Stagnation or Growth? Algeria’s development pathway to 2040

Algeria's current development trajectory

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Governance and the deep state

In addition to the scars of the brutal civil conflict in Algeria (from December 1991 to February 2002), the country's political system has become increasingly lethargic and its economic framework is performing poorly. The economy has been bedevilled by overregulation, cronyism, corruption, lack of innovation and dependence on a rapidly declining hydrocarbon industry.

Like many other societies in North Africa, Algerians show increasing disenchantment with a political system that prevents many from participating in gainful economic activities.[1] This widespread dissatisfaction, coupled with an economic environment that offers few opportunities, has repeatedly triggered the formation of Islamist fundamentalist and extremist groupings in the country.

In response to the first wave of the Arab Spring, the government of Algeria (GoA) instituted a set of political reforms in 2011 in an attempt to undercut the rising tide of discontent. It ended a 19-year-old state of emergency, increased female representation in elective posts and expanded subsidies.[2] High oil prices allowed the government to increase spending on various social programmes in an effort to ensure stability.

However, later that year its eastern neighbour, Libya, descended into civil war in a region characterised by poor border control and rampant organised crime and smuggling.[3] It was only the size and efficiency of its large security establishment that allowed Algeria to contain the destabilising impact of the spread of weapons and the influx of terrorism.

Oil rents have allowed the regime to promote social stability and co-opt several opposition groups. State subsidies (which amounted to €62.8 billion in 2018)[4] cover a vast array of goods and services ranging from bread and milk to energy, water and social housing.

The drop in oil prices since 2014 has, however, constrained the ability of the state to implement social programmes and so dampen the impact of rising popular discontent. This disaffection is the product of years of economic stagnation, high unemployment, extreme labour market segmentation and chronic corruption.

Discontent peaked in February 2019, when then president Abdelaziz Bouteflika announced his intention to stand for a fifth presidential term in the April 2019 elections.[5] Long confined to a wheelchair, incapacitated and presiding over a government considered corrupt and elitist, his announcement triggered weekly protests by millions of Algerians in what became known as the *Hirak* movement.

With no signs of the protests abating, Bouteflika eventually announced that he would not seek re-election and then postponed the elections. This did not quell the protests and eventually the military forced his resignation.

For over a year Algerians protested twice a week and promised to keep doing so until the country achieved what they considered to be 'genuine reform'. This included a complete overhaul of the regime and free and fair elections. The establishment of a new electoral authority also failed to halt the protests.

The election that took place on 12 December 2019 was a dismal and widely boycotted affair. The candidates were all perceived to be part of the same political establishment that gave rise to protestors' discontent. Former prime minister

Abdelmadjid Tebboune, a perceived loyalist of the ousted president, won the presidential vote with the lowest voter turnout in the country's history.[6]

With the arrival of COVID-19, street demonstrations have been banned but protestors have vowed to resume marching, with the possibility of escalation.[7] The *Hirak* movement is now faced with both a pandemic and police repression as it struggles to maintain its momentum.[8]

The sustained anti-government protests have extended beyond demands for change in leadership and bridge religious, ethnic and tribal divisions in an unprecedented display of unity of purpose.

