

Rationalization of public spending at the heart of budget reform in Algeria

ترشييد الانفاق العام في محور اصلاح الميزانية في الجزائر

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Algeria's financial situation remains more than constrained by limited budgetary resources, which has necessitated greater rigour and control of public spending in order to ensure budgetary sustainability in all respects. In order to rationalise spending, Algeria has embarked on a vast reform project through the application of Organic Law No 18 15 relating to the Finance Laws. The aim of this law is to define the appropriate methods for effective, rational and modern expenditure management. We have concluded that the modernisation of budgetary systems is still far from achieving the desired results, but there is no doubt that this reform has made a substantial contribution to the management of public spending in Algeria.

Keywords: public spending; Organic Law; budget reform; rationalization; Algeria.**JEL Classification Codes:** H5, H83.**ملخص:**

لا يزال الوضع المالي في الجزائر مقيداً بموارد الميزانية المحدودة، الأمر الذي يتطلب مزيداً من الصرامة والرقابة على الإنفاق العام من أجل ضمان استدامة الميزانية في جميع النواحي. ومن أجل ترشييد الإنفاق، شرعت الجزائر في مشروع إصلاحي واسع النطاق من خلال تطبيق القانون الأساسي رقم 18.15 المتعلق بقوانين المالية. يهدف هذا القانون إلى تحديد الأساليب المناسبة لإدارة النفقات بشكل فعال وعقلاني وحديث. وقد تم التوصل إلى أن تحديث أنظمة الميزانية، بطبيعة الحال، لا يزال بعيداً عن تحقيق النتائج المتوقعة، ولكن مع ذلك، فمن المؤكد أن مساهمة هذا الإصلاح في إدارة النفقات العامة في الجزائر كبيرة جداً.

كلمات مفتاحية: الانفاق العام، القانون العضوي لقوانين المالية، اصلاح الميزانية، ترشييد الانفاق، الجزائر.

تصنيفات JEL : H83،H5 .

INTRODUCTION:

Algeria, like other countries, has initiated a whole system of budgetary modernization focused on results and performance, with the adoption of Organic Law No. 18-15 of September 2, 2018 relating to finance laws (LOLF). This law has been prepared for several years, and presented as a privileged lever for the reform of the State. It drew on international practices in the field of modernizing public management. Due to the shortcomings of the current input-based budget system. Insofar as it does not meet the needs of the market economy aspired by the economic reforms of the country for years already.

The action of the Algerian government is also part of a new approach aimed at concretizing this new mode of governance based on the transparency of public action, the moralization of public life, and the modernization of budgetary management.

Contrary to the traditional school that believes that the national output is stable at the level of full employment in the short term, and after the failure of classical thought in dealing with the recession crisis, whose principles were based on complete freedom of markets and the state's abstention from interfering in economic activity. The Keynesian school recognizes the possibility of volatility of economic activity with cases of recession and recession on the one hand, and cases of recovery and prosperity on the other hand, and this situation would cause many negative effects on the economy, such as inflation and unemployment. Consequently, a subtle goal of macroeconomic stability has become one of the basic objectives of economic policy makers. The public expenditure policy is one of the most important policies that governments rely on at the present time, and it is one of the indicative policy tools. To achieve a number of economic and social goals, which are represented in satisfying the needs of the members of society in terms of various commodities, maintaining economic growth and increasing employment opportunities in society so that the problem of unemployment can be addressed, also working on maintaining relative stability in the general level of prices so that it is possible to maintain the standard of living of members of society, In addition to the aforementioned objectives, governments seek through this policy to maintain a fair distribution of income for members of society as much as possible. The balance of payments situation was strengthened by increasing exports and working to reduce the volume of imports.

Algeria has launched a vast program of reforms of the structure of the budget and public finances since 2001; which has known a certain and particularly encouraging progress, and which has resulted in the field in the first exercise of drawing up the 2021 program budget, at the government level in accordance with the specifications of good governance". The government will continue its actions to fight corruption in all its forms, through the reform of state services, the rationalization of expenditure, the optimization of public resources, the moralization and transparency of public action, so our question is

What progress has been made with the reform project and its application in Algeria?

The aim of our work is to examine the impact of the modernisation of the budgetary system on budgetary management, and more specifically on the management of public spending in Algeria.

