) to \$127.9 billion. As oil and gas prices resurged, nominal GDP rose again to \$153.5 billion in 2010. Optimistic forecasts (early 2011) estimate Algeria's hydrocarbon exports for 2011 to total \$164.8 billion. However, the GDP's growth rate for 2009 was negative (-2.4%) before turning to positive again in 2010 (4.6%). Cautious observers currently predict growth to reach 4.7% in 2011. Growth may turn out higher, though, if the government gives into societal demands for increased social spending, which the government could afford (in the short term) thanks to rising export revenues. After budget surpluses in 2007 (6.1%) and 2008 (3.4%) Algeria exhibited a deficit in 2009 (-10.6% of GDP). This deficit could be narrowed again in 2010, thanks to an impressive surge in liquid natural gas (LNG) export revenues, but not balanced (-4.3% of GDP).

Parallel to economic growth, GDP per capita (PPP) rose to \$8,184 in 2009 (2008: \$8,002; 2007: \$7,769; 2006: \$7,445). The government also succeeded in reducing unemployment from figures hovering in the high teens in the late 1990s to around 10% at the end of 2010.

Foreign currency reserves increased dramatically, from \$43 billion in 2004 to \$157 billion at the end of 2010, and are estimated to reach some \$166 billion by the end of 2011. Again, with the current resurgence of oil market prices in early 2011, foreign currency reserves may be even higher by the end of 2011. Rising foreign reserves reflect the structurally advantageous balance of trade in goods. Exports (98% of which are generated by the hydrocarbon sector) suffered price fluctuations over the evaluation period, jumping finally to \$72.4 billion in 2010 after \$52.0 billion (2009) and \$68 billion in 2008. Private consumption and ambitious public development programs drove an explosion of imports in recent years, tripling in a period of 6 years and attaining \$30 billion in 2008. During the evaluation period, imports still lagged behind exports (2009: \$38.8 billion, 2010: \$42.6 billion).

Output strength

7

Foreign debt was brought down from \$21.8 billion in 2004 to less than \$600 million in 2008 and \$486 million at the end of 2010 (0.3% of GDP). Public debt, though, soared to reach 20% in 2009 and 25% in 2010. Beforehand, public debt had been reduced from 37% of GDP in 2005 to 10% in 2008.

Foreign direct investment remained at relatively low levels in 2009 (2.0% of GDP; 2008: 1.5%; 2007: 1.2%; 2006: 1.5%). After a dramatic 60% FDI drop in 2009 due to the global financial crisis, Algeria enjoyed a meager 5% capital inflow rise in the first half of 2010 only (which is much worse than the numbers in many comparable economies). IMF observers interpreted this to be closely linked to the set of restrictions imposed on investors. This notwithstanding, Algeria has so far shown little willingness to reverse protectionist policies.

The resulting lack of investor confidence is also reflected in Algeria's international rankings. The breakdown of the "Institutions" category in the WEF's Global Competitiveness Index reveals Algeria's major weaknesses, which consist in "protecting investors" as well as in "enforcing business contracts." Also, the World Bank's 2011 Doing Business report ranks Algeria last in the region, coming in at 136th out of 180 economies rated.

## 12 | Sustainability

In 2002 a report realized with support by the World Bank and the German Technical Cooperation (GTZ, since 1 January 2011: GIZ) systematically appraised the environmental challenges Algeria is to deal with over the coming years. There are considerable risks related to environmental health in the urban centers of the North linked to declining living conditions in run down urban quarters. Industrial plants are often outdated and lay off inadequately treated wastewaters, emissions and hazardous wastes. The central plateaux region and the Saharan hinterland are highly vulnerable to erosion and desertification. Desertification is proceeding at an average of 16 km a year northwards, and this rate is expected to increase as a result of global warming. The report laid down a prioritization of environmental measures, starting with environmental health issues, access to water and sewage, etc.

That this report could be put together highlights in itself the increasing attention that the Algerian authorities have afforded environmental issues since 2000. Beforehand, traditions of environmental awareness had taken a backseat to the growth considerations during a post-independence development euphoria, most prominently reflected in efforts to build up a heavy industry in the 1970s. There have been attempts since the 1970s to stop desertification, though projects such as "La Ligne Verte" (the Green Line) were only partially successful.

