Obstacles to Privatisation of State-Owned Industries in Algeria: the Political Economy of a Distributive Conflict

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This analysis seeks to explain why privatisation of state-owned industrial enterprises in Algeria – a process pushed by the IMF and the World Bank and launched in 1994 – has not led to a single complete divestiture of shares of corporatised public enterprises by 2001. Privatisation of these enterprises has been impeded by (1) intra-elite struggles and violent conflicts between state elites and armed groups over the distribution of rents, rendering decision making and coherent reform strategies impossible; (2) military and bureaucratic elite clans that profit from import monopoly and oligopoly rents and display little interest in increased domestic production; (3) the role of industrial enterprises in (clientelist) social networks; (4) the strong remnants of a nationalist, étatist, socialist and collectivist ideology.

In 1994, when Algeria signed a stand-by agreement with the IMF, it committed itself to pushing ahead with privatisation of state-owned enterprises (SOEs) in an encompassing way. Six years later, the World Bank notes that 'Algeria's privatization has not yet resulted in a single complete divestiture of shares of corporatized public enterprises to outside private interests.'[1] Algeria thus has a weaker record in privatisation than most developing and transition economies.[2] Even if we take into account that a number of small production units of large enterprises have been spun off to employees of such enterprises, and that these are an increasing number of public-private joint ventures, the overall result of the efforts to privatise SOEs in Algeria cannot be described as a success. This article seeks to analyse and understand the interests and dynamics that have, so far, prevented the privatisation of industrial enterprises in Algeria.

Privatisation of SOEs is a central pillar in the World Bank's and the IMF's neo-liberal theoretical framework for transforming a state to a market economy. Yet, in practice privatisation of SOEs involves more than just a number of economic and institutional variables since SOEs are located in a specific historical, social, political and cultural context. In the Algerian

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case, this implies being aware of the ideological foundations of post-independence Algeria and of the ambitious import substitution industrialisation project which took off in an initial period in the 1970s but completely collapsed with falling oil prices in the mid-1980s. It requires, moreover, understanding how the political, economic and military spheres are intertwined in a country where the military has dominated politics, albeit in an opaque way, for nearly four decades and where patron–client networks, clan structures and regional affiliations are strong social forces. Finally, it needs to take into account the civil war between the regime and armed Islamist groups, which has not only provided the backdrop to the economic reforms Algeria embarked on in the 1990s but which has affected the trajectory of those reforms.

The argument made here as to why privatisation of the industrial SOEs in Algeria has virtually been non-existent will be three-fold:

- First, Algeria is governed by competing military clans and thus lacks two important preconditions for successful transformation and development: a unified leadership with a coherent (economic) strategy, such as we find it in developing states such as Taiwan and South Korea, and a bureaucracy which is insulated in a Weberian sense but which, at the same time, has strong ties to the private sector. Based on these shortcomings, it can be argued that what has kept privatisation from taking off, has been to a large extent the same factors that have prevented SOEs from operating efficiently and are hampering overall economic development in Algeria.
- Secondly, privatisation of state-owned industries affects the distribution of rents because it undermines the patron–client networks in which these SOEs are embedded. Moreover, it poses a threat to those receiving rents from import monopolies that have moved from SOEs to private hands after trade liberalisation. Any change of the *status quo* will thus be fought by those groups that have much to lose, and will lead to conflicts regarding the redistribution of rents as well as power. While the argument here will not go so far as to claim that the redistribution of resources and wealth is the main driving force behind the civil war Algeria witnessed in the 1990s, it will argue that all groups involved in the violence have a vested interest in the fate of the SOEs.
- A third obstacle to privatisation is the continuing and powerful remnant of the nationalist, *étatiste* and collectivist ideological foundations on which post-independence Algeria was built. These resulted in a strong mistrust of the private sector and, even more so, of foreign investment. This ideology, while having lost much of its appeal, is still a powerful instrument in public discourse for groups fighting privatisation. Neo-liberal goals such as efficiency are further undermined by what Beblawi[3] terms a 'rentier

mentality' among the elites – a mentality which results from income not being related to work but to the redistribution of (hydrocarbon) rents.

The points listed above do not imply that there are no other reasons that have – or could in the future – hinder privatisation, such as the lack of appropriate financial and legal frameworks, little interest by investors based on unattractive SOEs and a problematic security situation. These are, however, secondary reasons which result from the three constellations of factors mentioned above. Hence, explanations, such as those of the World Bank and of new institutional economists, which reduce the failure of privatisation primarily to an inappropriate economic and institutional framework in a specific context and to informational shortcomings and high transaction costs, have limited explanatory power. By ignoring what Khan[4] terms 'political settlement' (the balance of power between the classes and groups affected by a certain institution) and 'transition costs' (costs linked to the intensity and extent of resistance faced by those introducing an institutional change) they neglect the fact that formal and informal institutions are shaped by a country-specific complex interplay of economic, social, political and cultural forces, and that these forces decisively affect the path of any institutional transformation and vice versa.

The first part of this article critically discusses to what extent various theoretical approaches can shed light on the obstacles to privatisation in Algeria. The second part focuses on the Algerian privatisation scheme and the outcome to date of privatisation initiatives. Part three highlights the political and social structures and dynamics relevant to the privatisation process and analyses why privatisation has failed to materialise, placing the reasons for this failure in a theoretical framework derived from the approaches already discussed. Whilst this article is primarily concerned with obstacles to privatisation, the underlying question whether privatisation now is the right policy and priority for the Algerian SOEs will inevitably arise and will be discussed in the final part.

Obstacles to Privatisation: Theoretical Approaches

In an analysis of shortcomings and limits of the Algerian privatisation programme, the World Bank cites three main clusters of problems: 'i) lack of a well defined privatization strategy, including time bound objectives underpinned by a detailed information plan and supported by a broad-based information campaign; ii) lack of sufficient financial and human resources devoted to privatisation in line with the ambitious scope of the programme; *iii)* legal and institutional arrangements in need of clarification and improvements'.[5] While these are accurate observations, they only scratch the surface of the problem. They describe phenomena but do not address underlying issues and questions, such as why there is no well-defined privatisation strategy and why the appropriate legal arrangements have not been made.

The explanatory model used in this article attempts to analyse these underlying questions by using a political economy approach, focusing on *political settlement* and *transition costs*. Moreover, it includes insights gained from developmental state and rentier state theories as well as from new institutional economics. The latter not only contributes some valuable explanations for possible obstacles to privatisation in Algeria, but also highlights some fundamental shortcomings of neo-liberal approaches to institutional transformation.

Three concepts introduced by new institutional economists are of relevance in the Algerian case:

1. (political) transaction costs,
2. imperfect knowledge/inadequate vision, and
3. sequencing of reforms.

Political Transaction Costs[6]

These can point to the plethora of political interests involved in institutional change and the high costs connected to organising side payments for opponents of a change (bribes to co-opt opponents or compensation for workers being laid off).

Imperfect Knowledge/Inadequate Vision

Such concepts[7] assume theoretically rational actors lacking sufficient (economically relevant) knowledge and/or having a 'wrong' vision to take the most economically efficient decision. They can highlight important phenomena such as the Algerian post-colonial nationalist, *étatiste*, socialist and collectivist ideology.

Sequencing Of Reforms

Finally, this question addresses an issue largely neglected in IMF/World Bank-prescribed stabilisation and structural adjustment programmes, including the one in Algeria.[8] This is the fact that certain reforms might be a precondition for others – an issue highly relevant in the Algerian transformation process where privatisation is being pushed at a time when monopolies still prevail and banking system reforms have been slow and where, as will be discussed below, some reforms have blocked other reforms.

At the same time, all the above concepts have serious limits to their explanatory power because they do not address actors and interests.

Underlying the concept of *political transaction* costs is the notion that (all) institutional changes are voluntarily negotiated. If this is already a highly questionable assumption with respect to Western capitalist countries, it certainly does not apply to Algeria where, as we shall see, institutions have been transformed as a result of violence rather than through negotiations.[9] In the case of *inadequate vision*, the question how ideologies are shaped and change, and whether they are not simply a cover used for certain interests is neglected. *Sequencing*, finally, is a tricky issue because the successful implementation of reforms not only hinges on the right sequence for a specific context but, and to a much larger extent, on political will and consensus.[10]

Some of these deficits, namely the exclusion of the variable 'political will', can be overcome by using a World Bank framework combining new institutional economics with political economy and focusing on a triad of political factors: *lack of political desirability*, *lack of political feasibility* and *lack of political credibility.*[11] It does not take a huge analytical effort to conclude that in the case of privatisation in Algeria, the above triad is highly relevant.[12] Yet, as long as the political situation is analysed ahistorically and in a social and cultural vacuum, as is done in this framework,[13] it will still not be possible to get to the bottom of what keeps privatisation in Algeria from materialising.