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And in order to respond to our research problem we have divided our work as follows:

- Nature of public expense
- Principles of budgetary reform: From a logic of means to a logic of results:
- The role of budget forecasting in improving public expenditure management in Algeria
- Modernising public expenditure management in Algeria

1. Nature of public expense

The importance of studying the theory of public expenditures has increased in the recent period with the growing role of the state, the expansion of its authority and the increase in its interference in economic life. Therefore, we see that the theory of public expenditures has undergone a development in line with the development of the role of the state. The period of the eighties was marked by a socio-economic crisis, the features of which were represented in the emancipation of the state on the economic level and the demand for democracy on the political level. (WEBER, 1997) Thus, the new role of the state was represented in the need to develop a set of legal texts and general conditions for security and safety, which only the holder of authority and public sovereignty can set in order to ensure the achievement of a natural balance. (MOUGEOT, 1989)

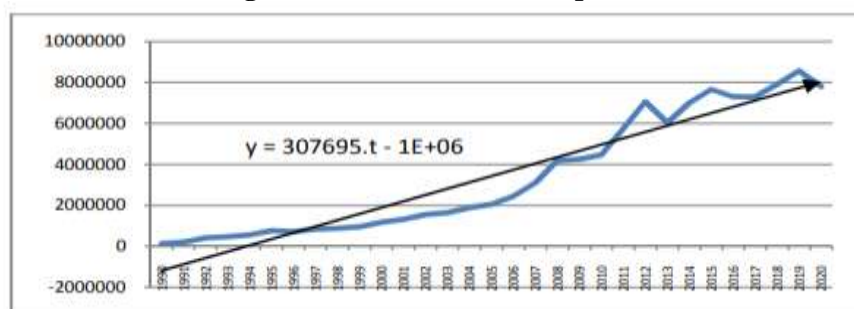
Public expenditures are defined as those sums of money that are spent by the public authority (the government and local authorities) or that they are a monetary sum spent by a public person with the intent of achieving a public benefit. It can also be defined as the use of a cash sum by a public body with the aim of satisfying a public need. According to this definition, public expenditure can be considered as having three pillars:

- Cash
- It is spent by a public person
- It is intended to achieve public benefit. (Mahaerzi, 2003)

The public expenditure policy is considered one of the most important fiscal policy tools used in developing countries, including Algeria, so that the expenditure policy in Algeria during the study period was characterized by the growth of public spending and its high rates, which we can call it the expansionary spending policy. which Algeria witnessed during that period, and the apparent expansion in social, educational and health services...etc., In addition to military expenditures, in addition to the expansion of investment spending to finance economic projects of public interest (development plans projects), we find that the nineties period was characterized by a modest rise in the volume of public expenditures, especially with the official declaration of adopting the free economy system, as the volume of public expenditures in The year 1990 was modest, as it amounted to 136.5 billion DZD. It rose to 420.131 billion DZD in 1992, and it increased at high rates to reach in the mid-nineties at the end of 1995 to 759.617 billion DZD. The increase rate amounted to 80.8%. This increase in public expenditures continued, reaching at the end of the second millennium, i.e. in the year 1999, the amount of 961.682 billion DA, an increase of 26.6%. Public expenditure figures reveal to us that the spending policy during the second half of the nineties is not more expansionary than its predecessor, because the rate of increase in public expenditures in 1999

amounted to only 26.6% compared to 1995, and we also note that public expenditures increased. During the period 2001-2020, due to the implementation of public spending programs in order to raise economic growth rates, we also notice a significant increase in public expenditures in recent years, reaching 8557.2 in 2019. In general, the volume of expenditures is witnessing an increasing general trend, whose equation is shown in the figure above, which means that the volume of Expenditure is on the rise, reaching an average of 307.95 billion DZD annually. (Benyem, Boulerbah, & Belbari, 2023)

Fig (1): Volume of Public Expenditure



Source: (Benyem, Boulerbah, & Belbari, 2023)

The reality of public spending in Algeria can be analyzed into three stages:

a. The first stage:

This stage extended from 1990 to 1998, when Algeria adopted a spending policy characterized by austerity throughout the period of reforms supported by the International Monetary Fund “FMI” in order to get rid of the general budget deficit that occurred as a result of the low level of revenues due to the deterioration and decline in oil prices, starting from the shock of 1986. The crisis was accompanied by a decline in employment levels and an increase in unemployment rates, which reached approximately 2.28% after it was estimated at 36.24% in 1994.