Environmental  
policy  
5

Since 2000, the government has afforded increasing attention to environmental protection issues, for instance, by setting up a funding facility (the Agence Nationale pour la Protection de l'Environnement) in 2001. The recurrent editions of the Environmental Performance Index (EPI) provide a gauge of how Algeria has been taking a more committed stance on integrating established environmental policy goals. While Algeria ranked only 8th in the region with regard to its environmental policy according to the 2008 EPI, in the 2010 edition, Algeria came in 5th in regional comparison behind Cyprus, Israel, Tunisia and Armenia. Thus, Algeria is currently occupying a respectable 42nd rank among 163 nations making the country a relative champion by regional standards (Morocco: 52, Tunisia: 74, Egypt: 68, Libya: 117, Mauritania: 161).

This respectable ranking reflects in part recent investments in infrastructure, which have, for instance, improved citizens' access to water and sewage. But the current EPI ranking also takes into account the Algerian government's attention paid to pesticide regulation, its moderate degree of ongoing deforestation and use of marine resources. Algeria's respectable achievements with regard to some indicators are, however, owed to factors which could economically be perceived as development flaws. For instance, the moderate level of national water resources used for agriculture is in part due to the fact that Algerian agricultural production lags, for instance, behind neighboring Tunisia and Morocco (which rank worse in that respect). On the other hand, Algerian government's record is less brilliant with regard to protecting biodiversity and habitat protection, and when it comes to fighting air pollution and greenhouse gas emissions. The government does not provide particular incentives for households and companies to engage in environmentally sound consumption and investment.

Within the framework of the development plan "Schéma National de l'Aménagement du Territoire 2025" (SNAT 2025), the government foresees more measures to improve waste disposal, promote the water and sewage sectors (including probably the "environmentally incorrect" construction of dams, which were supposed to pass from a number of 47 in 2006 to 72 until 2010). Around 40 sewage treatment plants have been slated for construction and 20 others for restoration, which will raise the treatment capacity to 600 million cubic meters per year. The plan also includes the construction of 13 sea water desalination plants, of which 2 are already in service (in Arzew and Algiers).

In sum, environmental legislation in Algeria, starting with the introduction of law no. 83-03 of 5 February 1983, is still unsatisfactory, contradictory in itself, and often not in line with urgent needs and legislation in relevant sectors (i.e., water, real estate, energy, construction, etc.). Environmental policy continues to be plagued by the fact that several civil servants in charge of environmental issues lack proper training and by the presence of conflicting competences between several ministries. Given these shortcomings, and in light of pervasive corruption, existing



legislation could and still can easily be ignored or circumvented. Also, environmental policy often continues to be conceived within the framework of infrastructure investment (e.g., when it comes to questions of water treatment, waste disposal or the mobilization of water resources via the construction of dams), regional development (e.g., with regard to the southern Saharan regions) or as part of agricultural development. As such, environmental concerns are often intermingled with growth considerations or linked to proclaimed political goals such as self-sufficiency, regional development or job creation.

Algeria is taking part in the Desertec initiative, which aims to create a network of solar and wind power generating projects across North Africa in order to supply 15% of Europe's electricity needs by 2050. In this context, the government announced a plan in early 2011 according to which Algeria will generate 40% of its electricity from renewable sources by 2030 to meet domestic demands and to export clean power to Europe. In the first phase (until 2020) about 65 projects are planned which are expected to generate 200,000 jobs. A first German-Algerian joint venture for the creation of photovoltaic wafers in Rouiba near Algiers was contracted in early 2011, involving a total investment of €298.2 million.

Since its independence in 1962, Algeria has made school education for children a constitutional right. Since 1975, the government has offered a universal and free education for children. School is nowadays mandatory for youth aged 6 to 16.

Education policy /  
R&D  
4

According to the latest available World Bank data, overall adult literacy rate is currently 72.6%. In regional comparison this makes Algeria perform better than neighboring Morocco (56.4%), but the country lags behind literacy rates of Tunisia (78.0%) or Libya (88.4%). The difference between men's and women's literacy rates (respectively 81.2% and 63.9%) points to historical differences in boys' and girls' school enrollment.

Today, some 92% of young Algerians aged 15 to 24 years are literate. This is a result of past efforts to improve gross enrollment at the primary level, which is nowadays near 100.0%. Gross enrollment at the secondary level is 83.2% (Tunisia: 91.8%, Morocco: 55.8%), and around 24.0% of the corresponding population range benefit from tertiary education (Tunisia: 33.7%, Morocco: 12.3%). Nowadays, nearly as many Algerian girls as boys attend primary school (boys: 99%, girls: 97%; ratio of female and male enrollment at primary level: 93.9%; Tunisia: 97.7%, Morocco: 90.5%). Girls living in rural areas are, however, more likely to abandon school for financial reasons and/or because many rural families place a higher priority on boys receiving an education. This structural problem seems to have been aggravated during the era of terrorist threat in the 1990s. Comparable to neighboring Tunisia, but in contrast to Morocco and most other African countries,

the ratio of female to male enrollment rises to 139.9% at the university level. This notwithstanding, women represented only 19.7% of the workforce in 2005.