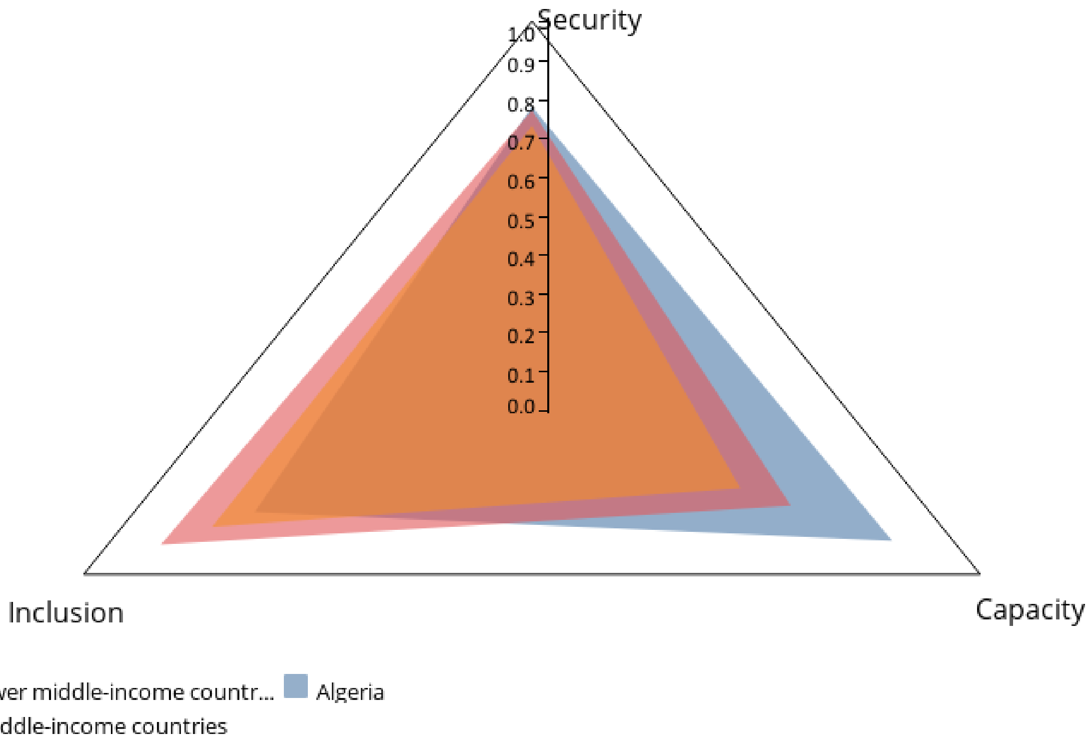
The demands are wide-ranging, including a broad-based renewal of the social contract, the dissolution of the ruling elite and their control of the economy, and the end of the dominant role of the military in political and economic matters. Other demands include more democracy, rule of law, individual freedom and equal opportunity. Exactly how this is to be achieved is less clear.[9]

To date, the protests have generally been non-violent, but the impact of COVID-19 will inevitably increase the sense of desperation among Algerians, many of whom are deeply distrustful of the government. The potential for violence is high.[10]

Regardless of the domestic situation, it is clear that governance in Algeria is out of step with its peers globally.

Within IFs, governance consists of three dimensions, namely security, capacity and inclusion. Each is constructed out of a series of subsidiary data and indices. Chart 2 compares Algeria, OLMICs and UMICs in 2020. Whereas Algeria does well compared to UMICs in the security and capacity dimension, it trails in terms of inclusion, which consists of broad elements of democracy, gender empowerment and youth participation.

Chart 2: Algeria vs Other lower middle-income countries and Upper middle-income countries on IFs governance triangle in 2020



