

## INSTITUTIONAL FACTORS AFFECTING THE ACHIEVEMENT OF DEVELOPMENT IN ALGERIA

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### Abstract

This study aims to analyze the institutional, economic, and administrative factors that shape economic development in Algeria. It demonstrates that the quality of institutions, particularly political stability, regulatory efficiency, and transparency, directly impacts policy effectiveness and the business environment. Economic variables, along with fiscal reforms including modernizing tax administration and adjusting tax policies, are crucial for boosting public revenues and financing development initiatives. Despite challenges such as political instability and widespread corruption, recent institutional reforms within the framework of modern growth programs have resulted in tangible improvements in economic performance. The findings confirm that development in Algeria depends on coordinated institutional, economic, and fiscal reforms, underpinned by the rule of law, accountability, and transparency.

**Keywords:** Institutional Factors, Economic Factors, Fiscal Policy ,Economic Development.

### Introduction

The institutional environment plays a crucial role in achieving development in any country, as evidenced by practical experiences and documented in numerous scholarly studies. Its quality—or lack thereof—directly affects the trajectory of development. According to (North D. , 1990), who offered an explanation for disparities in development across countries, his comparative work concluded that capitalist institutions have contributed to long-term economic success, and that the state and historical context play a significant role in enhancing economic performance. Similarly, (Acemoglu & Robinson , 2012) emphasized that institutions enable members of society to participate in political and economic processes while ensuring property rights and equal opportunities. Moreover, (De Soto, 2000) highlighted the importance of legal and formal institutions for economic development, noting that transparent and law-based institutions facilitate market access and dispute resolution, thereby encouraging investment and entrepreneurship. According to (Knack & Keefer, 1995), foreign aid, foreign investment, education, large infrastructure projects, debt relief, and similar interventions will have no impact on economic development unless countries meet fundamental institutional requirements: “the rule of law, protection of property rights, effective bureaucracy, a corruption-free government, and political constraints on executive power.”

Despite the lessons drawn from theoretical studies on the role of institutions in development, the application of these principles to the Algerian context has faced numerous challenges, making it necessary to examine Algeria’s institutional environment and its impact on economic development. Like many other developing countries, Algeria has sought to catch up with growth-leading nations, yet its institutional reforms have often fallen short due to several factors, including political and security instability, widespread corruption, and more. However, in the past two years, Algeria has achieved a growth rate commended by both the World Bank and the International Monetary Fund, suggesting that institutional reforms under the new growth program have played a key role in achieving this outcome.

On this basis, the following research question is posed: What are the institutional factors affecting the trajectory of development in Algeria?

### I-Political and Administrative Factors

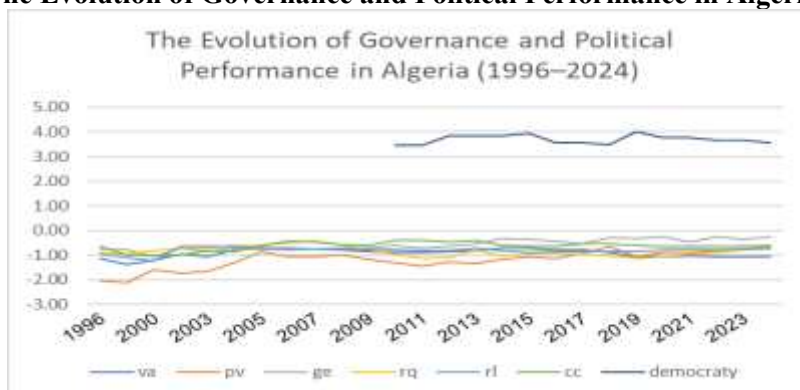
The prevailing political system constitutes one of the most significant determinants influencing and shaping development at both the local and national levels (Inzaren, 2017). Development is increasingly assessed in relation to the degree of democratization within the political system. In the absence of core democratic principles—particularly participation and accountability—corruption tends to proliferate, and the foundations of good governance are undermined. Conversely, a democratic system enhances citizens’ engagement in local development processes (Inzaren, 2017).

