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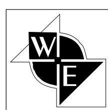

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PRIVATIZATIONS IN ALGERIA: AN INSTITUTIONAL ECONOMIC ANALYSIS OF THE FAILED PRIVATIZATION PROCESS

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ABSTRACT: This article presents an institutional economic analysis that focuses on the reasons behind the inertia in the privatization process, which begun in Algeria in 1995. The analysis identifies the reasons for the failure of privatization, as well as behaviors arising from a long process by which formal and informal rules are crystallized (i.e. anchored in people's mindset and habits) and publicized (i.e. made public and defended on a national level); in particular through the actions of Algeria's single labor union, the UGTA.

KEYWORDS: Institutional economics, Privatization, Labor unions

JEL Classification: D02, D72, D73, J53

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Introduction

This article is aimed at presenting an institutional economic analysis[1] in order to understand the reasons behind the inertia in the privatization process begun in Algeria in 1995. We will use it to cast a new light on the reasons for the failure of privatization. We will examine behaviors that result from a long process by which formal and informal rules are crystallized (i.e. anchored in people's mindset and habits) and publicized (i.e. made public and defended on a national level), notably through the actions of Algeria's single labor union, the UGTA.

Distinguishing between rules of play and players has become, since D.C. North's works, a common method for analyzing institutional change. Rules of play change so as to provide the players with opportunities they can interact with and even change. The new institutional economy took up this analytical difference and improved upon it.

Institutional change is possible only if informal rules do not delay nor stop neither the actions of the players nor the change in formal rules. However, the privatization process and institutional change in Algeria is characterized by its innate inertia and conflicts. It is therefore useful to improve D. North's theoretical framework completing it with the old institutionalism. T. Veblen's works (1898 and 1909) enable us to understand how, in a conflicting dynamic, individuals' habits and behaviours (i.e. informal rules) are likely to durably impede the change in formal rules.

Taking account of institutions not only enables the debate to be centered on individuals, their interactions and behaviors in the shaping of societal trends, but also to break with the idea that simply implementing an appropriate institutional framework enables efficiency and general welfare to be achieved, as asserted by the most ardent defenders of the market economy.

Institutional analysis (North, 1990 and 2005) has taken on an increasingly important role in the study of economic growth in recent years. In keeping with a certain neo-institutional orthodoxy, the latest reports by international institutions (the IMF, the World Bank, etc.) and a substantial body of research raise the question of the *right* institutions or rules of play as a prerequisite to achieving optimal efficiency for developing or transitional economies. Becoming mired in inertia traps, lagging behind the targets set by "experts", deviating from the trajectories (or growth pathways) nevertheless described as ideal: such events are

[1] For a brief introduction see B. Chavance (2007).

attributed either to the partial or complete unsuitability of the institutional matrix, or to deliberate strategies of refusal to implement the "right" institutions, as these could jeopardize rent situations.

The article is divided into three parts. The first part sets the institutional environment and discusses the privatization process in Algeria. The challenges and constraints on privatizations are dealt with in the second part. The third part provides a historical analysis for a better understanding of the internal resistance to privatizations. Finally, the conclusion enlarges on the topicality of the privatization process.

The institutional environment and the privatization process in Algeria

The privatization process for government-owned corporations in Algeria was officially launched in 1995[2]. Between 2000 and 2007, private investors[3] notably acquired a 70% stake in government-owned steel company SIDER and a 100% stake in government-owned detergent manufacturer ENAD, as well as taking stakes in several small companies owned by local authorities whose headcount and economic influence were very minor. Foreign direct investment (FDI) has remained very low compared to other countries in the Middle East and North Africa (MENA) region and is chiefly focused on the hydrocarbon industry. Thus, the privatization process in Algeria never really took off, unlike countries in the former Eastern bloc or in Latin America.

Nevertheless, beginning in the early 1990s, numerous economic reforms were undertaken due to constraints imposed by the International Monetary Fund (IMF) and the World Bank (WB). As a result, the conditions for the various structural adjustment plans took the form of price liberalization, tighter budget constraints on State-owned enterprises, the lifting of monopolies on foreign trade, autonomy for the central bank, and the introduction of prudential rules for the banking and financial system. The change in the institutional framework was supposed to increase Algeria's appeal for foreign direct investment (i.e. privatizations) and to implement a market economy able to compete in a globalized world.

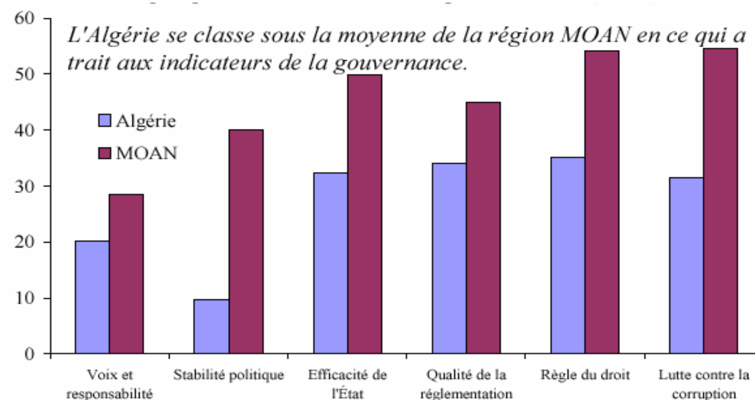
In fact, an analysis of the institutional framework for the market economy in Algeria shows a certain lag compared to other countries in the Middle East and

[2] On this topic, see Ordinance No. 95-22 of 26 August 1995, modified by Ordinance No. 01-04 of 20 August 2001.