These undeniable achievements cannot conceal the fact that Algeria must be considered – like most other countries in the region – an educational underachiever compared to its overall human development level. The country ranks only 127th out of 179 countries according to the 2009 UN Education Index (against the background of Algerian ranking 95th in the HDR 2010). The World Economic Forum's 2010/2011 Global Competitiveness Report rightly points out that education quality requires generally more than providing the infrastructural basis of an education. While Algeria ranks respectably with regard to primary education enrollment (58th out of 139 countries), and even for secondary and tertiary enrollment rates (ranks 80 and 87 respectively), it ranks frustratingly low (96th) in terms of its primary education, and even worse in terms of the overall quality of secondary and tertiary level education (117th for each). It also does not rank well (103rd) in terms of staff training. These findings highlight serious flaws that have plagued the Algerian education system for decades. These shortcomings are, in part, attributable to ideological issues (forced Arabization since the 1970s) as well as political events (turmoil since the late 1980s). In addition, with 28% of the population under the age of 14, Algeria's demography contributes considerably to infrastructural challenges in the educational system (i.e., the number of students doubled from 1998 to 2008), whereas the corresponding cohort of those beginning school in neighboring Tunisia has been shrinking since around 2004.

As a result, the Algerian state faces serious challenges in terms of educating its young population. Schools and universities, on average, have yet to provide quality education (though mathematics and the natural sciences seem to be improving). Teaching strategies rely all too often on mere repetition and do not provide students with the skills needed by the labor market. In fact, according to the World Economic Forum, an inadequately educated workforce is one of the most negative factors cited by foreign businessmen active in the country. Especially outside urban centers, schools and universities continue to languish under the effects of past investment deficits (e.g., overcrowded classes, deficient internet access). An estimated 500,000 of a total 8 million students drop out of school annually (figures include both primary and secondary systems). Private high schools, which allow taking the French and Arab baccalaureate in parallel (thus allowing easier access to French universities) have come into existence, but remain out of reach for most families. Also, the government in 2005 decided to tighten oversight over private schools. For instance, private schools, too, are obliged to teach 90% of their materials in Arabic.

Algeria suffers considerably from a brain drain by which promising Algerian graduates of universities abroad (e.g., engineers, doctors and scholarly researchers) often feel the draw of better pay in their host countries and do not return to Algeria.

According to the Oxford Business Group, the emigration of researchers and specialists in recent years has meant an estimated loss of \$40 billion for the country. The government has responded by tightening the system of students' scholarships.

According to World Bank Data, Algeria spent 4.3% of its GDP on education in 2008, which is less than neighboring Morocco (2008: 5.7%) and Tunisia (2007: 7.2%). In 2007, state expenditure on education and professional training was 10.7% of the total budget, compared to 2005, when 13.5% of the state budget was directed towards education. Yet, according to government plans, the share allocated to education will increase, primarily due to ambitious development programs. The budget for 2011 foresees a budget share of more than DZD800 billion out of DZD3.4 trillion (23% of budget share) for primary, secondary and higher education, research and vocational training, against DZD234 billion in 2009. Around DZD212 billion (6.2% of the state budget), are being allocated to higher education and R&D. While it is difficult to separate higher education and R&D in the Algerian budget, it can nevertheless be stated that in 2011, Algeria is allocating more than 7% of its GDP to education in general and less than 1.78% of GDP to R&D. R&D in private companies does not seem relevant for the time being.

In the context of its current infrastructure program, the government plans to open 383 new secondary schools as well as 400 middle schools in order to noticeably reduce class size by 2013. While a system of vocational training is so far hardly developed and apprenticeships are not held in high esteem in the Algerian population, the training and professional teaching sector is supposed to receive support in the form of some 30 specialized professional training centers that are to be set up with space for 30,000 students. Additionally, 80 new general training centers and 130 vocational trainings centers will be built with a capacity of 24,000 and 130,000 each, and around 18,000 instructors are to be hired. Since 2003, updated curricula have been introduced for primary and secondary systems that will, for instance, place greater emphasis on English. Under the Support Program for Higher Education Reforms (2009 – 2013) the university system at the 17 state universities is currently being reformed with support by the European Union, so as to make Algerian universities comply with the Bologna Process.