Source: IFs version 7.53

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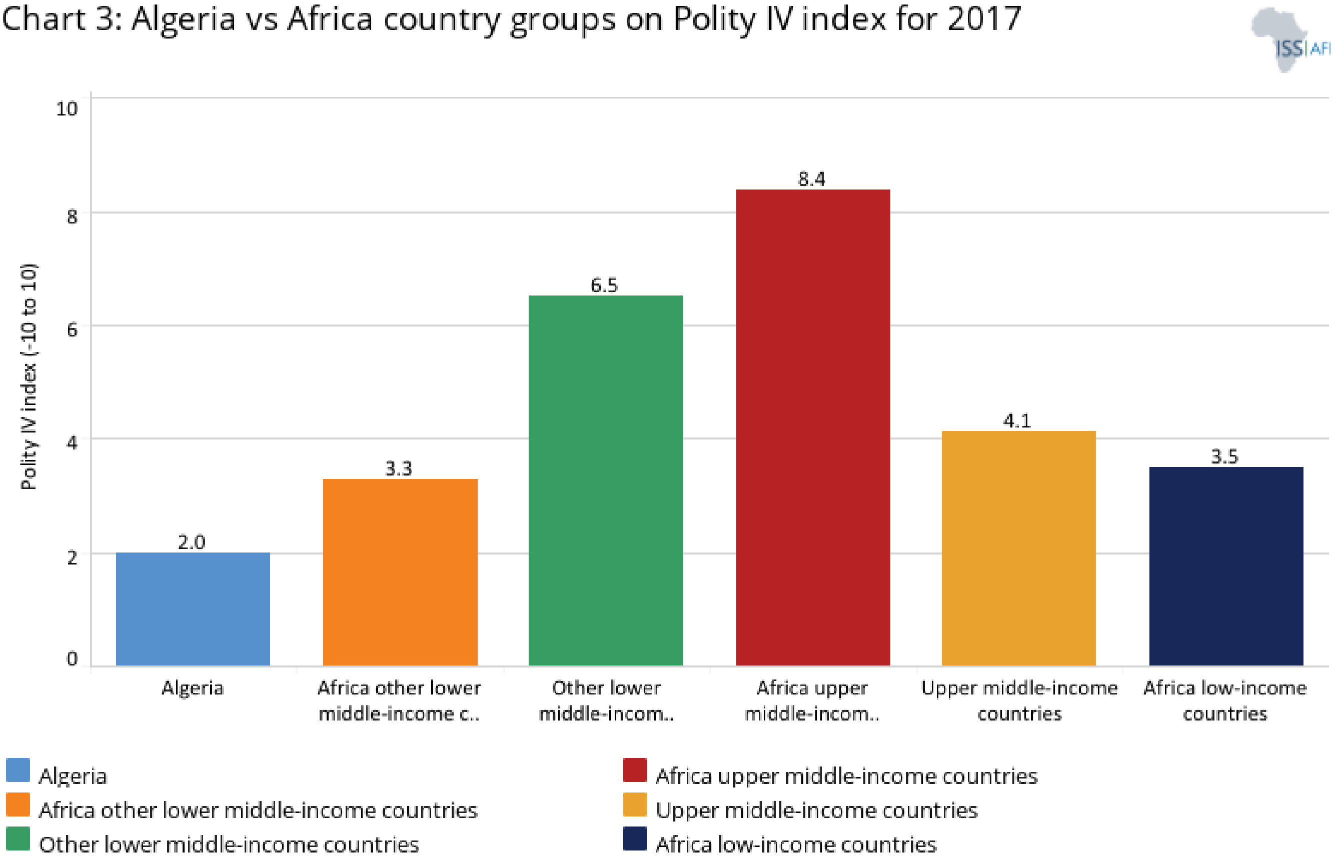
The Polity IV composite index from the Center for Systemic Peace (CSP) categorises states according to their regime characteristics. It provides a spectrum of governing authority types from full autocracies, to mixed systems or anocracies, to fully institutionalised democracies. The index [11] currently ranks Algeria as an anocracy (or hybrid regime) [12] with a score of 2.7, about 3.6 points (or 57%) below the average index for OLMICs on a scale that ranges from -10 to +10.

Algeria therefore has a substantial democratic deficit compared to its peers, and recent socio-political events underscore the extent to which most ordinary Algerians are aware of this gap.

Chart 3: Algeria vs Africa country groups on Polity IV index for 2017



Source: IFs version 7.53, data from the Center for Systemic Peace
Note: The group Africa other lower middle-income countries, Africa upper middle-income countries excludes Libya

Whereas the average Polity scores for OLMICs all fall within the stable range of multiparty democracies (i.e. with scores of more than +5),[13] Algeria is considered to have an anocratic, mixed or hybrid regime type (countries that score from -5 to +5). Anocratic regimes are inherently unstable since they have elements of a democracy (such as regular elections) that raise expectations of citizens' power and participation but co-exist with elements of autocracy (such as limited legislative powers), as evident in Algeria.