What all of the above neo-liberal concepts have in common is that they circumvent the central issue of power and class structures and struggles. By focusing on what Khan terms *political settlement* and *transition costs* these power structures can be highlighted and the interplay between the various obstacles to privatisation not merely described but also understood.[14] *Transition costs* highlight the costs of change beyond the transaction costs discussed above. They occur when those defending the *status quo* (that is to say, the potential losers in a change) refuse the concept of compensation (reflected in transaction costs) or when compensation is not offered at all. Even if *transaction costs* are low, *transition costs* can still be high and prevent change. The high explanatory value of this concept (not just in the Algerian case) stems from its inclusion of variables such as violence, election defeat and legislative battles. It thus goes well beyond the economic sphere and the easily quantifiable.

The high transition costs of the Algerian privatisation process can, at least in part, be explained by the nature of the *political settlement,* which is the balance of power between the classes and groups affected by a specific institution (for example, private property rights). This balance of power determines the net benefits of the institution or structure by 'determining the contestation costs of maintaining the institution'.[15] *Political settlement* can explain why some countries have successfully developed and reformed their economies while others have not, despite similar preconditions and a (strong) will to do so.[16] Success or failure of economic development thus are not so much (or just) a question of political will, but of the specific balance of groups or classes.

The specific nature of the political settlement and of the transition costs in the Algerian case can be better understood through rentier state and development state approaches. Rentier state approaches explicitly deal with the specific structural characteristics of oil economies.[17] The ruling class in such economies is the principal rentier who distributes the rents to a layer of beneficiaries who in turn distribute it to new layers thus creating a system where loyalty and allegiance is bought from the top down, often running along tribal and/or clan affiliations – this obviously has strong implications for any attempt to alter existing economic structures. Not to be neglected in the Algerian context, furthermore, is the existence of a *rentier mentality*,[18] a mentality which results from a break in the work–reward causal link where income is not related to work in a production circuit and to risk-bearing, but is a 'windfall gain' related to chance and social situation. The implications of this mentality in combination with the heritage of the nationalist, *étatiste*, socialist and collectivist ideology of industrial development in Algeria helps to explain why it has been difficult to 'implant' capitalist values and goals such as efficiency and 'getting the prices right'.

Developmental state approaches, primarily focus on state capacity, political power and institutional structures in the East Asian NICs (newly industrialising countries) – the developmental states par excellence.[19] Comparing state, power and institutional structures in Algeria with those of the East Asian NICs can offer valuable clues as to why Algeria did not manage to build up a successful industrial sector in contrast to Japan, Taiwan or South Korea, even though it shares many of the features of these NICs (*dirigiste*, developmentally minded, promotion of intermediate and capital goods industries). Among the most obvious differences between Algeria and East Asian NICs is that of the political decision-making structures: East Asian NICs, such as Korea and Taiwan, have a centralised and small circle of skilled decision makers pursuing the same objective and ready to exercise discretion and discrimination in the national interest.[20] In Algeria we also find a small clique (of generals) taking all important decisions.[21] But the strong rivalries and differences of opinion within this clique, and consequently among the respective political and bureaucratic constituencies or, rather, clans have prevented relative coherence and competence of internal state structures (including the bureaucracy)[22] – something that has proved to be an important prerequisite for the successful execution of industrial strategies in the (South)-East Asian NICs and has had, as will be demonstrated below, strong implications for the trajectory of the Algerian privatisation process.

Privatisation of State-Owned Enterprises in Algeria: Scheme and Path

Discussing the path as well as the scheme for privatisation of industries in Algeria, necessitates being aware of a huge gap between the hydrocarbon and the non-hydrocarbon sector in performance and, as a corollary, in importance for the Algerian state. In the mid-1990s, when the privatisation process of SOEs was launched, the hydrocarbon sector accounted for 95 per cent of exports receipts and 60 per cent of state revenues.[23] As it has been the backbone of the Algerian economy for decades, privatisation of this sector has been an extremely sensitive issue and more or less out of the question to date.[24] The following will thus concentrate almost exclusively on the non-hydrocarbon industries (mainly manufacturing), where privatisation has been a declared policy – albeit with little conviction – since 1994.

The legal framework for privatisation (of industries) was established in several steps. The first law in 1994 allowed for

a) 'partial' privatisation, enabling private persons to acquire to 49 per cent of the equity of an enterprise, either through the stock exchange or negotiated agreements,
b) assets or entire production units to be sold or divested to private persons, and
c) the management of an enterprise to be transferred to a private entity.[25]

In 1995, subsequent legislation allowed for case-by-case privatisation of 100 per cent of equity and assets of specified large industries (textile and agro-alimentary, mechanics, electrics, electronics, chemical, plastic, wood, paper and leather) as well as all small and medium-sized local enterprises mainly through the following procedures:

a) floating the shares on the stock exchange,
b) public offering at fixed prices, and
c) open bidding.[26]

For executing these 'total' privatisations a Conseil National de Privatisation (CNP) was established. At the same time, all the public enterprises were regrouped in 11 holdings, entrusted with the management and administration of the SOEs. These holdings were placed under the control of the Conseil National des Participations de l'État (CNPE). With the consent of the CNPE, the holdings and the enterprises as joint stock holders, were given the right to partially privatise, that is to say, enterprises can sell their assets (including complete operating units) to private buyers, and the holdings can sell full sub-units or large equity stakes of SOEs in their portfolio.[27] In 1997, legislation was added which favoured ceding (sub-units) of (collectively managed) local enterprises to employees and the population, with quotas of free shares for employees, victims of terrorism and families of participants in the revolution.[28]

In 1999, a new government created the Ministry of Participation and Co-ordination of Reforms (MPCR), entrusted with a broad mandate including designing the privatisation strategy. With three government agencies having overlapping areas of competence and being involved in conflicts of competence, decision-making structures have remained opaque and arbitrary to date. It is, for instance, not clear which of the above agencies is entitled to officiate the transfer of a property to private interests.[29] Moreover, administrative procedures, such as the evaluation of an enterprise are lengthy, complicated and inefficient.[30]

Legislation to simplify the privatisation procedures by converting the formally independent CNP into a privatisation agency attached to the MPCR and by placing the agency promoting investment (APSI), which takes its orders directly from the head of the government, under the MPCR's wings as well, faced wide-ranging public opposition before the ministerial proposition was even presented to parliament, and was put on hold in spring 2001.[31] In September 2001 – at the time of writing this article – a watered-down version of the above legislation, giving the MPCR more power but still keeping other agencies (strongly) involved, was passed in parliament with virtually no notable opposition.[32] It provides for the dissolution of the CNP and the holdings, and for the regrouping of enterprises in industrial groups. The head of the MPCR is to function as the head of the board of directors and thus will steer the relevant economic decisions of these enterprises. Whilst it is too early to draw any conclusions as to the wider implications of the new legislation, it can be assumed that it is unlikely to have a strong impact on the trajectory of the privatisation process as long as there are no substantial shifts in the political settlement discussed below.

Outcome of Privatisation Efforts so Far

A strong caveat applies to all data/evidence regarding the outcome of the privatisations so far for the following reasons:

a) there is little official data available,[33]
b) in the Algerian media the opening of capital or floating of a minority of shares on the stock exchange is often referred to as privatisation, and
c) there is a gap in terms of reliable data between the large enterprises, the *enterprises publiques économiques* (EPE), and the (usually collectively managed) small *enterprises publiques locales* (EPL).

