

# BTI 2014 | Algeria Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>5.11</b>	# 79 of 129	
Political Transformation	1-10	4.80	# 79 of 129	↗
Economic Transformation	1-10	5.43	# 70 of 129	→
<b>Management Index</b>	1-10	<b>4.58</b>	# 77 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	38.5	HDI	0.713	GDP p.c.	\$	8515.4
Pop. growth <sup>1</sup>	% p.a.	1.9	HDI rank of 187	93	Gini Index		-
Life expectancy	years	70.8	UN Education Index	0.679	Poverty <sup>3</sup>	%	-
Urban population	%	73.7	Gender inequality <sup>2</sup>	0.391	Aid per capita	\$	4.9

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

In July 2012, Algeria celebrated 50 years of independence. It was a symbolic moment that inspired Algerians to reflect upon the economic and political reforms of their nation over the past half century. The anniversary was celebrated with the inauguration of a number of high profile infrastructure projects that symbolize the positive development of the country. The celebrations took place with an eye toward the Arab Spring, which had a strong impact on the Algerian system, with the lifting of the two-decade state of emergency on 23 February 2011. It also led to a number of political and legal reforms for associations, political parties, elections and the media in January 2012. Overall, the last two years have brought significant changes, but also left a number of challenges for the Algerian state and the population in terms of their economic and political aspirations.

Regarding economic reforms, Algeria has undergone small advances, which include new policies to improve fiscal governance, enhanced regulatory efficiency and the maintenance of open markets for a more dynamic private sector. The public sector and oil wealth still dominate the economy. Stopgap measures have been prevalent in the tense political context following the unrest in early 2011. For example, to control food prices, the government introduced temporary exemptions on both import duties and taxes on everyday commodities and also increased the list of subsidized commodities. In 2012, inflation reached a peak of 12% and the government responded once again with price caps and subsidies. Unemployment has been reduced to 10% (down from 27% in 2001), but youth unemployment remains high. A number of government initiatives to improve financing and training opportunities have begun to generate employment and diversify the private sector. Overall, during the review period, Algeria has managed to reduce its deficit, as well as both external and public debt, and had external currency reserves of \$200 billion in 2012. Algeria is thus in a strong position: despite massive public spending, Algeria still has a current account balance of \$19.7 billion, which is due to high oil and gas prices. In fact, in 2012, Algeria was asked by the IMF to contribute to the fund's lending capacity. Skepticism about

trade liberalization and its impact on domestic industries has led Algeria to negotiate a three-year delay of the free trade agreement with the European Union (now until 2020). However, since the appointment of the new prime minister, Abdelmalek Sellal, in September 2012 there appears to be new momentum for reform and an opening up to foreign investment.

In political terms, Algeria has experienced low-level unrest and demonstrations over the last two years. In early 2011, a group of left leaning political opposition groups and associations created the “National Coordination for Change and Democracy.” This new movement was created to act as a platform for systemic political change and to social mobilization. However, the movement did not appear to have a united overall plan, nor enough loyal followers, and the fairly weak coalition fell apart rather quickly. Sporadic demonstrations and self-immolations have continued across the country. The government has reacted with what has been described by one diplomat as “one of the most progressive responses” in the region: a series of consultations and political reforms were launched in 2011. While hotly contested, these reforms appear to be installing new expectations and processes of decision-making. The legislative elections of 2012 saw EU observers in Algeria for the first time, and the new quota system saw more than 30% of parliamentary seats go to women.

In terms of security, Algeria remains in a vulnerable situation, as it is surrounded by countries either undergoing deep political changes, electing Islamist governments, or experiencing conflict. The situation in Mali has already had violent ramifications for Algeria with the attack on the In Amenas gas plant in January 2013. Islamist terrorism and cross-border crime in the Sahel region still pose threats to Algeria’s stability. However, the Algerian army is well equipped to deal with the security situation, and geo-strategically, Algeria is now a key player in the region, to whom international powers are now focusing attention.

## History and Characteristics of Transformation

Algeria’s process of political and economic liberalization can be traced back to the riots in Kabylia in 1980, when Berber protests against cultural suppression became a catalyst for wider protests against political repression. As a result of the popular uprising, the government initiated a policy of incremental economic liberalization. In its determination to resist pressure for political reform, the regime adopted a new constitution in 1989 that allowed for the formation of new political parties. This move resulted in a more explicit social and political role for Islam. The catalyst for a second wave of protests in the late 1980s, however, can be found in the sharp decline in oil revenues in 1986. The resulting compression of imports unintentionally provoked popular discontent, which exploded in 1988.

The transformation of Algeria can only be understood upon the backdrop of the civil war of the 1990s. Following the political liberalization process, the newly-formed Islamist political party, Front Islamique du Salut (FIS), was poised to win legislative elections in 1991. To retain power,

the ruling secular party cancelled elections and staged a military-backed coup in January 1992. The coup, and the subsequent assassination of President Mohamed Boudiaf, marked a complete reversal of the process of political pluralization. After all, the short-lived period of political liberalization had been strategically designed to appease opponents while maintaining the power balance of the single party system, dominated by political clans and the army. A state of emergency was installed in 1992, significantly restricting political freedom. The conflict between the military and Islamist insurgents consumed almost all the energies of the state over the next decade.

Though Prime Minister, Mouloud Hamrouche, launched essential economic reforms after the coup, those reforms were abandoned following Boudiaf's assassination. To ease the crippling debt burden and liberalize the economy, an IMF restructuring program was set up in 1994 and reforms in the state sector were launched to prepare for privatization.

By the mid-1990s, having managed to contain parts of the insurgency, the government sought to legitimize the authority of President Lamine Zéroual who had been appointed in 1994. Presidential elections were held in 1996. Zéroual had huge support in the population including among Islamists. The population was already weary of the violence of the radical Islamists. A new constitution in 1996 provided for new parliamentary institutions and legislative elections were held in 1997. Despite intensified violence in 1997, the government launched a new program of institution-building and economic restructuring.

In 1999, new presidential elections were held that brought a former foreign minister Abdelaziz Bouteflika to power, despite a contested electoral process, with the withdrawal of opposition candidates. President Bouteflika immediately launched the process of reconciliation through the provision of amnesty, eventually establishing the reconciliation charter in 2006. He began rebuilding Algeria's international image and re-launched the economic restructuring process. A controversial privatization program was launched. New laws encouraging private foreign direct investment, especially in oil and gas, were also launched, but were later limited. In addition, major infrastructure projects were pushed forward, together with job creation and housing programs.

In the new millennium, despite lower levels of violence overall, sporadic suicide attacks continued. These were often directed at state representatives, government buildings and expatriates. In 2007, two separate car bombs exploded at the same time in staged attacks in front of the Constitutional Court and the U.N.'s Algeria headquarters. In recent years, kidnappings have taken place, particularly in the Saharan region, organized by criminal gangs affiliated with remnant groups of the 1990s conflict. Concerning the status of the Berber ethnic minority, Berber protests in 2001 led to the inclusion of Berber as a national language in the constitution. Along with the creation of the High Commission for Amazighté (Berber) and the inclusion of the Berber language in the education system, such reforms have appeased some of the claims of the Berber population. Looking at political leadership, Bouteflika was re-elected in 2004 and (after a change to the constitution) for a third term in 2009. Following the army's agreement to end its interference in politics in 2003, and the constitutional amendment in 2008, there has been a significant increase in presidential powers.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The state's monopoly on the use of force is still challenged by sporadic attacks from Islamist terrorist groups, who have remained somewhat active since the Algerian conflict of the 1990s. The northeastern regions and Kabylia were targeted by a number of suicide attacks in 2011, mainly against the state security forces. Al-Qaeda in the Islamic Maghreb (AQIM) claimed responsibility. Security staffing and policing have been significantly increased in the last five years and attacks decreased in the north in 2012.