[3] In May 2000, German multinational Henkel acquired a 60% stake in Algerian State-owned detergent manufacturer ENAD, later acquiring the remaining 40% in 2004. In 2001, Indian group Lakshmi Niwas Mittal (now ArcelorMittal) acquired a 70% stake in SIDER, the Algerian State-owned steel company.

North Africa (see Chart 1 below), which hampers Algeria's appeal in terms of foreign direct investment.

Chart 1



A report by the World Bank (2005) draws the stark conclusion that Algeria's institutional framework can be described as "underdeveloped" compared to neighboring countries. This report notes that "studies of the relative development of the private sector [...] have highlighted that the legal framework is still characterized by partial inadequacies in standards and regulations applicable to business, notably those related to: a) the creation and operation of commercial firms; b) competition rules and transparency rules in commercial transactions; c) guarantees; d) property rights; and e) rules governing bankruptcy and liquidation."

The private sector is not the only one to face operating difficulties. Structural inadequacies (slow IT networks, weak interbank settlement systems) and institutional insufficiencies in the banking and financial sector also hamper the transitional process.

This "relative underdevelopment" appears to be part of a broader underlying strategy of resistance to change on the part of players[4] who have nothing to gain from reforms, and these "partial inadequacies", which have an impact on

[4] By "players", we mean any person or organization with sufficient influence to have an impact on the rules of play.

transaction costs, must nevertheless be placed in context. Firstly, the question of the "right institutions", to use the World Bank's terminology, is far from resolved, and recent research by Daniel Rodrick (2000, 2008) is noteworthy in this regard. Secondly, the substantial revenues on hydrocarbon sales have enabled Algeria to build up an historic level of currency reserves and to pay back virtually all its external debt, thus easing the various deadlines for reforms imposed by its historical creditors. With the euphoria of the continuous rise in oil prices, and in the absence of substantial industrial investments, the oil and gas sector may very well continue to drive Algeria's economic growth for a certain period of time.

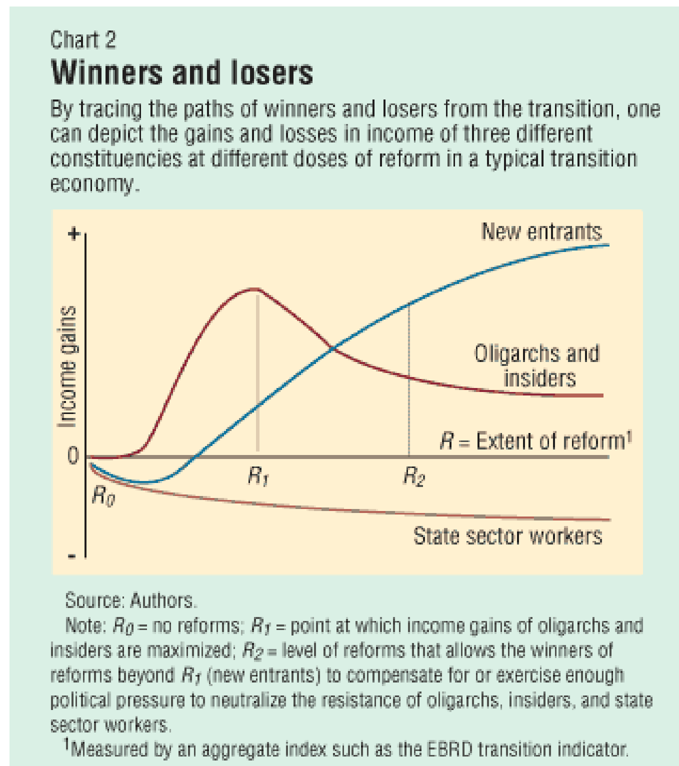
The various indicators[5] (World Bank, 2005) given hereafter must be interpreted in light of the globalized economy, which tends to be increasingly contractual in nature and where the question of contract law and contract execution is thus crucial.

On an economic level in general and in terms of privatization in particular, the time and cost of recording property transactions are decisive factors for an investment decision. While the time required to record a property transaction appears to be shorter[6] in Algeria (at 52 days) than in neighboring countries (57 days in Tunisia and 193 in France), the cost is relatively high (at 9% of the value of the property), vs. 6.1% in Morocco and Tunisia. The time and cost of implementing contracts are also decisive factors. These indicators are particularly high in Algeria and thus do not provide a strong incentive for investments and risk-taking: 407 days in Algeria vs. 27 in Tunisia and 240 in Morocco.

An analysis carried out by P.K. Mitra and M. Selowsky (2002) of the reasons that may result in reforms not being implemented appears to be very pertinent in the case of Algeria. The following chart identifies three typical groups of players, along with the gains and losses of revenues they may experience as the reform process gathers strength.

[5]The indicators used by the World Bank have been the subject of debate regarding their applicability and limitations. However, these are the only indicators available and must be used "indicatively" despite their limitations.

[6] French law in this matter is nevertheless not completely comparable to that of other countries.



Source: P.K. Mitra and M. Selowsky, 2002

- ***State-sector workers***: in the case of Algeria, State sector workers are actively defended and their viewpoint is made public by a single union, UGTA[7], and already consented to substantial cuts in their income at the beginning of the reforms in the 1990s, notably after the twofold process of "layoffs/contractual rehires";

- ***Potential new entrants***, which, assuming they have the necessary skills, are likely to see their revenues decline at the beginning of reforms given headcount reductions in the newly-privatized government-owned corporations, but with revenue gains thereafter thanks to expansion into new sectors;

[7] *Union Générale des Travailleurs Algériens*, the general union of Algerian workers.

- ***The oligarchy and privileged classes,*** who, prior to the reform, control State-owned assets to a large extent, and have close ties with the political class, are in a strong position to obtain high rents at the beginning of reforms. However, as reforms move forward, competition and the implementation of new institutions are set to eliminate these rents, hence the reverse U-curve for this category.

