Art Law and Accounting Reporter

ISSN 0886-1013
https://journalalar.org/

The state of investment in Algeria in the context of economic reform trajectories

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How to Cite:
The state of investment in Algeria in the context of economic reform trajectories (B. Khaldia & B. Halima, Trans.). (2025). *Art Law and Accounting Reporter*, *44*(2), 213-234. https://journalalar.org/index.php/online/article/view/20

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Submitted: 15 Mar 2025 | Revised: 20 Oct 2025 | Accepted: 01 Dec 2025

Abstract---This study aims to analyze the impact of economic transformations on investment in Algeria over the past decades. Algeria has undergone several radical economic transformations since independence, starting with the socialist system, moving on to a market economy, and passing through a period of structural adjustment and economic liberalization reforms. These transformations have had a direct impact on the investment climate and the flow of domestic and foreign capital. The results indicate that economic transformations have had a mixed impact on investment, with some reforms achieving positive results in attracting investment, while others have faced implementation challenges that have negatively affected the investment climate.
Keywords---Economic transitions, Algeria, economic reforms, market economy, investment policies, economic development.

Introduction

In a world marked by rapid economic transformations and growing uncertainty, developing countries face a dual challenge: adapting to global changes while striving to achieve sustainable domestic growth. Algeria, with its distinctive economic structure that relies heavily on hydrocarbon revenues, stands at a critical crossroads. The pressing need to move from a rent-based state model towards a diversified and productive economy has become more urgent than ever. This transition is not merely a matter of policy adjustment; rather, it is a comprehensive process that reshapes the investment landscape, influences capital flows, and determines the long-term trajectory of national development. In this context, understanding the complex relationship between these economic transformations and investment patterns becomes essential to overcoming the intricacies of the contemporary global economic system and unlocking Algeria's full potential.

1. Research Problem

The Algerian economy has undergone a series of profound transformations aimed at shifting it from a centrally planned socialist model to a more open and competitive market economy. Although these reforms were primarily designed to stimulate growth and create a favourable environment for investment, their outcomes in practice appear uneven and complex. While certain periods witnessed an increase in investment inflows, others were characterised by stagnation and investor disengagement. This situation raises fundamental questions regarding the nature and effectiveness of the relationship between the adopted economic reforms and the actual investment climate.

Accordingly, the central research problem of this study is articulated as follows: *To what extent have economic reforms in Algeria contributed to improving the investment climate and attracting domestic and foreign capital? Furthermore, what challenges hinder the effective implementation of these reforms in practice?*

Rom this central research problem, the following subsidiary questions arise:

- What are the main economic transformations experienced by Algeria?
- How has the level of investment in Algeria evolved across the different phases of economic transformation?
- What obstacles constrain investment in the context of these economic transformations?
- What are the future prospects for investment in Algeria?

2. Research Hypotheses: In order to address the research problem, this study is based on the following hypotheses:

Main hypothesis: Economic transformations in Algeria have a statistically significant impact on the level and nature of investment.

Sub-hypotheses:

- The transition from a socialist system to a market-based economy has led to an improvement in the investment climate.
- Liberal economic policies have contributed to attracting foreign direct investment.
- Economic transformations have had a positive effect on investment in non-hydrocarbon sectors.
- Institutional and regulatory constraints continue to limit the effectiveness of investment policies.

3. Significance of the Study: Examining the impact of economic transformations on investment in Algeria is of considerable importance in light of the current economic challenges facing the country. As a developing economy that relies heavily on oil and gas revenues, Algeria faces an urgent need to diversify its economic base and attract investment in order to achieve sustainable development. Understanding how economic policies influence investment dynamics can assist policymakers in designing more effective strategies aimed at improving the investment climate and enhancing economic performance.

Moreover, this study represents a valuable contribution to the Arab and African economic literature, as it provides an in-depth analysis of the experience of a Maghreb country undergoing economic transformation and its implications for investment. It also contributes to a deeper understanding of the dynamics of the Algerian economy and its interaction with regional and international developments.

4. Objectives of the Study: In order to fulfil the primary purpose of the research, this study seeks to achieve a set of interrelated objectives that together constitute the analytical roadmap of the work:

1. **Tracing the historical trajectory of economic transformations in Algeria**
   The study aims to document and characterise the main stages through which the Algerian economic model has evolved since independence, beginning with the period of central planning and the socialist approach, moving through the cautious market-oriented reforms of the 1990s, and culminating in recent efforts towards economic openness and diversification. Particular emphasis is placed on identifying the defining features, critical turning points, and underlying rationale of each phase.
2. **Empirical measurement of the impact of economic transformations on investment flows**
   A core objective of the research is to quantitatively assess the effects of economic transformations on investment dynamics. This will be achieved through the analysis of key indicators, with particular attention given to trends in foreign direct investment (FDI) inflows and domestic investment, as proxied by gross fixed capital formation (GFCF). The study seeks to establish links between major policy shifts and observable changes in the volume and structure of investment.
3. **Identifying the determinants of the investment climate in Algeria**
   The research endeavours to diagnose and analyse the critical factors that have shaped the investment climate in Algeria throughout the various phases of economic transformation. This includes an examination of a broad set of determinants, such as macroeconomic conditions (inflation and exchange rate policy), the quality of the institutional and regulatory environment (property rights, rule of law, bureaucratic procedures), and the role of infrastructure and political stability in fostering investor confidence.
4. **Assessing the effectiveness of implemented investment policies**
   The study undertakes a critical evaluation of the efficiency and effectiveness of the specific investment policies and legislative frameworks adopted by the state over recent decades. This assessment is based on a comparison between the stated objectives of these policies (including investment laws and the role of specialised agencies) and their actual outcomes in terms of capital attraction, economic diversification, and job creation.
5. **Formulating practical recommendations to enhance the investment environment**
   Drawing on the analytical findings, the study concludes by proposing a set of practical, evidence-based policy recommendations. These proposals are designed to address the weaknesses identified within the current investment framework and to suggest strategic pathways for enhancing Algeria's attractiveness to both domestic and foreign investors, in alignment with national development objectives.