The effectiveness of these reforms remains yet to be seen. Given that there are no less than three ministries concerned with education and training (Ministry of National Education, Ministry of Higher Education and Scientific Research, Ministry of Training and Vocational Education), implementing and coordinating reforms is burdensome. At the same time, individual schools and teachers have little independence to adapt to curriculum reforms according to their respective conditions and resources. The education system seems to suffer from insufficient availabilities of adequately trained French and English teachers as well as professors for prospective teachers in these languages.

The education sector has been plagued by strained relations between the teaching staff and the ministries of education and higher education due to inadequate pay scales for educators and the hesitant recognition of autonomous unions. Throughout the period under observation, several teacher strikes have taken place to demand better working conditions and higher salaries.

## Transformation Management

### I. Level of Difficulty

The structural constraints on the political leadership's governance capacity are fairly high and are likely to increase. This finding comes despite the state's considerable financial resources and an improving budget situation over the evaluation period.

Structural  
constraints  
7

The authoritarian context of the political system could make observers conclude that President Abdelaziz Bouteflika and his government could freely determine their political priorities and were effectively in control of a pyramidal structure, through which decisions are implemented. According to this view, recent constitutional modifications in late 2008 should have logically endowed the presidency with even more political leeway.

However, any government action is de facto overseen by strong veto powers from within the regime. While the Algerian government does not appear inclined to take action with regard to further democratizing steps in the short term, decisions such as Bouteflika's running for re-election in 2009 would not have been imaginable without prior consent within the ruling parties FLN and RND and within higher ranks of the military and the intelligence services.

Also, while the perception of relative effectiveness may be adequate with regard to the central institutions of the state – government offices, the central administration and the parliament – evidence shows that, as in any authoritarian-bureaucratic system, administrative institutional freedom of action increases with both geographical and political distance from the center. Thus, local and provincial administrations exercise considerable autonomy of power until reined in by the presidency. This feeds into both localized corruption and bureaucratic inefficiency and autonomy. Hence, local administration lacks the appearance of the efficiency

that shapes the centralized governmental system. These tendencies are exacerbated by the lack of skilled personnel to effectively implement government priorities.

Also, were the government more determined (than it is currently) to enhance a free market economy or to address pervasive corruption, its political leeway would be seriously limited by the persistence and potential resistance of patron-client networks as well as the weak separation between government and the political realm, typical of any neo-patrimonial regime. In concrete terms, the government has to accommodate the economic interests of a number of high-ranking politicians and officers deeply involved in more or less legal economic affairs. Again, on the lower levels of the administration and in the regions a clearer government stance in favor of implementing a free market economy can be expected to clash with a host of individual interests and patron-client networks present at all levels of administration and its interfaces with society. Even aside from individual claims, the effectiveness of government action is also hampered by the burdensome bureaucracy, and to some extent by the lack of educated specialists.

The leadership's governance capacity is also constrained by a significant degree of active disaffection with the government, manifested not only in the persistence of dissidence, but also in the clandestine support structures for terrorism, that extend far more widely through the Algerian society and are often linked to latent criminality. In other words, criminal behavior also has its political reflection in Algeria. The consequence of this is that the legitimacy of the Algerian state is still not an uncontested reality. In response, the state operates in an authoritarian manner which belies its claims to democratic legitimacy. In some respects, such a presence is familiar to Algerians, for they have had thirty years of experience with an authoritarian state and a decade under a violently repressive security system. Given these circumstances, one can hardly say that the state is responsive to popular demand. At the same time, the overt expression of state power is familiar and reassuring to the conservatism of Algerian society, as much as it repels the elites seeking political participation. This in turn inhibits any real political change.

The wave of strikes in the educational sector in 2010 and the urban riots in late 2010 and early 2011 highlighted another serious constraint on the government's capacity to effectively govern. Ongoing social strife might seriously confine government's leeway for economic reform in the short and medium term, most notably with regard to privatizations and downsizing of the bureaucracy.

Civil society remains fairly weak in Algeria. Traditions of societal self-organization in Algeria (for example Arouchs or Islamic zakat) were crippled by 130 years of French colonization and a particularly murderous war for independence. Since independence, the capacity of the Algerian society of self-organization has been in

Civil society  
traditions

6

uneasy co-existence with the pretensions of a modern military-backed bureaucratic-authoritarian regime.