> Privatisation of the former, having been at the forefront of IMF/World Bank, interests has been documented more carefully and has to date, as mentioned earlier, not led to a single sale of majority interests or transfer of control to outside private interests of any EPE. However, 76 out of 411 EPEs have been closed down since 1994.[34] Moreover, there are a number of public-private joint ventures involving subsidiaries of large enterprises. In a few cases, majority interests in (small) subsidiaries of large enterprises have been transferred to private hands, this has, however, not been widely publicised.[35]

Regarding the EPLs, it is not clear how many have actually been privatised and who their buyers were.[36] According to the Algerian ministry of industry 935 out of 1324 EPLs (industrial and non-industrial) have been liquidated. Some of these enterprises that were liquidated officially, later had their assets transferred to private hands, often illegally.[37] Finally, 61 of the remaining 123 industrial EPLs have been spun-off to workers. Few details as to the conditions of divestitures to employees (as well as the performance after such a privatisation) have been made public by the ministry. In winter 2000/2001, a newspaper article quoted the then head of the MPCR, that six brick (and/or cement factories) had been privatised recently[38] – what companies, when, to whom (workers or outside interests) and under what conditions, remains unclear.[39] Similarly, overall proceeds from privatisation, have not been documented well, but seem to have been meagre (see Table 1).[40]

There have, however, been a number of well publicised failed efforts to privatise industrial enterprises (mainly EPLs). In 1998, a first list of 35

TABLE 1
PROCEEDS FROM PRIVATISATION IN MENA* ($ 000,000)

Country	1990–97
Algeria	9.3
Egypt	1,510.2
Jordan	58.7
Morocco	1,846.7
Oman	60.1
Tunisia	150.2
Turkey	3,600.0

Source: World Development Indicators 1999, World Bank
*It has to be noted, however, that a strong caveat applies to the comparative value of these numbers, since the privatisation process did not begin simultaneously in these countries.

industrial production units was offered for privatisation through international competitive bidding. A second batch of 26 units followed in early 1999. These units comprised construction companies, soft-drink producers and breweries.[41] Though 36 bids (half of them from international investors) exceeded the minimum price and met the other technical qualifications the government aborted the process – apparently due to a political transition, that is to say, new presidential elections being announced shortly before the sale of these enterprises.[42] Whether this explanation suffices, will be discussed below. In winter 2000/2001, more than two years into a new, and apparently more privatisation-oriented government, some of the same enterprises were put on a list of 183 industrial and non-industrial enterprises slated for privatisation or public–private joint ventures until 2004. With a reshuffling of the cabinet weakening the reform fraction in spring 2001[43] and with a project for restructuring and re-launching the state economy by injecting around 7 billion dollars (15 per cent of the 1999 GDP), the proponents of privatisation seem to have experienced a setback.[44]

The privatisation process has not only been slow and lacking transparency, it has also been accompanied by developments which have been seen as efforts to prevent privatisation by some, as attempts to speed it up by others. They can, however, also be viewed as coincidences that serve the proponents or the adversaries of privatisation. On the one hand, these developments include the arrest of more than 2000 cadres of SOEs in 1996, in many cases on apparently unfounded charges of corruption.[45] What the possible purpose of these arrests was and in what way they may be linked to privatisation will be discussed below. The second development accompanying the privatisation process again has no necessary causal links to it, but certainly effects on it. It concerns the civil war in general and the large number of attacks on state enterprises which have officially been attributed mainly to the Groupement Islamist Armé (GIA) and which have forced a number of enterprises in various sectors to close down.[46] Claims that there are also other groups interested in the closing down of SOEs (rather than their privatisation) will be discussed in detail below.

Such allegations as well as the overall incoherent, inconsistent, arbitrary and non-transparent nature of the privatisation process beg the question what forces have had an impact on this process and vice versa. This, in turn, implies locating the SOEs in a social and political space. The structures and dynamics which define this space reveal (or conceal) the political settlement relevant for the allocation of private property rights to industrial SOEs. The nature of the political settlement in turn can, finally, tell us more as to the nature of the transaction and transition costs faced by those trying to allocate these rights.

Structures and Interests Preventing Privatisation

Industrial SOEs have been a cornerstone of Algerian state-building. The goal of the new elites, namely of President Boumedienne, that had emerged from the war of independence (1954–62), was to build a centralist modern industrial state with a nationalist, *étatiste*, socialist and collectivist orientation.[47] The centrepiece of this programme for development was an ambitious import-substituting industrialisation project, based on the so called *'industries industrialisantes'* (industrialising industries). Thanks to a steady increase in hard currency from hydrocarbon exports, the Algerian state from the late 1960s to the late 1970s was able to acquire advanced technology for nationalised enterprises and have foreign experts deliver dozens of large new modern factories 'turnkey' (*clef à mains*) – not just in the traditional manufacturing regions such as coastal and urban areas but also in 'backward' rural areas. The criteria according to which the central planner authorised such projects were, however, economically 'irrational' and purely administrative. Technical and economic parameters, such as efficiency, cost minimisation, the manageability of an enterprise and the practicality of a location, were usually not considered.[48]

In contrast to successful 'industrialisers' such as South Korea and Taiwan, which in the long run did not support inefficient industries,[49] the Algerian state continued to finance such industries. Hence, dependence on continuous and increasing financial injections from the hydrocarbon sector was a built-in handicap for the performance of industrial enterprises from the beginning. In 1989, a majority of the non-hydrocarbon industries were still or (again) not profitable (see Table 2), despite efforts to restructure the SOEs in the early 1980s, by dividing the large enterprises into hundreds of small distribution and production units, and in the late 1980s, by granting many of them autonomy. With these SOEs being in a dismal state and

TABLE 2
NON-HYDROCARBON PUBLIC INDUSTRIAL SECTOR TRENDS IN PROFITABILITY (GROSS PROFITS/PRODUCTION: %)

	1974	1980	1985	1986	1987	1988	1989
Electric & Mechanic	-12.9	-6.5	5.5	10.0	5.1	8.5	-3.4
Construction Materials	- 7.4	-11.0	3.9	5.7	10.7	6.4	-1.2
Chemicals & Plastics	6.9	-10.6	-3.6	-4.9	11.3	-11.9	-6.8
Agro-industries	3.1	-3.0	-4.7	-1.1	4.8	4.2	1.7
Textiles	-21.3	7.1	2.8	-2.2	-6.0	1.2	-4.6
Leather & Shoes	-3.3	10.3	7.3	9.1	6.7	-5.3	7.6
Wood & Paper	5.2	-4.6	-5.1	-6.5	-2.0	0.6	-8.7
Other Industries	12.5	-23.5	18.3	8.0	7.5	1.8	0.4

Source: Office National des Statistiques (ONS), Algiers.

presenting a substantial financial burden for the state budget and debt,[50] the push for privatisation, coming mainly from the IMF and World Bank is not surprising – whether this is the right policy and/or the right time for it, however, is a different question, to be addressed below.

Particularly relevant to understanding the difficulties in privatising industrial SOEs are three characteristics of these SOEs which are related to certain aspects of the political settlement and which have increased both transaction and transition costs: the place of the SOEs in the larger ideological framework of postcolonial Algeria, their role in the Algerian trade regime before and during liberalisation, and their embeddedness in a state bureaucracy, marked by diffuse boundaries between the political and economic spheres and conditioned by inter-elite power struggles.

The Populist Imaginaire

The Algerian state enterprise is a space around which what Liabès[51] terms the populist *imaginaire* (best translated by the German *Weltanschauung*) of the Algerian state crystallised. This *imaginaire* comprised a socialist work order, and framed state-owned public enterprises as symbols of national sovereignty and as places of collective efforts rather than individualism. Moreover, there was no separation of the economic production sphere at the enterprise and the social reproduction sphere of its workforce: SOEs nourished, lodged and formed the workers and their families, treated them medically and sent them to their vacation colonies.[52] These social realities have changed in the 1980s with falling oil prices and restructuring of SOEs. But the populist *imaginaire*, which provided the backdrop to a social contract between the regime and the population (the latter accepting the exclusion from political power, as long as the regime took care of its well-being) is still part of the national discourse and has been evoked and instrumentalised by opponents of neo-liberal policies, which are for instance stressing the loss of sovereignty through foreign investment.[53] There still is a high degree of fidelity to the formerly mandatory populist rhetoric which has not yet been replaced by a dominant new (capitalist) one.[54] The fact that capitalism is not (yet) a socially embedded ideology explains some of the resistance to privatisation and thus contributes to raising political transaction and transition costs.

It could be argued that the former socialist Eastern European transition economies, which had similar ideologies, have still managed to privatise a large number of industrial SOEs.[55] The crucial difference to Algeria, however, is that the leadership in countries such as Poland completely changed with the demise of the communist system, whilst in Algeria the leadership is still made up primarily of those forces that created the populist *imaginaire* and promoted it for more than three decades.

The Import Regime

The role of SOEs in trade has also proved to be a handicap both for their performance and for their privatisation. Before economic liberalisation, the Algerian SOEs had – in the name of the state, so to speak – the monopoly over foreign imports in their specific area. The result of this was that many enterprises became traders and intermediaries more than producers.[56] The highly bureaucratised trade regime allowed for widespread rent-seeking, with well connected and politically influential 'private' intermediaries (mainly cadres or former cadres of the army) erecting sub-monopolies over import and/or distribution.[57] Martinez using the example of cement factories, shows how state distribution networks were subject to the rules of patronage, with what he calls 'eminent citizens' buying the cement output in advance, holding it and thus forcing customers to buy the scarce product on the informal market, which was supplied by these entrepreneurs.[58] During the civil war-like situation in Algeria from 1992 to 1998, some emirs (leaders) of (Islamist) armed groups, profiting from trade liberalisation and control over entire neighbourhoods, managed to create similar import and distribution (sub-)monopolies, primarily in consumer goods.