Given the specific strategies and resulting balance of powers due to the existence of organized structures able to maintain the status quo, it is likely – as in the case of Algeria – that the economy will become stuck at R_1 in what the authors call a "partial low-level equilibrium trap", i.e. equilibrium characterized by liberalization, but with limited discipline and incentive policies. However, this "trap" was only possible in Algeria given the existence of "autonomous" income generated by hydrocarbon resources, which enable the resulting social costs to be covered partially and for a certain period of time.

This inertia to institutional change in Algeria is strongly relayed by unions, which view the privatization process not just as selling "on the cheap" public assets that workers and union officials consider to be an inalienable historical legacy, but also as a threat to jobs and benefits. The following sections will analyze the challenges and constraints raised by privatization.

The challenges of and constraints on privatizations in Algeria

Even before any government-owned corporation had really been privatized, more than 380,000 public-sector workers had already been laid off between 1996 and 1999, i.e. more than 50% of total public-sector headcount in 1996. These mass layoffs provided justification for the rising opposition of unions and politicians, and fostered the emergence of fears surrounding privatization as a direct threat for jobs and jeopardizing specific benefits that were awarded to workers when the Algerian productive system was set up, namely: access to wage goods, access to healthcare, fringe benefits, job security, etc.

Moreover, given the critical situation of government-owned corporations and the substantial "doubtful" loans held by banks on these firms, various financial clean-up plans were aimed at government-owned corporations and banks, but did not produce the expected results. For instance, the total debt of government-owned corporations rose by 24% over the period 1996-1999 to represent more than 720 billion dinars, i.e. 23% of 1999 GDP. Following the same pattern, bank overdrafts grew by 20% over the period.

However, the situation of these government-owned corporations must be viewed in the context of the specific objectives given to them in the period 1967-1980. These objectives mainly consisted of providing employment for all and access to wage goods for an increasing number of Algerians. The concepts of "profitability" and "market sanction" (i.e. bankruptcy), as used in a market economy, were therefore meaningless. These objectives were partially met thanks to massive investment programs[8] needed to set up the productive system, which were financed by the oil rent and, on the other hand, by lax budgetary constraints. This was the basis for the development of behaviors and customs that are called into question by privatization. A review of the various assets held by government-owned corporations reveals the various constraints in place and casts light on the reasons behind the inertia of the privatization process.

The question of tangible assets and bringing them up to standard

Firstly, note the sharp slowdown in gross fixed capital formation (GFCF) over the period 1986-2000. This slowdown reflected an unprecedented drop in industrial investments in government-owned corporations, which accelerated the obsolescence of industrial assets.

Hamid Temmar, then Minister for Privatization and Coordination of Reforms, prepared an initial list of 104 firms that were considered to be potentially attractive given their market positioning. In 1999, 103[9] of these firms represented 50% of total revenues of government-owned corporations, 25% of value-added and 17% of headcount. Thus, a large portion of wealth created in the industrial sector[10] was generated by a small number of government-owned corporations representing just 17% of total headcount. This high level of concentration thus raised questions about the place of the 320 other government-owned corporations and the 250,000 other public-sector employees in the privatization process.

These 103 firms, generating the lion's share of industrial wealth (outside the hydrocarbon sector), had obsolete industrial equipment. Of the firms selected, 58% had equipment considered "obsolete" or "ageing", 24% "average" and just 18% "new". The gearing ratios (i.e. Debt/Shareholders' Equity) for one-third of these firms was 50%, with financial expenses for these firms representing 18% of revenues.

[8] Over 1968-1980, the rate of GFCF (gross fixed capital formation) in Algeria was over 40%, i.e. more than twice the rate in industrialized countries.
[9] We removed Air Algérie from the sample, as it was mainly slated for a capital increase and its headcount biased the sample average.
[10] Excluding the hydrocarbon sector.

These facts about the current situation of tangible assets raised the issues of bringing factories up to standard and the valuation of these government-owned corporations by international audit firms on behalf of potential acquirers (i.e. Algerian private-sector firms or non-Algerian multinationals). One of the fundamental challenges of privatization is rooted in the setting of selling prices for the firms. This challenge is both political and economic: political, because it raises the thorny question of selling public-sector assets "on the cheap" and can eventually become an electoral issue; economic, because the level of debt and overdrafts carried by government-owned corporations is such that it could seriously jeopardize an acquisition price based on the objective value, as the selling price of assets ultimately determines the amount of additional resources the State would have at its disposal. Furthermore, the possibility cannot be ruled out that certain "clans" would be tempted to have assets undervalued in order to acquire them directly or indirectly at a lower cost. Given the general situation of production facilities, which require substantial investments for replacement and expansion, the industrial assets themselves are not so much at stake as the end-markets and monopolistic positions that they represent. The opening up of the market does not necessarily result in free competition taking root and being strengthened. Depending on specific strategies, the result can be unique arrangements or combinations aimed at eventually reconstituting monopolies in some sectors. This raises the problem of public monopolies being replaced by private-sector monopolies in high value-added sectors.

Generally speaking, there are two valuation approaches. The first focuses on the value of a firm's assets and the second discounts its future returns. In both cases, the assets to be privatized (land, buildings, machines, etc.) must first be clearly identified and isolated. Yet very often, the land belongs to the municipality or *wilaya*[11], or to both jointly, while the firm may belong directly or indirectly to the Algerian State. This requires a harmonization or even revamping of land ownership laws. However, also at this level, resistance may appear and lead to delays in the preparation of property deeds. These delays, while tending to depreciate the value of assets, increase transaction costs. Local and regional authorities – which own the buildings and/or land occupied by firms to be privatized and which typically enjoy revenues from this property, for example rental income – may be unprepared to give up the advantages of public ownership of these industrial assets. They may therefore delay the preparation and transfer of property deeds to the officials in charge of privatization, with prejudicial effects, thus considerably increasing the risk of potential acquirers withdrawing from the process and jeopardizing the success of the privatization process.