Since 1989, civil society has theoretically had more leeway to associate freely. While there were only around 30,000 associations in 1990, in 2008 Algeria officially boasted an impressive number of some 81,000 associations. Civil society organizations cover a wide range of issues, such as the promotion of women, youth, literacy, environment, human rights, tourism and the promotion of culture and education. Some non-governmental organizations work in pursuit of political and/or economic goals in consort with the government.

However, according to international NGOs like Human Rights Watch, Amnesty International or Paris-based Algeria Watch, many NGOs face difficulties in obtaining legal status and suffer de facto from administrative restrictions in their actions. Apart from administrative interference, many associations seem to be dormant, ineffective, badly equipped and all too often torn by internal struggles.

However, a consequence of the state's unresponsiveness is that informal organizations have been tolerated by the government to substitute for the state's deficiencies. The result has been a major expansion of service provision for the population at large – by civil society. In part, these services can be seen as modernized versions of traditional social activities, such as the Islamic charities that stem from the tradition of “zakat” or their “modernized” adaptations. Hence, in sum, non-governmental organizations are forming an increasingly important part of the Algerian political fabric and help counter the trend of hierarchical corporatism. Significant organizations exist as independent bodies or, in some cases, are associated with political parties. For example, the Ligue Algérienne pour la Défense des Droits de l'Homme is independent, whereas the Ligue Algérienne des Droits de l'Homme (Algerian League for Human Rights) is organizationally linked to the moderate Islamist MSP. There are also non-governmental organizations related with political goals – the (Amazigh) Arouch movements, for instance, began in such a context.

Whereas there is genuine civic commitment demonstrated on the ground by a number of NGOs, the associations mentioned above mostly stem from either a religious or cultural (Berber) motivation. Beyond this, the level of trust among Algerians (social capital) who are not linked by kinship, faith or regional background remains relatively low, as does the capacity of societal self-organization. This situation can be attributed in part to the traumatic experience of civil strife in the 1990s, the authoritarian nature of the regime, and also the pervasiveness of (half-)illegal business networks. But apart from these factors, the weakness of civil society is inseparable from deeply entrenched patterns of

authoritarian behavior within Algerian society, the tendency to build relationships along kinship lines or through cronyism, and often the lack of private initiative.

In regional comparison, were political restrictions on civil society lifted, Algeria might in the long term profit from a number of aspects hospitable for the emergence of a viable civil society when compared to other countries in the Middle East and North Africa. This includes, for example, Algeria's relatively high (compared with its neighbors) level of development and education. Also, the fact that controversial debates carried out in public have been more frequent than in Tunisia, for example, might facilitate a more free civil society in the medium and long term.

Waves of strikes and socially motivated riots, which have taken place throughout the country fairly regularly since 2001, culminated in early January 2011. The brutal clampdown on protests in several towns of the country resulted in several casualties (up to 10, according to authors' estimates), but is not comparable to the high numbers reached in neighboring Tunisia. Demonstrators demanded jobs, decent housing and efforts to combat an increasing cost of living. A new feature concerning the forms of protest was introduced in January 2011 when several acts of self-immolation inspired by riots in Tunisia took place. These events highlighted the persistent social malaise in Algeria, which includes the soaring prices of everyday commodities. As in the past, the government reacted by announcing temporary and exceptional exemptions on import duties, and a value-added tax and corporate tax for sugar and food oils. In order to cushion social hardship, measures were retroactive to January 1 and will be in force until August 31, that is, until after the end of Ramadan 2011.

As in earlier evaluation periods, protest featured a low degree of organization by organized movements. Instead, riots sprang up rather spontaneously and typically lost their momentum after several days. It remains to be seen if representatives of the more outspoken opposition parties, such as the RCD, will be able to capitalize lastingly on the social unrest for their political aims.

As another concession to protestors' demands, the government lifted the long-standing state of emergency (in force since 9 February 1992) on 23 February 2011. Giving into opposition demands on this issue illustrates that the state of emergency had become in recent years above all a tool of repression rather than an effective means of combating Islamist-inspired terrorism. In fact, today's situation differs fundamentally from the period 1992 – 1999, when civil war-like tensions between security forces and Islamist-inspired guerrillas resulted in the death of an estimated 100,000 Algerians (according to official sources). Violence instigated by autonomously operating Islamist groups, which have subsumed themselves officially under the label al-Qaeda in the Islamic Maghreb (AQIM) since 2002, has significantly decreased since 1999. It appears that counterterrorism efforts by the Algerian government have reduced the number of dissident Islamist groups

Conflict intensity

7

operating in eastern Algeria since 2000 from an estimated 30,000 to apparently less than 1,000 by the end of 2010.