Trade liberalisation simply moved import monopolies from industrial SOEs to oligopolies of private importers close to the army, or, in some cases, belonging to armed groups.[59] Even if a certain product can – at least officially and theoretically – be imported by anyone, formal obstacles (for example, state banks denying loans or imposing stiff conditions, countless bureaucratic hurdles, and long delays for permits) are put in the way of all but a few importers.[60] There is thus little doubt that under the current circumstances import monopolies/oligopolies are a better source of rents for state elites than manufacturing, and that those profiting from such rents have no interest in enterprises being efficient and endangering the import sector – a sector which has been growing rapidly (see Tables 3 and 4).

Under the above circumstances it is unlikely that there is
a) an interest by the powerful 'import elite' to support the allocation of

TABLE 3
TOTAL TRADE IN CHEMICALS AND RELATED PRODUCTS ($000,000)

	1992	1997			
Imports	Exports	Deficit	Imports	Exports	Deficit
116	156	41	854	273	-581

Source: 'Economic Trends in the MENA Region', *ERF Indicators 2000* (Cairo: Economic Research Forum 2000).

TABLE 4
TOTAL TRADE IN BASIC MANUFACTURES ($ 000,000)

	1992	1997			
Imports	Exports	Deficit	Imports	Exports	Deficit
178	84	-94	1501	118	-1383

Source: 'Economic Trends in the MENA Region', *ERF Indicators 2000* (Cairo: Economic Research Forum 2000).

private property rights to industrial SOEs, especially since their narrow power is built to a certain extent on import rents, and since the change of rights is likely to have an effect on the political settlement and hence on their relative political power, and

b) an interest by investors as long as there are import monopolies or 'closed' oligopolies, which are being defended and/or contested, often by violent means.[61] The former, as we shall see, translates into high transition costs, the latter contributes to raising the transaction costs by making the search for investors lengthy and thus costly – foreign investment in Algeria has not developed positively and remains low (see Table 5). The above also raises the relevant question of the sequence of reforms. Privatisation has been tackled (or pushed) before true deregulation has taken place and monitoring and sanctioning mechanisms are in place – an issue which points, on the one hand, to serious shortcomings in the IMF/World Bank structural adjustment framework and on the other to the relevance of the nature of a political settlement in these transformation processes – issues we will return to.

The Nature of Administrative Practices

A third point with a plethora of implications for privatisation is the nature of the Algerian state bureaucracy.[62] The French colonial power had created

TABLE 5
FOREIGN DIRECT INVESTMENT STOCKS (ALGERIA, TUNISIA & MOROCCO)
$ billions

	1985	1990	1995	1998	1999
Algeria Inward	1.281	1.316	1.377	1.393	1.399
Algeria Outward	0.156	0.183	0.233	0.233	0.233
Morocco Inward	0.440	0.917	3.034	4.800	5.647
Morocco Outward	...	0.014	0.131	0.190	0.208
Tunisia Inward	6.876	7.259	11.839	11.878	12.075
Tunisia Outward	0.006	0.015	0.030	0.033	0.035

Source: United Nations Conference on Trade and Development, *World Investment Report 2000: Cross Border Mergers and Acquisitions and Development.* (Geneva: UNCTAD 2000).

a potent bureaucracy which strongly integrated tribal alliances. When the Algerians took over the bureaucracy such alliances led to what Talahite[63] calls 'modern feudalities' and fierce competition between these 'feudalities'. As a result, there is to this day little recognition of meritocratic recruitment and of a disinterested public service.[64] Every administrative action is being conditioned by personal ties and (often conflicting) obligations which are grounded in family, village, tribe, clan, regional or religious brotherhood affiliations which cut across classes, whereby these ties are strongest between the primary rent-seeking class and its lower and upper middle class clients.[65] As a corollary of the social structures, there are blurred boundaries between private and public spheres and economic and political interests in the entire administrative apparatus, including the state sector of the economy and, hence, also within the SOEs.[66] Cadres as well as employees of SOEs have – linked to the above ties – 'duties' that are hampering the economic performance of SOEs.[67]

What strongly contributed to enhancing wide-spread corruption in the bureaucracy, was the conferring of contracts to foreign companies for the industrialisation of the non-hydrocarbon and the exploitation of the hydrocarbon sector.[68] Khan and Jomo, referring to high levels of corruption in some successful developmental states, rightly note that corruptive practices do not necessarily need to have a negative effect on development, but can increase growth if rent-seeking bureaucracies create higher value rents in order to collect (higher) bribes.[69] In Algeria, however, the creation of such rents has been prevented by a (complete) absence of efficiency as a criterion and a goal in the larger economic framework, inner-bureaucratic competition and a lack of co-ordination, and a political settlement with no clear decision-making centre, but competing (military) clans. The deep cleavages between these clans, which often date back to the war of independence, used to run along regional lines and are now to be found primarily between competing branches of the army.[70] Since none of these clans is able to control the political system alone, there is no coherent national economic strategy, such as Wade describes in Taiwan.[71]

The Algerian state – although authoritarian – is thus weak, and closer to a predatory than a developmental state, in that its government and bureaucracy have difficulties designing coherent strategies and implementing policies.[72] This goes to show that authoritarian regimes – contrary to what the World Bank has (in the past) suggested[73] – do not necessarily stand better chances of transforming their economies, and that it is not so much the form of the political system that matters but the nature of the political settlement.

The lack of a separation of public and private spheres combined with the populist *imaginaire*, has also had implications for the private sector which are relevant for privatisation. The private sector, firstly, is embedded in the above social networks that function according to the same mechanisms as the public sector: 'string-pulling, protection and personal connections'[74] in the bureaucracy decide whether a private enterprise succeeds or not (and not, for instance, innovative entrepreneurial skills). Secondly, state policies have generally aimed at thwarting the private sector.[75] Hence, no strong private sector and no entrepreneurial productive capitalist class was able to develop – something that has, as all of the above, strong implications for the privatisation process because there is little legal domestic private capital (savings) for investment. The capital amassed illegally, on the other hand, has been taken out of the country.[76] Overall it can be said that the Algerian bourgeoisie – by nature speculative and rentier, and as many stress, with a vision and a habit of coming into wealth primarily through violent means[77] – is not interested in buying enterprises at market prices. Even if local investors were interested, there is an added obstacle, again addressing the sequencing of reforms: the issue of conferring bank loans. With 95 per cent of all bank loans according to the IMF[78] still conferred by state-owned banks embedded in the above social networks, these loans are also used as a method of rent-distribution.[79]

Key Players in the Privatisation Process

Having analysed the Algerian SOEs as a space where political, social, economic and cultural forces intertwine and pointed to relevant aspects of the political settlement, it is not surprising that we find widespread resistance to privatisation by a wide range of groups. The relevant question, however, is not so much whether a group is opposed to privatisation but whether a group has the power to put brakes on the privatisation process and thus raise the transition costs to a level too high to handle for those proposing privatisation.

The anti-privatisation camp can roughly be divided in two groups that overlap to a certain extent: Those that stand to lose from the reforms and those that are opposed to privatisation for ideological reasons. The latter are to be found well beyond the radical left parties such as the fairly high profile Trotskyite Workers' party,[80] since the populist *imaginaire* described above is deeply rooted in the revolutionary generation still dominant in parliament, among party cadres and in the administration as well as in the unions. In parliament, a majority has been opposing privatisation, something that has been reflected in the slowness by which privatisation laws are passed.[81]

Only one of the large political parties, the moderate Islamist HMS/MSP (formerly Hamas) which is part of the government coalition and is backed by small entrepreneurs and businessmen with Islamist leanings, has openly come out in favour of privatisation in all sectors except the hydrocarbon and public service sectors.[82] Privatisation of state industries, however, does not seem to be the prime concern of the MSP's Islamist (petty) bourgeois constituency which is more concerned with private sector policies, namely real deregulation. All other political parties oppose privatisation, albeit to various extents. While these groups can obstruct the legal reforms easing privatisations, it has to be questioned how strong their veto power is and whether it really matters, since there is a powerful clique of generals above the state institutions undermining economic reforms.