5. Review of Previous Studies: Previous studies constitute a fundamental knowledge base upon which this research is built. Following a review of the relevant literature, these studies can be classified into two main strands:

5.1. Arab Studies: Arab academic literature has largely focused on the political and institutional dimensions of investment in Algeria.

- In this context, **Ben Ali (2018)**, in his study entitled *"Investment Policies in Algeria and Their Role in Economic Development"*, provides a critical analysis of the legal framework governing investment. The author concludes that although economic reforms implemented since the 1990s have led to a more open legal framework, their practical impact has remained limited. This limitation is attributed to structural constraints, notably bureaucratic inefficiencies, regulatory instability, and administrative corruption, which have undermined the effective developmental content of many investment policies[1].
- From a sectoral perspective, **Hamdi et al. (2020)** analyse the evolution of the composition of foreign direct investment in Algeria. Their findings confirm the continued dominance of the hydrocarbon sector as an almost exclusive destination for foreign capital. The study highlights the existence of a pronounced structural imbalance, as other sectors crucial for economic diversification—such as manufacturing, agriculture, and tourism—have failed to attract significant and high-quality investment. This reflects a weak capacity to establish a competitive environment beyond the rent-based economy[2].

5.2. Foreign Studies: Foreign studies have generally adopted quantitative and econometric approaches to analysing the determinants of investment.

- In this regard, **Benaissa and Kerzabi (2019)** employ econometric modelling to identify the main factors attracting foreign direct investment to Algeria. Their results provide statistical evidence that market size and the abundance of natural resources are the most influential determinants. This finding suggests that foreign investment in Algeria is predominantly resource-seeking and market-seeking in nature, rather than efficiency-seeking, thereby underscoring the limited role of institutional and governance factors in shaping investment decisions[3].
- Meanwhile, **Meziane and Bouklia (2021)** examine the relationship between institutional reforms and investment flows. They conclude that improvements in institutional quality—particularly indicators such as the rule of law, regulatory effectiveness, and corruption control—have a positive and direct effect on investment inflows. The significance of this study lies in its shift of focus from purely economic variables to the pivotal role of good governance in reducing risk and fostering investor confidence over the long term[4].

5.3. The Research Gap and the Contribution of the Present Study: Although the reviewed studies provide valuable insights, a critical examination reveals a clear research gap. Most of the existing literature tends to adopt either a thematically focused approach—concentrating on a single dimension such as determinants or investment policies—or a static analytical framework, which examines a specific time period without systematically linking it to the broader historical trajectory of economic transformation.

Accordingly, there is a clear need for a study that adopts a longitudinal and dynamic approach, capable of methodically linking the major phases of economic transformation experienced by Algeria with the evolution of its investment landscape. In other words, while the literature largely identifies *which* factors influence investment, it falls short of explaining *how* and *why* the relative importance of these factors has changed across different political and economic models, ranging from the socialist period to market-oriented reforms.

The present study seeks to address this gap by offering a comprehensive integrative analysis that examines the causal relationship between macroeconomic transformations and investment dynamics over time, while also assessing the impact of recent legislative developments. By doing so, it aims to provide a holistic and dynamic perspective that has not previously been explored with this level of scope and analytical depth.

1. Conceptual Framework of the Study

1.1. Economic Reforms: Economic reforms refer to a set of structural policies and measures adopted by the state with the aim of addressing structural imbalances within the national economy and improving the performance of various economic sectors. These reforms typically involve the restructuring of institutions, market liberalisation, and the strengthening of the role of the private sector. More specifically, they encompass the transition from a centrally planned economic system to a market-oriented economy through price liberalisation, the removal of restrictions on foreign trade, the reduction of the state's direct involvement in productive activities, and the adoption of liberalisation and privatisation policies. They also include reforms of fiscal and monetary policies, as well as a reassessment of public subsidy mechanisms[5].

In the Algerian context, particularly since the late 1980s and early 1990s, economic reforms have aimed at building a more diversified economic base founded on productivity and competitiveness, while reducing the economy's heavy dependence on the hydrocarbons sector. These reforms emerged in response to profound economic transformations that necessitated the adoption of adjustment programmes, some of which were driven by international financial institutions, while others reflected

domestic policy choices. As such, economic reforms constituted a central pillar in the modernisation of economic legislation and the development of institutional frameworks capable of integrating Algeria into global market competition[6].