No longer able to execute large-scale attacks in Algeria's big cities, AQIM has pulled back into remote northeastern regions of the country and some Saharan regions. Nonetheless, there have been reports of a number of scattered suicide attacks, such as those in June and July 2010 in the northeastern Kabylie region, resulting in the death or injury of more than 40 security forces in total. AQIM may possibly gain logistic traction in the southern regions in the event of a possible power vacuum following the fall of incumbent regimes in Libya and Tunisia.

Ethnic, religious and demographic cleavages do exist within Algeria. A consequence of increasingly centralized rule in Algeria has been a revival of an Arab-Amazigh (Berber) divide. Manifest in language more than ethnicity, this divide has nonetheless acquired renewed political significance following the uprisings in Kabylie in April 2001. Also, religious extremism has not been eradicated entirely from Algerian collective life. This notwithstanding, and despite the apparent social problems, especially towards the end of the evaluation period, neither Algerian society nor the political, administrative and military elite appear to be deeply split along social classes, ethnic or religious communities in a way that would seriously dominate or hamper government action.

In the event of renewed social unrest, the government may well give in again to protestors' demands by increasing social expenditure. This could, in turn, stoke inflation and place upward pressure on prices.

## II. Management Performance

### 14 | Steering Capability

The government is able to prioritize and organize its policy measures within limits which are mostly linked to the specific structure of the Algerian authoritarian regime.

Saying this, it is important to note that the strategic priorities of the government correspond only to a very limited extent to the normative framework of the BTI. Despite recurrent vows on the part of the government to establish a democracy, the government of President Bouteflika has not in recent years taken any clear steps in this direction. Instead, partial constitutional reforms, voted on by the parliament on 12 November 2008, abandoned the presidential terms limit (one re-election), allowing Abdelaziz Bouteflika to stand for a third mandate at the 2009 elections.

Question  
Score

Prioritization  
4



Recent (formally pluralistic) elections at parliamentary (17 May 2007) and presidential levels (9 April 2009) were not supervised by international observers and were carried out by a biased administration in the context of a controlled party pluralism dominated by parties close to the regime (FLN, RND, MSP).

The development of a market economy is a priority, but only as interpreted by the Algerian ruling class, which seems to prosper within a system highly dependent on oil revenues and imports. During the evaluation period, Algerian decision makers stepped back from previous reforms by implementing a policy of protecting strategic sectors from foreign and/or private influence. This orientation can be seen as a new and consistently implemented strategic priority. Most prominently, Algerian nationals have been guaranteed since 2009 to hold a majority stake in joint ventures with foreign partners. In facing the wave of strikes since 2009 and socially motivated urban riots (most recently in January 2011), President Bouteflika has repeatedly attempted to base his own – and his government's – legitimacy on the delivery of political stability and economic growth. During the evaluation period, the government acquiesced on several occasions to protestors' demands by announcing temporary and exceptional exemptions on import duties, value-added tax and corporate tax for everyday commodities. This policy was carried out within the context of a considerable windfall thanks to 2010's increase in oil and gas prices.

President Bouteflika successfully set long-term priorities when initiating the process of national reconciliation – as he did immediately after his election in 1999 through the civil concord law. 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. In addition, it banned public criticism of the security forces and their actions during that period. The president was very successful at rebuilding Algeria's image abroad. He succeeded in starting new relations with the United States, partly because of Algeria's willingness since 2001 to collaborate fully in the war on terror. He also succeeded in persuading European powers that the Algerian crisis had ended, and of the parallels between Algeria's success in battling terrorism at home in the 1990s and the problems currently faced by Europe.

As mentioned in other sections with regard to governance constraints, the strategic capacity of the government to prioritize and organize its policy measures is hampered by the existence of veto powers within the security forces and the administration. Thus, presidential authority is only partial; the aforementioned strategic decisions were coordinated with the army command beforehand. Also, governance capacities are structurally constrained by the inner logic of patron-client networks which are typical of the Algerian bureaucratic-authoritarian regime structure.