The third and final index is from the Varieties of Democracy (V-Dem) project, which distinguishes between substantive (or liberal) [14] vs electoral (or nominal) [15] democracy. According to V-Dem historical data, [16] Algeria's electoral democracy score has improved but the gap between electoral and liberal democracy has grown.

This reflects the extent to which Algeria goes through the motions of regular elections, yet the elections lack legitimacy and many of the independent institutions typically associated with democracy are absent or exist in name only. The levels of liberal democracy have largely remained unchanged.

The promise of democracy is therefore unfulfilled, and it is inevitable that frustration among citizens is mounting. The result is a divided government faced with a range of challenging issues, including political legitimacy, economic hardship, social discontent and terrorist threats from both domestic and neighbouring networks. [17]

Achievements and the problem of subsidies

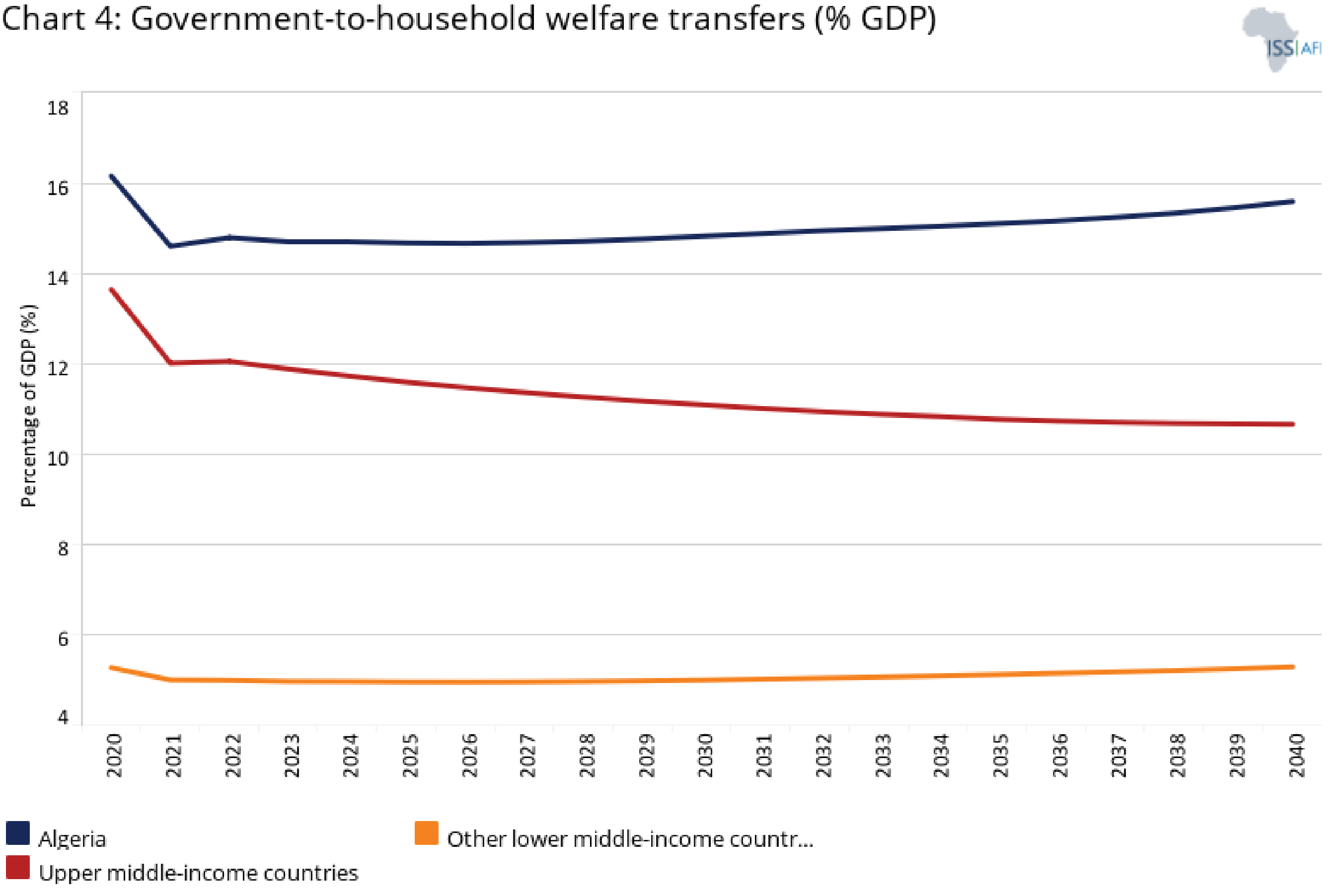
Algeria has a vast system of subsidies through which the GoA has managed not only to provide impressive levels of access to services such as water, sanitation and electricity but also to ensure social stability. [18]

