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## Algeria: reform before demands turn revolutionary

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### Theme

In a context of social and economic distress, Algeria is no longer able to maintain its current approach to the welfare state while avoiding deep structural reforms.

### Summary

The challenges facing Algeria today are numerous. Yet the major problems are socio-economic and closely related to the massive drop in oil revenues. The population's habits and expectations of social benefits through a generous yet ineffective subsidy system are clashing with an **ever decreasing budget**. The older generation's commitment to the current system's 'historical legitimacy' might have a hard time containing the tensions emerging amongst the population, especially disenchanted youth. Algeria has yet to adopt a comprehensive set of socio-economic reforms and its old rulers have to commit to generational renewal and to power sharing before demands start becoming revolutionary.

### Analysis

On 4 May 2017 Algerians are called upon to vote in **legislative** elections. The last legislative elections took place in 2012, immediately after the wave of uprisings that shook the Middle East and North Africa (MENA) region. Yet Algerians, participating at an official rate of 43.14%, decided to vote for the nationalist camp represented by the ruling party, the National Liberation Front (FLN), and the National Rally for Democracy (RND). The FLN won a majority of seats in Parliament, comprising 45% of the representative body, translating to 208 out of 462 seats. The results are partly explained by the regime's capacity to buy social peace and the loyalty of interest groups by way of oil revenues.

The forthcoming legislative elections will take place in a different climate marked principally by political uncertainty, a **declining economy** and social tensions. Many specialists see the succession of President Abdelaziz Bouteflika as the breaking point for Algeria and speculate that it might lead to the country's implosion and to civil war. Despite the succession issue, the Algerian regime is **unlikely to collapse**. The political-military elite does not want to antagonise society and will make sure to keep violence at bay by organising a smooth and peaceful transition with a more representative and consensual government and president. Rather, what might be a bigger risk is not the

succession issue but the regime's inability to maintain its 'necessary generosity'<sup>1</sup> because of a long-term decline in oil revenues. Will the current demonstrations and riots shaking the country on almost a daily basis remain 'non-revolutionary'<sup>2</sup> when protesters' demands continue to be unmet?

### The end of oil euphoria

One of the biggest challenges facing the Algerian regime is on the economic level. The plunge in oil prices since mid-2014 has considerably strained the Algerian economy that is heavily dependent on hydrocarbons (95% of the country's export earnings). During the decade of high oil prices, the revenues allowed the regime to sustain a stable economy and to increase subsidies. In addition, the State amassed a substantial amount of foreign currency reserves, being the world's eighth-largest until 2013.

Unfortunately, during that decade, the regime missed the opportunity to diversify its economy and the drop in oil prices in mid-2014 impacted the country's growth, budget and exports. In short, Algeria is running low. According to the latest official figures, oil revenues have fallen from US\$60.3 billion in 2014 to US\$35.72 billion in 2015 to US\$27.5 billion in 2016. The country experienced a trade deficit of US\$17.84 billion in 2016, compared with US\$13.71 billion in 2015. In order to fund its budget and to be able to continue providing subsidies, the government relied on its foreign currency reserves. As a result, they declined from US\$194 billion in December 2013, to US\$179 billion in 2014, to US\$143 billion by 2015. According to the Governor of the Banque d'Algérie, Mohamed Loukal, reserves were at US\$114.1 billion by the end of 2016. Loukal explained that, despite the decline, foreign exchange reserves remain above the US\$100 billion mark and that the Algerian government can maintain it at that level for 2017-18. This goal could be reached if oil prices stabilise. A promising step in this direction came from the Vienna Agreement in November 2016, in which 14 OPEC countries agreed to freeze production at 32.5 million oil barrels/day, which made the price per barrel rise by 8% to US\$50. Yet this will neither be enough to revive the energy sector nor to maintain spending at the usual level. With subsidies that cost 13.6% of GDP in 2015, the State needs a barrel at US\$96.