Increasing oil revenues, since 2000, clearly increased the president's leeway in setting and maintaining ambitious plans for economic development and reducing unemployment. Official unemployment rates of around 27% in 2001 could be brought down to around 10% in 2010. This was in large part achieved by a number of measures, including micro-credits and incentives for companies to employ young Algerians and unemployed individuals with diplomas (this created 350,000 jobs from 2008 to 2010). Ambitious plans have been set up and partially realized for the development of infrastructure (East-West-Highway, High-Plateaux-Highway), social housing, hospitals and schools. Education (all levels) benefits from renewed government attention in the form of a declared aim of reaching 2 million enrolled students at universities by 2015. In order to reduce imports, the government has also set priorities in developing non-hydrocarbon manufacturing industries by implementing a variety of incentives (such as tariff exonerations for technical equipment), subsidies for prospective entrepreneurs, promoting vocational training and setting up integrated industrial zones. However, considering the low degree of expertise in non-hydrocarbon manufacturing industries in the country, this policy is not consistent with new rules of foreign direct investment, whereby any venture with foreign partners requires a majority stake of Algerian partners.

The current advantageous budget situation has endowed the government momentarily with the capacity to "buy" social peace via subsidies, thus generating temporary leeway to set and maintain strategic priorities. This margin is bound to shrink dramatically in the event of decreasing export revenues. One lobby that has successfully preserved its privileges in recent years is that of the powerful veterans' organization (Organisation nationale des moudjahidine). Pensions and special benefits for (real and pretended) veterans of the liberation war, their widows and even their heirs amount to as much as DZD169 billion (appr. €1.5 billion), that is, 5% of the total budget for 2011.

In theory, the Algerian government strived to create a democratic political system as well as a socially cushioned market economy that is integrated into the global market. As in earlier evaluation periods, these objectives have been honored in rhetorical terms but not in practice. Algerian decision makers did not implement democratic reforms, because such reforms run counter to the presidential project of entrenching its own power.

The president and his cabinet did begin, however, to implement governmental policies of social and economic modernization efforts as laid down in the presidential program for the 2009 elections. Backed by windfall revenues from oil and gas exports, the government has intervened massively in successfully implementing some of its policies, most prominently in its efforts to improve the country's physical infrastructure (e.g., constructing most of the East-West-Highway within four years, building social housing units), boost agricultural production in the context of its self-sufficiency policy, and reduce unemployment from 27% in

Implementation  
4

2001 to around 10% in 2010. These measures were, of course, closely interrelated. The construction of the East-West-Highway alone employed some 200,000 workers between 2006 and 2010.

Faced with the indirect effects of the economic crisis, Algeria's GDP growth rate for 2009 dipped (-2.4%) before rebounding again in 2010 (4.6%). Cautious observers currently predict growth to stand at 4.7% in 2011. Growth may be higher as a result of increased state spending.

The problem is that this does not reflect sound economic growth based on solid pillars. According to the World Economic Forum's Global Competitiveness Report 2010 – 2011, Algeria ranked only 86th out of 139 emerging countries, and worse than its neighbors (Tunisia: 32, Morocco: 75). Growth in Algeria is essentially a product of windfall gains from hydrocarbon exports and is driven by ambitious public infrastructure projects. Despite the government's increased attention to agriculture and manufacturing, private investment outside the oil and gas sectors – whether foreign or domestic – has so far been disappointingly low. As a result of the government's ambiguous position towards foreign investment, during the review period FDI remained below pre-crisis levels in 2010 and marginal in the non-hydrocarbon manufacturing sector. The government has thus far failed to facilitate a diversification of industry. According to the Oxford Business Group, GDP per sector for 2008 was split as follows: 46.9% from oil and gas, 30.7% services, 9.2% construction and civil engineering, 8.2% agriculture, and 5% manufacturing industries. The latter sector features one of the lowest rates worldwide, even if it is the most important in terms of creating employment and promoting SME activity.

At least in appearance, President Bouteflika has successfully persuaded and coerced workers' and employers' federations into an authoritarian corporatist structure in order to ensure social peace. In this system, wage negotiations between the employers' association and the most influential trade union UGTA (which is traditionally linked to the regime) are held regularly (most recently in late 2009) under the aegis of the state. These negotiations imply regular salary increases of the guaranteed national minimum salary (*Salaire national minimum garanti/SNMG*). In this manner, Bouteflika effectively creates the context through which he can generate his own – and his government's – legitimacy in terms of delivering social and financial welfare. In times of increased social strife, this legitimacy model is particularly risky. Accommodating demands for nominal wage raises without a commensurate increase in productivity runs the danger of fueling inflationary expectations, adding to the upward pressure on prices.