Monopoly on the  
use of force

7

However, three humanitarian workers were kidnapped in Tindouf in October 2011 and there was another attack in Ouargla in July 2012. These were carried out by the recently created terrorist group Mouvement pour l'Unité et le Jihad en Afrique de l'Ouest (MUJAO). Such attacks indicate that the main security threats are now in the south of the country. The influx of weapons from Libya, which followed the fall of Gaddafi in 2011, contributes to the worsening security situation across the Sahel region.

The crisis in the Sahel, particularly in Mali, is a serious concern for Algeria. The Algerian border with Mali represents a largely uncontrolled region characterized by weapons and drug trafficking and other criminality. In April 2012, a Tuareg rebellion led to the proclamation of an independent state in northern Mali by the National Movement for the Liberation of Azawad (MNLA) and Ansar Dine. Algeria has been lobbying for political solutions that distinguish Tuareg groups from terrorist groups (including AQIM and MUJAO).

In January 2013, Algeria apparently authorized France to use its airspace for warplanes to begin airstrikes in northern Mali, which began on 11 January. Five days later, on 16 January 2013, an AQIM affiliated group attacked a British Petroleum (BP) run gas plant at In Amenas near the Libyan border, taking hundreds of Algerians and foreigners hostage. In total, 37 foreigners of eight different nationalities were

killed as well as 29 militants. After a four-day siege, the Algerian army stormed the plant and recaptured the site.

The Algerian nation still derives much of its self-identity from the Algerian War of Independence and the price Algerians had to pay to be liberated from France. The Front de Liberation National (FLN), which won the 1991 – 2002 war, is still the ruling party. The NATO invasion of neighboring Libya in 2011 (by former colonial powers) led to fears of a similar threat in Algeria. This, if anything, appears to have confirmed the sense of national identity. Algeria's success in sporting events in recent years (e.g., World Cup qualification, Olympic medals) has also contributed.

State identity

8

Only a very small minority of the population supports Berber movements for independence. As mentioned earlier, constitutional reforms made Berber a national language in 2002. It has also been included in the education system since 1995. These moves diffused some tensions, mainly in the Berber regions of Kabylia. Islamist extremists who pose a real threat to state identity are also a very small minority. They have little or no support from the population.

Low-level demonstrations continue over disillusionment with governance and socioeconomic problems of the largely young population. The phenomena of "harraga" (the burning of ID papers and fleeing by boat across the Mediterranean) and of self-immolation since January 2011 (sparked by Mohamed Bouazizi's protest in Tunisia) reflect a deep level of frustration with the state. However, because Algerians dealt with a decade of terrorism starting in the early 1990s, the vast majority of Algerians fear a return to violence and unrest and prefer peace over instability. The peace brokered by the president through the Reconciliation Charter of 2006, while contested, contributed to the legitimacy of the state for the large majority of the population.

Algeria is formally a secular state, but religion is utilized for political purposes. The constitution names Islam as the official religion. It also guarantees freedom of religion. The state controls religious institutions, and appoints Imams, through the Ministry of Religious Affairs and Endowments (awqaf). The secular elite are highly sensitive to any influence from radical Islamist movements. Political parties based on religion are banned by the constitution. A 2006 law criminalizes proselytizing by non-Muslims. At the same time, "correct abidance" to the rules of Islam is subject to judicial supervision and there have been cases of arrests for breaking the Ramadan fast. In contrast to the countries of the neighboring region, in Algeria, the moderate Islamist parties suffered losses in the May 2012 legislative elections.

No interference of religious dogmas

6

Basic public services are available throughout the country, though their efficiency is subject to criticism. Power cuts and water shortages are still common across the country, which has led to demonstrations, notably during the summer of 2012. New power stations are planned to deal with the increase in consumption.

Basic administration

8

Transportation systems and infrastructure have vastly improved over the last two years. The Algiers tramway and a metro system were opened in 2011 and 2012, respectively. A number of other public transportation investments and road construction projects are planned for the major cities. In addition, the \$11 billion 1,200km East-West Highway, despite delays, is almost finished.

There have also been important construction programs in the education sector and tertiary education is available in each of the 48 provinces. However, the government has not succeeded in improving access to health care facilities and medication. In fact, a number of crises, including constant shortages in stocks of medicines, particularly for cancer patients, impelled the government to replace the Minister of Health in September 2012.

Looking ahead, the government has plans to continue its ambitious public works program as outlined in the 2010 – 2014 national development plan, investing \$156 billion in a further two million housing units, as well as water, roads and rail infrastructure.

## 2 | Political Participation

In response to the protests in early 2011, President Bouteflika announced in April 2011 his wish to “launch political reforms to strengthen the democratic process.” As a result, in a radical shift from Algeria’s usual preference for non-interference (particularly by European powers), the Algerian government invited the European Union to send a mission to observe the legislative elections of May 2012.

Free and fair  
elections

6

The EU mission, consisting of 150 observers, noted improvements in the electoral process, including the increase in political parties, independent lists, additional control mechanisms, transparent urns and indelible ink. It also commended the election of 143 women to parliament (31% of seats), ranking Algeria as 28 out of 190 countries in the world for the percentage of women in the lower house (according to International Parliamentary Union). These developments resulted from January 2012 reforms of the electoral law (n°12-01), the new law concerning the representation of women in the elected assemblies (n°12-03), which introduces a 30% quota, and a law on political parties (n°12-04).

A number of weaknesses in the electoral system were noted, concerning voter registration and the absence of a “national” electoral list, which could be controlled by political parties and independent candidates. Limits to the transparency of operations in the electoral commissions were also noted. These concerned the public display of results, appeals to the constitutional council, and the independence of electoral management and supervision bodies. Fair access to the state media is not ensured. Therefore, the EU mission recommended the rapid implementation of a new

law on information (n°12-05) and the amendment of certain articles to ensure fair access for all parties. While there are weaknesses in the opposition parties, they do, at least, exist. The governing coalition of the FLN with the Rassemblement National pour la Démocratie (RND) took 33% of the seats and the Islamist Green Algeria Alliance (the Mouvement pour la Société et la Paix – MSP, Nahda, Islah), despite a last minute alliance, suffered losses, gaining only 15% of seats. Turnout was higher than previous elections at 42% (compared to 35% in 2007).

Local elections took place on 29 November 2012, with a voter turnout of 44% (after 43% in the previous 2007 local elections). The governmental coalition parties also dominated the field, with FLN winning majorities in 159 municipalities and RND in 132 (out of 1,451 in total). Meanwhile, MSP and the Green Algeria Alliance came out first in only 10 municipalities. The last presidential elections took place in April 2009. Abdelaziz Bouteflika ran for a third term, which was allowed following a constitutional amendment. Bouteflika earned 90% of the vote against five competitors in an election with 74% turnout, according to official figures.

Parliamentary elections in 1991, and the subsequent coup, led to the army's assumption of power in Algeria. The violence that followed only consolidated that power. Since 1999, however, President Bouteflika has managed to reassert civilian authority, and consolidate power in the presidency, through several reforms. The army command publicly distanced itself from politics in 2003. Nevertheless, the army's intelligence services remain effectively independent. Algerians refer to them and the clans within the military as "le pouvoir" ("the power"): an economic mafia, politically retaining control behind the scenes. The parliament remains weak and one third of seats in the Senate are appointed by the president. Recent electoral reforms, the change of government in September 2012, and the fact that several pro-Bouteflika ministers have been sacked could signal change. That said, the cabinet around Prime Minister Abdelmalek Sellal has almost no independent power, as decision-making power remains primarily with the president and the "le pouvoir."

Effective power to govern

2

Freedom of association is guaranteed by the constitution and the 1990 law (n°90-31), which significantly opened things up for associations in Algeria. In 2012, over 93,000 associations were officially registered with the Ministry of Interior and provincial authorities. This is by far the highest number of registered associations in any country across the region (Morocco: 35,000, Tunisia: 9,700, Egypt: 24,500).

Association / assembly rights

6

While associations face (sometimes politically motivated) administrative hurdles and generally have limited resources, they have also made significant advances over the last years. Since 2004, two important EU-funded programs have carried out capacity-building for over a thousand associations. The state of emergency (lifted on 23 February 2011) had previously enabled the authorities to prevent unofficial demonstrations and deny public meetings. The reconciliation charter also prevented criticism of the role of the state security services in the conflict of the 1990s.