B. The second phase:

This phase began from the year 1999 until the year 2009. With the beginning of the year 2000, positive indicators began to appear for the national economy thanks to the high price of oil. This financial breakthrough allowed Algeria to move to an expansionary spending policy, i. -2004, then the supplementary program to support economic growth, which extended from 2005-2009. For this purpose, a huge spending budget estimated at 7 billion dollars was allocated for the economic recovery program distributed over the number of years of completion of the project, and the value of 55 billion dollars for the supplementary program to support economic growth.

In 2006, Algeria carried out the process of prepayment of its foreign debts, which decreased to a value of about 7.4 billion dollars, which was a commercial indebtedness to the London Club. As a result, employment rates increased and unemployment levels decreased.

c. Third level:

Or the so-called five-year development program, extended from the year 2010 until the year 2014. This project was included in the national reconstruction policy, which was launched ten years ago, with what is known as the economic recovery support program, which was launched in 2001. This economic policy for reconstruction continued through the 2004

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period program. 2009, which is also supported by special programs for the benefit of the high plateau regions and the states of the south. Thus, the value of the economic development programs registered during the past years was approximately 500.17 billion DZD, including some programs that are still in the process of being completed. The value of the public investment program established for the period between 2010 and 2014 amounted to \$286 billion, and it aims to:

- Completion of the major programs that are in the process of completion, especially in the sectors of railways, roads and water
- Launching new economic projects amounting to 11,534 billion DZD, equivalent to 156 billion dollars. This program 2010-2014 has allocated more than 40% of its resources to improving human development. (Benazza,2017)

2. Principles of budgetary reform: From a logic of means to a logic of results:

The experiment in the rationalization of budgetary choices began in 1970 and ended in 1985. It was in fact the importation of the American PPBS (Planning Programming Budgeting System), at the very moment when it was abandoned . The BCR aimed to develop budget planning (program budgets) and evaluation (essentially *ex ante*) as part of a policy of modernizing the state. It was above all a matter of restructuring the budget in the form of a set of action programs (in addition to the traditional approach by nature of expenditure) and of basing expenditure decisions on a forecast of their socio-economic impacts. . The BCR takes place in a very different context from that of the new budget reform. At the time, we still believed in the possibility of rationalizing public decision-making. Expenditure control was inseparable from planning and the development of knowledge tools such as national accounts and social indicators. Following the failure of the BCR, various attempts have been made to improve the preparation and follow-up of public decisions. Unlike the LOLF, these initiatives were taken separately by the executive and parliament.

The LOLF has a direct impact on expenditure management, which was not the case for the BCR (except for priority execution programs). Program directors are called upon to use the new freedoms available to them (the famous “asymmetrical fungibility”) to optimize the use of their credits. Whether or not they assume this new responsibility will depend in particular on the willingness of ministers and Parliament to hold them accountable for the quality of their management. (Perret, 2006)

This logic of results was carried by the transition from budgeting by expenditure items to performance-oriented budgeting, that is to say, in reality, the combination of budgeting by programs (the MPA nomenclature) associated with a performance approach (objectives and indicators).

2.1 Traditional budget management and its limits

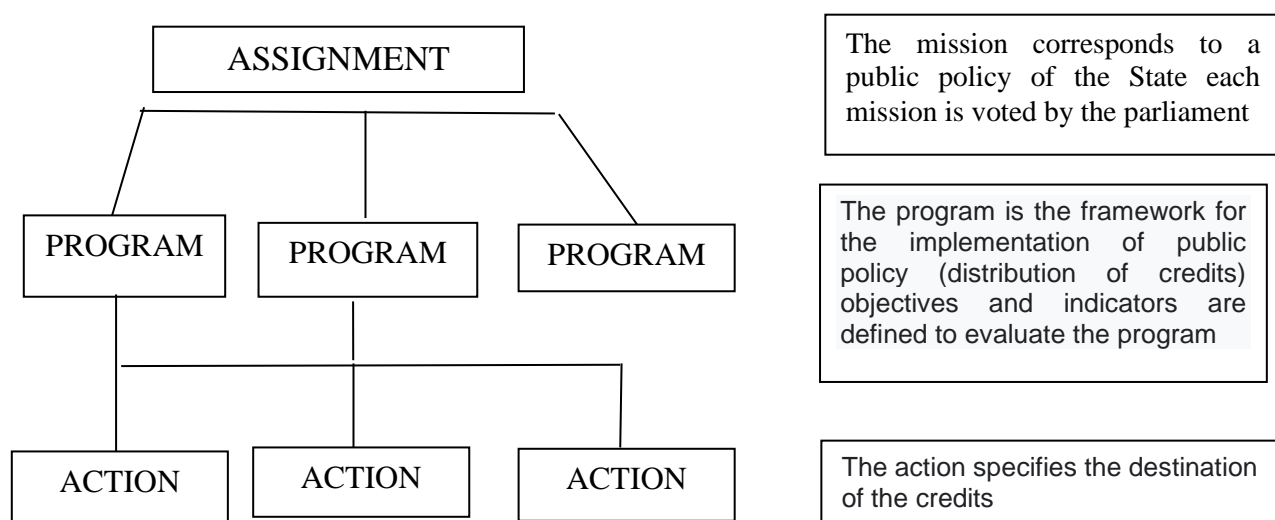
- Absence of a public strategy: The annual budgetary framework which expresses the orientations of the State, is not enough to satisfy the priorities in a global framework characterized by the multiplicity and the complexity of the changes, there was an absence of the definition of a program strategy by the person in charge in a multiannual perspective, which characterized the situation before, was the absence of an overall reflection which takes into account the general interest of the program allocated.