With regard to political stability, it plays a pivotal role in guiding public policies related to local development. Political stability fosters both freedom and accountability, while strengthening the capacity to address developmental issues at local and national levels. In contrast, when a state experiences instability, public policy tends to prioritize security concerns, often leading to substantial expenditures on defense at the expense of addressing social and developmental challenges (Al-Qaryouti, 2006).

Moreover, public administration has become the primary instrument for implementing and operationalizing state public policies. The effectiveness of these policies is closely linked to the strength and quality of administrative governance in their execution, as well as in managing social, political, and economic affairs. Accordingly, the success of development programs largely depends on the characteristics of public administration and the quality of governance practices, whether at the central or local level (Inzaren, 2017).

The following figure illustrates the evolution of governance and democracy indicators in Algeria over the period 2000–2024.

**Figure (1): The Evolution of Governance and Political Performance in Algeria (1996–2024)**



**Source:** Author’s own elaboration based on World Bank data and the Varieties of Democracy (V-Dem) database.

The political stability curve in Algeria over the period (1996–2024) indicates an overall upward trend. The lowest values of the index were recorded in 1996 and 1998, at (-2.03) and (-2.12), respectively, reflecting the political and security challenges experienced during the so-called “Black Decade.” Following the election of a new president in 1999, the curve exhibited an improvement, reaching (-1.60) in 2000, influenced by increased electoral participation (World Bank, 2025).

However, this improvement was not steady, as the index experienced fluctuations in subsequent years, affected by episodes of political and security instability in neighboring countries (such as Tunisia, Libya, and Mali), particularly in the context of the Arab Spring and ensuing civil conflicts. A relative decline was also observed in 2019, which can be associated with the popular protest movement and the accompanying climate of political uncertainty.

Thereafter, the index gradually improved in the following years, reaching (-0.69) in 2024, driven by a relative stabilization of political institutions and a decline in the intensity of unrest. Nevertheless, the index values remained negative throughout the entire period, indicating the persistence of relatively weak political stability compared to global standards (World Bank, 2025).

The remaining governance indicators—namely the rule of law, control of corruption, voice and accountability, and regulatory quality—also exhibited fluctuations at nearly similar levels. These

variations can be attributed to the weakness of the institutional environment, which proved unable to effectively curb corruption or ensure the consistent enforcement of justice, particularly during the years of the former president's rule. During this period, administrative corruption became widespread in its various forms, including bribery, embezzlement, and bureaucratic laxity, especially within public administrations that maintain direct contact with citizens, where bribery was particularly prevalent (Inzaren, 2017).

Regarding the democracy index, Algeria remained for several years within the category of authoritarian regimes. However, following the popular protest movement (Hirak), and owing to the commitment of both the government and the military to maintaining its peaceful nature, as well as the resignation of the former president, the country advanced to the category of hybrid regimes, with a score of 4.01 (Coppedge, 2025).

On the other hand, government effectiveness data indicate a gradual improvement in government performance, despite the presence of some minor fluctuations. The early years of the period, particularly in the late 1990s, recorded the lowest levels of the index (-1.08), reflecting significant challenges in the government's ability to deliver public services and manage resources effectively, especially under the difficult political and security conditions of that time (World Bank, 2025).

With the beginning of the new millennium, a gradual reduction in the negative values of the index can be observed, as most of the later years shifted toward less negative levels, ranging between -0.36 and -0.25. This trend suggests a relative improvement in government efficiency and the stability of administrative performance.

This positive trajectory largely reflects the progressive improvement in the country's political stability and supports the notion of a complementary relationship between government effectiveness and political stability. In this regard, more efficient government performance contributes to strengthening state stability and enhancing public trust in institutions.