In response, the government was forced to cut expenditure by 14% in the 2017 budget, compared with 9% in 2016, and adopted a new set of measures. For instance, fuel prices, VAT, electricity and vehicle registration tax were raised to 36%. More recently, the government decided to 'rationalise' its imports by applying new import licences, reducing the imports of vehicles and cement, and halting citrus fruit imports. In addition, several construction and transport infrastructure projects were put on hold or postponed, followed by a hiring freeze in the public sector, affecting some 41,000 jobs. The government announced in late 2015 that it was considering the suppression of one million positions in the public sector, which will have a 40% impact on the country's 2.5 million civil servants.

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<sup>1</sup> Jaffrelot, Christophe (1994), 'Ouvres pies et rationalités économiques en Inde', in Jean-François Bayart, *La réinvention du capitalisme*, Karthala, Paris, p. 145.

<sup>2</sup> Rasmus Alenius Boserup (2016), 'Contention and Order', in *Algeria Modern: From Opacity to Complexity*, C Hurst & Co Publishers Ltd, p. 58.

Other government actions were to open up the business sector and further measures since 2016 to boost the private sector. As an example, private investors (Algerian citizens or companies) are now allowed to purchase up to 66% ownership in a State-owned company, although sales must be approved by the council of ministers. In addition, measures have been taken to facilitate investment and establish businesses. For instance, a new user-friendly online information portal dedicated to business creation/registration has been created. Several requirements such as obtaining managers' criminal records or having a minimum capital for business incorporation have been eliminated. It is no longer necessary for a foreign investor to obtain the approval of the National Investment Council (CNI) before beginning a project. Potential investors can be in direct contact with the relevant Ministry to register and set up their businesses.

The State has taken these important first steps but the business environment remains unfavourable, with a burdensome bureaucracy, complex regulations and time-consuming procedures. According to the World Bank's *Doing Business 2017* report, when it comes to the facility of starting a business, Algeria ranked 142 out of 190 economies in 2016 while its neighbour Morocco ranked 40th. Opening a business in Algeria involves 12 procedures, takes 20 days and costs 11.1% of income per capita, while in Morocco it requires four procedures, takes 9.5 days and costs 7.9% of income per capita. As for the subsidy system, while the government has been talking about cutting subsidies, the steps it has taken towards this end are hesitant. Generalised subsidies are not only a burden to the State but they are also regressive as they benefit the rich more than the poor. As for the diversification of the economy, it remains more rhetorical than a reality. Bouteflika's policies are a continuation of those adopted by past governments, in which rent was at the heart of social and economic development with a strong interventionist State.

### A social life punctuated by demonstrations

Despite the welfare system in Algeria that subsidises a wide range of products from food, fuel, electricity, natural gas and water, to housing, transport, education and interest rates, social dissatisfaction and tensions are palpable throughout the country. Demonstrations have been spreading to new localities, reaching southern areas that were previously known to be calm. The majority of these protests are not political but social, denouncing the high costs of living and food. They are also demanding affordable water, gas and electricity, in addition to social housing, increased employment opportunities and improved work and school conditions (better salaries, increased security and more days off). Collective mobilisation takes different forms, ranging from peaceful public marches or sit-ins to road blocking, occupying public squares, blocking access, attacking public administrations, police stations and private companies, or initiating hunger strikes.

In 2015, the General Directorate of National Police (DGSN) registered 6,188 protests during the first six months of the year, compared with 3,866 events in the same period of 2014. This is a 62% increase and an average of 35 protests per day. Most of the time, protests are against the rising cost of living or demands for social housing. For instance, 974 of the 6,188 protests in 2015 were conducted by citizens to request social housing—a major social problem—. The housing programmes initiated by President Bouteflika in

1999 had an overall positive impact. Between 1999 and 2004 some 810,000 housing units were built, 912,326 between 2005 and 2009. Despite the State's efforts, from 2010 to 2014 only 693,000 units of the 1.2 million planned were produced. In 2015 the Ministry of Housing and Urban Development reported that there was 720,000-unit deficit. This is partly due to lengthy bureaucracy procedures, the mismanagement of funds and corruption and a growing population. Other demonstrations and protests denounce high prices and 'the ever rising costs of quotidian expenses'. In Algeria 5.5% of the population is believed to live in poverty and 10% –4 million Algerians– are at risk of slipping into a state of poverty.