The importance of economic reforms lies in their role as a fundamental lever for achieving economic development, improving the investment climate, and enhancing overall economic efficiency and effectiveness. In the Algerian experience, these reforms were largely a reaction to the structural fragility of the economy and its rent-based nature, particularly following the 1986 oil price crisis. They included the restructuring and partial privatisation of public enterprises, reforms of fiscal and monetary policies, and the reorganisation of economic legislation in line with the requirements of economic openness and global market competitiveness[7].

2. Investment: In economic analysis, investment is defined as the sacrifice of a current benefit that could be obtained from the consumption of resources, in order to secure a greater future benefit[8]. More broadly, investment refers to the allocation of resources to **real assets**, such as machinery and buildings, or **financial assets**, such as shares and bonds, with the aim of generating income or increasing capital value. This study focuses primarily on **investment in real assets**, given its direct contribution to expanding the productive capacity of the economy.
Within the scope of this study, investment comprises three main types:

- **Domestic Investment:** Domestic investment refers to the total investment expenditure undertaken by resident individuals and both private and public institutions within national borders. It is regarded as the main driver of endogenous economic growth and is commonly measured by the indicator of Gross Fixed Capital Formation (GFCF).
- **Foreign Direct Investment (FDI):** Foreign direct investment is a long-term investment made by a non-resident investor with the objective of establishing a lasting economic relationship in a host country. Its impact is not limited to the provision of capital; it is often accompanied by technology transfer, managerial expertise, and access to new markets, which confers upon it strategic importance in the development process.
- **Public Investment:** Public investment encompasses all investments carried out by the state and its public institutions, with a particular focus on infrastructure projects—such as roads, ports, and energy—as well as social sectors including education and healthcare. This type of investment plays a vital role in creating an enabling environment for the growth of private investment and in generating public goods.

3. The Relationship between Economic Reform and Investment: The relationship between economic reform and investment in Algeria is both close and central, as reform policies constitute a key mechanism for improving the investment climate and

encouraging domestic and foreign capital inflows. Since the late 1980s, Algeria has implemented structural reforms aimed at transitioning towards a market-oriented economy, enhancing economic freedom, and modernising the investment framework. These reforms have been reflected in investment legislation through the introduction of incentives and guarantees, as well as the gradual liberalisation of capital movements[9].

Empirical econometric evidence points to the existence of a **long-run equilibrium relationship** between economic reforms and investment performance. Legislative adjustments and regulatory modernisation have contributed to a relative improvement in investment levels—particularly foreign direct investment—although actual outcomes have remained below expectations due to persistent bureaucratic constraints and shortcomings in the business environment.

More broadly, economic adjustment and reform programmes tend to enhance Algeria's investment attractiveness when accompanied by effective measures to improve transparency, facilitate investment procedures, and ensure equal treatment between domestic and foreign investors, as reaffirmed by Investment Law No. 22-18 of 2022. Nevertheless, the activation of this relationship requires deeper, more credible, and timely reforms capable of addressing structural and administrative barriers and responding to the competitive pressures of the regional and international environment.

Overall, economic reforms and investment are linked through a relationship of mutual influence, whereby reforms seek to establish a more stable and attractive economic environment, while investment acts as a key channel through which the expected benefits of reform materialise. Consequently, the greater the depth and effectiveness of economic reforms, the stronger their positive impact on investment flows and Algeria's long-term economic development objectives[10].

2. Research Tools: To achieve the objectives of this study, a coherent set of methodological tools and data sources is employed to ensure comprehensive and reliable coverage of the research topic.

2.1. Methodological Approach: This study adopts a **mixed-methods approach**, combining qualitative and quantitative analysis:

- **Historical Method:** This method is used to trace and examine the temporal evolution of economic and investment policies in Algeria. It facilitates the division of the economic transformation process into relatively homogeneous historical phases and enables an understanding of the political and social context shaping each stage.

- **Descriptive–Analytical Method:** This approach is applied to describe the main characteristics of each phase of economic transformation—particularly laws, institutions, and policy programmes—and to analyse their objectives, mechanisms, and logical implications for the investment environment.

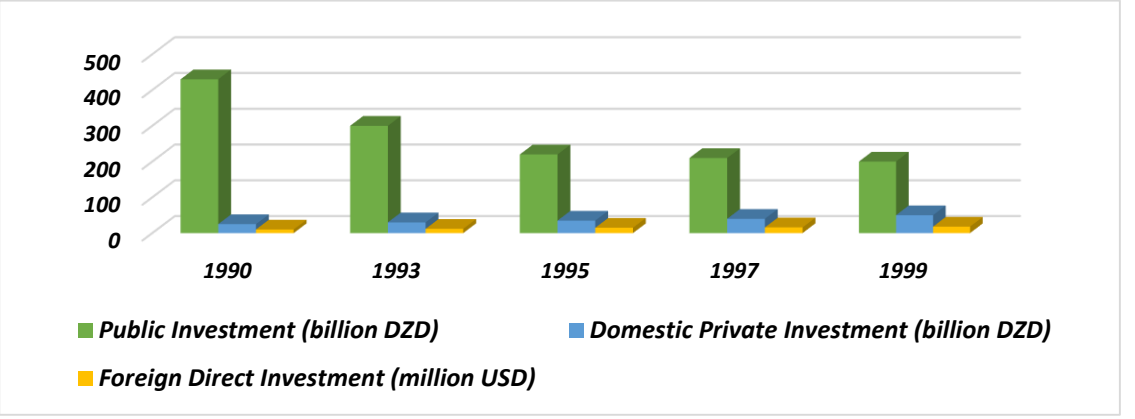
2.2. Data Sources: Data are collected from official national sources in order to ensure accuracy and reliability. The study relies primarily on statistical reports and bulletins published by the **National Office of Statistics (ONS)**, the **Bank of Algeria**, and the **Ministry of Finance**, which provide the core quantitative data used in the analysis.