Among those who stand to lose from reforms most directly are the workers of SOEs. They are organised in unions which have pulled off several large waves of strikes against restructuring the SOEs in general and privatisation in particular[83] and which have fought new legislation aimed at easing market-oriented reforms. The central trade union body UGTA (Union Générale des Travailleurs Algériens) has, moreover, found allies in a number of members of government opposing the small reform forces in government (discussed below). Yet, with hundreds of enterprises closed down, the unions cannot be said to have been particularly powerful. What has weakened the workers' resistance/veto power are falling numbers of employment and squabbles between the UGTA, the most powerful union and smaller unions.[84] The former is reputed to have close ties to the regime (hence unable to take decisions on its own) and to be easily corrupted, and it has been issuing statements which simultaneously condemn and condone privatisation efforts.[85]

Secondly, we find managers of SOEs, united in the 'national union of public entrepreneurs' (UNEP), which have in principle endorsed market-oriented reforms but have been fiercely opposed to privatisation.[86] In view of this, one could argue that the above arrests of SOE cadres was intended to speed up the privatisation process. Yet, the fact that these enterprises have so far not been privatised makes it unlikely that a powerful pro-privatisation lobby was behind these arrests, especially since there is no such lobby, as we shall see below. Explanations to the contrary, which assume that the aim was to slow down privatisation, by for instance making evaluation of assets of these enterprises more difficult[87] cannot be dismissed easily, especially if we consider the above vested interests of the powerful 'import–import' lobby. Karabadji for instance convincingly interprets the arrest – apparently on no obvious grounds – of the management of al-Hadjar, a large subsidiary of the steel giant Sider, as an intervention by the importers of concrete pillars for construction, aimed at weakening the enterprise.[88]

The 'import–import lobby' which is to be found close to or in the army and the administration, the third group that stands to lose from privatisation, is at the same time the most evasive and the most powerful. This group has the most to lose from a change of *status quo*, since the control over rents has allowed the regime, consisting of army, bureaucratic and political elites and constituting the prime rent-seeking class, to remain in power by conferring privileges, by co-option, corruption and repression. To see this group as largely opposed to privatisation might, however, be simplistic because the opposition of such rent-seekers is likely to be tactical rather than ideological. Since rents exist in all types of economies and are not confined to the public sector, rent-seeking cannot be expected to stop with privatisation, especially in the absence of competition.[89] This implies that some of these elites might switch camp if they see a way to reshuffle rents. So far, however, the import lobby discussed above (or at least parts of it) can be said to totally sabotage privatisation.[90] There are two facts that support such an allegation. First, many enterprises were liquidated despite union resistance, but few were privatised. Second, the hydrocarbon sector has not been sabotaged. If we take into account that, as Entelis convincingly argues, 'the narrowly supported regime depends almost exclusively on rents provided by the oil and gas production in order to remain in power',[91] a link between the regime (comprising the import lobby) and the sabotage of non-hydrocarbon SOEs does not seem out of the question. This would imply that some armed groups are steered by the regime, or that the attacks are not performed by armed groups, or that there are interests shared by both the regime and the armed groups.

This finally leads us to groups or individuals that have become important economic players (controlling distribution monopolies/oligopolies) through the combination of violence and trade liberalisation: the (leaders of) armed groups which have risen to (a certain) power during the civil war and which may or may not have links to the current elites. While it is not clear whether they have a position on privatisation and a coherent strategy, they nevertheless have had an effect on the process. Sabotage of state transport has led to private firms replacing the state transport system and sabotage of cement factories has allowed private entrepreneurs and/or the import lobby to fill the gap. This again raises the question as to who sabotages what.[92] These violent acts in any case support the hypothesis that violence is seen as the primary means to obtain wealth and power.[93]

Having identified groups which cause high transition costs for those proposing reforms, we have to add that the reformers are remarkably weak. Only since 1999 has there been a government with a small reforming faction,[94] consisting of only three ministers, two of them with a World Bank background.[95] They were supported by young technocrats (that is to say, non-political administrators) and foreign-educated reformers within the government, the administration and the SOEs.[96] Moreover, the President, Bouteflika, backed this group. That he had taken a stance against privatisation during his election campaign indicates that a majority of the population is (assumed to be) against privatisation,[97] and questions whether the president's (current) pro-privatisation stance is a result of conviction, or outside pressure.[98] The only players that can be said to be pushing privatisation consistently and without hesitation, are external operators such as the EU (which at the time of writing was in the final stages of negotiating an association agreement with Algeria), the IMF, the World Bank, and the Clubs of Paris and London.

It would however be too simple to argue that the lack of political will has translated into a coherent strategy, such as Wurzel argues is the case in Egypt.[99] There the elite apparently has a strategy of staging a privatisation process – with much rhetoric and pomp but little action – for international donors in order to keep receiving rents returns in the form of foreign aid. In Algeria, there seems to be no coherent strategy to prevent privatisation. What have affected the pace and trajectory of the privatisation process in this case are (violent) *conflicts* between groups *competing for current and* future rents, or for an (acceptable) distribution of the benefits expected to come with privatisation.

Conclusion

Analysis of the political, social, economic and cultural forces affecting the privatisation process in Algeria and vice versa, has revealed a number of interrelated complexes of obstacles which have not just impeded privatisation, but have been preventing the public sector from performing well and are hampering overall development in general. These obstacles are all in one way or another linked to the nature of the political settlement. The main characteristic of this political settlement is the lack of a clear decision making centre. With constant struggles between various elite clans over the distribution of power and patronage – both of which depend on (unproductive) rents – there is no one elite clan which is able to control the system alone, to design coherent strategies and to fully implement the ensuing policies. With the civil war in the 1990s this struggle intensified and the competing groups proliferated – not least because IMF/World Bank intervention increased the possibilities for rent-seeking by, for instance, forcing trade liberalisation.

The nature of the above political settlement, which is conditioned by the rentier character of the economy and marked by a rentier mentality, has both directly and indirectly led to transition costs too high to be successfully handled by the proponents of privatisation. These costs result, first from the high level of resistance by clans profiting from import and distribution monopolies and oligopolies and threatened by the prospect of an increase in domestic production through privatisation of industrial SOEs. Second, a populist *imaginaire,* reflecting the *étatiste*, socialist and collectivist ideological foundations of the Algerian state and not yet fully abandoned, has raised transition costs. This *imaginaire* has virtually merged SOEs and the modern Algerian state, thus making it hard to separate them and giving opponents of privatisation (for example, members of parliament, the unions) rhetorical ammunition, and prevented capitalist ideology from becoming socially embedded. Third, resistance to privatisation of industrial SOEs results from the fact that both the state bureaucracy and these SOEs are deeply embedded in patron–client networks and (military) clan structures and closely linked through these structures. This has led to a plethora of vested interests in these enterprises, among state administrators, SOE cadres and private intermediaries with links to the army and/or armed groups.

The nature of the political settlement and a 'tradition' of achieving wealth through violence makes political transaction costs less relevant than transition costs, but has also raised the transaction costs, in that the violent conflicts in Algeria in the 1990s made the search for investors lengthy and difficult, and those opposing privatisation have managed to prevent the creation of transparent and simple procedures for privatisation. The lack of an appropriate legal and institutional framework can thus be seen as a direct result of the nature of the political settlement. In this light, claims such as those by the World Bank that the failure of privatisation to materialise is, among other reasons, a result of an incoherent framework for privatisation and of the understaffing of the relevant agencies, merely touch on a symptom.

The outcome of privatisation efforts in Algeria raises two important questions which are linked to each other. First, do IMF/World Bank structural adjustment programmes (SAPs), advocating privatisation, hamper privatisation? Second, given the current political settlement, is privatisation of industrial SOEs in Algeria the 'right' policy at the 'right' time? We have seen how (the unintended effect of) trade liberalisation, one of the main pillars of SAPs, has contributed to impeding privatisation, another central pillar of SAPs. A further corollary of IMF and World Bank intervention in Algeria – debt rescheduling – strengthened the regime by allowing it to expand its military repression machinery to oppress opponents and, by opening new sources for rents, allowing it to continue supporting inefficient SOEs rather than restructuring or privatising them. Bayliss and Cramer, moreover, rightly point out that SAPs may prepare a bad ground for privatisation, in that they decrease the rate of savings, as a result of the severe financial measures (for example, devaluation) demanded by such programmes.[100]

Even if we put aside the internal contradictions and controversial effects of SAPs, privatisation of industrial SOEs is a problematic policy for

Algeria, given the current political settlement. The bad performance of the non-hydrocarbon industrial SOEs is more the result of the nature of the political settlement than of public ownership. Hence, privatisation alone cannot alleviate the causes of bad performance from these enterprises. Also, there is no reason to privatise the hydrocarbon industries, the main revenue generators for the state, and keep those that need continuous financial aid. Especially since, based on the experience in other sectors of the Algerian economy, there is a danger of SOEs moving from the 'state's grabbing hand to privatisation's velvet glove'[101] if the process is speeded up and a number of large enterprises fall into private hands.