Most of the time, people protest spontaneously without a political figure behind them and ask the State for more equitable treatment and for policies of fairer redistribution of government services. It is a parental paradigm where the State is seen as 'the big man', the 'symbolic father' who is supposed to 'fulfil its responsibilities' to better serve its citizens or to be more egalitarian by removing, for instance, a law seen as prejudicial. This was the case with the famous slogan 'No to the finance Law' that led to violent riots in January 2017. Since the nationalisation of natural resources under Boumediene in 1971, the population envisages its relationship with the State according to an implicit agreement of exchange: it gave its oil to the State and expects full compensation. The State is permitted to freely dispose of oil, among other resources, provided that it ensures the redistribution of its revenues in the form of political wages and other social benefits. In short, the State was and remains, according to this paradigm, the provider of basic social services for the population. Refusing or being unable to deliver on this promise is seen almost as a form of 'parental neglect', thus provoking angered reactions and eventually violence.<sup>3</sup> Through these forms of mobilisation, Algerians are tacitly asking for their share of the oil rent. A request that is, according to many, more legitimate than ever since several cases of corruption and nepotism involving high-ranking officials were revealed by the national media. As explained by Dahmen, a 32-year old restaurant owner in Algiers:

'We are not asking for much: we want jobs, houses, food, a decent life and dignity [...]. This country is very rich, they take the money of the oil, so do we! It is normal to give us our share. We want our share! It is our soil too and we deserve a portion' [Algiers, December 2016].

The feeling is that the benefits and privileges of oil revenues are given to only a small clique of officials and their networks, which are also monopolising the business sector. Hence, the ordinary citizen, referred to as *el zawali*,

'... is left only with crumbs as everything goes in their pockets. They just don't care about us, about the people. [...] We need them to be fair and take their responsibilities' [Lamia, a 33 year-old owner of a beauty salon in Draria, a suburb of Algiers, December 2013].

According to the Arab Survey Barometer, 40.8% of Algerian respondents think that the government and political leaders do not care about ordinary people, compared with 7.4%

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<sup>3</sup> Moussaoui Abderrahmane (1998), 'La violence en Algérie. Des crimes et des châtements', *Cahiers d'Études Africaines*, vol. 38, Cahier 150/152, p. 267.

who strongly think they do care. Up to 18.2% agreed with the statement that officials cared about them while 33.7% disagreed strongly. Frustration over corruption has strengthened this feeling of distrust towards the authorities. Indeed, corruption is a major problem in Algeria. According to Transparency International's 2016 Corruption Perception Index, Algeria ranks 108<sup>th</sup> out of 176 countries worldwide and 10<sup>th</sup> out of 20 in the MENA region.

To fight corruption, in 2010 the State 2010 the National Organisation for the Prevention and Fight against Corruption, as stipulated in the 2006 anti-corruption Law. In 2013 the Central Office for the Suppression of Corruption (OCRC) was established to investigate and bring to trial any form of bribery in Algeria. The same year, a new regulation gave more power to the Financial Intelligence Unit to report illegal monetary transactions and terrorist funding. To show the extent of its will to tackle corruption issues, the State prosecuted several high-profile figures of the State-owned oil company, Sonatrach. The Sonatrach 1, 2, 3, 4 cases made the headlines for months. Numerous personalities, including the CEO, Mohamed Meziane, his two sons, the top management officials and the former Minister of Energy and Mines, Chakib Khelil, have been accused of receiving bribes to allow large foreign companies to win multi-billion dollar contracts. Several people have been given prison sentences ranging from 18 months to six years as well as fines of up to US\$45,000. Another major corruption scandal that dominated the news for months was the East-West highway. Twenty three defendants, including foreign companies (Canadian, Chinese, Japanese and Portuguese), were put on trial for embezzlement of public funds, criminal association and money laundering. The sentences ranged from one year to 10 years in prison and up to US\$70,000 in fines. Nonetheless, the sentences and fines ruined the State's credibility in its so-called fight against corruption and showed the extent of political interference in the judicial system. As a result, the lack of a genuine political will, the absence of transparency and bloated bureaucracies continue to contribute to corruption.