2.3. Time Period: The study covers the period from **1990 to 2023**. This timeframe is selected due to its strong analytical relevance, as it begins with the formal launch of economic reforms and the shift away from the socialist model, encompasses all major phases of economic transformation, and extends to the most recent legislative reforms. This allows for the examination of a full cycle of change and adjustment within the Algerian economy

3. Results and Discussion: The analysis reveals marked disparities in the investment landscape in Algeria, closely associated with the nature of the economic and political transformations experienced by the country across four main phases.

3.1. The First Phase (1990–1999): Structural Shock and Cautious Liberalisation: This period was characterised by a forced transition towards a market-oriented economy under the pressures of external indebtedness and the oil price crisis, through the implementation of a set of key measures, most notably the liberalisation of foreign trade and the adoption of a structural adjustment programme, which aimed to reduce the role of the state and restore fiscal balance. These policies resulted in a dual and largely negative impact on investment. On the one hand, the programme led to a sharp and deliberate contraction in public investment as part of austerity policies. On the other hand, domestic private investment and foreign direct investment remained largely absent, not only due to security and political instability, but also as a result of legal and regulatory uncertainty and a lack of confidence in the continuity of the reform process. This situation is clearly illustrated by tracing the evolution of both public and private domestic investment, as well as foreign direct investment during this period, as shown in Figure (1) below.

Figure (1): Evolution of Domestic and Foreign Investment in Algeria (1990–1999)



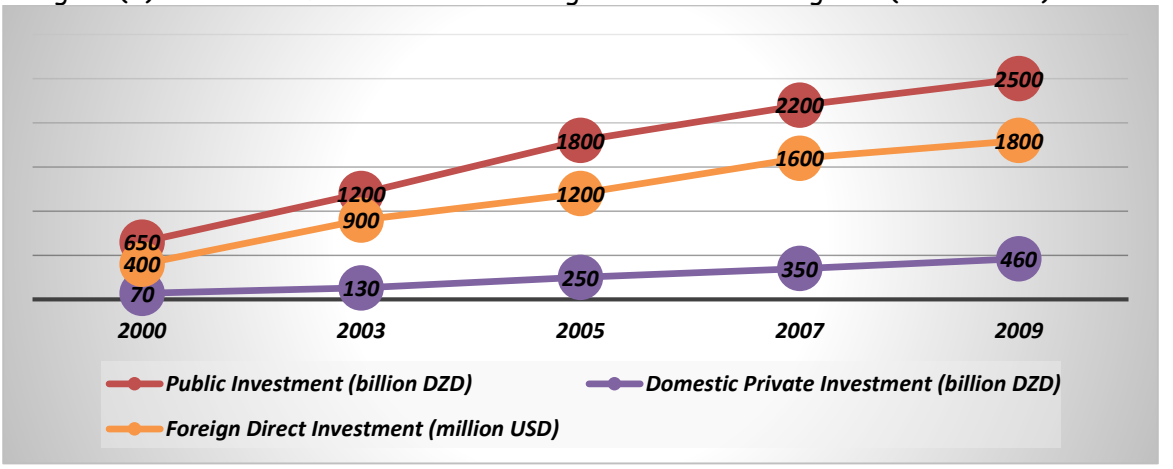
Source: Author's compilation based on national official statistics

Figure (1) clearly highlights the transformations in Algeria's investment structure during the period 1990–1999. **Public investment experienced a sharp and continuous decline**, reflecting the austerity measures associated with the structural adjustment programme, which aimed to reduce public expenditure and restore fiscal balances. In contrast, **domestic private investment recorded only a gradual and limited increase**, insufficient to offset the significant contraction in public investment, thereby indicating the private sector's weak capacity to act as a driver of growth under institutional constraints and economic instability. **Foreign direct investment remained marginal throughout the period**, despite a slight improvement towards the end of the decade, largely due to persistent security and political instability, legal and regulatory uncertainty, and the low attractiveness of the business environment. Overall, these trends confirm that the first phase of economic reforms in Algeria was characterised by a **net negative investment effect**, resulting from the withdrawal of public investment and the inability of private and foreign investment to fill the resulting investment gap

3.2. The Second Phase (2000–2009): A Period of Financial Abundance and State-Led Development: With the restoration of political and security stability and a record increase in hydrocarbon prices, the Algerian economy entered a clear phase of economic recovery. Taking advantage of substantial financial surpluses, the state launched economic recovery and growth-support programmes that focused primarily on infrastructure development. These policies resulted in a significant expansion of public investment, which became the main engine of economic growth during this period. This large-scale public expenditure, in turn, stimulated the growth of domestic private investment, particularly in sectors such as construction and services. At the same time, foreign direct investment inflows improved, especially following the enactment of the Investment Law of 2001; however, they remained highly

concentrated in the hydrocarbons sector, thereby limiting their contribution to economic diversification.