However, active associations representing the families of the victims continue to contest this.

The new Law on Associations facilitates the creation of associations, and they can now be registered at the local level with municipalities. The law has also been criticized for reinforcing the powers of the executive over associations. The increase in the number of political parties was also facilitated by the 2012 law.

The lifting of the state of emergency in February 2011 has eased up previously tight restrictions in terms of press regulations. The restrictive libel law of 2001, which criminalizes press offences, has not been applied as frequently as in past years. The 2012 law (n°12-05) on information supposedly removed prison sentences as punishment for journalistic crimes, but the criminal code has not been amended, and the justice system appears not to be following this new legislation. For example, the journalist Manseur Si Mohammed was condemned to prison for defamation in May 2012. Journalists are also subjected to heavy fines if found guilty of an offence, such as “spreading false information,” a rather vague accusation used frequently to put journalists under pressure. It is also against the law to criticize presidential policy or the security services.

The 2013 World Press Freedom Index of Reporters Without Borders (RWB) ranks Algeria 125 out of 179, three ranks worse than in the previous review period. The state controls advertising and the broadcast media, although a law is tabled for 2013 to liberalize this sector. The dynamic national radio station is currently launching a cooperation with the BBC and the independent press continues to resist controls.

Freedom of  
expression

6

### 3 | Rule of Law

The separation of powers is guaranteed by the Algerian constitution of 1996. However, the parliament (Assemblée Populaire Nationale, APN) rarely initiates or questions legislative proposals and power has increasingly been consolidated in the executive. Since the constitutional amendments of 2008 – which were passed without debate in parliament – the prime minister has been responsible only to the president, who also appoints the prime minister. The president also appoints a third of the senate, which greatly compromises the independence of the legislature as a check on presidential power.

Separation of  
powers

4

The independence of the judiciary provided for in the constitution (Articles 138, 139 et 140) since 1996 is not fully respected, as political interference in the appointment of judges and prosecutors is commonplace. As a result, legal personnel tiptoe carefully around politicians so as not to endanger their professional careers. The president appoints and dismisses judges, and the minister of justice is in charge of the judiciary’s administration. Practical decisions about judicial competence are made by

Independent  
judiciary

4

the supreme judicial council (“conseil national de la magistrature”) but this is under the influence of the executive. The president of the human rights commission, Farouk Ksentini, declared in December 2012 the independence of the judiciary is absent in Algeria.

Corruption remains a major problem. Public servants and politicians in the past were only rarely held to account, apart from a few high profile cases. Prosecution for crimes committed by the security forces during the 1990s is impossible due to the general amnesty. In December 2011, the National Office for the Fight Against Corruption (“Office national de lutte contre la corruption” or “Office central de répression de la corruption”) was created, after a presidential decree dating from December 2009. In November 2011, Algeria News and Algeria Watch published accusations against the Minister of Public Works for taking bribes in relation to the construction of the East-West Highway. Prime Minister Abdelmalek Sellal announced in September 2012 that the anti-corruption office would be reinforced in renewed attempts to reduce corruption.

Prosecution of  
office abuse  
4

After 19 years, the state of emergency was lifted on 23 February 2011, which was a step forward for civil rights in Algeria. However, on the same date, due to the continued occurrence of terrorist attacks, the president signed a decree allowing the army to carry out anti-terrorism operations, which curbed some civil liberties. He also amended the criminal code to allow judges to place suspects in protected residences, thereby removing them from the judicial system and allowing indefinite detention. Human rights organizations fear that incidents of arbitrary arrest, prolonged pre-trial detention, denial of due process and abuse and torture of detainees may continue under these new laws. They also contest the amnesties given to the abuses committed in the 1990s. And while the state of emergency has been lifted, the right to demonstrate remains restricted in the capital. Regarding gender equality, Algerian women face discrimination under the law and in practice. Under the 2005 Family Code, women’s rights are subordinated to those of men in matters relating to marriage, divorce, child custody and inheritance. In May 2011, the U.N. special rapporteur on violence against women said the government had taken positive steps to advance women’s rights, but urged the authorities to address continuing violence against women. In terms of freedom of religion, it is fairly well- established and Algeria’s several thousand Christians are free to practice their religion in designated locations, such as churches or private apartments.

Civil rights  
5

Significant improvements have occurred over the last decade in the recognition of the rights of the Berber populations in terms of language and education. However, Berber associations continue to contest the status of the Berber language in the Algerian constitution (i.e., that it is designated a “national,” not an “official” language), the slow pace of education reforms and the lack of justice for the families of the victims of crimes committed in Kabylia in the previous decade.

#### 4 | Stability of Democratic Institutions

State institutions formally follow democratic principles, yet their quality and efficiency are questionable. The presidency continues to dominate political life, though Bouteflika, following external and internal pressure in the context of the Arab Spring, promised a number of political reforms, notably to electoral laws and political parties. If successfully implemented, these reforms could bring about significant improvements to the functioning of Algeria's democratic institutions. The lifting of the state of emergency after almost two decades was an important first step.

Performance of democratic institutions

3

The central administration and local elected bodies have long been known for their inefficiency, corruption and patronage. The elected regional assemblies (Assemblées Populaires des Wilayas) and municipal assemblies (Assemblées Populaires des Communes) handle the provincial and municipal affairs. However, the government has a reputation for having a closed-door policy that only personal connections or violence can penetrate. As a result, since 2011, a significant number of self-immolations – media reports speak of “hundreds” – have taken place across Algeria in front of public buildings. These powerful protests have been against unemployment and housing conditions, and the arbitrary, unfair or humiliating actions taken by the authorities.

Commitment to democratic institutions

2

At the national level, a number of associations and networks, notably in Oran and in Tizi Ouzou, have launched campaigns to lobby parliament. One example concerns the legislative changes to the Law on Associations. At the same time, recent reforms to political parties and the electoral system in 2012 have led to an increase in voter turnout. Such developments could signify a potentially stronger role for the parliament. However, the legitimacy of the democratic institutions is not yet accepted by the majority of the population. According to an Arab Center for Research and Policy Studies opinion poll in 2011, only 32% of Algerians trust in parliament and its capacity to monitor the government.

#### 5 | Political and Social Integration

The electoral reform of 1989 ended the one-party system and Algeria has since had multiple political parties. Political liberalization was suspended between 1992 and 1996, however, and the Front Islamique du Salut (FIS) was banned in 1992. Other political parties continued to operate legally. The electoral law and law on political parties of 2012 facilitated the creation of new parties and the state approved a number of new parties in 2012. Yet the overall image of parties in society is negative, the social roots of parties are generally weak, and they are not seen to represent the population. Low participation in election shows this clearly.

Party system

4

Over the last decade, three allied pro-regime parties have dominated electoral politics. These are the FLN, formerly the only party, the RND and the moderate Islamist party, MSP. Prior to the legislative elections of May 2012, the MSP left the coalition and created the Green Alliance with other Islamist parties. They have since seen losses in both 2012 (legislative and local) elections, which reflects the distrust of the Algerian population has for Islamist parties.

Other opposition parties include the Workers Party (PT) led by Louisa Hanoune, and the Berber parties. These include the Rassemblement pour la Culture et la Démocratie (RCD) and the Front des Forces Socialistes (FFS), which participated in the 2012 elections having previously boycotted in 2002 and 2007. The opposition remains weak and fragmented.

Societal interests are increasingly represented by associations rather than by political parties. A number of associations and networks are capable of mobilization and lobbying at the national level, such as the Wassila network (women's rights), Nada network (children's rights) and the Fédération Algérienne des Personnes Handicapées (FAPH). Certain associational movements have managed to influence policy reforms over the last years. For example, the Centre d'Information des Droits de l'Enfant et de la Femme (CIDEF) brought about quotas of women in parliament; Berber associations helped make Berber a national language and part of the education system). At the very least, they provide effective channels to bring information to citizens and local authorities.