Privatisation in Algeria, if it were to happen under the current political settlement, is likely to have an outcome similar to that of trade liberalisation, that is to say, it will lead to a redeployment of unproductive rents associated with political involvement in business, but is unlikely to benefit consumers, as long as the crucial issue of 'real' competition is not addressed. For, as Jomo rightly stresses 'it is rarely privatisation per se that enhances efficiency but rather competition'.[102]

In view of all the above, it is somewhat surprising that the World Bank, contrary to its framework for SOE reform discussed earlier which does not see any chance of reform if there is lack of political will, feasibility and credibility, still pushes privatisation despite the trio of omissions so clearly applying to the Algerian case. Algeria, moreover, does not have the prerequisites that those countries which privatised successfully according to the World Bank (for example, South Korea, Chile and Mexico) had prior to reforms, namely, strong state sectors and relatively well developed financial sectors[103]

What then, are the alternatives for achieving more efficient SOEs in Algeria, given the current balance of forces? One could argue that all alternatives to privatisation, such as private management contracts, partial sale, leasing or management buy-outs, expansion of the public sector through a strong private sector, or transfer of enterprises to their employees, are all subject to and conditioned by the same balance of forces. Whilst this is true, there remains the question of priorities and of sequencing. If privatisation is not to perpetuate the current rent-seeking structures, issues such as transparency and an end to (import) monopolies and oligopolies have to be addressed first. While privatisation is (still) resisted by a wide range of groups and classes, from military elites to workers in SOEs, all groups – with the exception of the ruling elites and their constituencies – have an interest in pressing for such changes as true deregulation and competition.[104] Underlying these demands is an attack on the current regime and the wish for more democratic structures. It thus makes little sense to (let foreign influences) antagonise an entire population with one policy which is not even sure to be the best option, without at the same time putting a stronger stress on other policies, such as transparency and domestic competition, which are backed and desired by a large part of the population. Finally, moving SOEs from state into private hands in a more appropriate overall economic environment can prevent certain forces from creating new conditions on the ground through privatisation which would make it difficult to turn the clock back later. With high political instability and the ruling class lacking legitimacy, the regime is not likely to have a long-term economic vision and the discipline and consensus to build a viable economy, but is more likely to try to reap short term gains (that is to say, rents) from transformation and run – the Russian example might give an indication of what could happen in Algeria. In that sense, one might view the slow speed of the Algerian privatisation process in a positive light. It has, however, happened for the 'wrong' reasons.

NOTES

1. World Bank, 'Project Appraisal Document on a Proposed Learning and Innovation Loan in the Amount of US$5 Million Equivalent to the Republic of Algeria for Privatization Assistance', *World Bank Report* No.20257-AL. (Washington, DC: World Bank 2000) p.2.
2. According to the World Bank, *Bureaucrats in Business. The Economics and Politics of Government Ownership: A World Bank Policy Research Report.* (Oxford: Oxford University Press 1995) p.2, developing economies, excluding (Eastern European) transition economies, on average privatise three SOEs a year.
3. H. Beblawi, 'The Rentier State in the Arab World' in G. Luciani (ed.), *The Arab State,* (Berkeley, Los Angeles: University of California Press 1990) pp.85–98.
4. M. Khan, 'State Failure in Weak States: A Critique of New Institutionalist Explanations' in J. Harriss, J. Hunter and C.M. Lewis (eds.), *The New Institutional Economics and Third World Development* (London and New York: Routledge 1995) pp.71–86.
5. World Bank, 'Project Appraisal' (note 1) p.5.
6. This concept assumes that there are many political interests involved in institutional change and that losers/opponents of a change need to be compensated. If these costs are high, they slow down or even prevent institutional change, D.C. North, *Institutionen, institutioneller Wandel und Wirtschaftsleistung* (Tübingen: J.C.B. Mohr 1992).
7. North, *Institutionen* (note 6) p.9; J.E. Stiglitz, 'The new development economics', *World Development* 14/2 (1986) pp.257–65; J. E. Stiglitz, 'Towards a New Paradigm for Development: Strategies, Policies, and Processes', *Prebisch Lecture* at UNCTAD (1998).
8. The neo-liberal orthodoxy, reflected in (the earlier) SAPs, advocated fast and mass privatisation from the beginning, crudely arguing that in cases of slow implementation, privatisation was not pursued aggressively enough and/or the design and tools of privatisation schemes were not adequate, G. Schwartz, 'Privatisation in Eastern European Countries: Experience and Preliminary Policy Lessons' in P. Cook and C. Kirkpatrick (eds.), *Privatisation Policy and Performance:International Perspectives* (New York: Prentice Hall/Harvester Wheatsheaf 1995) pp.31–47. This argument is circular in that it suggests 'if something does not work, do more of it' – without analysing the deeper causes for failure. Such approaches, furthermore, suffer from what K. Bayliss and B. Fine, 'Beyond "Bureaucrats in Business": A Critical Review of the World Bank Approach to Privatization and Public Sector Reform', *Journal of International Development* 10 (1998) pp.842–55, term the 'panacea syndrome' – the notion that privatisation will itself generate or enhance the appropriate economic and political circumstances for it to be successful. Proponents of

the 'Post-Washington Consensus' such as Stiglitz, 'Towards a New Paradigm' (see note 7), have rightly made sequencing a central point for the success of reforms, arguing that market structures (for example, competition) are more important than privatisation and that financial and institutional reforms as well as a strong state are, to a certain extent, a prerequisite for privatisation to happen and to lead to efficient results.

9. Khan (note 4) p.82 writes in a well-founded critique of the concept of political transaction costs that 'human history may not be a history of class struggle alone, but it is certainly not a history of negotiated institutional change'.
10. Moreover, the way sequencing is usually addressed runs the danger of under-analysing the particularities and the impact of specific informal institutional arrangements which are of much relevance in economies with extended clan and patron–client networks such as exist in Algeria. Concepts such as 'trust' and 'social capital', J.E. Stiglitz, 'Whither Reform? Ten Years of the Transition', keynote address, *World Bank Annual Bank Conference on Development Economics* (1999) pp.9–11), do not analyse the particularities of specific informal arrangements and their impact, but merely describe what is missing.
11. World Bank, *Bureaucrats* (note 2). This framework was developed for analysing preconditions for public sector reform. Reform in this model becomes politically desirable if the political benefits to the leadership and its constituencies outweigh the political costs, p.192. But even if such reforms are desirable, there remains the question of feasibility, p.190, that is to say, whether those which are crucial to formulating and carrying out the reforms (legislators, provincial governments) can be won over, and whether they can withstand opposition. Finally, there is the issue of credibility which in this framework is loosely modelled on game theoretic considerations and addresses the question whether investors as well as workers expect the government to keep its promises, p.203.
12. With Algeria according to this WB framework lacking all preconditions for successful privatisation of SOEs (for example, lack of government credibility and legitimacy were at the core of the civil war in Algeria the 1990s and became very obvious again in the uprisings in Kabylia in the spring and summer of 2001), it is rather paradoxical that the Bank advises privatisation in the Algerian structural adjustment programme. This paradox can, in my view, be best explained by a growing gap between a post-Washington consensus in World Bank research, and the dogma of the old orthodoxy dominating in the IMF and the US government, thus conditioning the World Bank's policies.
13. This framework's ambition to present universally applicable basic rules, moreover, risks inadequate anaylsis of particular political systems and settings. By assuming that governments want to liberalise and oppositions not, it does, for instance, not reflect the political realities in Algeria. Here it is, as we shall see, not so much the (Islamist) opposition that the rulers need to convince of privatisation but themselves. And by conceptualising *the* leadership as a homogenous entity consisting of individuals sharing the same objectives – all either willing (or unwilling) or capable (or not capable) of pushing through policies – this framework excludes settings such as the Algerian one, in which competing interests within the leadership shape policies.
14. Khan (note 4) uses these concepts in a model for explaining institutional failure and transition failure in comparative analysis.
15. Ibid. Among these contestation costs are rent-seeking costs, whereby any structure of rights, public or private, have to be taken into consideration. What matters is the way a specific balance of power affects these costs, pp.77–8.
16. Ibid. Kahn demonstrates in a comparative historical analysis focusing on the balance of political power relevant to industrial policy in Pakistan and South Korea in the 1960s that strong clientele links between middle and lower middle-class groups 'prevented the Pakistan state from making centralised decisions except at much higher costs in terms of lost net benefits compared to South Korea'.
17. Rentier states are (somewhat loosely) defined as states with economies in which rent situations predominate, where there is reliance on substantial external rent, and where only a few are engaged in the generation of the rent, Beblawi (note 3). Rents in this context are defined as stemming from non-productive activities or, to quote Marshall (1920, cited by Beblawi, p.85) 'the income derived from the gift of nature'. Rentier economies indicate the

existence of a class or group of rentiers who do not actively participate in economic production but nevertheless receive a share of the produce. Even if Algeria, with an average of 60 per cent of state revenue between 1995 and 1999 coming from the hydrocarbon sector is somewhat less of a rentier economy than Saudi Arabia or Kuwait – International Monetary Fund, 'Algeria: Recent Developments', *IMF Staff Country Report No. 00/105* (Washington, DC: IMF 2000) – it still falls into the category of a *rentier state*, or an allocation state in contrast to a production state, that is to say, a state whose revenues derive predominantly (more than 40 per cent) from oil or foreign sources and whose expenditure is a substantial share of GDP. See G. Luciani, 'Allocation vs. Production States. A Theoretical Framework', in G. Luciani (ed.), *The Arab State* (note 3) pp.65–84.