## II- Economic Factors

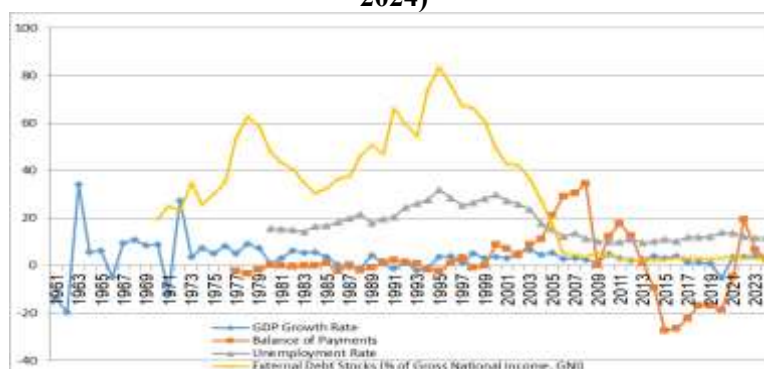
Economic factors are considered among the most important determinants influencing a country's growth and development rates. Algeria possesses significant economic potential, including abundant natural resources, agricultural land, and a strategic geographical location. However, its institutional environment raises several concerns.

Since independence, Algeria has relied heavily on a rent-based economic model, remaining largely dependent on fluctuations in oil prices. When oil prices rise, public revenues increase and the state budget improves; conversely, a decline in oil prices leads to trade imbalances and a deterioration in overall economic conditions.

In an effort to address this situation, the government has implemented a series of development policies and undertaken major reforms, notably the transition toward a market-oriented economy. However, these reforms have also been accompanied by challenges, particularly in terms of external debt.

To assess the economic situation, the following figure presents economic growth rates in Algeria since the beginning of the reform period (1961–2024).

**Figure (2): GDP growth rates, unemployment, balance of payments, and external debt (1986–2024)**



**Source:** Prepared by the author based on data from the World Bank and the Bank of Algeria.

It can be observed from Figure 2 that the highest growth rate was recorded in 1963, at 34.314% (World Bank GDP, 2025). This period falls within the era of development policies, as reflected in legislative texts, charters, and a series of plans (the Three-Year Plan, the First Four-Year Plan, the Second Four-Year Plan, the First Five-Year Plan, and the Second Five-Year Plan) spanning from 1962 to 1986. This period was characterized by the enactment of laws and regulatory decrees governing economic activities across various sectors, with basic industries being selected as the model for development. Furthermore, the growth rate exhibited fluctuations, declining from 3.7% to 0.4% in 1986 due to the drop in hydrocarbon prices, which led to a collapse in trade balance revenues from hydrocarbon exports, previously constituting the primary source of foreign currency at a rate of 97% (Bentayeb & Mennad, 2022).

Regarding the growth rates during the period 1987–2000 (the phase of the New Economic Reform), they fluctuated between positive and negative values, ranging from -0.7% to 3.8%. This can be explained by the hydrocarbon price crisis in the late 1980s, the political and security instability, the depreciation of the national currency, the rise in unemployment due to workforce layoffs, restructuring, and the closure of enterprises, as well as the financial deficits of institutions resulting from the implementation of enterprise autonomy policies. Moreover, agreements with the International Monetary Fund and the World Bank led to the first Economic Stabilization Program (1993–1994) under a Stand-By Arrangement, involving “price liberalization, devaluation of the national currency, enactment of investment legislation, and removal of foreign trade restrictions,” followed by the second Economic Stabilization Program (1995–1998). These two programs restored macroeconomic balances but also contributed to higher unemployment rates (Nabila, 2011).

Regarding the Economic Recovery Support Program (2001–2004), growth rates were satisfactory, ranging from 3% to 4.5%, with the highest rate recorded in 2003 at 8.84%. These outcomes were largely attributed to rising international oil prices and a decline in unemployment thanks to the launch of development projects aimed at labor absorption. However, this period cannot be fully analyzed without considering the level of external debt, which remained unchanged and was not serviced during this time. The subsequent phase, concerning the Complementary Growth Support Program (2005–2009), experienced a decline in growth rates due to falling global oil prices caused by the 2008 global financial crisis. The balance of payments curve rose from 2005 to 2008 but fell sharply in 2009 due to the financial crisis. Unemployment, on the other hand, exhibited a continuous decrease, falling from 15.3% in 2005 to 10.2% in 2009 (World Bank Unemployment, 2025). Algeria also began repaying its external debt, which reached 5.792 million USD in 2009, equivalent to 5% of the gross national income.