Budgeted transfers are found in food products, the housing sector and the financial sector through loans at low interest rates. Apart from these explicit transfers, the prices of essentials such as water, fuel and electricity are set well below international market rates and those of neighbouring countries like Tunisia.

However, the associated price distortions have led to large-scale waste and environmental damage and made the cost of transition towards renewable energy sources and diversifying Algeria's economy both high and painful.

These price distortions also encourage the smuggling of goods, particularly fuel, increase social inequality (since they largely benefit the middle class) and create economic inefficiencies.[19]

Chart 4: Government-to-household welfare transfers (% GDP)



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For example, water scarcity has long been a challenge in Algeria and threatens to be further complicated by rapid urbanisation and climate change. Despite climate change and the complexity of water availability and supply, Algeria's access rate to safe water is at just over 98%, achieved through massive subsidies that discourage conservation efforts.[20]

Algeria has one of the lowest water prices in the region, in spite of the scarcity of water and its reliance on expensive reverse-osmosis desalination plants. Since 2003 the GoA has built 11 such plants and started the construction of three new ones with a capacity of 300 000 m^3/d each.[21]

Recent revisions to the water price do not even cover the maintenance costs of existing desalination plants, let alone allow investment in more efficient water management technologies such as the treatment of wastewater.

The country's water shortage is compounded by the depletion of groundwater reserves, ageing infrastructure, supply and distribution challenges and water quality issues. The available water resources are below the acceptable standards of water potability because the country has not developed a standard policy on desalination technology.[22]

Desalination has also come with negative environmental impacts from the heavy energy consumption required, which contributes to greenhouse gas emissions.[23]

Algeria's 2015–2019 national development plan earmarked €18.3 billion for water infrastructure projects. But with the persistent drop in oil revenues since 2014, the budget is constrained. Given the GoA's history of using subsidies to quell potential social unrest, they are likely to continue—unsustainably so.[24]

The recent plunge in oil prices has left the GoA hard pressed to find additional sources of revenue. The country's large shale reserve is the current focus of government attention. However, shale gas extraction requires a lot of water and protests have already started, leaving the development of shale gas resources uncertain for the foreseeable future.[25]

The continued provision of improved sanitation (Algeria's average access rate stands at nearly 89%) is fundamentally linked to the effective management of water supply.

Algeria has achieved 100% access to electricity but this too is heavily subsidised.

Domestic demand for electricity has been growing at 20% annually since 2010. The GoA has brought additional generation capacity online to keep up with the pace of domestic demand, most of which is provided by natural gas. It plans to introduce renewable energy into the local power market to save more natural gas for export.

To that end, Sonatrach, in partnership with Eni (a private energy entity), opened a 10 MW solar power plant in the Bir Rebaa North oil production facility in November 2018. This initiative sees an off-grid PV system supplying electricity to the treatment facilities, so reducing the amount of power purchased from the national grid.