Figure (2): Evolution of Domestic and Foreign Investment in Algeria (2000-2009)



Source: Author's compilation based on national official statistics

Figure (2) illustrates a clear and sustained improvement in investment indicators during the period 2000–2009, reflecting the qualitative shift experienced by the Algerian economy in a context of financial abundance and restored macroeconomic stability. **Public investment** recorded a strong and steady increase, rising from moderate levels at the beginning of the decade to significantly higher levels by its end, thereby confirming its central role as the primary driver of economic growth during this phase. This trend is closely associated with the implementation of economic recovery and growth-support programmes, which placed particular emphasis on large-scale infrastructure projects.

At the same time, **domestic private investment** followed a consistent upward trajectory, albeit at a slower pace compared to public investment. This evolution indicates that the private sector benefited from the demand generated by public expenditure, especially in construction, public works, and related service activities. Nevertheless, this growth remained largely dependent on state-led dynamics, highlighting the continued limitations of the private sector's capacity to act as an autonomous engine of growth.

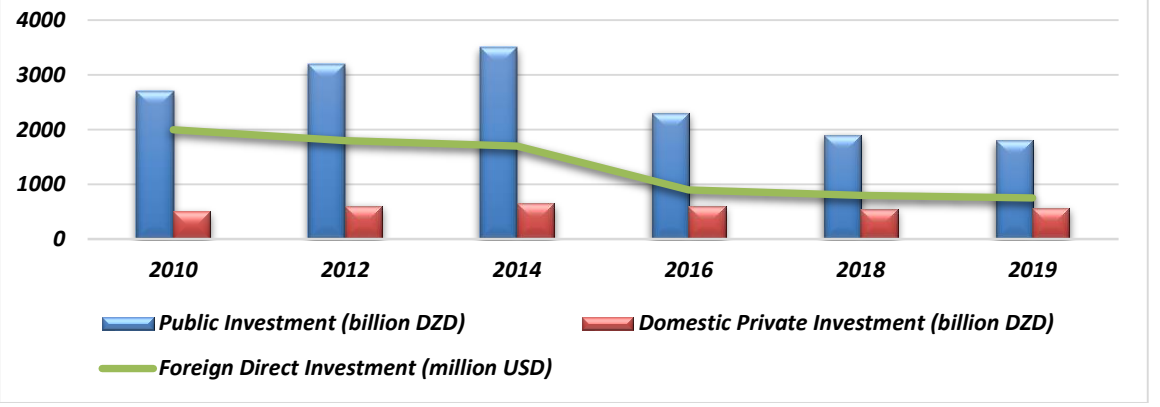
Foreign direct investment also exhibited a noticeable improvement over the period, supported by enhancements in the legislative framework—most notably the Investment Law of 2001—as well as by improved macroeconomic stability. However, despite the overall increase in FDI volumes, inflows remained largely concentrated in the hydrocarbons sector, underscoring the persistent weakness of sectoral diversification in foreign investment.

Overall, the figure confirms that the second phase of economic reform was characterised by **robust, state-driven investment growth**, with public investment acting as the main locomotive, while domestic private investment and foreign direct investment evolved in a largely complementary and dependent manner. This pattern reflects a development model predominantly guided by the state rather than one driven by independent private-sector dynamics.

3.3. The Third Phase (2010–2019) Adjustment to the Oil Shock and Regulatory Retrenchment: From mid-2014 onwards, the sharp collapse in oil prices exposed the fragility of Algeria's rent-based economic model and its limited capacity to absorb external shocks. The state's response was twofold: on the one hand, public expenditure was reduced in order to contain fiscal imbalances; on the other hand, regulatory restrictions on trade and foreign investment were tightened, most notably through the generalisation of the **51/49 ownership rule**.

These policy orientations had a direct impact on investment dynamics. The decline in hydrocarbon revenues led to a significant contraction in public investment, thereby weakening overall economic activity. At the same time, the tightening of the regulatory framework resulted in a near-withdrawal of foreign direct investment outside the hydrocarbons sector. Although official discourse continued to emphasise the promotion of domestic investment, the business environment remained complex and insufficiently attractive, reflecting a persistent gap between stated policy objectives and their effective implementation during this phase.

Figure (3): Evolution of Domestic and Foreign Investment in Algeria (2010–2019)



Source: Author's compilation based on national official statistics

Figure (3) clearly illustrates the shift in investment dynamics in Algeria during the period 2010–2019, which can be divided into two sub-phases. In the early years, particularly up to 2014, **public investment** remained at relatively high levels and reached a peak in 2014, supported by the continuation of public expenditure

programmes amid high hydrocarbon prices. However, from 2015 onwards, this trend reversed sharply, as public investment declined significantly due to the collapse in oil revenues and the adoption of fiscal consolidation policies aimed at containing budgetary imbalances.