### Being young and 'navigating the system'

The Algerian regime is facing another major challenge: youth employment. This is aggravated by the demographic complications of a birth rate standing at 26.03%, with one million births in 2015. According to a 2016 World Bank report, unemployment stood at 11.2% in 2015 and there was no change identified in the first half of 2016. Out of a population of 39,666,519, around 26% is aged between 15 and 29 years, accounting for a considerable percentage of the country's population.

Professional opportunities are obstructed by high level and widespread corruption, as well as by *hogra* (injustice) and *ma'rifa* (the use of connections, ie, nepotism). Most Algerians with whom this author discussed agree on these terms for describing the system and the lack of professional opportunities. According to the National Office of Statistics (ONS), young individuals between the ages of 15 and 24 are the first victims of long-term unemployment, accounting for 38.8% of all unemployed people. Having a diploma is no longer seen as a guarantee for employment in the labour market and Algerian youth lack confidence in the educational system. In Algiers, a common phrase used among many students and graduates is that the 'university is training the unemployed'. In fact, 32% of young graduates are unemployed.



Employment policies put in place since the late 1980s have been strengthened over time through the reorganisation of the National Employment Agency (ANEM) and the creation of four new agencies: The National Unemployment Insurance Fund (NACC), the Social Development Agency (ADS), the National Agency for Microcredit Management (ANGEM) and the National Youth Employment Support Agency (ANSEJ). According to the ANSEJ's General Director, Mourad Zemali, more than 23,676 micro-enterprises were created in 2015, compared with 40,800 in 2014, throughout the nation. The State injected some US\$2.66 billion into this programme as of March 2016. Moreover, tax exemptions granted to these projects cost the State US\$136 billion. Despite these efforts, there is a lack of a comprehensive long-term youth policy in the country as well as a deficiency across Ministry initiatives. President Bouteflika himself recognised in a speech in 2007 that 'the State needs to improve its youth policy [...] How, indeed, do we give our young people confidence in their own abilities and the institutions of their country?'

In addition, the young do not trust political institutions such as the government, parliament, political parties, etc. According to the Arab Barometer Survey, 46.2% of the Algerian respondents said that they had no trust at all in Parliament and 33.8% had no trust at all in the judicial system. What deepens this lack of trust is youth exclusion from the political arena and the little or no possibility of participating in decision-making, even at the local level. As a result, political participation is low: only 45.2% of the latest Arab Barometer Survey respondents voted in the previous national elections. Abstention is not a sign of passiveness but rather a militant act aimed at showing their discontent with political institutions. Associations are seen as ineffective and 'useless' because of their inability to channel people's grievances, to facilitate the relationship between citizens and the authorities and thus fall short of accomplishing their stated goals. This was reflected by the views of several young Algerians with whom this author discussed the issue. Among them Raouf, aged 27, a security guard in an embassy, who commented:

'*Wech eddir* [what do you want to do]? And even if you want, *ykhellouk* [will they let you]? Of course not. You can't do anything to change the system, you can only navigate the system to change your own life and the lives of your family members [...] There are thousands of associations and yet they are useless [...] and the MPs are all corrupt. Do you know how much they earn per month for basically staying on a chair in that parliament? It is an indecent amount of money! [...] *Etkel ghir a'la rouhek* [You can only count on yourself]. For instance in my neighbourhood we clean up the trash ourselves and we do not rely on the local authorities to do anything [...] lately, we even made speed bumps alone because if we had waited for them, all our kids would have been killed by crazy drivers by now.'