[11] The *wilaya* is the equivalent of the department in France.

The results of privatization may also depend, to a lesser extent, on prevailing market structures. In Algeria, government-owned corporations in a monopoly position still suffer from the absence of competition on product markets. This notably results in a certain degree of inefficiency in production and a questionable level of quality. This can obviously also hold true for private monopolies. However, unlike the latter, public monopolies are generally not exposed to the risk of bankruptcy. Public officials intervene frequently by injecting fresh cash. A public monopoly can therefore be inclined to set aside cost-cutting efforts for political reasons or due to pressure from unions. However, the risk of bankruptcy is only effective if the constraint is real. In Algeria, despite government-owned corporations being made autonomous in 1988 and even though they are now governed by the Commercial Code, very few bankruptcies have been declared. Instead, the State has undertaken large-scale financial clean-up measures on several occasions. In economies characterized by efficient market structures with the credible threat of outside takeover, we can expect that the managers of these monopolies would be more vigilant.

The issue of the workforce and intangible assets

The results of a statistical analysis[12] of the types of employment in a sample of 97 economic public firms[13](or EPFs) casts light on the challenges raised by the workforce in government-owned corporations. The analysis covered two types of variables: 1) the socio-professional category, with three classifications (workers, supervisory staff and managerial staff); and 2) type of employment (permanent[14] or contractual).

This statistical analysis yields of matrix[15] with five categories that highlights contrasts companies according to two main criteria. The first criterion is based on socioprofessional classification and contrasts Category 1 (i.e. EPFs whose workforce is mainly comprised of workers) and Category 2 (i.e. EPFs whose

[12] This is a principal component analysis (PCA) in an optimized hyperspace and an ascending hierarchical classification (AHC) in order to set up a matrix of types of job structures. This matrix is based on a breakdown of government-owned corporations into five categories. Each category can then be described using continuous or nominal variables.

[13] This sample represented 30% of national EPFs (excluding the Manufacturing holding company, which groups together 111 EPFs that represent just 4% of total revenues) and 67% of the revenues of the 427 national EPFs. The sample covers the companies that make the greatest contribution to Algeria's national industrial value added and employ 43% of total EPF headcount. The data matrix represented a table of 97 rows and 7 variables covering each firm's status, socioprofessional classifications and sector of activity.

[14] The term "permanent" refers to a special type of long-term contract whereby workers cannot be laid off.

[15] See the Appendix for detailed results.

workforce is mainly comprised of supervisory and managerial staff). A second criterion is based on the type of work contract and contrasts Categories 3, 4 and 5 (EPFs whose staff is mainly on a contractual or "precarious" basis) and Categories 1 and 2 (EPFs whose staff is mainly comprised of employees with permanent contracts). Employees are hired on a contractual basis not just for seasonal or intermittent work, but also due to the policy of State holding companies shifting permanent employees to a contractual basis. This workforce structure shows a lack of managerial staff in EPFs and raises the issue of skills and qualifications in the privatization process.

Public authorities implemented incentive measures for potential investors to commit to preserving jobs in the firm. The problem with regard to the privatization process is twofold: If an acquirer is interested in firms with a majority of workers, it will have to cope with a shortage of supervisory/managerial staff; if it acquires firms with a majority of supervisory/managerial staff, the inverse is true, i.e. a shortage of workers. Once the firm is taken in hand by the outside acquirer, the latter may decide, in the interest of flexibility, to transform permanent jobs into contractual positions. In this case, very harsh conflict may result. This is because such a strategy challenges a basic social right: the right to work. At this level, union and political activity is very high, and this can have several effects. We can imagine that jobs are preserved and professional qualifications brought up to standard. This would reduce pressure from unions and avoid a further increase in the already very high number of unemployed, and thus satisfy unions and politicians, as it would provide the latter with electoral arguments. However, at the same time, this hypothesis presupposes that the State gives acquirers some advantages (paying for training for the employees kept on, tax reductions, etc.). This then presupposes that the State receives additional revenues and that the public and private system of professional training is able to provide for the necessary training. On the latter issue, a 1999 report by the CNES highlighted that the job market may not be able to supply labor suited to firms' needs, while the weakness of the public training system suggests pessimism in its ability to respond to firms' new requirements. Furthermore, we can assume that the State has other priorities (e.g. infrastructure construction notably). Union activity can therefore be decisive in the privatization process. But assuming that the workforce and skill issues are resolved, the question of the debt and liabilities of government-owned corporations would still have to be addressed.

The issue of financial assets and debt

In transitional economies, privatization has often been presented as a necessity. In Algeria, the government-owned corporations targeted by privatization carry high

levels of debt. This debt calls into question the debate on privatizing the very weak banking sector. Commercial banks provide virtually no financial intermediation, which is nevertheless an indispensable part of privatization. The question of financing privatization is therefore completely open. In this respect, credit money – as purchasing power for entrepreneurs and a means to purchase assets – can be assimilated to a firm's asset. However, credit money as a resource to acquire and renew assets raises several problems in Algeria. The financial situation of Algerian firms and the historical behavior of government-owned corporations towards the banking system are major challenges to be addressed by Algerian reformers. Ultimately, the question is not which firm is strategic or can be privatized, but how can privatization be financed and who should be responsible for the debts of these firms? Poor access to credit and the endemic destructuring of the Algerian banking system suggest the difficulty or impossibility of implementing a privatization program with the usual procedures and timeframes. In this respect, two points warrant mentioning:

- Firstly, the level of doubtful loans held by banks on government-owned corporations is such that one must wonder whether the banks have not actually become the legitimate owners of these firms;

- Secondly, the question is raised as to banks' organizational and institutional capacity to carry out and assist in the privatization process.