During the Five-Year Program (2010–2014), the government continued its reform efforts through the implementation of development programs, explaining the relative stability in growth rates, which reached 4.8% in 2010, 3% in 2011, 2.4% in 2012, and 4.1% in 2014. This fluctuation reflects changes in oil prices. Unemployment rates also remained relatively stable, standing at 10.2% in 2014. Algeria continued servicing its external debt, which amounted to 2.4% of gross national income. However, the balance of payments declined sharply in 2014, also influenced by global oil price volatility.

Moving to the period 2015–2019 (Economic Growth Consolidation Program) and a segment of the New Economic Growth Model (2016–2022), GDP growth rates declined from 3.2% in 2015 to 0.9% in 2019. Despite this slowdown, some non-hydrocarbon sectors (industry, agriculture, etc.) continued to grow. With falling oil prices coinciding with the COVID-19 pandemic, growth dropped to -5% in 2020, then recovered to 3.8% in 2021 and reached 3.7% in 2024, driven by the expansion and diversification of non-hydrocarbon industries, despite the decline in oil export prices.

Unemployment rates fluctuated between 11.2% and 12.3% in 2019. Government policies promoting entrepreneurship and integrating degree holders contributed to this relative stability. Unemployment rose to 14.1% in 2020 due to the economic contraction caused by the pandemic, then fell to 11.7% in 2024. Regarding external debt, the government aims to eliminate it entirely, with debt reaching 2.7% of gross national income in 2024. The balance of payments continued to decline due to the economy’s reliance on hydrocarbon revenues from 2015 to 2021, ranging from 4.55%, then surged to 19.45% in 2022, supported by higher hydrocarbon prices, increased foreign exchange reserves, and a trade surplus.

However, it decreased again in the following two years due to oil price volatility, despite significant efforts to increase non-hydrocarbon exports (World Bank n.d, 2025).

### III- Fiscal Policy (National Office of Statistics (ONS), 2021)

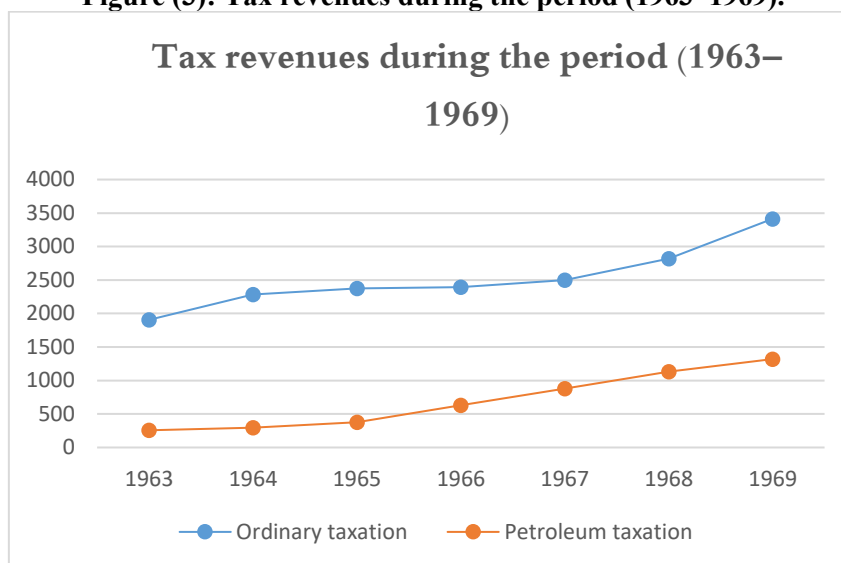
Fiscal policy refers to the set of laws, regulations, and practices designed and implemented by national and/or subnational governments, using various tax instruments to finance public expenditures and regulate the economic and social environment (Abbas Behnas, 2008) (Jalali & Shaa , 2022).