18. Beblawi (note 3) p.88.
19. H.-J. Chang, 'The political economy of industrial policy in Korea', *Cambridge Journal of Economics* 17 (1993) pp.131–57; P.B. Evans, 'Predatory, Developmental, and Other Apparatuses. A Comparative Political Economy Perspective on the Third World States' in A.D. Kincaid and A. Portes (eds.), *Comparative National Development. Society and Economy in the New Global Order* (University of North Carolina 1994) pp.84–107; R. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press 1990).
20. Wade (note 19) pp.333–4.
21. For a recent article on 11 generals currently considered to be the prime decision makers, see *Le Nouvel Observateur*, 14 June 2001.
22. J. Entelis, 'SONATRACH: The Political Economy of an Algerian State Institution', *The Middle East Journal* 53, (Winter 1999) pp.9–27; R. Al-Saidawi, 'Tafakkuk al-nukhab al-hakima fi al-jaza'ir' (The disintegration of the ruling elites in Algeria), *Shu'un al-Awsat* 98 (Aug. 2000) pp.41–70.
23. K. Nashashibi *et al.*, 'Algeria: Stabilization and Transition to the Market', *Occasional paper 165*. (Washington, DC: International Monetary Fund 1998).
24. SONATRACH, the state-owned oil company, however, is one of four companies floating up to 20 per cent of their shares on the Algiers stock market established in 1999. Also there is – primarily in the hydrocarbon sector – an increasing number of public–private joint ventures.
25. Loi de Finance complémentaire, Article 24/25, May 1994.
26. Ordonnances (95–22 and 95–25). For more details, see the Algerian Ministry of Industry at www.mir-algeria.org.
27. L. Abdeladim, *Les Privatisations d'entreprises publiques dans les pays du Maghreb: Etude juridique* (Algiers: Les Editions Internationales 1998); World Bank, 'Project Appraisal' (note 1).
28. Apparently at price reductions of up to 40 per cent of the official value, depending on the mode of payment which is fragmented and can take up to 20 years.
29. R. Tlemcani, *Etat, Bazar et Globalisation* (Algiers: Les Editions El Hikma 1999) pp.93–101.
30. The CNP has to forward the evaluation of an enterprise and the proposed price twice to the government for approval: once in isolation (evaluation and proposed price) and again as part of the larger package, that is to say, evaluation, proposed price, modalities of the privatisation, Abdeladim (note 28) p.169. Moreover, with strong disparities between formal market prices and informal ones, and with a formal market not yet existing, it is not clear against which criteria to evaluate enterprises, Tlemcani (note 29) p.99.
31. *El Watan*, 14 Feb. 2001.
32. *Liberté* (online), 19 Sept. 2001; for details on the law, *Quotidien d'Oran* (online), 18 Aug. 2001.
33. This is not just my experience, searching (mainly) from outside Algeria. Also, several Algerian researchers, working for government research institutes, and interviewed in Berlin in July 2001, have stated that it is extremely difficult to obtain reliable official information concerning privatisation.
34. World Bank (note 1), 300,000 employees in EPEs and EPLs were laid off between 1996 and 1998; *Le Quotidien d'Oran* (online), 29 May 2001. Currently, EPEs employ close to 500,000 persons.

35. *Le Quotidien d'Oran* (online), *Soir d'Algérie* (online), for example, the important sale of majority interests in Alfasid, a subsidiary of the steel giant Sider, to an Indian enterprise on June 11, was only reported in the media on 17 July 2001 after a union campaign.
36. B. Dillman, 'State and Private Sector in Algeria', *The Politics of Rent-Seeking and Failed Development* (Boulder, CO: Westview Press 2000) p.83.
37. In the non-industrial sectors, companies were often formally 'liquidated' and their remaining assets transferred illegally to private hands. Dillman (note 38) p.146, note 41, cites the case of a retail chain that was dissolved, and had its 'immovable property' officially transferred to state holdings, but in fact was rented out by prefects, for their oown benefit.
38. *Le Quotidien d'Oran*, 6 February 2001.
39. I was not able to obtain any official or unofficial information regarding these privatisations.
40. C. Altmann, 'Privatisierung und Clan-Interessen', *INAMO* 14/15 (1998) pp.30–2, mentions $200 million dollars, including revenue from all sectors.
41. Algerian Ministry of Industries and Mines at www.mir-algeria.org.
42. World Bank, 'Project Appraisal' (note 1) p.3.
43. The man known as Mr Privatisation was removed form the MPCR and placed in the ministry of commerce. Another pro-privatisation minister was dismissed from the cabinet, *Middle East International*, 14 June 2001.
44. For an article on the setback for reformers, see www.algeria.interface.com/french/economie/plan110501.htm.
45. F. Karabadji, 'L'économie algérienne menacée par la mafia politico-financière!', *Le Monde Diplomatique*, No. 5632 (Sept. 1998) pp.10–11; F. Talahite, 'Economie Administrée, Corruption et Engrenage de la Violence en Algérie', *Revue Tiers-Monde* 161/1 (2000) pp.49–74.
46. In the transport sector for instance, many state-owned trucks (used for the distribution of goods) as well as buses were attacked and destroyed by armed groups and are now run by private entrepreneurs with ties to armed groups and/or the regime, Martinez, *The Algerian Civil War 1990–1998* (London: Hurst 2000) pp.119–26.
47. Boumedienne's economic and political programme has often been described as state capitalism. For a discussion of what this comprises see Dillman (note 38) p.40, and whether it makes sense to use this term, see H. Roberts, 'The Algerian Bureaucracy' in T. Asad and R. Owen (eds.), *Sociology of 'Developing Societies': The Middle East* (New York: Monthly Review Press 1983) p.98.
48. S. Chikhi, 'L'Ouvrier, la vie et le prince ou la Modernité introuvable' in A. El-Kenz (ed.), *L'Algérie et la Modernité* (Dakar: CODESRIA 1989) pp.178–212; A. El-Kenz, 'La Société Algérienne Aujourd'hui – Esquisse d'une phénoménologie de la Conscience nationale' in A. El-Kenz, ed., *L'Algérie et la Modernité* (Dakar: CODESRIA 1989) pp.1–31; W. Ruf, *Die algerische Tragödie: Vom Zerbrechen des Staates einer zerrissenen Gesellschaft* (Münster: Agenda Verlag, 1997); A. Dahmani, *L'Algérie à l'épreuve: Économie politique des réformes 1980–1997.* (Paris: L'Harmattan 1999) p.40.
49. Chang (note 19); Wade (note 19).
50. For an evaluation of the state of SOEs 'on the eve' of the IMF intervention, see A. Taibouni, 'Réformes Économiques et Ajustement Structurel en Algérie', *Alternatives Sud,* 2/3 (1995) pp.94–5.
51. D. Liabès, 'L'Entreprise entre Économie Politique et Société' in A. El-Kenz (ed.), *L'Algérie* (note 48) p.219.
52. Dahmani (note 48) p.49.
53. 'Selling Algeria to foreign interests' is an often heard accusation, coming from persons not necessarily adhering to the populist *imaginaire,* but having a political/private interest in SOEs not being privatised. *El Watan*, 20 Feb. 2001.
54. The Algerian president, for instance, speaking about privatisation to German investors in Berlin on 3 April 2001, asked them to excuse him for not using the sensitive term privatisation which still raises fears in Algeria, *Frankfurter Allgemeine Zeitung,* 4 April 2001.
55. Schwartz (note 8).
56. In 1981 and 1982 the production figures at SONACOME (producing engines and vehicles),

for instance were exceeded by 25 per cent by the enterprises' sales of imported vehicles, Liabès (note 51) p.231.