Domestic private investment displayed a comparatively more stable pattern over the period, with only limited fluctuations. Despite this relative stability, its overall level remained modest and insufficient to compensate for the contraction in public investment, indicating the persistent inability of the private sector to act as an effective substitute growth engine. This outcome reflects ongoing institutional constraints and the continued weakness of the business environment.

In contrast, **foreign direct investment** followed a pronounced downward trajectory, particularly after 2014, with a sharp and sustained decline. This deterioration can be attributed to two main factors: the oil price shock, on the one hand, and the tightening of regulatory restrictions on foreign investment, on the other—most notably the application of the 51/49 ownership rule—which led to a near withdrawal of FDI outside the hydrocarbons sector.

Overall, the figure indicates that the third phase was characterised by a **general weakening of investment dynamics**, resulting from the retrenchment of public investment, the limited responsiveness of domestic private investment, and the declining attractiveness of the Algerian economy to foreign investors. This pattern underscores the structural limits of the prevailing economic model during this period and highlights the need for deeper and more coherent reforms to restore confidence and revitalise investment.

3.4. The Fourth Phase (2020–2023) The Search for a New Economic Model and Renewed Investment Attractiveness: Between 2020 and 2023, Algeria entered a new phase marked by a growing recognition of the need for deep structural reforms to address the persistent weaknesses of its economic model. A new wave of reforms was launched with the objective of reducing bureaucratic constraints, improving the business environment, and enhancing investment attractiveness.

The **Investment Law of 2022** constitutes a central element of this reform agenda. Its most significant measure was the abolition of the **51/49 ownership rule** in most sectors, signalling a shift towards greater openness to foreign investment. The law also introduced mechanisms to simplify administrative procedures through a one-stop shop, strengthen investor protections—particularly regarding profit and capital repatriation—and reinforce governance and transparency. These reforms were complemented by the creation of the **Algerian Investment Promotion Agency (AAPI)**, accelerated digitalisation of administrative processes, updates to foreign

exchange and trade regulations, the introduction of Islamic finance instruments, fiscal incentives, and targeted support for start-ups and industrial zones.

Despite the breadth of these measures, their tangible impact on investment flows remains limited so far. Persistent institutional constraints—including administrative complexity, weak enforcement of regulations, overlapping competencies, and insufficient investor support—continue to hinder effective implementation. From an analytical perspective, this phase reflects a strategic attempt to move from a state-led investment model towards a **regulatory and facilitative role of the state**. The main contribution of this study lies in demonstrating that the effectiveness of such reforms depends less on the quality of legal texts than on institutional capacity and execution, highlighting the central role of implementation credibility in sustaining investment attractiveness and long-term economic development.

Through the analysis of the four phases experienced by investment in Algeria in the context of successive economic events, it becomes evident that the country's investment trajectory has been characterised by **structural instability** and shifting state roles over time. The experience moved from a phase of forced investment contraction in the first stage, to a period of strong state-led expansion during the phase of financial abundance, followed by a comprehensive decline under the impact of the oil shock and regulatory retrenchment. The fourth phase represents an attempt to reorient the investment model through legal and institutional reforms aimed at shifting the state's role from that of a direct investor to that of a **regulatory and facilitative actor**. However, the analysis indicates that the effectiveness of these transformations depends less on the quality of legal texts than on institutional capacity for effective implementation and the reduction of the gap between declared reforms and actual practice.

3.5. Evolution of Investment Indicators: The analysis of the data reveals a complex picture of investment dynamics in Algeria, characterised by **sectoral dominance** and a strong dependence on prevailing economic conditions.

Table (1): Distribution of Investment by Sector (% of Total Investment)

Sector	2000	2010	2020	2024 (Estimated)*
Hydrocarbons	68	65	62	58
Industry	11	15	18	22
Services	13	13	11	10
Agriculture	4	4	5	6
Other	4	3	4	4
Total	100	100	100	100

Source: Author's compilation based on national official statistics

* The 2024 values are **estimated figures** based on observed structural trends in the Algerian economy, including the partial recovery of hydrocarbon revenues after 2021, the renewed emphasis on industrial investment, and gradual efforts to strengthen food security through agricultural development. These figures do not represent official statistics but rather **analytical approximations** intended to capture recent investment dynamics.

Table (01) shows that the evolution of sectoral investment distribution in Algeria between 2000 and 2024 reflects the **limited impact of successive economic and investment reforms**, including the 2022 Investment Law. Despite repeated legislative changes and official discourse promoting economic diversification, the structure of investment has not undergone a profound structural transformation.