In Algeria, which has undergone several phases and transformations in its economic trajectory since independence, efforts have been made to adapt fiscal policy to these changes through the implementation of tax reforms at different periods, as follows:

**III-1 Fiscal policy during the period (1963–1969):** This period was characterized by the application of a tax system inherited from the French colonial regime in both its structure and tax classifications. The main difference, however, lay in the increase in tax rates, driven by the need for public financing. As illustrated in the figure, total ordinary tax revenues followed an upward trend, rising from 1,906 million dinars in 1963 to 3,414 million dinars in 1969. It should be noted, however, that the annual growth rate between 1964 and 1967 did not exceed 10%, reflecting the difficult conditions prevailing during that period.

As for petroleum taxation, it also exhibited an upward trend; however, its value remained relatively low compared to ordinary tax revenues, with its contribution not exceeding 30% of public expenditure. Therefore, prior to 1970, petroleum taxation did not constitute the primary source of state revenue.

**Figure (3): Tax revenues during the period (1963–1969).**



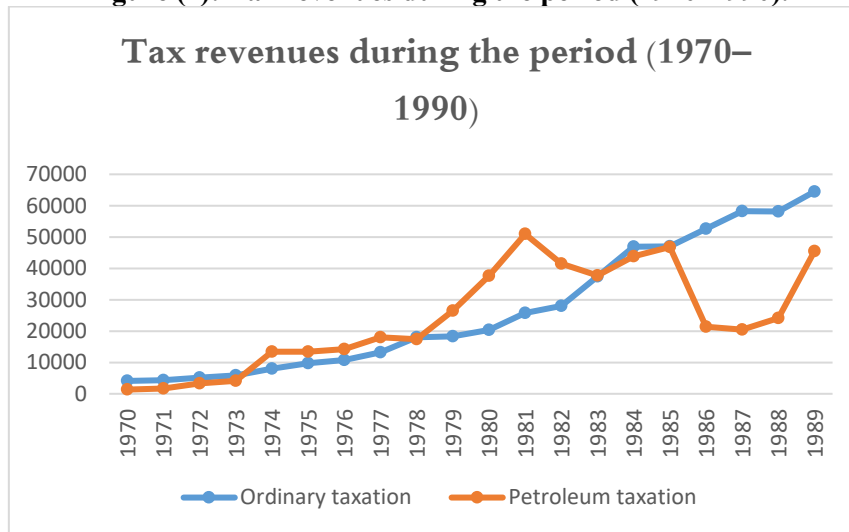
**Source:** Prepared by the researcher based on statistics from the National Office of Statistics (ONS).

**III-2 Fiscal policy during the planning period (1970–1989):** This phase was characterized by the implementation of new tax legislation, accompanied by a noticeable increase in oil prices. The trend curve shows a continuous upward movement starting from 1970, with a significant surge during the period (1974–1981), when petroleum taxation became the main source of budget financing.

However, beginning in 1983, oil prices experienced a gradual decline, culminating in a sharp drop in 1986—from 46,787 million dinars in 1985 to 21,439 million dinars in 1986. At this point, the authorities were no longer able to meet the needs of the national economy, marking the onset of an economic crisis. Regarding ordinary taxation, an upward trend is also observed. The authorities introduced a set of new taxes while abolishing others. Among the key measures during this period were the relative increase in applicable tax rates, particularly the single overall tax on production, and the adjustment of the income tax scale from 18% to 24%. Following the enactment of the Industrial Revolution Law in 1971, the agricultural tax was abolished in 1976 and later reinstated in 1984. Additionally, the rate of the industrial

and commercial profits tax was increased from 50% to 55% in 1987, as a policy response to compensate for the shortfall in tax revenues recorded in 1986.