57. When in the 1980s the large industrial SOEs were divided into small production and distribution units, administrative procedures multiplied and, as a corollary, opportunities for those seeking rents from such (sub-) monopolies also multiplied, Dahmani (note 48); Tlemcani (note 29) p.121.
58. Martinez (note 46) p.33. 'Local eminent citizens' are usually ex-fighters of the revolution who managed to make some money through petty trade and/or economic activities in France. They generally have informal ties to the regime and to the armed groups and thus are among the economic winners of the war, p.126–8.
59. Dillman (note 36) p.95, using the example of the pharmaceutical sector, impressively illustrates the nexus of rent distribution among military elites, state companies, private importers and multinationals which created oligopolies after 'deregulation' in the pharmaceutical sector.
60. Tlemcani (note 29) p.121. This usually happens under the patronage of what Karabdji, 'L'économie algérienne' (note 45) terms *import-import generals* in a double allusion, first to allegations that the generals which rule the country 'behind the scenes' have divided up all relevant import sectors among themselves, and second to the fact that there are hardly any exports.
61. Dahmani (note 48) p.140 quotes a poll conducted in 1993 among 300 European entrepreneurs who cite political instability and violence as well as the complexity and confusion over legal proceedings as the prime reasons for reluctance to invest in Algeria. Seven years later, despite the security situation having improved (somewhat), investor interest is still not overwhelming. Even in the hydrocarbon sector, there has been a lack of exploration bids for basins where the potential for new discoveries is very high, *Middle East Economic Digest*, 20 July 2001.
62. I use the definition by Roberts (note 47) p.99, that it is a social category, 'consisting of all persons employed in administrative posts in the administrative apparatus of the state, including the state sector of the economy'.
63. Talahite (note 45) p.53.
64. Successful development in East Asian NICS also depended on what Evans (note 18) p.96 terms *embedded autonomy* of the state bureaucracy. This entails a sophisticated bureaucratic apparatus with Weberian insulation and the capacity to intervene, sharing a (national) project 'with a relatively organized set of private actors who can provide useful intelligence and a possibility of decentralized implementation'.
65. Roberts (note 47) footnote 49.
66. A well documented case of the effects of such blurred boundaries was the privatisation of expensively renovated state villas in the late 1990s, which were sold, as later turned out, to functionaries for less than their renovation had cost, Tlemcani (note 29) pp.96–7.
67. L. Addi, *Les mutations de la société algérienne* (Paris: La Découverte, 1999) p.174, describes the social pressures on the director of an SOE, for instance not allowing him to say no, when his trucks are being used for other (private) purposes by a prefect. Martinez (note 46) p.124, moreover, describes how material from SOEs is being diverted by employees for private workshops.
68. A former Algerian prime-minister estimates that bribes paid to leading state officials during the 1980s amounted to 26 billion dollars, Ruf (note 48) p.92.
69. M. Khan and K.S. Jomo, 'Introduction' in M. Khan and K.S. Jomo, *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia.* (Cambridge: Cambridge University Press 2000) pp.1–20.
70. L. Addi, 'La guerre continue en Algérie', *Le Monde Diplomatique*, (April 2001) pp.12–13; Al-Saidawi (note 22).
71. Wade (note 19) pp.195–227.
72. For classifications of states according to the criteria predatory, intermediate and developmental, see Evans (note 19).
73. World Bank, 'The East Asian Miracle: Economic Growth and Public Policy', *A World Bank Policy Research Report* (Oxford: Oxford University Press 1993).

74. D. Liabès, 'Entrepreneurs, Privatisation and Liberalisation: The Pro-Democracy Movement in Algeria' in M. Mamdani and E. Wamba-dia-Wamba (eds.), *African Studies in Social Movements and Democracy* (Dakar: CODESRIA 1995) p.201.
75. Dillman (note 36) p.38 writes that the state has for decades viewed the private sector with great suspicion and treated it correspondingly, with 'the primary mediation between the state and business being rent, clientelism, and the parallel market'.
76. This capital (calculated according to the World Bank method for assessing capital flight) was estimated at $16.3 billion between 1986 and 1990, which amounted to 55 per cent of the external debt at that time, Talahite (note 47) p.59. In an attempt to bring back this money, the head of the CNP has been advocating – so far in vain – a (tax) amnesty for those bringing back their money to Algeria.
77. See, for instance, R. Tlemcani, 'Privatisation et Nouvel Ordre Politique' in *El Watan*, 5, 6, 7 May 2000.
78. Nashashibi (note 23).
79. From an interview with an American banker in London (May 2001), who was involved in debt rescheduling as well as reforming the banking sector in Algeria.
80. Its spokeswoman calls what is happening in the context of privatisation 'a war of interests', Algerian Radio, 30 June 2001, as reported by BBC Monitoring Global Newsline Middle East Economic File, 1 July 2001.
81. In the case of the above discussed proposals for legal reforms put on ice in spring 2001, there was such a strong campaign against them by parliamentarians and members of government in the media that they were never even presented to the parliament, *Quotidien d'Oran* (online) 23 January 2001.
82. This party, which is part of the government coalition, is partly backed by small entrepreneurs and businessmen with Islamist leanings who used to belong to the constituency of the forbidden Islamist FIS party which had won the first round of the democratic parliamentary elections in 1991 and was only stopped from winning the second round by a military coup d'état. The FIS had run on a platform which strongly pushed for market liberalisation and accused the ruling elites of deliberately mismanaging the economy for personal enrichment and preventing an independent private sector from developing.
83. Particularly in 1997 and 1998, when the first lists of industrial enterprises slated for privatisation appeared, *Tageszeitung*, 10 March 1998.
84. *Le Quotidien d'Oran* (online) 2 August 2001.
85. *Le Quotidien d'Oran*, 17 February 2001.
86. Dahmani (note 48) p.151.
87. Talahite (note 45) p.64.
88. Karabadji (note 45).
89. All foreign investors in Algeria are said, for instance, to need a local intermediary or, rather, a 'door-opener' who needs to be remunerated generously. (Information gathered in interviews with Algerian researchers in Algiers, February 2001.)
90. Karabadji (note 45). The view that the 'import generals' are actively trying to block privatisation is also disclosed in an embassy report (23 Jan. 2001, written by a senior foreign diplomat in Algiers), and oral information (16 March 2001, interview in London), from a high ranking foreign diplomat posted to Algiers.
91. Entelis (note 22) p.12.
92. Martinez (see note 46) p.119–26 describes Islamists sabotaging public cement factories, new private facilities supplying the materials for government-sponsored housing instead, and this housing being built by private contractors with ties to the army.
93. Ibid.
94. During the short democratisation process which started in 1988 and was aborted in 1991 after the election victory of the Islamist FIS by a military coup d'état, there had for the first time been a strong pro-market reform government announcing among other things, plans for privatisation. After the coup d'état, however, anti-market reform forces dominated again.
95. Incidentally, all three hail from the president's hometown, which raises the question if and how (regional) clan interests affect positions on issues such as privatisation and vice versa.

96. L. Rummel, 'Privatization and Democratization in Algeria' in J.P. Entelis and P.C. Naylor (eds.), *State and Society in Algeria* (Boulder, San Francisco and Oxford: Westview Press 1992) pp.53–72.
97. In light of this, the intended sale of the above mentioned 61 EPLs, was presumably aborted because no candidate wanted to be saddled with the pro-privatisation tag.
98. Tlemcani (note 29) p.4 mentions a third option, with privatisation being seen by the proponents as a means of getting even with their rivals. I have not, however, been able to find evidence to support this allegation.
99. U.G. Wurzel, 'Ägyptische Privatisierungspolitik 1990–1998', *Geber-Nehmer-Konflikte, ökonomische Strukturreformen, geostrategische Renten und politische Herrschaftssicherung.* (Hamburg/Münster: Lit-Verlag 2000).
100. K. Bayliss and C. Cramer, 'Privatisation and the Post-Washington Consensus: Between the Lab and the Real World?', paper for SOAS series on the Post-Washington Consensus, mimeo, Dept. of Economics. (London: SOAS 1999) pp.13–14.
101. Stiglitz, 'Whither Reform' (note 10) p.21.
102. K.S. Jomo, 'Malysia's Privatisation Experience' in P. Cook and C. Kirkpatrick (eds.), *Privatisation Policy and Performance: International Perspectives.* (New York: Prentice Hall/Harvester Wheatsheaf 1995) p.240.
103. Bayliss and Cramer (note 100) p.12.
104. During the recent uprisings which started in Kabylia and soon spread to other regions, many of the main slogans were demanding an end to the rule of 'the politico-military finance mafia' and calling for democracy.