Credit money is the starting point – the prerequisite – for the formation and expansion of capitalist assets. Without credit money, there would be no tangible or intangible assets. Yet the Algerian banking and financial system is unique in two respects:

- Monetary power (in terms of credit money for the financing and operations of firms) is appropriated by government-owned corporations, which makes banks cautious and relatively ill-equipped to finance tangible assets;

- The banking network is weak.

An analysis of the Algerian monetary and financial system over the period 1967-1990 reveals a singular characteristic of the Algerian economy: *monetary power is confiscated by government-owned corporations*.

National companies, in an initial stage, then government-owned corporations since 1981, operate exclusively on an unlimited recourse to the credit economy[16] (Palloix, 1982).

This monetary power, in the hands of government-owned corporations, must be understood in light of two factors: 1) the absence of competition between primary banks, which held a portfolio of firms as set by law; and 2) the very rationale behind government-owned corporations. The first point is due to the domiciliation of government-owned corporations with a single bank. This single-bank domiciliation was made compulsory by Article 18 of Ordinance 60-17, dated 31 December 1969 and pertaining to the 1970 Finance Law: "National companies and public establishments are required […] to domicile all their operating accounts with a single bank." This resolved the question of competition between banks. The second factor pertains to the rationale behind government-owned corporations and must be viewed in light of the political ideology that governed the set-up of national companies. The measure of efficiency for government-owned corporations was far removed from standard economic orthodoxy. The purpose of national companies was to provide jobs for the masses, along with professional training, access to wage goods, housing and leisure activities.

It was inevitable that these firms would confiscate monetary power, because leaving it in the hands of the banks would mean that the firm's rationale was based on financial returns, which no government-owned corporation could deliver. The resulting problems are highlighted by a look at the financial situation of a few national companies, which represented over 58% of the headcount of 19 Algerian national companies[17] outside the hydrocarbon sector.

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[16] As noted by C. Palloix: "De facto, Algerian government-owned corporations force primary banks to accept 'credits to the economy' on their balance sheets in order to supply [the companies] with the monetary resources they need for their operations (purchases of raw materials or semi-manufactured products, payment of wages, etc.). Neither primary banks nor the Central Bank can exert monetary constraint, which is appropriated by government-owned corporations, which ultimately hold 'monetary power'. A monetarist obviously has difficulty analyzing such a monetary system, in which monetary power is wielded by the banking system only in appearance." (Palloix, 1982, p. 7)

[17] Appendix 2 gives the complete definitions of the acronyms used.

Table 1. Debt and bank overdrafts of Algerian national companies in 1979 (billion of Algerian dinars)

National company	Headcount	Operating debt	Bank overdrafts
SNS	33,000	5.913	7.202
SNMC	26,139	4.420	2.181
SONIC	6,125	1.446	1.912
SOGEDA	12,893	1.186	5.11
SONACOME	28,720	0.850	6.300
SN SEMPAC	24,070	0.775	0.731
Total	**130,947**	**14.59**	**23.436**

Source: Data collected by the Ministry for Planning and Territorial Organization in 1979 [Brahimi, 1991]

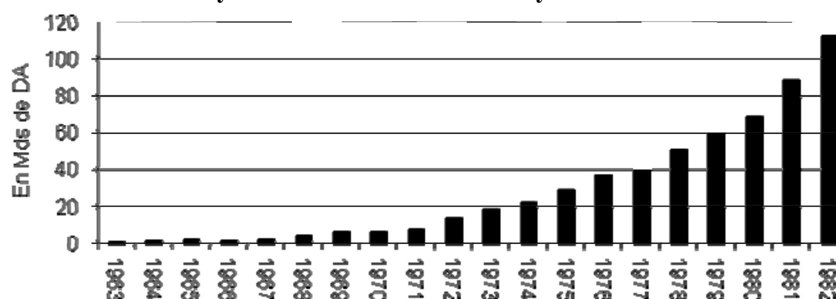
The 23.4 billion dinars in overdrafts and 14.6 billion dinars in debt, as indicated in the table above, represent 1.5x oil-related tax revenues for the same year, 82% of total State revenues and 63% of total industrial capital invested. The magnitude of the financial destructuring of national companies partly explained the increasingly wide-scale recourse to the credit economy via borrowing from primary banks in order for these firms to face their daily funding requirements[18] (see Chart 3). The absence of budgetary constraints and economic calculation explains the deterioration in these firms' financial situation and economic performance.

The amount of credit extended to government-owned corporations was multiplied by 140 over the period 1963-1982. Beginning in 1976, government-owned corporations were authorized to use shareholders' equity to finance investments to grow or extend capacity. However, as shown by the financial situation of national companies, their low self-financing capacity precluded this type of arrangement. Thus, the tax take of industrial and commercial earnings (if we can consider this to be a valid concept over this period) declined from 60% to 40%. Mandatory payments for the special contribution[19], provisions and depreciation were repealed in 1978. Over the period 1967-1986, government-owned corporations, operating under lax budgetary constraints and with unlimited access to credit money, were able to confiscate monetary power from the banks, with the latter's role reduced to simply recording transactions.

[18] Unless otherwise indicated, macroeconomic and financial data are drawn from the IMF and World Bank annual reports. Data on government-owned corporations is sourced from the database of ECOFIE and CNPE.

[19] The "special contribution" was a levy on government-owned corporations.