Additionally, in May 2020 the government announced 4 000 MW solar projects set to cost about €3 billion to provide solar energy for both domestic demand and export.[26]

The Renewable Energy and Energy Efficiency Programme adopted in 2011 aims to meet up to 40% of domestic power demand through renewable energy sources by 2030, mostly from solar, with 3% coming from wind. It has since set a new target for approximately 18.5 GW from renewable sources (13.6 GW of solar PV and 5 GW of onshore wind) by 2030.[27] In 2017, solar voltaic power capacity rose by 83% to 400 MW and generation increased by 50% to 87 GWh.[28]

Despite the plans for an energy shift, Algeria has been slow in implementing its renewable energy programme because of the reliance on fossil fuels and subsidies for energy products (and arguably an oil and gas lobby resisting change).[29]

Regulatory and administrative challenges impede the ability of international investors to expand and increase uptake in this sector.[30] 'Rather than using the oil and petrol wealth to diversify the economy, more than a fifth of Algeria's budget is used for subsidies.'[31]

There have been efforts to reform subsidies. By 2018 the GoA had raised diesel and gasoline prices by 48% and 54% respectively since the last price adjustment in 2016. Reforms stalled with the reversal of the consolidated fiscal policy in the last half of 2017.[32] It was expected that subsidies would again be lowered at the beginning of 2019, but instead the draft budget increased subsidy spending by 7% to account for 21% of the total budget.[33]

The GoA raised fuel prices further in June 2020 following the sharp drop in oil prices associated with the impact of COVID-19 on global growth. However, in order to avoid further social unrest, the government has opted to leave food subsidies unchanged.[34]

Recently, while discussing the new economic and social revival plan at a cabinet meeting, Tebboune tried to place more emphasis on the private sector and reducing reliance on oil and gas. However, he announced that the government would keep the country's subsidy policy unchanged.[35]

The main beneficiaries of most subsidies are civil servants, public corporations and middle-/upper-class households. Generally, subsidies do not benefit poor households but instead perpetuate inequality.

From a regional perspective, heavily subsidising goods creates incentives for cross-border smuggling, terrorism and other illegal activities, as is the case with northern Mali and Tunisia.[36]

Thanks to heavy social spending and its large security establishment, Algeria was able to quell protests during the first wave of the Arab Spring. However, this is unsustainable given its dwindling oil and gas reserves and low prices following the COVID-19 crisis. In April 2020, Algeria's Saharan blend was trading at US$20 per barrel, US$30 below the budgeted austerity measure for 2020.[37]

The state budget is slated for a further 50% cut. These factors make for a potentially disastrous situation in a situation where the social peace is already fragile.[38]

With rising aspirations, citizens are demanding better governance and structural economic reforms. The government does not have the means to effect these and its own initiatives. Its intention to hold a referendum on constitutional amendments to boost freedoms and give Parliament more powers appears to have gained limited traction.[39]

At the heart of political and economic reforms must be improvements in overall effectiveness. These consist of providing better quality public services and more civil liberties, eliminating corruption, addressing social inequalities by removing the subsidies benefiting big businesses and state-owned enterprises (SOEs), and opening up the economy to encourage fair and equal participation.[40] This will require Algeria to envision a new social pact and trust between the regime and its citizens.

Endnotes

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12. The term 'anocracy' captures the extent to which a country in this range has both autocratic and democratic characteristics. A score of -10 generally indicates a hereditary monarchy and +10 a consolidated multiparty democracy.
13. Although a number fall outside this range, such as Turkmenistan, Azerbaijan, Iran, Libya, Belarus, Cuba, etc.
14. The V-Dem codebook provides the following clarification of its liberal democracy index: 'The liberal principle of democracy emphasizes the importance of protecting individual and minority rights against the tyranny of the state and the tyranny of the majority.' V-Dem
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