1. **Persistence of the rent-based model despite reforms:** The data indicate that the hydrocarbon sector has retained its dominant position within the investment structure, with its share remaining above 50 per cent in 2024. This clearly demonstrates that the trajectory of economic reforms, including the 2022 Investment Law, **has failed to dismantle the centrality of the rent-based sector**, resulting only in a gradual and relative decline rather than a fundamental reorientation of investment.
2. **Industry: legal incentives versus structural constraints:** The increase in industrial investment reflects partial benefits derived from the incentives introduced by the 2022 Investment Law, particularly tax exemptions and procedural simplification. However, this improvement remains **largely driven by public and quasi-public investment**, rather than by a broad-based response from private or foreign investors. This reveals the limitations of legal reform in the absence of deeper structural changes in financing, productivity, and industrial integration.
3. **Weak responsiveness of the services sector:** The services sector was expected to be a major beneficiary of investment reforms due to its flexibility and potential to attract private capital. Nevertheless, its declining share suggests that reforms, including the 2022 framework, **have not addressed non-legal barriers** such as financial system weaknesses, institutional distrust, and persistent policy instability, which continue to constrain private investment.
4. **Agriculture: strategic priority without structural take-off:** The modest increase in agricultural investment is consistent with recent reform priorities centred on food security. However, the limited scale of this increase indicates that the 2022 Investment Law has not yet succeeded in transforming agriculture into a structurally attractive investment sector, largely due to unresolved constraints related to land access, water resources, and value-chain development.
5. **Overall assessment of the reform trajectory:** Overall, Table (01) demonstrates that Algeria's economic and investment reform trajectory, including the 2022 Investment Law, has produced **marginal adjustments in investment allocation**

without breaking away from the prevailing economic model. This highlights a clear gap between legislative ambition and actual outcomes, as investment decisions remain heavily shaped by rent dynamics and state intervention rather than market-driven incentives.[11]

The evidence presented in Table (01) confirms that economic and investment reforms, including the 2022 Investment Law, have led to only marginal reallocation of investment without achieving structural transformation, thereby underscoring the continued dominance of the rent-based model and the limited effectiveness of legal reform in the absence of broader structural change.

3.6. Factors Influencing Investment: The investment climate in Algeria is shaped by a set of **contrasting determinants**, combining both structural strengths that enhance attractiveness and persistent constraints that limit investment performance.

Positive factors (pull factors) :

- **Abundance of natural resources:** Algeria continues to represent an attractive destination for investment in the energy sector, owing to its substantial oil and gas reserves.
- **Size of the domestic market:** With a population exceeding 45 million, Algeria offers a sizeable consumer market that is particularly appealing to investments targeting domestic demand.
- **Strategic geographical location:** Algeria's position as a gateway to Africa, combined with its proximity to European markets, provides a significant logistical and strategic advantage.
- **Improved infrastructure:** Large-scale public investment programmes have contributed to the development of transport infrastructure, including road networks, ports, and airports, thereby facilitating economic activity and reducing logistical constraints.

Negative factors (investment constraints) :

- **Administrative bureaucracy:** Complex and time-consuming administrative procedures remain one of the most frequently cited obstacles by investors, as they increase both transaction costs and project implementation delays.
- **Legal and regulatory instability:** Recurrent changes in investment, taxation, and trade legislation generate a high degree of legal uncertainty, which constitutes a major deterrent to long-term and productive investment.
- **Limited access to bank financing:** The private sector—particularly small and medium-sized enterprises (SMEs)—faces persistent difficulties in accessing bank credit, largely due to the dominance of public banks and their risk-averse lending behaviour.

3.7. Main Investment Policies Adopted: Over recent decades, Algeria has implemented a range of investment policies aimed at promoting economic growth and diversifying the productive base. The most significant measures include[12]:

- **Support programmes for small and medium-sized enterprises (SMEs):** The state has introduced financing schemes and administrative facilitation mechanisms to strengthen SMEs as a key driver of employment creation.
- **Adoption of investment-promoting legislation:** This includes the Investment Law of 2001 and its revised version enacted in 2022, which introduced tax and customs incentives, as well as enhanced legal protection for investors.
- **Protection of emerging domestic industries:** Through the implementation of trade protection measures intended to support the development of strategic sectors such as pharmaceuticals and electronics.
- **Infrastructure development policies:** Substantial public investment in transport, energy, and public utilities aimed at improving the overall investment environment.
- **Measures to enhance foreign direct investment (FDI) attractiveness:** Including regulatory adjustments and targeted incentive frameworks designed to attract foreign capital inflows.

3.8. Assessment of the Effectiveness of Investment Policies: The outcomes of the investment policies implemented in Algeria have been mixed, combining certain **partial achievements** with persistent **structural shortcomings**.

Achievements (Gains):

- **Relative improvement in business climate indicators:** Prior to the discontinuation of the *Doing Business* report, Algeria recorded progress in selected indicators, particularly those related to business registration and the process of starting a business.
- **Expansion of the small and medium-sized enterprise (SME) base:** Government support programmes contributed to an increase in the number of SMEs, which had a positive impact on job creation.
- **Development of emerging industries:** Some success was achieved in specific sectors, such as pharmaceutical and electronic industries, which benefited from market protection policies.

Failures (Persistent Challenges):

- **Failure to achieve economic diversification:** Despite being a central objective of successive policies, the Algerian economy remains heavily dependent on the hydrocarbons sector, reflecting a structural failure to achieve the desired transformation.
- **Weak attractiveness of qualitative foreign direct investment:** Investment policies have failed to attract high value-added FDI—particularly in

technology-intensive industries, advanced manufacturing, and knowledge-based services—that could foster technology and knowledge transfer.