Associations representing the victims of the 1990s civil war continue to vocally challenge the state. The Collectif Des Familles de Disparus en Algérie (CFDA), SOS Disparus and La Ligue Algérienne de Défense des Droits de l'Homme (LADDH) have also coordinated initiatives to question the legislation and practices concerning freedom of association.

Business associations are increasing and young entrepreneurs join these associations to stimulate and assist new business initiatives. The Association Générale des Entrepreneurs Algériens increased its membership by 50% to 1,776 in 2011. The women's association, Algeriennes Managers et Entrepreneurs, which legally registered in 2009, now has 400 members. The main trade union is the UGTA, which has around 4 million members. Autonomous counterpart unions also try to negotiate with the government, but claim to face problems: the authorities only recognize the UGTA.

Survey data on democratic values in Algerian society is now available from the Arab Center for Research and Policy Studies, which published its opinion poll for almost the whole Arab region in March 2012. The poll confirms the general disillusionment in Algeria with politics: only 32% of Algerians were satisfied with the political

Interest groups

6

Approval of  
democracy

n/a

system, and far fewer (18%) stated they were interested in the political affairs of the country (the lowest in the whole region).

More positively, only 15% of Algerians agreed with the statement “a democratic system is not good at maintaining order,” the second lowest after Tunisia. Only 20% felt “the democratic system is characterized as indecisive and full of bickering,” the lowest in the whole region. These last two indicators indicate approval for democracy. However, only 56% of Algerians agree with “in spite of having its problems, a democratic system is better than other systems” which ranks Algeria quite low in the region. There is also quite low acceptance of “attainment of political power by a party which disagrees with their views” (only 42%). These last two indicators seem to point to a general intolerance of the existing political parties. However, it more likely reflects the general approval of the cancellation of elections in 1992 – without which an extremist party would have come to power – and the fear of radical Islamist parties in general. According to the poll, Algerians tended to define democracy in terms of “rights, civil liberties and political freedom.” In assessing democracy in the country, the average was rating was 5/10, ranking Algeria the fourth highest across the region (Tunisian citizens gave their country an average of only 2.9/10). There appears to be a strong desire for the rule of law and accountable institutions, also demonstrated in the protests throughout the last two years. These very often directly targeted the central government and locally-elected bodies. However, fear of insecurity and violence, divisions in the opposition, and lack of effective political parties have led to a cautious approach to any suggestions for radical reform. Concerning trust in the presidency, the level of trust varies across the country, with the southern areas more strongly in support of the presidency (demonstrated by the very high voter turnout in all southern regions in the last elections).

According to the poll, 61% trust the army and 48% of the population have confidence in the government, whereas only 24% trust representative councils. The recent increase in voter turnout and electoral reform may imply the potential for this to improve.

Between 2008 and 2011, the number of associations registered at national and local levels rose from 81,000 to 93,000. Most of these are small “comités de quartier,” or mosque associations, some of which are dormant or dysfunctional. However, the last few years have seen an increasing number of dynamic social, cultural, and environmental associations, particularly in towns such as Oran or Ghardaia and in the south. While trust between citizens and the state (and political parties) is still severely damaged by the traumas of terrorism in the 1990s, trust within organizations appears to have increased. One particularly well organized heritage association in Oran, Bel Horizon, was able to mobilize almost 20,000 citizens to participate in its yearly heritage walk on 1 May 2011, from the central square of Oran up to the Spanish Fort, in its aim to reclaim the city and its history for citizens. Association Recif in Algiers,

Social capital

5

along with the national radio station and the gas company, mobilized over 100 associations, across 14 coastal regions (wilayas) to clean up the beaches in June 2012. There is a strong history of social solidarity in Algeria and social organizations represent roughly a quarter of the associations registered, according to figures on the Ministry of Interior's website.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Despite Algeria's significant oil and gas resources, and improvement in recent years, the country's rating on the UNDP's 2013 Human Development Index (HDI), remains relatively poor. Algeria ranked 96 out of 187 countries with an index of 0.698. Life expectancy is 72.9 years and 72.6% of the adult population is literate. There are no recent figures available to show what percentage of the population still lives under the poverty line, nor figures for inequalities (Gini index). GDP per capita is \$8,700, which is less than Tunisia but more than Morocco.

While unemployment has been reduced, it remains a significant cause of social exclusion and also unrest, and hence, a serious problem for the Algerian government. The latest figures from the national statistics office, released in 2010 show 10% of the active population as unemployed. However, World Bank data indicates youth unemployment was as high as 21% in 2010. This is a significant improvement since 2001, when unemployment reached 27.3% (World Bank data). Another cause for governmental concern is the fact that 72.9% of the population now (2011) lives in urban areas, compared to 63.1% in 2002. This significant increase in the urban population in less than 10 years (on top of the mass displacements during the 1990s due to insecurity in rural zones) has led to increased strain on housing and access to public services.

With regard to gender equality, Algeria scores slightly higher than average among BTI transformation countries (score of 0.412 in the UNDP 2011 Gender Equality Index, while the average is 0.451). Women have higher access to tertiary education than men (146.4% ratio female to male enrollment), but face barriers in accessing the job market.

Question  
Score

Socioeconomic  
barriers

5

Economic indicators		2009	2010	2011	2012
GDP	\$ M	138119.9	161777.8	198538.8	<b>207955.1</b>
GDP growth	%	2.4	3.6	2.4	<b>2.5</b>
Inflation (CPI)	%	5.7	3.9	4.5	<b>8.9</b>
Unemployment	%	10.2	10.0	-	-
Foreign direct investment	% of GDP	2.2	1.4	1.4	-
Export growth	%	-3.0	-	-	-
Import growth	%	16.7	-	-	-
Current account balance	\$ M	401.0	12146.0	19687.7	-
Public debt	% of GDP	10.5	11.1	11.1	<b>9.9</b>
External debt	\$ M	7368.4	7211.0	6071.9	-
Total debt service	\$ M	1051.4	671.7	633.7	-
Cash surplus or deficit	% of GDP	-4.5	0.4	-0.3	-
Tax revenue	% of GDP	34.9	34.3	37.5	-
Government consumption	% of GDP	14.2	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.6	3.5	3.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.8	3.5	4.4	<b>4.5</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Algeria began constructing a market economy after accepting an IMF standby facility in 1994. However, progress toward full liberalization has been faltering. To stem rising prices, the government has a tendency to intervene through a number of regulatory measures, such as subsidies or price caps on staple goods. Following the resurgence in oil and gas revenues, and increasing inflation, the government increased the list of subsidized commodities in 2010. Faced with protests in early 2011, the government again announced temporary exemptions on import duties, value-added-tax and corporate tax for everyday commodities. According to the Heritage Foundation's 2013 Index of Economic Freedom, Algeria ranks 145 out of 179

Market-based  
competition

4

countries. This is lower than previous years, due to worsened government spending, and fewer business and trade freedoms. According to the foundation, little progress was made on improving either fiscal governance or policies to enhance regulatory efficiency. However, in recent months there appears to be new momentum for reform from the new Prime Minister Abdelmalek Sellal, who has stressed the need to facilitate foreign investment and simplify the rules governing it. A new energy bill is currently on the table, which would abolish a windfall tax on foreign energy companies and offer fiscal incentives for unconventional energy projects. A deal has recently been signed with Renault which could potentially re-launch Algerian car manufacturing. One worrying factor is the increasing share of Algerians working in the informal sector, with their number rising from 1.6 million in 2001, to 3.9 million in 2010, according to Algeria's Statistical Office, ONS.

Although attempts were made to break up state monopolies, these adjustments have not brought about real changes so far. Changes to the hydrocarbons law in 2006 and to the government's ambitious privatization program of the early 2000s, for example, allow the state to retain control over key industries such as oil, gas and broadcast media. In the telecommunications sector, a 2009 law – which gave Algerian state companies the right of first refusal for any transactions to sell shares in foreign businesses – was applied in the case of foreign-owned Telecom company Orascom concerning the sale of its Algerian telecom provider, Djazzy.