Chart 3
Primary banks loans to the economy - 1963-1982



Source: International Financial Statistics Yearbook, IMF, Washington.

The massive recourse to Central Bank advances at a discount rate substantially lower than interest rates explains the economy's excessive monetization, without triggering an inflationary spiral due to the system of administered prices. The absence of competition between banks due to the principle of single-bank domiciliation precluded the development of banking based on the notions of risk and solvency. Nevertheless, this conclusion must be viewed in light of the industrial policy made possible by the oil rent.

Between 1986 and 1990, a succession of laws was passed to reform the Algerian monetary system and the relationship between government-owned corporations and banks. As these relations were chiefly based on high levels of debt and substantial overdrafts, financial clean-up measures were implemented based on converting overdrafts into short- and medium-term loans, debt repurchases or conversion into treasury bonds. The change in the banking system's regulatory framework was aimed at fostering competition between banks and fulfilling stand-by agreements signed with the IMF[20]. The level of debt and liabilities of government-owned corporations is particularly decisive in the privatization process, and the price of assets is highly dependent on how these firms' debts and liabilities are handled. In 1999, after the financial clean-up efforts, i.e. after overdrafts were converted into short- and medium-term loans and the Algerian Treasury repurchased some liabilities held by commercial banks on government-owned corporations, these firms continue to show levels of gearing that would be virtually unbearable for firms in a market economy.

[20] Between 1989 and 1994, the IMF granted three stand-by arrangements to Algeria, for amounts of $202m, $1.52bn and $500m, respectively. These three arrangements were conditional on Algeria implementing austerity measures via structural reform plans.

Table 2 gives the consolidated gearing ratios (Debt divided by Shareholders' Equity) for each State holding company.

Table 2. Gearing of government-owned corporations held by 11 State holding companies in 1999

Holding companies	Gearing (Debt/Shareholders' Equity)
Various Agrifood	12%
Agrifood Staples	252%
Manufacturing (a)	4744%
Steelmaking/Metallurgy	128%
Mining	188%
Machinery	140%
Electricity, Electronics, IT and Telecoms (a)	1811%
Chemicals/Pharmaceuticals	50%
Services	184%
Infrastructure	664%
Building Materials and Construction (a)	308%
Overall total	264%

(a) Shareholders' Equity calculated as: Share Capital + Net Earnings (1997+1998)

Source: ECOFIE, 2000

In addition to these debts, bank overdrafts totaling 106 billion dinars and liabilities estimated at 152 billion dinars must be added. Furthermore, these institutional characteristics are compounded by the poor density of the banking network, with around 1,200 teller windows in 2005, more than 95% of which are in State-owned banks. This weak network does not favor the use of banks' deposit money, and agents tend to resort to fiat money.

An examination of the historical ties between government-owned corporations and the banking system highlights an unprecedented characteristic of capitalism: *confiscation of monetary power* by government-owned corporations. An analysis of this "upside-down capitalism" not only explains the lack of budgetary constraints and the current level of indebtedness in government-owned corporations, but also the inception and reinforcement of a certain kind of behavior that the new formal rules implemented since the early 1990s have not yet eliminated.

Internal resistance to privatizations

The situation of tangible assets, the peculiar structure of employment in government-owned corporations and the high levels of debt should not obscure internal rigidities. The privatization process in Algeria is a process that was, from the outset, viewed with substantial mistrust by employees and management alike. These fears were linked to the lack of transparency in the privatization process and the absence of communication within firms. In 2000, in order to analyze these fears that led to internal resistance, then crystallized and publicized by the union, we distributed a questionnaire[21] to 145 union representatives in national and local government-owned corporations and 57 general managers of these firms. The local government-owned firms all belonged to the Western regional holding company and the majority was loss-making and highly indebted. The idea behind this survey was to understand how employees and management in a few firms slated for privatization viewed the forthcoming privatization. The results and conclusions must be interpreted within the boundaries of the survey. All questions were closed. The results obtained from a multiple correspondence analysis and an ascendant hierarchical classification enabled us to highlight very paradoxical behavior types compared to attitudes to privatization and its expected effects.

From within the firm (managers and union representatives), privatization is viewed in two main ways: 1) with fear and a certain degree of mistrust, as on the one hand, privatization is seen as a threat to jobs and, on the other, is the subject of little or no explanation; 2) as a secondary issue for employees, compared to the daily difficulties they encounter. Indeed, a large number of employees in the surveyed firms suffered from lengthy delays in being paid.

To understand how and why resistance took shape in government-owned corporations, we must review two operating modes that accompanied the establishment of the Algerian productive system: Socialist Management of Enterprises and the General Worker's Status. The organizational configuration of government-owned corporations from 1971 to 1988 was based on the Socialist Management of Enterprises charter[22]. The latter, along with the General Worker's Status[23], fits with a political will to define a new order within firms. A retrospective analysis of these two institutional channels casts a unique light on the formation of behavior within government-owned corporations and thus enables us

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[21] The questionnaire and complete results of the survey are available in Kichou (2001)

[22] *Official Journal of the Algerian Republic*, 13 December 1971, followed by Ordinance No. 71-74 of 16 November 1971 on the Socialist Management of Enterprises. Several decrees were issued to apply this ordinance (Decrees No. 75-149 of 21 November 1975, No. 75-150, etc.).

[23] Law No. 78-12 of 5 August 1978.

to understand the sociocultural foundations for resistance to institutional changes in general and privatization in particular.