- Operating budgets and equipment budgets are not integrated: Operating budgets are prepared according to means-based budgeting. This method consists, when establishing budgets, in forecasting the resource needs of an organization and in evaluating the costs related to the use of these resources: e.g. salaries, supplies.
- The classification of budgetary expenditure: In the traditional budgetary system, we clearly notice the absence of a classification by objectives (programmes, sub-programmes and actions), which leads to classification programs which are not very stable because they do not present the main strategic objectives of the State.
- Insufficient transparency: A transparent budget should allow parliamentarians and through citizens to have a more precise vision of public expenditure. personnel made available to them from the first dinar.
- The absence of performance measurement indicators (TOUITOU & BENSAID, 2022)

2.2 New LOLF nomenclature

The LOLF introduces a managerial model of management by performance. The budget nomenclature is broken down into major sets of public policies, the missions, subdivided into programs. Each public policy is allocated credits and objectives accompanied by indicators.

Fig (2): New LOLF nomenclature



Source:(Quelles sont les principales innovations introduites par la LOLF ?, 2023)

- **Budget charges**

According to Article 2. — State budgetary charges are presented according to the classification:

- By activity;
- By economic nature of expenditure;
- By major State functions;
- By administrative entities responsible for preparing and executing the budget.

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a) Classification by activity

Art. 4. — Classification by activity identifies the destination of State budgetary charges and the level of their implementation (official journal N 73).

Art. 5. — The classification by activity of State budgetary charges is as follows:

- The program portfolio;
- The program ;
- The sub-program;
- The action ;
- The sub-action, if applicable. The program portfolio includes a set of programs contributing to defined public policies. A program coming under a ministerial portfolio, which concerns several ministries or public institutions, can only be retained after the prior agreement of the Prime Minister.

The subroutine is a functional type subdivision of the program.

An action is an operational subdivision of the program, making it possible to specify the level of implementation of the policies conducted and pursued and of the appropriations requested, opened and executed. An action can have sub-actions that further specify the level of implementation (official journal N 73).

b) Classification by economic nature of expenditure

Art. 7. — The classification by economic nature of State budget charges groups budget expenditures according to the resources allocated to them regardless of their administrative destination.

Art. 8. — The classification by economic nature of State budgetary charges comprises seven (7) titles and is broken down into thirty-two (32) categories called articles:

1. Staff costs:
2. Service operating expenses:
3. Capital expenditure:
4. Transfer expenses:
5. Public debt charges:
6. Financial transaction expenses:
7. Unforeseen expenses.

c) Classification by major state functions

The levels of the classification by major functions of the State of the budgetary expenses of the State, are defined as follows:

— The sector: this level makes it possible to define the fundamental collective needs and interests that must be satisfied.

— the main function: the level which brings together the activities and functions of the State contributing to the same final objective and aimed at satisfying one of the fundamental needs and interests defined in the sector concerned.

— The secondary function: the level that brings together the activities and functions of the State contributing to the same intermediate objective.