Anti-monopoly  
policy  
4

In April 2011, among the other political reforms proposed, President Bouteflika committed to opening up the broadcast media to the private sector. A new law was sent to parliament beginning of 2013, which should end the state monopoly in the audiovisual sector.

Algeria liberalized foreign trade in the 1990s as a result of the IMF requirements for its standby support. Stiff tariff barriers were retained, however, particularly on imports. The government began removing these tariffs under the terms of the EU Association Agreement, signed in 2002, which went into effect in September 2005. This agreement established a free trade area in accordance with WTO rules, which would be established over a maximum period of 12 years. In 2012, Algeria negotiated a further three-year delay, pushing the deadline to 2020.

Liberalization of  
foreign trade  
6

On 1 January 2009, Algeria joined the Greater Arab Free Trade Area. This has led to the abolition of tariffs and a liberalization of markets for industrial and later agricultural goods between member states of the Arab League.

Despite adherence to international free trade mechanisms, there remains skepticism among Algerian entrepreneurs and authorities over the value of free trade. Due to the lack of manufacturing companies, Algeria would risk short-term losses from further trade liberalization. As a result, dismantling of tariff and non-tariff barriers has been slow. The complementary Finance Law in 2009 introduced the obligation for foreign



investors to secure an Algerian partner with a 51% share in any industrial venture, seeking to reduce imports and protect its own industries.

Algeria is a candidate for WTO membership, but has consistently declined to liberalize its trade of petroleum products. However, Algeria has recently advanced with reforms concerning its WTO membership, signing five additional bilateral trade agreements in the beginning of 2012.

Algeria came through the global financial crisis well. There is high liquidity in the Algerian banking system due to oil wealth, the obligation to sell foreign exchange to the central bank and now the ambitious public investment program, raising public expenditure. In 2011, the Algerian banking system consisted of 35 institutions, of which 20 were foreign private banks. The banking sector is mainly state owned, with 90% of assets in public banks. The Algerian banking sector is small compared to others in the region.

The capital adequacy ratio has increased greatly since 2009 reforms, standing at 18.4% in 2010. Private banks score higher than public banks, which are regularly bailed out by the government. Despite improvements, non-performing loans (NPLs) are still high at 14.9%. Structurally, the weaknesses of the Algerian financial system remain a key reason for the slow emergence of a free market economy. High liquidity ratios, in relation to total assets, illustrate the limited effectiveness of the financial sector to channel excess equity into value-creating projects.

Banking system

4

## 8 | Currency and Price Stability

After hovering around 4.5% over the last years, inflation reached a high of 12% in June 2012, before going down to 8% in November 2012. This rise was fuelled by a surge in fresh food prices and high government spending. Rises in prices for Algerian consumers – and the resulting decrease in purchasing power – ignited protests in early 2011. The government responded with price caps and subsidies on essential commodities, including water, energy and agricultural products. The structural problems of weak productivity, inefficient public spending, and the importance of the informal sector remain ongoing challenges. However, the medium-term outlook remains positive for Algeria due to high oil and gas prices.

Anti-inflation /  
forex policy

6

Regarding currency, the Algerian dinar cannot be freely converted. The rate is pegged against a basket of currencies and fixed by the Bank of Algeria. The real effective exchange rate fluctuates closely around the index value of 100. The official exchange rate ranges between 90-100 dinars to one euro. However, on the black market, the dinar is exchanged for as much as 140 dinars to one euro. The dinar has been partially convertible since 1995 for currency transactions for foreign investors. Residents and non-residents may hold foreign currencies.

The Bank of Algeria has the main responsibility in the regulation and supervision of the banking sector. It has played a key role in efforts to modernize and liberalize the financial system. Laws and regulations meet international standards, but the extensive state-owned character of banks undermines compliance. Reforms for improving supervision are underway, such as new bank rating system to manage risks. These new responsibilities, aiming to ensure financial stability, were assigned to the central bank in the 2010 banking law amendment.

Algeria has continued to maintain its expansionary fiscal stance, helping to support non-petroleum sectors. The budget deficit has improved with the rise in oil revenues. It was only 0.2% of GDP in 2011, compared to 4.5% in 2009. Algeria's current account balance in 2011 was \$19.7 billion and \$12.1 billion in 2010. Prudent fiscal and monetary policies and a favorable external environment drive Algeria's good economic performance. Public debt reduced from 25.7% of GDP in 2010 to only 8.1% in 2011. External debt has also reduced progressively each year, now standing at \$5.3 billion, compared to \$22.2 billion in 2004. Important challenges remain concerning macroeconomic stability, restoring fiscal prudence and diversifying the economy. The authorities' commitment to undertake fiscal consolidation, starting with the 2011 budget, and continued fiscal reform, is critical for this. In 2012, Algeria pledged \$5 billion to the IMF to contribute to the fund's lending capacity, signifying Algeria's strong macroeconomic position and an improvement in its international standing.

Macrostability  
8

## 9 | Private Property

Private property is guaranteed by law. Citizens have the right to acquire property, although zoning regulations can limit land use. The state respects individual rights, unless the title is ambiguous or land is wrongfully expropriated. However, as institutions are not free from corruption and political manipulation, individual rights are sometimes adversely affected. Also, purchase of land by foreign entities has been limited to avoid speculation. Legislation in 2009 made the transfer of land to foreign investors only possible through 33-year concessions, which can be renewed twice. Foreign companies have complained about difficulties in registering property. According to the World Bank Doing Business Report 2012, it takes 63 days and 10 procedures to register a property in Algeria (higher than the BTI country selection average of 51 days and 6 procedures).

Property rights  
5

The government is promoting the protection of intellectual property rights but counterfeit remains rampant and progress is slow. This is a concern for Algeria's membership to the WTO.

The Algerian state encourages the private sector and has taken measures to encourage investment from domestic and foreign sources. At the same time, privatization of

Private enterprise  
4

state companies has been delayed and the government still appears ambivalent about the process. With a prevalence of small and medium sized enterprises (SME), the private sector suffers from structural weaknesses, including difficult access to financing, lack of technical equipment and knowledge, and shortcomings in vocational training. Structural handicaps, combined with the large quantity of investment volumes handled by the state, result in slow private sector development, despite massive public investment. A national program and a number of international programs (two financed by the European Union) have been set up to support Algerian SME development. Persisting barriers include the weakness of intellectual property protection and the strong presence of the informal sector, which is beyond the reach of state regulation. According to the World Bank Doing Business Report 2012, it takes 25 days and 14 procedures to register a business in Algeria (less than the average of 27 days, but more than the average of seven procedures).

## 10 | Welfare Regime

Four national insurance schemes provides social security benefits to Algerian workers (and their families), the retired, the unemployed, and the non-salaried. Social benefits are generally linked to employment. The National Fund for Social Security (Caisse Nationale de la Sécurité Sociale de Travailleurs, CNAS,) protects more than 80% of the population. Access to public hospitals is free and prescription medicine is reimbursed. National Unemployment Insurance (Caisse Nationale d'Assurance Chômage, CNAC), created in 1994, protects the unemployed and offers training measures. The schemes are financed by joint contributions from employers and employees. Private health care has increased over recent years, although the public sector remains the most significant for health care spending (80%). Health care spending accounted for 3.6% of GDP in 2009 and 3.2% in 2010. In its five-year plan for 2010 – 2014, the government committed to investing \$6.2 billion in health care for 1,500 health facilities, including 172 hospitals, 45 specialized health complexes, 377 clinics, 1,000 health centers and 70 specialized institutions for persons with disabilities to upgrade substandard facilities.

Equal opportunity is guaranteed by law, but the persistence of corruption means that equal access to employment and public services is not ensured in practice. Education is free for all levels across the whole country. Women have higher enrollment rates than men in secondary schools and particularly at the tertiary level. There are, however, barriers in the job market for women. A 2005 amendments to the family law improved the protection of women's rights, but discrimination still remains in terms of rights to divorce and inheritance. Since 2012, quotas related to the number of women in elected assemblies have been implemented and now over 30% of elected deputies in the national parliament are women.