Socialist Management of Enterprises[24] (Boussoumah, 1981) was not just a new management approach. Its implementation fit with a political and ideological process. As written in the charter: "The new socialist organization of enterprises marks a decisive stage in revolutionary edification"[25]. This new ideological context was aimed at refocusing the worker's role. The goal was to break away from a capitalist conception of work, which thus became an inalienable right: "The worker, having become a producer-manager and working for the flowering of society, has a fundamental right to stable work and to job protection"[26]. This distribution of special advantages was one of a growing number of objectives given to national companies, with the right to work only a step towards a conception of the "firm as a family" (Liabes, 1989). A national company's "objective" was thus different from that of a capitalist undertaking. Hence behaviors and ways of thinking later developed, crystallized and publicized by the UGTA must be interpreted in light of Socialist Management of Enterprises.

Note also that this Socialist Management of Enterprises, while fostering the development of specific routines, habits and behavior, was combined with the General Worker's Status. The Socialist Management of Enterprises charter stipulated that "A national wage schedule will be established which will determine, on the one hand, a guaranteed minimum wage allowing workers to live decently, and on the other hand, criteria setting the qualifications and remuneration standards so that the same skills and the same work will be remunerated at the same level across the nation"[27]. This harmonization of wages in government-owned corporations materialized with the advent of the General Worker's Status in 1978. The latter sets the terms for this harmonization in great detail. This gave rise to egalitarian behavior that gathered strength throughout the process of developing the Algerian industrial base. Mandatory profit-sharing in government-owned corporations was also one of the advantages given to workers. The Socialist Management of Enterprises charter thus stipulated: "A worker in a firm belonging to the State, i.e. to the people, also has the right to share in the profits of that firm and to be involved in its management"[28].

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[24] For a legal analysis of Socialist Management of Enterprises, refer to M. Boussoumah (1981).
[25] Law of 13 December 1971, *Official Journal of the Algerian Republic*, p. 1346.
[26] Idem., p. 1347.
[27] Ibid., p. 1347.
[28] Ibid, p. 1347.

These two management approaches (Socialist Management of Enterprises and General Worker's Status) are typical of the phase of industrial asset development and make the Algerian case unique. This singularity is not to be found in other economies that experienced centralized planning. Socialist Management of Enterprises and General Worker's Status would gradually be challenged as from 1981, notably with the beginning of internal restructuring of government-owned corporations.

Conclusion: Is privatization still topical issue?

The innate inertia and conflicts of the privatization process are also reflected in the unstable government over the period 1998-2000. Aside from Prime Minister Ahmed Benbitour stepping down, note also the opposing viewpoints of Finance Minister Abdellatif Benachenhou and Minister for Privatization and Coordination of Reforms Hamid Temmar, on the subject of banking sector privatization, which the latter considered crucial. This opposition resulted in the Finance Minister being forced to resign, while the Minister for Privatization and Coordination of Reforms was transferred to another cabinet position. Noureddine Boukrouh's appointment in 2001 as the new Minister for Privatization and Coordination of Reforms coincided with a new ordinance[29] on the organization, management and privatization of EPFs.

The main changes implemented involved the elimination of national and regional State holding companies. The share capital and shareholders' rights of the dissolved entities were transferred to the Council for State Participations (CSP), which delegates the management of these firms to the general meeting of shareholders for industrial groups that are to take over for the former State holding companies, with their main role being to manage State investments in EPFs. Since the public economic sector was reformed, these groups have now been known as Sociétés de Gestion de Participations (SGP, a type of holding company). The industrial groups in operation (83) and unaffiliated government-owned corporations (239) were reorganized by sector of activity. Firms owned by local authorities (377) were grouped together by region.

This third restructuring effort[30] for government-owned corporations gave rise to 36 SGPs. Eleven financial establishments (banks and insurers) were not modified. This ordinance did nothing to simplify this complex and relatively unwieldy political and administrative set-up. The strategy and the privatization program were

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[29] Ordinance No. 01-04 of 20 August 2001.
[30] An initial "organic" (or internal) restructuring was implemented in 1988 with the creation of an Investment Fund. A second restructuring came in 1996 with the implementation of holding companies.

approved by the Algerian cabinet. The Minister for Privatization and Coordination of Reforms was made responsible for implementation, by drawing up and proposing a privatization program and procedures, terms and conditions for the transfer of ownership, in collaboration with other relevant ministries. This program must then also be approved by the Council for State Participations, which is made up exclusively of various government ministers. The Council for State Participations, i.e. ultimately the government cabinet, forms a committee to monitor these moves. The direct involvement of State representatives at all levels makes the process even more complex.

This complexity and substantial political influence reveal the political and economic stakes that crystallize the privatization debate in Algeria and reflect the government's desire to maintain direct control of industrial assets. In addition, the protagonists are, directly or indirectly, the future potential owners, which means that the interests of the various stakeholders are contradictory, obscure and entangled.

The conflicts and inertia of institutional change in general and the privatization process in particular are attributable to several institutional factors coinciding. Challenging workers' advantages and rent positions has led to the emergence of forms of resistance, which were then crystallized and publicized by organized structures that view privatization as a threat to their self-interest. This resistance echoed through organized structures ultimately bolstered conflicts and inertia to institutional change. This phenomenon further worsened the financial situation of government-owned corporations, thus jeopardizing even more the possibility for privatization to be a success.

Various reforms implemented since 1990 have also been unable to tackle the problem of monetary power being seized by government-owned corporations. An analysis of the privatization issue and the related challenges and constraints casts light on a series of conflicts surrounding various State-owned assets. These conflicts have political aspects (i.e. the unstable legislative framework for privatization and the resulting inertia) as well as economic ones (constraints in terms of the high level of debt and liabilities of government-owned corporations and the policy needed to handle these issues).