**Figure (4): Tax revenues during the period (1970–1990).**



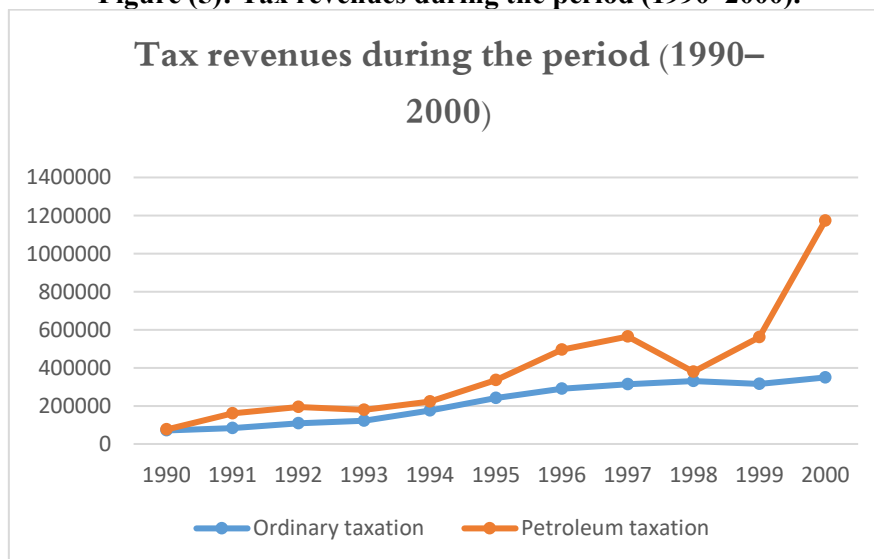
**Source:** Prepared by the researcher based on statistics from the National Office of Statistics (ONS).

**III-3 Fiscal policy during the transitional period (1990–2000):** This transitional phase was marked by a shift from a centrally planned (socialist) economy to a market-oriented economy, accompanied by economic and fiscal reforms. The data indicate a modest increase in both ordinary and petroleum tax revenues until 1996. This was particularly influenced by the introduction of three major taxes in 1992: the personal income tax (IRG), the value-added tax (VAT), and the corporate profits tax (IBS) (Najmi Jomaa, 2023).

During this period, a clear distinction was established between taxes allocated to the central government and those assigned to local authorities. Customs duties were also reformed, reaching a rate of 60% in 1995 before being reduced to 45% in 1997.

As for petroleum taxation, it experienced a significant decline, reaching 186,209 million DZD in 1998. This decrease was mainly due to falling oil prices, coinciding with the Asian financial crisis and increased production by OPEC countries.

**Figure (5): Tax revenues during the period (1990–2000).**



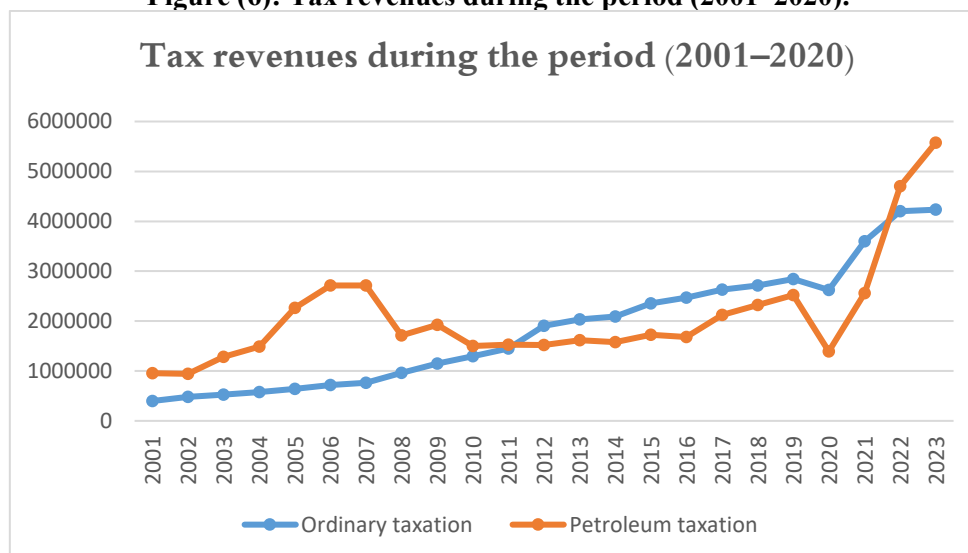
**Source:** Prepared by the researcher based on statistics from the National Office of Statistics (ONS).