Social safety nets  
6

Equal opportunity  
5

## 11 | Economic Performance

Algeria managed the global financial crisis well due to its recent strong economic performance, high oil prices and massive public spending. The current account balance is \$19.7 billion. Algeria has significant foreign exchange reserves, estimated at \$200 billion in 2012, which has allowed it to cover its deficit and its expansionary fiscal policy. The country has progressively reduced both public and external debt in the last years. Algeria is classified as an upper-middle income country. GDP per capita is \$8,700, according to World Bank data (in PPP terms, 2011 figures). Total GDP was registered as \$188.7 billion, with growth at 2.5% in 2011.

Output strength  
7

While economic performance has been good over the last decade, the economy is still highly dependent on oil and gas exports, and is therefore vulnerable to international price shocks. Hydrocarbons account for around 30% of GDP. They represent 95% of export earnings and 80% of public spending. Public enterprises continue to dominate the economy. Algeria had a budget deficit of 4.5% of GDP in 2009 because of heavy public spending, but this has been reduced to 0.2% 2012 (CIA Factbook figures). Inflation rose to 9.1% in 2012, following an increase in international food prices. According to official data, unemployment has been declining; fluctuating between 10% and 11% according to World Bank figures. Youth unemployment, however, remained high at 21% in 2010.

Foreign direct investment in Algeria was 1.4% of GDP in 2010 and 2% in 2009. This remains low compared to the selected countries in the World Bank data, for which average levels were a minimum 4% in recent years. Investment outside the oil and gas sector, whether foreign or domestic, remains very low. To tackle this, the government launched a number of financial and training initiatives targeted at the private sector to support SMEs. These initiatives seek to generate youth employment and support a more diverse private sector.

## 12 | Sustainability

The Algerian authorities have given increased attention to environmental issues since 2000. That year the government created the Ministry of Land Management and Environment (Ministère de l'Aménagement du Territoire et de l'Environnement – MATE) and made the ministry responsible for developing the national strategy, which established the agencies, observatories and centers to implement environmental policy. A fund was also created in 2000 via the National Agency for Environmental Protection. In the 2012 Environmental Performance Index (EPI), Algeria ranks 86 out of 132 countries.

Environmental  
policy  
5

While the massive development programs, including large-scale road and dam construction, present risks for Algeria's environment, the government has nevertheless made significant efforts in terms of environmental legislation. The government has also displayed a commitment to integrating environmental policy goals across the different sectors. Over the last decade, there have been investments in water and sanitation infrastructure, and increasing attention paid to pesticide regulation, forestation, and responsible use of marine resources.

Attempts to tackle desertification since the 1970s (including the innovative "green belt" program designed to fight desertification) were only partially successful. The five-year plan (2010 – 2014) includes a significant program to deal with desertification in 12 provinces. Actions have been taken in cooperation with local environmental associations. In 2012, Algeria signed up for an ambitious EU-funded environmental protection program, with €34 million dedicated to protecting the coastal regions. Concerning the energy sector, Algeria is still dependent mainly on non-renewable fuels. Recent parliamentary and government debates, concerning the post-oil period, have encouraged interest in large-scale renewable energy (RE) projects. As a result, REs, including wind, solar and biomass, have been receiving government support. Substantial progress has also been made on the regulatory side to promote RE production. The RE and energy efficiency program was proposed by the Ministry of Energy and Mines (MEM) and adopted on 3 February 2011 by the government. Algeria has targets to generate at least 40% of electricity from RE by 2030. The national program, of which the national energy company Sonelgaz is a key player, includes energy capacities, energy efficiency, industrial capacities, research and development, incentives and regulatory measures. It begins with the development by 2020 of 60 solar power plants, wind farms and hybrid plants.

In December 2011, Sonelgaz signed a memorandum of understanding with Desertec's Renewable Energy Program. However, in late 2012, it was reported that Algeria has decided to postpone its decision to participate in Desertec until 2013, waiting for Germany's Desertec to approve its preconditions.

Algeria currently rates 89 out of 120 countries in the U.N.'s Education for All Development Index. This puts the country in the middle of the range in terms of achieving universal primary education, adult literacy, quality education and gender equality. Only limited figures are available (from World Bank data) for government spending on education (4.3% in 2008) and on R&D (0.07% in 2005). These figures are very low compared to the rest of the region and given Algeria's wealth and potential. However, they should increase in coming years given the substantial commitments to increased educational infrastructure in the national five-year plan. From 2010 to 2014, \$11.3 billion is allocated for 3,000 primary schools, more than 1,000 middle schools, 850 high schools and over 2,000 boarding schools and cafeterias. In higher education, \$11.5 billion is allocated to creating 600,000 additional university places, accommodation and cafeterias. Further education and

Education policy /  
R&D  
4

vocational training receives \$2.4 billion for institutes, training centers and boarding schools. Access to education is ensured. Since 1975, Algeria has provided universal free access to primary education. In 2011, gross enrollment rates for universities stood at 30.8%. Adult literacy rates are 72.6% (compared to 10% in 1962 and 60% in 1990). The state launched a massive literacy program in its 2007 – 2015 literacy strategy, in partnership with civil society organizations, mainly targeting female literacy, so the literacy rate is expected to further increase.

Despite these achievements and the massive investment in infrastructure, there are still many challenges to achieving a high quality education system, particularly given Algeria's demographic, linguistic and socioeconomic features. The education system has been plagued by poor relations between teaching staff and education ministries and higher education, notably over pay scales and union recognition. Student strikes also persist over curriculum, poor management, arbitrary decisions by administration, and lack of resources and infrastructure. The change of Minister of National Education from Abu Bakr Ben Bouzid (who had been minister for almost 20 years) to Abdelatif Baba Ahmed in 2012 may alleviate such tensions.

# Transformation Management

## I. Level of Difficulty

A number of structural constraints limit governance in Algeria. These concern the state structures, the population and the territory.

Structural  
constraints

7

With regard to the state, Algeria still faces difficulty in the process of transforming its centrally-planned socialist economy. There is still the heavy presence of state-owned industries, often with low levels of efficiency, the private sector is weak and the banking sector remains limited. Layers of bureaucracy (inherited from the colonial French system), along with high levels of corruption, weaken the capacity for effective governance. The fear of corruption also paralyzes the ministries and administrations, as directors or heads of service are usually the ones accused rather than high-ranking officials. The lack of qualified trained personnel throughout the government stems from weaknesses in the education and training system and brain drain – most recently to France in the 1990s. Many of the institutions' elite left the country during that turbulent time and, when they return, they struggle to find their place in the current the job market.

Apart from brain drain, demographic factors constrain Algeria's governance. The massive urbanization trend of the last 20 years has put pressure on Algeria's public services, particularly education, health, housing and transportation. That strain has ignited social unrest, which then contributes to rash political decisions, price subsidies and grants to ensure social calm, or as is often suggested, to "buy the peace."

On top of these factors, Algeria faces challenges due its vast territory, which renders the fight against terrorism even more difficult. The terrorism of the 1990s, and the remnants of those terrorist groups operating across the Sahara and in certain northern regions, still present a massive impediment to governance in Algeria. While the groups are contained, and no real threat to the powerful Algerian army, the constant threat of insecurity prevents Algeria from moving on with its development process. Algeria's porous and extensive borders are also difficult to control, particularly in the Sahel. The instability in the region, while making Algeria an important geostrategic player, also presents new threats in terms of terrorism, cross-border crime, trafficking, conflict, political transitions and other consequences of war, including a

potentially high numbers of refugees. Finally, a number of challenges stem from natural disasters. Flooding, earthquakes and desertification have all caused major tragedies in the last decade with significant costs in human lives and infrastructure.

There is a long history of civil society organizations and solidarity in Algeria, from religious associations, such as the Sufi “zaouias” schools, to village councils, particularly in Berber society. While these traditions were weakened both by 130 years of colonialism and 30 years of single party rule, these structures survived and still underpin a tradition of civic organization and charitable funding. Many associations still function primarily on Muslim charitable donations, known as “zakat”. A vibrant civil society also developed in the 1930s, which formed the basis of the Algerian independence movement (which developed out of organizations such as the Association of Ulama and the Association Etoile Nord Africaine).