An analysis of the data on the structure of employment shows that excess headcount and the twofold breakdown of companies (by dominant employee classification and dominant contract type) also explain the inertia and conflicts of the privatization process. The responses to questionnaires given out to managers and union representatives for 57 government-owned corporations affected by

privatization showed mistrust towards the latter. Following the massive layoffs over the period 1996-1999, privatization is viewed as a direct threat to jobs. These various threats to employment gradually contribute to the legitimacy of unions and politicians in their opposition to privatization.

Fifteen years after it was launched, is privatization in Algeria still topical issue? Even if the answer is yes, privatization cannot be considered in the same terms because the "initial" context has changed significantly.

Firstly, Algeria's dependence on foreign countries is ambivalent. On the one hand, thanks to the surge in oil prices in recent years, its external debt has been almost entirely paid down, declining from $30.7bn in 1998 to $5.6bn in 2007. But at the same time, exports of hydrocarbons and derivatives rose from 96.4% of total exports in 1998 to 98.4% in 2007. As a result, the percentage of State revenues derived from hydrocarbon resources rose from just 55% in 1998 to 76% in 2007.

Moreover, the industrial sector's weight in GDP collapsed from 10.6% in 1998 to 5% in 2007, while the weight of the hydrocarbon sector surged from 22.5% in 1998 to 43.9%. The production index for manufactured goods (base 100 in 1989) declined from 69 in 1998 to 54.7 in 2007, i.e. down 21% in nine years. Education and training declined from 14.6% of the State's budget in 1998 to 10.7% in 2007, while spending on infrastructure rose threefold from 10.1% to 32% over the same period. This increase in infrastructure spending came hand in hand with unprecedented recourse to immigrant labor. Imports of industrial goods rose from 33.2% of total imports in 1998 to 40% in 2005, then declining to 35.5% in 2007. The imbalance between the oil sector and the rest of the economy has become even starker, and the technological and financial strength of government-owned corporations outside the hydrocarbon sector has been weakened by increasing imports of manufactured goods and food. This weakens the competitiveness of industrial facilities and jeopardizes the very pertinence of the privatization process.

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Appendix

A1. Sample characteristics

	Economic Public Firms (EPFs)		(1)/(2)	Headcount		(3)/(4)
Holding company	Sample size (1)	Total (2)		Sample size (3)	Total (4)	
Steelmaking/Metallurgy	15	15	*100%*	35 478	35 478	*100%*
Mining	7	7	*100%*	11 953	11 953	*100%*
Infrastructure	23	50	*46%*	47 574	63 767	*75%*
Agrifood Staples	9	9	*100%*	36 462	36 462	*100%*
Various Agrifood	3	22	*14%*	2 147	37 876	*6%*
Electricity/Electronics	27	27	*100%*	21 237	21 237	*100%*
Chemicals	13	13	*100%*	24 610	24 610	*100%*
Total	**97**	**143**	**68%**	**179 461**	**231 383**	**78%**

A2: Employee classification, contract type, and holding company by category

	Dominant employee classification	Dominant contract type	Test value	Holding co.	Headcount
Category 1	Workers	Permanent	362.99	Steelmaking/Metallurgy Electricity/Electronics Agrifood Staples	44%
Category 2	Supervisory	Permanent	284.74	Chemicals Mining Agrifood Staples	20%
	Managerial	Permanent	158.12		
Category 3	Workers	Contractual	302.13	Infrastructure	16%
	Supervisory	Contractual	80.48		
	Managerial	Permanent	16.76		
Category 4	Managerial	Permanent	245.85	Chemicals – Electricity/Electronics	12%
	Managerial	Contractual	232.69		
	Supervisory	Contractual	139.91		
Category 5	Supervisory	Contractual	288.68	Infrastructure	8%
	Managerial	Contractual	204.55		
	Workers	Contractual	163.85		

A3: Active continuous variables and nominal illustrative variables

Continuous variable		**Illustrative nominative variable**	
	Label	Holding company	Identifier
1	Permanent – Managerial	Steelmaking/Metallurgy	SIDMET
2	Permanent – Supervisory	Mining	MINES
3	Permanent – Workers	Infrastructure – Oil and Energy Services	RGT-P
4	Contractual – Managerial	Infrastructure – Hydro	RGT-H
5	Contractual – Supervisory	Agrifood Staples	AGRO-BASE
6	Contractual –Workers	Various Agrifood	AGRO-DIV
7		Electrical/Electronics	HEELIT
8		Chemicals/Pharmaceuticals	CHIMIE

A4: Coordinates and correlations between variables and factors

	Axis coordinates					Variable-factor correlations				
Variables	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
Permanent – Managerial	-0.07	-0.82	-0.30	0.49	-0.01	-0.07	-0.82	-0.30	0.49	-0.01
Permanent – Supervisory	0.35	-0.67	0.55	-0.35	0.01	0.35	-0.67	0.55	-0.35	0.01
Permanent – Workers	0.80	0.39	-0.44	-0.11	0.03	0.80	0.39	-0.44	-0.11	0.03
Contractual – Managerial	-0.72	-0.22	-0.42	-0.38	-0.33	-0.72	-0.22	-0.42	-0.38	-0.33
Contractual – Supervisory	-0.87	-0.05	-0.16	-0.17	0.43	-0.87	-0.05	-0.16	-0.17	0.43
Contractual – Workers	-0.72	0.46	0.43	0.25	-0.15	-0.72	0.46	0.43	0.25	-0.15

A5: Intra- and inter-category inertia for the division into five categories

	Inertias	Headcount
Inter-category	3.9727	
Intra-category		
Category 1 / 5	0.6157	43
Category 2 / 5	0.5029	19
Category 3 / 5	0.4136	16
Category 4 / 5	0.3535	12
Category 5 / 5	0.1416	7

A6. Graphic representation of the five categories, continuous variables and holding companies