This lack of trust is also due to a generation gap between the young and the older generation. Indeed, the leaders who fought for the war of independence against the French and who played and continue to play the 'historical legitimacy' card to legitimise their grip on power are no longer seen as those mythical figures that no one could criticise. The younger generation is more determined to disapprove their actions and condemn their failures than was the generation of their parents. They refer to them as *lekdem* (ancient) or *périmés* (expired or outdated). As stated by a 30-year-old woman interviewed in Algiers last December:

'Before we used to respect them but today no one does. Yes, they freed the country and so what? What did they do with it? [...] look at our President, *hein!* He was the strong man of the country, he was popular and loved and he was the first one to state three times '*jili tab djenanou*' [reference to a speech where the president said 'the time of my generation is over'] and we really respected him for that. He did a lot of good things. He put a roof over my head after years of *galère* [hassle] and I am grateful [...] but now what? He [Bouteflika] is on a wheelchair, half dead and he is still holding on to power. They are all old! The average age among our leaders is 70 years old! Is that OK? As we say '*ach men araf kedrou*' [long life to those who know self-respect]. We became a joke to the world [...] It is sad but they [the old generation] don't understand us and we can't trust them because they failed us. They couldn't care less.'

Today's Algerian youths are more educated –with a primary education net enrolment rate that stood at 98% in 2016 compared with 73% in 1975– and more urbanised than their parents, with an urbanisation rate of 73.5% in 2017 compared with 40.33% in 1975. Their expectations for better jobs, higher salaries and decent housing and their new consumerist habits are greater. But then again, their potential is also greater.

## Conclusions

To be productive members of their societies, Algerian youth need their old leaders to better invest in them, allow for a generational renewal and include them in decision making. Policy advocacy is essential as it provides training for those who might become the country's future policy makers. Therefore, the authorities need to implement and systematise political training from an early age to teach debating and the respect of multi-party democracy (similar to *Young Arab Voices* or *Youth and Political Engagement in Contemporary Africa*, which are programmes intended to provide the young with tools and capacity building to better run and manage debate and to enhance pluralistic democratic dialogue). In addition, a local youth policy with national guidelines adapted to each region of the country is necessary. Likewise, the educational system should be reformed to deliver a better quality education (ie, encourage critical analysis) and systematise career guidance. The Ministry of Education should cooperate more closely with the private sector to understand its needs. It should also invest in capacity building and skill training in order to prepare the youth to face the labour market with better skills and to meet the needs of employers.

On the economic level, the cautious reforms that the Algerian authorities have been introducing are not enough to reduce the country's dependency on oil. Even if the country is facing a challenging economic situation, Algeria remains in a better place today than it was in 1988-90 and has an opportunity to launch deep, wide-ranging structural reforms now. The generalised subsidies are a real affliction to the State and are ineffective. They can no longer be sustained. Instead, the authorities should consider an allocation programme targeted specifically at low-income households. To do that, the authorities should invest in communication campaigns in order to raise awareness among the population about the benefits of such a reform. As for the business sector, the Algerian authorities should improve the business environment and climate, and boost the private

sector by unifying and simplifying regulations and administrative procedures and improving access to finance.

On the social level, protests have become part of daily political life, especially after the end of the 'Black decade' of the 1990s. Algerians know the system and how to 'navigate' it: hence, they understand that the best way to express demands and the quickest way to achieve results is to engage with the government on the streets. By choosing to use direct action rather than conventional means (ie, parties, associations and votes), they are renegotiating their citizenry and renewing their communication with their leaders. The regime has had the ability to be responsive to their requests by using oil revenues. Yet if these requests are no longer met –because of the regime's inability to answer them due to a long-term financial crisis– it is possible that the population's aversion to outright revolt may no longer stand. As a result, the nature of the protests might change and become more revolutionary, and the regime could turn to stepping up repression.