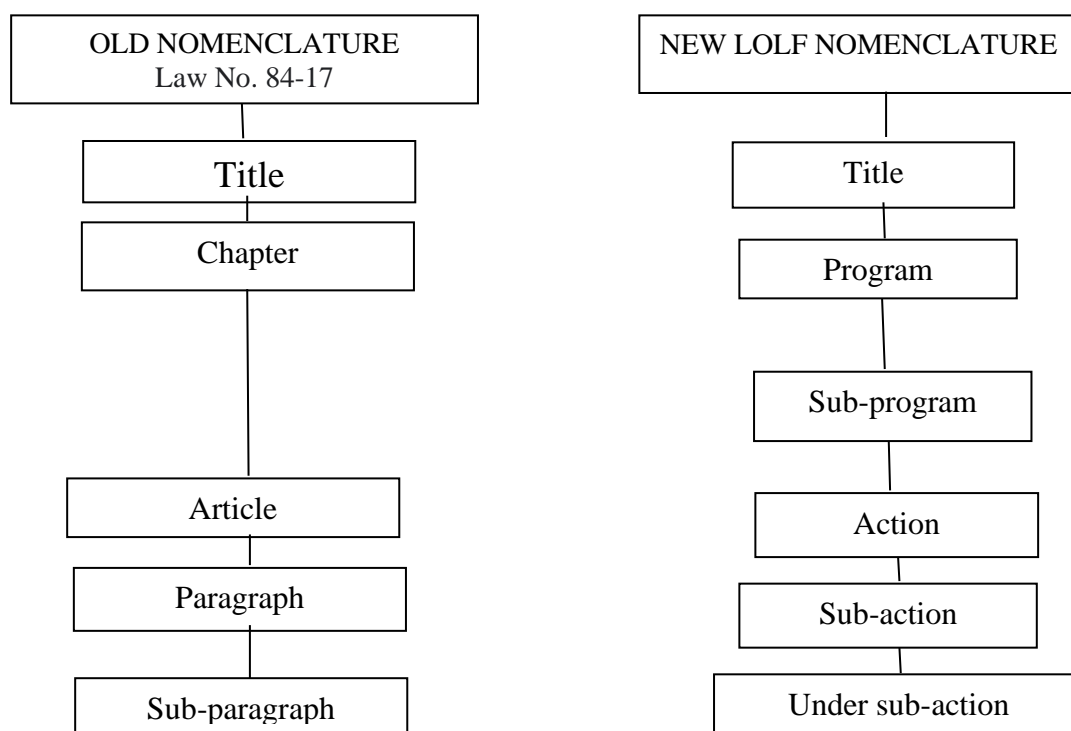
d) Classification by administrative entities

Art. 14. — The classification by administrative entities of the State's budgetary charges, allows the distribution of budgetary appropriations by ministries and/or public institutions and/or by center of responsibility for budgetary management and which are recipients of the credits, according to the structural organization chart and/or the local organization of the administrative entity concerned.

This new budgetary management, marked by the entry into force of the LOLF, entails for Algeria, like most countries, an in-depth reform of its budgetary system. The new budget management is a mechanism for steering administrations with the objective of improving the efficiency of public expenditure by directing management towards the achievement of planned results within the framework of predetermined means.

As for the presentation of credits, the following table summarizes the changes made in terms of specialization of credits between the new State budget system framed by Organic Law of Finance Laws (OLFL) and the former budgetary system regulated by law n° 84-17:

Table (1) Comparison between the old and the new credit specialization



Source: (Moussa, 2022)

3. The role of budget forecasting in improving public expenditure management in Algeria

The LOLF will make it possible to rationalize Algeria's budgetary expenditure, by minimizing recourse to the revaluation of project costs. This orientation, included in the public finance reform carried out by the government, also aims to raise the awareness of public actors on the effect of controlling budgetary expenditure, rationalizing and optimizing the use of public resources. The figures communicated by the government are edifying. 5.296

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billion dinars of revaluation of programs between 2010 and 2020, or 26% of the entire state equipment budget over this period.

The Ministry of Finance is committed to promoting responsible and transparent management of public funds, with an emphasis on good budget forecasting as a means of boosting economic growth.

In this respect, estimating future revenue and expenditure will help to prevent excessive deficits and maintain responsible financial management, as well as providing a solid basis for medium and long-term planning, by identifying budgetary needs and priorities.

The aim of the LOLF was to increase transparency in the budgetary process and to strengthen these mechanisms. The Ministry of Finance explains that the budget forecast helps to achieve this objective by making budgetary decisions more explicit and transparent, thus enabling citizens, parliamentarians and economic players to better understand the budgetary choices made.

The aim of enshrining the principle of transparency is to strengthen and consolidate public confidence in the management of public finances and subsequently to promote sustainable economic development".

The LOLF makes it possible to ensure financial stability and the efficient allocation of resources, while reinforcing transparency. It also facilitates the monitoring and evaluation of public policies.

Indeed, the Organic Law on Finance Laws (LOLF) of 02 September 2018, amended and supplemented, emphasises the principles of forecasting and transparency in the management of public expenditure, essential pillars of good governance, enabling citizens and economic operators to have a precise view of the use of public funds.