The Algerian government and decision makers demonstrated little willingness to engage in policy learning during the evaluation period. Structurally this concerned the authoritarian character of the regime, whose overriding imperative has been to cement presidential power and the interests of central decision makers “behind the scenes.”

But also on the economic level, short-term expediency again won over coherent long-term objectives. When dealing with the wave of strikes since 2009 and socially motivated urban riots (most recently in January 2011), President Bouteflika resorted to the traditional means, that is, placating social strife by delivering social welfare. Responding to social grievances by simply allocating the – momentary – wealth of the state is a risky game. The Algerian government should have drawn lessons from the experience of the 1980s when the regime found itself in a deep legitimacy crisis as oil and gas prices plummeted.

President Bouteflika and his government publicly acknowledge the need for an in-depth overhaul of the economy. This would include developing a sound industrial base outside the hydrocarbon industry, creating a more stable national basis for food commodities by promoting the long-neglected agriculture sector, and greater investment in education and training. In principle, the pursuit of these priorities would be enough to reduce imports and facilitate economic diversification. However, during the evaluation period, Algerian decision makers refrained from further liberalizing the economy, even repealing previous reforms by protecting strategic sectors from foreign and/or private domination. It is hard to see how Algeria can develop badly needed competences if it continues to alienate prospective industrial partners.

These shortcomings in policy learning are linked to the authoritarian character of the political system, most notably the deeply engrained business interests of certain decision makers, as well as the sluggishness of the administrative apparatus.

In addition to the structural impediments to policy learning, there is also the fact that decision makers have considerable revenues at their disposal allowing them to feed optimism regarding the state’s ability to define the parameters of socioeconomic development. Indeed, many entrepreneurs and the vast majority of Algerians expect the state to act as a vanguard in economic and social development.

The government, by injecting considerable sums into infrastructure development projects, appears to be pursuing a development model (like that pursued in the 1970s) driven by government investments. However, such projects do not, in themselves, generate sustainable economic activity; they require private investment if they are to engender sustainable economic development.

## 15 | Resource Efficiency

In the absence of reliable data it is difficult to accurately appraise how efficiently the government has recently made use of available human, financial and organizational resources. It is, for instance, particularly hard to provide data concerning the personnel expenses relative to the services offered by the state or the number of politically motivated dismissals and new appointments of public servants. Yet, considering a number of key data structures and bearing in mind the structural context in Algeria, one cannot reasonably assume the government's resource efficiency to be very high.

The Algerian budget situation has been highly vulnerable to the fluctuations of international oil and gas prices. Algeria has lived beyond its means during the evaluation period. After budget surpluses in 2007 (6.1% of GDP) and 2008 (3.4%), the budget fell into the red with export revenues plummeting in 2009 (-10.6%). This deficit could be narrowed again in 2010, thanks to an impressive surge in liquid natural gas (LNG) export revenues, but not balanced (-4.3% of GDP). Business Monitor International predicted a budget deficit of -3.6% of GDP for the year 2011, despite increasing export revenues, pointing to ambitious infrastructure projects and soaring state expenditures on subsidies. While foreign debt could be brought down to \$486 million at the end of 2010 (0.3% of GDP), public debt has soared to 20% in 2009 and 25% in 2010. Previously public debt had been reduced from 37% of GDP in 2005 to 10% in 2008.

Algeria's mediocre ranking in the Heritage Foundation's 2011 Index of Economic Freedom (132nd out of 179 countries) is attributed to the country's cumbersome bureaucracy, among other things. The government's efficiency has suffered from a highly centralized and bloated state apparatus, the Algerian state being by far the most important employer in the country. Efficiency is hampered by overlapping responsibilities between ministries and an ongoing multiplication of state institutions implementing different policies (e.g., in the social and health sectors). This is all the more tragic since the public sector constitutes a persistently high burden for the budget. The budget for 2010 apportioned some \$16.7 billion (12.0% of the total budget) for civil servants and employees in state-owned companies. Also, 5% of the budget for 2011 has been allocated for pensions and special benefits for several millions of (real and presumed) veterans of the liberation war, their widows and their heirs. Given the tense social situation during the evaluation period and efforts to further reduce unemployment, the Algerian government has thus far refrained from downsizing government bureaucracy and from privatizing state-owned companies.

The reform of the civil service was declared one of the main priorities of President Bouteflika's third term in office (2009 – 2014). But enforcing management criteria

Efficient use of  
assets

3