Civil society  
traditions

5

While the highly repressive regime of the 1960s and 1970s severely limited the formation of independent organizations, the 1990 law on associations opened up the public space for freedom of association. Despite the conflict, a huge numbers of associations were created. In fact, as of 2012 there were 93,000 registered associations, far more than any other country in the region (though the majority are not active on the national level). They target a wide range of issues, such as women’s rights, youth, literacy, social services, culture, heritage and human rights. These organizations are sometimes prevented from carrying out their activities by the government or the judiciary. There are nevertheless now a significant number of dynamic, independent associations across Algeria. They contribute social services and cultural forums, and provide space for public debate. In a highly difficult post-conflict environment, which still divides society, associations have been a key factor in re-establishing social trust.

Social unrest has continued through 2011 and 2012. Strikes and demonstrations persist at the local level across the country, although nowhere near the levels reached in Tunisia in early 2011. Demonstrations are often in response to rising prices, unemployment, lack of housing and the inefficiency and lack of concern of the authorities, categorized by the term “hogra” (implying contempt with which the state treats its citizens). There have been only low-level divisions along ethnic lines since 2001, although there were clashes in the Mozabite region between Arabs and Berber Ibadites in 2009. The creation of the High Commissariat for Berber culture, and the integration of Berber as a national language in the constitution, has improved relations and responded to certain claims. With regard to terrorism, the Islamist violence of the 1990s has significantly decreased, but some terrorist activity continues. Small fragmented terrorist groups, linked to criminal networks across the Sahel, continue to operate, mainly in the Sahara. The attack launched on the In Amenas gas plant in January 2013, with a large number of heavy weapons and explosives, presumably from Libya, demonstrated the continued threat of Islamist

Conflict intensity

7



terrorism and the difficulties of dealing with international groups compared to primarily domestic ones in the 1990s.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

The Algerian government has consistently prioritized the development of a market economy – on the condition that it can protect strategic sectors from foreign influence. In the wake of ongoing unrest, President Bouteflika continues to base his government’s legitimacy on political stability, internal security and economic growth. However, the government often acquiesces to protestors’ demands by announcing temporary exemptions on import duties and taxes for everyday commodities. Such short-term responses have failed to address the root problems facing the Algerian economy. Yet over the last two years, the government has worked to find long-term solutions, increasing programs to support entrepreneurs and investment in infrastructure, industrial zones and renewable energy. These initiatives all seek to contribute to job creation, the main priority of the government.

Prioritization  
5

Another long-term priority has been the process of national reconciliation. Granting amnesty to the security forces and repentant terrorists, and the banning of public criticism, enabled the establishment of peace. However, the needs for truth and justice are still not met and the process of reconciliation is an ongoing priority. Developments since January 2011, namely the Arab Spring, have led the government to make a number of reforms. Improvements in the electoral process, the increase in the number of women in parliament, and the serious reflection on the post-oil period, signify a longer-term perspective on behalf of the government. Changes in key ministries such as education in September 2012 – which entailed removing ministers which had been in the government for decades – also symbolizes the potential for real reform that prioritizes the social sectors. Algeria carefully protects its sovereignty, particularly since January 2011. Here, international donors have little influence in policymaking.

In the framework of the government’s strategic priority to achieve a diversified economy, it has initiated and scaled up a number of ambitious programs over the last two years. These include micro-credit programs, incentives for entrepreneurs to employ young people, and new education and training opportunities. Infrastructure investment has included integrated industrial zones and improving Algeria’s transportation system. R&D into renewable energies have also been implemented as part of the government strategy to strengthen the economy.

Implementation  
5

These programs have all contributed to job creation. However, the difficulty of effectively managing, targeting, and monitoring these initiatives still present obstacles for their successful implementation. It is not clear whether they are successfully and rigorously evaluated and the conclusions fed back into policymaking. For example, many of the integrated industrial zones established in the regions in 2011 and 2012 were still empty; local businesses were either not there to take the spaces constructed, or there was a lack of training, support, or finance for start-ups to emerge. There was also frustration with the micro-credit and grant system, due to the concentration of similar start-ups in certain areas and limitations in terms of planning, training and support. For example, many start-up grants were used to purchase vehicles without a clear business plan, leading to particular types of SMEs flooding the market and damaging already established small businesses. However, a number of successes are also noted and the government has recently announced improved repayment rates on the start-up loans.

Algeria is still suffering from the consequences of the conflict of the 1990s. During that period, its institutions and administration came under extreme pressure from terrorist violence. Many well-trained and educated citizens were killed or fled the country, and the government was unable to renovate the basic infrastructure and ensure training of personnel. The traumas experienced by the population resulted in an environment with low levels of trust. The absence of international organizations and businesses during this period also limited knowledge-exchange and the transfer of best practices. As a result, policymaking and learning stalled in all sectors, including the government. The age of leaders also affects willingness and flexibility to accept new approaches. Consequently, the government has often not managed to learn from the limited results of previous policy initiatives, which have not succeeded due to poor implementation and evaluation. However, the improvement in cooperation with the European Union and other international actors, and the ambitious development projects of the state, could bring about changes. A number of successes, particularly in terms of infrastructure and international cooperation, for example the signing up to the European Neighborhood Policy, could signify the potential for improved policy learning. Although temporarily blocked, the launching of new cooperation projects in renewable energies could also improve policy learning and sharing across the region.

Policy learning  
4

## 15 | Resource Efficiency

The Algerian government suffers from weak human resource management, poor recruitment policies and corruption. The lack of training opportunities also hinders the efficiency of the administration. Weak transparency in dismissals and appointments of public servants contributes to the fragility of government administration and the potential for political matters, rather than merit, to influence

Efficient use of  
assets  
4

recruitment decisions. Pressure to reduce unemployment, and the weakness of the private sector to absorb young professionals, also contribute to the public sector continuing to recruit on a high level. This often leads to conflicts and efficiency problems. The Algerian budget, while vulnerable to fluctuations in international oil and gas prices, is balanced, and debt has been reduced in the reporting period. Algeria now has \$200 billion in foreign currency reserves. The success of the ambitious national five-year development plan depends on reforms within the administration, particularly concerning human resource management and the other problems outlined above, to ensure effective implementation of the policy goals.

The government's priorities and plans of action are clearly stated in its five-year development plans. The presidency maintains oversight of the government's priorities and the coordination of potentially competing interests. While it is difficult to assess, competing interests, such as rapid development of infrastructure and agriculture versus a strong environmental protection policy, appear to be managed well. Conflicting objectives of security and development remain a challenge, and in the 2013 budget (totaling \$68 billion), security issues seem to have priority over developmental goals. For example: 19% of the budget is reserved for defense spending, 4% for agriculture, 7% for health and 14% for education.

Policy  
coordination  
5

The huge investment in renewable energy also has the potential to contribute to other priorities, such as job creation for youth and improving R&D.

Financial controls remain weak, state banks do not yet effectively regulate financial affairs and the Cour des Comptes (Auditing Office) is subject to interference. Institutional monitoring of project performance and budget management is also weak. However, since the 2006 anti-corruption law was enacted and the presidential pledge to fight corruption in 2009, the government has stepped up action to tackle corruption more effectively. In October 2012, Prime Minister Abdelmalek Sellal once again announced a stronger campaign to tackle corruption, spearheaded by the anti-corruption bureau, the Office National de Lutte Contre la Corruption (set up in 2011) and the Ministry of Justice. A number of high profile cases and accusations, including one against the state-owned petroleum company, Sonatrach, the East-West highway consortium, ministers and international companies, indicate that the tightened legal frameworks are being implemented. As a concrete example, Sonatrach CEO Mohamed Meziane was sentenced to two years in prison for misusing public funds in May 2011.