- **Excessive reliance on public investment:** The dominance of the state in investment activity has led to a *crowding-out* effect on the private sector rather than stimulating it, leaving economic performance highly dependent on the state's fiscal capacity.

3.9. Challenges and Future Prospects of Investment in Algeria

Challenges:

- **Overdependence on the hydrocarbons sector,** which exposes the economy to oil price volatility and undermines investment sustainability.
- **Complex business environment,** characterised by persistent bureaucracy, limited transparency, and cumbersome administrative procedures.
- **Weak institutional coordination,** with overlapping mandates that hinder the effective implementation of reforms.
- **Limited innovation and technological capacity,** as policies have struggled to attract investments that generate technology and knowledge spillovers.
- **Financing constraints,** particularly for private investment and small and medium-sized enterprises.

Future Prospects:

- **Deepening institutional reforms** and strengthening good governance in order to improve transparency and the overall business environment.
- **Enhancing financial and technical support for SMEs** to enable them to become a genuine driver of economic growth.
- **Promoting economic diversification** away from hydrocarbons by directing policies towards industrial, agricultural, and service sectors.
- **Attracting high value-added foreign investment** through improvements in the legal framework and the provision of targeted incentives.
- **Adopting innovation and modern technologies** as key levers for economic modernisation and global competitiveness.

Overall, while investment policies in Algeria have generated **relative successes**, they continue to face **deep-rooted structural challenges**. Addressing these challenges requires a long-term strategic vision and effective coordination among all stakeholders in order to meet the objectives of sustainable economic development.

4. Conclusion

This study arrives at several important findings. First, economic transformations in Algeria have exerted a differentiated impact on investment. While certain reforms generated positive outcomes—particularly during

the period 2000–2010—other phases were marked by significant implementation challenges.

Second, investment in Algeria remains highly sensitive to oil price fluctuations and government policy orientations, rendering it volatile and structurally unstable. Third, administrative and legislative reforms have improved the legal framework and contributed to a relative increase in investor confidence; however, they have not produced a qualitative breakthrough in domestic or foreign investment inflows. Fourth, foreign direct investment continues to be heavily concentrated in the hydrocarbons sector, while other sectors remain weakly attractive to foreign investors.

Fifth, persistent regulatory and administrative obstacles, combined with limited effectiveness at the implementation level, have constrained the achievement of the objectives set by economic reforms and investment laws.

Finally, there remains a pressing need for deeper and more comprehensive reforms, coupled with stricter and more effective enforcement of legislation, in order to attract investments commensurate with Algeria's economic potential and resource endowment.

Policy Recommendations: Based on the analysis of the complex relationship between economic transformations and investment, and in light of the validated research hypotheses, this study proposes a set of interrelated policy recommendations aimed at building a more attractive and sustainable investment environment in Algeria:

- **Strengthening the institutional framework and promoting good governance:** Reforms should go beyond legislative changes to ensure effective implementation. This requires guaranteeing judicial independence for contract enforcement and property rights protection, enhancing regulatory transparency to reduce uncertainty, and strengthening anti-corruption bodies to build investor confidence.
- **Accelerating and deepening the economic diversification strategy:** Rather than passively awaiting investment inflows, a proactive strategy should be adopted, targeting high value-added sectors. This includes providing targeted tax and customs incentives for renewable energy, the digital economy, pharmaceutical industries, and tourism, while linking FDI attraction policies to explicit objectives for technology and knowledge transfer.
- **Improving the business climate through simplification and digitalisation:** To address bureaucracy—the main constraint on investment—the one-stop shop for investors must be fully operational as a genuine single point of contact. Accelerating the digitalisation of public administration (taxation,

customs, commercial registry) is essential to reduce direct interactions, curb corruption risks, and shorten project completion times.

- **Developing and deepening the financial market:** Private investment cannot expand without efficient financing mechanisms. This requires strengthening the role of the Algiers Stock Exchange by facilitating the listing of public and private firms, and encouraging the banking sector to develop innovative financial instruments and more advanced risk assessment models, particularly for SMEs.
- **Investing in human capital:** The most sustainable form of investment is investment in people. Education and vocational training systems must be aligned with the needs of a modern and diversified economy, with a focus on skills in technology, innovation management, and foreign languages, in order to supply the competencies demanded by investors.

Future Research Prospects: This study opens several avenues for future research that could further deepen the understanding of investment dynamics in Algeria:

- **Assessing the impact of digitalisation on the investment climate:** Future research could quantitatively evaluate how e-government initiatives and financial technologies (FinTech) contribute to reducing transaction costs and improving business environment efficiency.
- **Analysing the role of green investment in sustainable development:** In the context of the global shift towards a green economy, future studies could examine Algeria's potential to attract renewable energy investments and their contribution to achieving sustainable development goals.
- **Measuring the multiplier effects of investment on employment and growth:** Using advanced econometric models, researchers could estimate the actual impact of domestic and foreign investment on unemployment rates and economic growth across different sectors.
- **Conducting comparative studies with regional experiences:** Comparative analyses between Algeria's reform trajectory and those of other resource-rich countries in the Middle East and North Africa (MENA) region could help identify best practices and policy lessons in investment attraction and economic diversification.

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