Thus, economic forecasting plays a fundamental role in this results-based approach and is of vital importance for the efficient allocation of resources. By forecasting future expenditure accurately, the use of public funds will be more efficient, avoiding unnecessary expenditure and targeting priority investments.

The Ministry of Finance pointed out that the implementation of the main public policy guidelines through the Medium-Term Budgetary Framework (MTBF) 2024-2026, and the various provisions relating to the preparation of the Finance Act for 2024, has made it possible to enshrine this principle of planning and forecasting.

This is a realistic approach based on the consolidation of measures decided by the public authorities to ensure the sustainability of public spending, to stimulate economic activity and to restore the balance of the State budget in the medium term, using new instruments introduced by the LOLF to ensure better management of public funds. (The Ministry of Finance stresses the role of budget forecasting in improving the management of public funds, 2023)

4. Modernising public expenditure management in Algeria

Modernising expenditure management means making optimum use of limited resources to meet the demands of citizens and promote local development. As part of the vast reform programme that Algeria has embarked upon, with a view to transforming its entire institutional environment, and following the example of other sectors, the Ministry of Finance

is in the process of undergoing a transformation and modernisation of its missions and objectives, These reforms include the reform of the expenditure management system as part of the Budget Systems Modernisation Project (MSB). The Budgetary Procedures Modernisation Project is a budgetary reform project whose aim is to modernise and strengthen the capacities of the Algerian Ministry of Finance, particularly with regard to its public expenditure management functions. The MSB refers mainly to the central level, although there are also extensions at sub-national level. It is structured into two main components: the "Budgeting" component and the "IT and Information System" component.

The aim of the Budgeting component is to introduce changes to the rules, procedures, organisation and tools used to draw up the budget, budget presentation and execution and control of the Ministry of Finance's economic advisory function", it comprises five 5 sub-components:

- Multiannual budgeting: consists of implementing the multiannual framework for forecasting and managing expenditure, integrating operating and capital budgets, training Ministry of Finance staff, modernising the budget nomenclature, defining performance indicators and strengthening investment programming".
- Improving the presentation and distribution of the budget: this includes the creation of new budget documents, following a review of the needs of the various users, and the introduction of an IT application for preparing the budget.
- Strengthening the economic advisory function: Component 1.3 complements Component 1.1 by supporting budget policy formulation, programmer preparation and monitoring. The restructured component 1.3 includes the implementation of
- Restructuring the public expenditure execution process This should enable the necessary changes to be made to the expenditure execution process, in line with the rest of the budget reform. It should help to improve the efficiency and fluidity of spending, while reducing the number of administrative stages from commitment to payment. The aim of this component is therefore to put in place a new, simplified expenditure circuit:

-Make the necessary changes to public spending processes, taking account of the budget guidelines defined by the multiannual budgeting and improved budget presentation and dissemination sub-components, and propose technical options for the spending circuit.

-Simplifying the circuits to speed up the settlement of expenditure, the project should lead to the streamlining of procedures, the elimination of unnecessary documents and the rationalisation of the roles of the players involved.

- The " Informatics " component aims to design and implement the information systems corresponding to the new budget structure. It is subdivided into three sub-components: implementation of the integrated budget management system, reinforcement of the technological infrastructure, and establishment of the central informatics department (Ministry of Finance).

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Conclusion:

Budget reform in Algeria is the implementation of the Budget Systems Modernisation (BSM) project financed by the World Bank. This project aims to modernise and strengthen the capacity of the Ministry of Finance to carry out its public expenditure management and economic advisory functions.

To be fully effective, the new budgetary policy must be accompanied by a set of provisions designed to monitor the implementation of public spending within the framework of programmes and to account for the administration's activity, while taking account of the Algerian context. This mainly involves harmonising the implementation of spending with programme-based budgeting and developing public spending techniques, in particular by redefining the role of the players involved.

Through such a project, the Algerian government is trying to strengthen the capacity to forecast and manage public spending; to improve the presentation of the budget and its execution with a view to encouraging an open debate on budgetary and economic policy choices; and to strengthen the Finance Ministry's capacity to analyse costs and choose public spending policies.

The results of all these reforms cannot be fully analysed at present, since we are still in the early stages of implementing these programs; Algeria is continuing on its reform path in order to make a successful transition from an administered economy to a diversified, high-performance market economy that is less dependent on the hydrocarbon sector.

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