Anti-corruption  
policy  
5

## 16 | Consensus-Building

In contrast to the previous decade, the uprisings in Algeria in early 2011 in the context of the Arab Spring were motivated neither by Islamists nor ethnic tensions. There is a general consensus within the population, and across religious and ethnic lines, about

Consensus on goals  
5

the problems facing Algeria. These problems include the repressive security apparatus, the arbitrary character of many state policies, the lack of accountability of institutions, social exclusion and unemployment. There is also consensus across political groups, as demonstrated during the Arab Spring, that Algeria first and foremost should prioritize political stability, economic development and non-violence.

Since the consolidation of power in the presidency over the last decade, the military has interfered less in the daily affairs of governance in Algeria than it once did. However, certain elements of the military's higher ranks have benefitted from the current economic and political system, (particularly in obtaining property and monopolies on imports) and have acted to block further liberalization. Islamist political parties have been weakened, as seen in the 2012 elections, and those that are active participate in the democratic process and publicly adhere to democratic goals and market liberalization. A small fraction of anti-democratic radical Islamists continue to operate but have little support in the population. The new government under Prime Minister Sellal since September 2012 may signal further impetus for reform.

Anti-democratic  
actors

4

Previous ethnic and religious cleavages have been clearly reduced over the last decade. Ongoing tensions are far more related to social exclusion and civil rights than to ethnicity or the role of religion in public life. Since 2011, subsidies have been widely distributed to reduce social tensions. Certain concessions have been given to Islamist parties, who have been integrated into the governing coalition since the 1990s. There is a general consensus that Islamism is no longer a political project. Even support for moderate Islamist parties has dissipated. At the same time, there is a strong increase in desires to place Islam at the center of Algerian social life and identity.

Cleavage /  
conflict  
management

6

The Black Spring riots in Kabylia in 2001, following the death of a Kabyle student in police custody, led to certain concessions from the government regarding the inclusion of the Berber ethnic minority. Berber was made a national language in the Algerian constitution in 2002. The High Commission of Amazighité, created in the mid-1990s, continues to promote reforms such as the introduction of Berber into the education system.

Since January 2011, the government has launched a number of political reforms and consultation processes which have met with varied responses from civil society actors. Concerning the law on associations of 2012, for example, the authorities consulted a wide number of organizations across the country and diffused the draft law for comment. It was widely circulated. Associations lobbied parliament concerning this law and those related to the media and political parties. While their

Civil society  
participation

5

criticisms were not all taken into account, the consultation process was a step forward and lifted expectations from civil society regarding future participation.

President Bouteflika's 2006 reconciliation charter is widely acknowledged to have brought peace to Algeria following more than a decade of violence that started in the 1990s. However, much of the population, particularly the families of the some 100,000 victims of the conflict, regard the amnesties given to both the state security forces and terrorists, and the imposed silence, as deeply unjust. Compensation has not facilitated real reconciliation, particularly for the families of the disappeared, who continue to demand to know the truth.

Reconciliation

7

## 17 | International Cooperation

During the 1990s, international assistance to Algeria was dramatically reduced. Not only were international groups wary of working in a conflict zone, but terrorists directly targeted foreigners, causing most to jump ship. As a result, the Algerian government was forced to be self-reliant. In addition, Algeria has traditionally been wary of external involvement in its development plans, and has kept international donors at arm's length. In any case, given its oil wealth, Algeria does not need financial assistance. As a consequence, the Algerian national development plan does not include donor assistance programs, which are minimal in comparison to national spending.

Effective use of support

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However, over the last decade, the Algerian state has acknowledged a need for technical support and cooperation in pursuing its economic growth and development plans. As a result, it has signed on to a number of agreements. For example, Algeria signed an association agreement with the European Union in 2002, which went into effect in 2005. However, the implementation rates (or spending versus commitments) of donor funding – though improving in recent years – have been very low, as can be seen in the two EU MEDA programs since 1996.

Relations with certain Gulf states have been strained over the last two years, particularly following Qatari support to Islamist parties in North Africa following the Arab Spring. The recent law on associations seeks to limit, or render transparent, external support to associations coming from foreign countries, such as the Gulf states, for fear of destabilization. However, there are signs that relations are improving with increasing visits, notably from the emir of Qatar. There appears to be a refocusing of relations on economic cooperation, investment and exchange of information.

China has traditionally played an important role in the country's political development having lending its support during the Algerian liberation war. It is now providing support in the form of economic and infrastructure development.

According to media reports, there are now over 40 Chinese companies registered in Algeria with 30,000 managers, engineers and workers in the country. Bilateral trade continues to increase and relations are mainly focused on trade and investment.

Under Bouteflika's presidency, Algeria has managed to restore its image on the international scene. As a key geostrategic player in the Sahel and North Africa, and a leader in the fight against terrorism, Algeria has become an essential partner for Europe, the United States and the Middle East. With its renewed foreign policy and status as an energy supplier, Algeria is also considered one of the most difficult partners, particularly for the European Union, as it refuses to sign up to regional standardized agreements. Negotiations for the Association Agreement and European Neighborhood Policy are said to have been difficult ones. Complex bilateral relations with France play a part in this sometimes strained partnership with the European Union. However, the EU observation mission in 2012 is a clear example of improved credibility on the international scene and a willingness on the behalf of the Algerian government to cooperate with the European Union to achieve this.

Credibility

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Algeria has had stable relations with its regional neighbors. It is an active member of the African Union, and since January 2009, a member of the Greater Arab Free Trade Area. Within the Maghreb, however, the changes to Islamist-led governments, brought forth by the Arab Spring in 2011, has helped Algeria somewhat in its relation with other states. The state visit by Tunisian President Moncef Marzouki in February 2012 led to further calls to re-launch the Arab Maghreb Union (AMU). This has been blocked for years, in part due to the ongoing dispute over Western Sahara, between Algeria and Morocco. Though there are no reliable signs for a "rapprochement" between Algeria and Morocco yet, the AMU member countries eventually decided in January 2013 to establish a joint investment bank, which was originally proposed in 1991, but constantly postponed due to the Western Sahara conflict. It is equipped with \$100 million and shall finance investment projects in the Maghreb region. The conflict in Mali, and instability at the borders of Niger and Mauritania, underline the need for greater regional cooperation, and Algeria is taking a lead in this, as is Morocco.

Regional  
cooperation

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## Strategic Outlook

The Arab Spring has provided an opportunity and an imperative for Algeria to accelerate both political and economic reforms. The short-term macroeconomic outlook is positive due to Algeria's significant oil wealth and \$200 billion in foreign exchange reserves. A number of challenges remain, however, which the Algerian government is in the process of tackling.

Firstly, there is the need to diversify the economy away from oil and gas dependency. This will create jobs and ensure a more sustainable energy policy. Further action is also needed to improve the business environment for small businesses and independent associations. This would involve capacity-building in the form of training within institutions so as to ensure a positive and constructive approach between the administration and citizens.

Secondly, there is the need to modernize and strengthen the civil service, so as to effectively implement the government's very ambitious development programs. This process would include ensuring transparency and reinforcing the justice system to improve the fight against corruption. Actions and results in this field need to be communicated to the population to restore confidence in the public sector.

Thirdly, the health and education systems need serious investment in terms of infrastructure, but also in terms of training and better conditions for health care and education professionals. Such investment would improve conditions for workers and for the citizens who would benefit from improved public services. In the education system, improving language training for Algerians (in all the languages of the country) would strengthen the position of young people in the job market and in the public sphere. In addition, improving the opportunities for the Algerian community abroad to return to Algeria and invest in businesses, or work in the education and health sectors, would support the opening up of the Algerian economy and encourage knowledge sharing. It would also contribute to a more dynamic, internationally oriented market, which would create new employment opportunities.

Finally, Algeria is now a central player in geostrategic terms for the whole region. Algeria can influence international politics and the management of the crisis in the Sahel. Having significant experience from its own conflict of the 1990s, a well-trained and well equipped army, and in-depth knowledge of the region and population, Algeria has the potential to develop a strong foreign policy with the West on these questions. Therefore, not only would Algerian involvement improve the current situation in the Sahel and contribute to improved regional cooperation, it would potentially lead to a stronger negotiating position for Algeria in general. In such a position, Algeria would be better placed to pursue its current policy of gradual liberalization, while ensuring that its own domestic market is not damaged.