**III-4 Fiscal policy during the modern reform programs period (2001–2023):** This period witnessed several reform programs, including the Economic Recovery Support Program (2001–2004), the Complementary Growth Support Program (2005–2009), and the New Economic Growth Model (2016–2030). Throughout this phase, a series of fiscal policy reforms were implemented, contributing—according to the trend of ordinary revenues—to a gradual increase in revenues from 2001 to 2020. However, revenues declined from 2,843 billion DZD in 2019 to 2,625 billion DZD in 2020 due to the COVID-19 pandemic, before rising again from 2021 to the present day.

These reforms included the modernization of tax administration, revisions of income and corporate tax rates, reductions in the value-added tax rate, and tax relief measures for enterprises encouraging entrepreneurship, among others.

As for petroleum taxation, it recorded a significant increase between 2004 and 2007, driven by rising oil prices during that period, which boosted state budget revenues. However, a decline was observed in 2008, with revenues falling from 2,712 billion DZD in 2007 to 1,715 billion DZD in 2008. This decrease was due to the global financial crisis, which led to a drop in oil prices from \$174 per barrel at the beginning of the year to around \$40 by mid-year. After the crisis, revenues rebounded, reaching more than 5,577 billion DZD in 2023.

**Figure (6): Tax revenues during the period (2001–2020).**



Source: Prepared by the researcher based on statistics from the National Office of Statistics (ONS).

### Conclusion

Based on this study, it is clear that economic development in Algeria cannot be separated from its institutional environment, which shapes policies and directly influences the effectiveness of economic and fiscal reforms. The findings indicate that political and administrative factors—such as political stability, bureaucratic efficiency, and transparency in resource management—constitute the cornerstone of achieving development objectives. The absence or weakness of these factors limits the state’s ability to implement public policies effectively and negatively affects the confidence of both domestic and foreign investors.

Economic factors, including the diversification of national income, reliance on natural resources, and global oil prices, also play a central role in determining the state’s capacity to fund development programs and respond to economic crises. Overreliance on oil has made the Algerian economy vulnerable to external shocks, highlighting the need for structural reforms to ensure sustainable growth. Fiscal factors, as revealed by the historical analysis of tax policy, have significantly contributed to increasing public revenues, particularly following reforms implemented during different economic periods since independence. Key measures included modernizing tax administration, revising income

and corporate tax rates, and reducing constraints on businesses to encourage entrepreneurship. These efforts enhanced the state's ability to fund development projects and stimulate investment.

The results further show that recent institutional reforms, aligned with modern growth programs, have contributed to notable growth rates, praised by both the World Bank and the International Monetary Fund. This clearly demonstrates that improving the institutional environment and developing economic and fiscal policies are not merely tools for managing the economy—they are essential conditions for achieving sustainable development in Algeria.

In conclusion, economic development in Algeria depends on a balanced interaction between political, administrative, economic, and fiscal factors. Strengthening political stability, combating corruption, developing infrastructure, diversifying income sources, and improving tax collection systems are all essential elements to support sustainable growth. This study underscores that any efforts toward development will remain limited unless accompanied by genuine institutional reforms that ensure the rule of law, protect property rights, and guarantee transparency and accountability at all levels of governance.

Ultimately, this research highlights that development is not merely an economic outcome but a comprehensive process requiring the coordination of institutional, economic, and fiscal policies alongside the state's commitment to social justice and stability. Therefore, designing long-term strategies that strengthen institutional capacity and integrate economic and fiscal reforms represents the most effective path toward inclusive and sustainable development in Algeria, enabling the country to catch up with other developing nations and improve the well-being of its citizens in the long term.

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