

# Algerian financial governance strategy and mechanisms under Organic Law 18-15

## استراتيجية وآليات حوكمة المالية الجزائرية في ظل القانون العضوي 15-18

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### Abstract:

The law related to finance laws identified several shortcomings that Law 18/15 tried to correct in order to optimize and effectively use expenditures and revenues to achieve economic development, and from this study we seek to clarify the new approach in the management of public finances, through the strategy of establishing the public budget according to Law 18-15; Through this study we will try to analyse; first mechanisms of governance of the state's general budget within the new budgetary reform; second the strategy of establishing the general budget according to Law 18-15

**Key words:** Financial governance, Transparency, Accountability, Budget, Financial reform

### Introduction:

The general economic policy is everything related to making decisions to choose between the different means owned by society to achieve certain economic and social goals represented in monetary policy, trade policy and basic financial policy, where the financial policy is an element in the economic policy of the state in the economy, it is an analytical study of financial activity because it includes a quantitative adaptation of the volume of public expenditures and public revenues, and a qualitative adaptation of the aspects of public spending and its sources, and seeks to achieve its goals within the limits of the possibilities available to it, for what contributes In driving economic growth forward within the framework of the principles it adopts and the foundations on which it is based.

The assessment of Algeria's fiscal situation in recent years is reflected in the Bank of Algeria report and the 2019 Open Budget Report, which called for the need to govern the public budget through the application of Organic Law 18-15 on finance laws.

### Relevance of the topic:

The reform of the management of public finances was a demand agreed upon by the opinions of politicians, economists, countries and organizations due to its importance in the lives of individuals and societies, as the good management of public funds is a necessity dictated by the scarcity of resources and the high social demands, which prompted countries to search for the most effective ways and methods to achieve the effectiveness of public management, and

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achieve the optimal use of public expenditures in an international context characterized by the various countries reforming their public financial system, and directing it towards the logic of results, where the role of financial governance in establishing transparency The state's general budget, by searching for the best standards and indicators that will raise the performance of the budget and thus mobilize the largest possible amount of resources and achieve efficiency in public spending and in accordance with the requirements of financial discipline enhanced by financial control. In addition to international initiatives in the field of public budget and its performance.

**Problematic:** How did the Algerian legislator address through Organic Law 18/15 the new mechanisms to modernize the management of Algerian public finances?

**Study Methodology:** In our study, we used the descriptive approach to give a definition of the idea of financial governance and clarify its objectives and functions as well as the mechanisms on which it is based, in addition to the analytical approach for an in-depth reading of the Finance Law 18/15 and extracting the total developments brought by this law.

**Objectives of the study:** This fundamental transition in the management of public finance raises many questions, about the organic law related to finance laws, and we seek through this study to:

- Clarifying the new mechanisms introduced by Organic Law 18/15 in order to correct the shortcomings recorded in the current budgetary system and modernize the management of public finances in Algeria.
- Clarifying the new mechanisms introduced by Organic Law 18/15 in order to correct the shortcomings recorded in the current budgetary system and modernize the management of public finances in Algeria.
- Highlight the latest developments in public finance management reforms in Algeria.
- Mechanisms for governing the state's general budget within the new budgetary reform
- Explanation of the new approach to the management of public finances
- Clarifying the strategy for establishing the general budget according to Law 18-15
- Demonstration of manifestations of renewal at the level of organic law 18/15

### **The first topic - mechanisms of governance of the state's general budget within the new budgetary reform:**

Countries have always sought to find the best ways to improve the standard of living of their citizens and provide public services that respond to their aspirations and achieve the satisfaction of the needs of society, which highlighted new financial, economic, social and environmental challenges facing governments in their quest to achieve their development goals and programs.

Perhaps the State's performance of its role efficiently and effectively requires the need to properly manage its financial and material resources, especially in light of global crises and the changing economic environment.

There are several terms called financial governance, including budget governance, comprehensive governance or public governance

And the latter seeks to achieve a set of goals, the most important of which is linking administrative and financial control structures to accurately and transparently define the elements of the general budget, and give a comprehensive view of the field of budget use within the framework of a future system based on goals and results<sup>1</sup>, in addition to eliminating forms of corruption and mismanagement, as well as devoting transparency and feasibility of optimal use of resources, as for the functions of financial governance, they lie In the precise and public definition of the elements of the state budget, through a precise definition of the financial

operations represented in revenues and expenditures, working on transparency in the field of disbursement of public expenditures, in addition to controlling the management of state finances (state budget).

And finally achieving coordination between the various oversight bodies to ensure the proper use of the elements of the budget<sup>2</sup>, we will try in this element to identify the various mechanisms of financial governance (**the first requirement**) and then we will talk about the new approach to the management of public finances (**the second requirement**).

### **First Requirement - Budget Governance Mechanisms:**

Algeria, like many countries of the world and in response to pressure from the International Monetary Fund and the World Bank, launched projects to reform its public financial systems, including the project to reform the budget system that governs and regulates the development and implementation of the state's general budget, especially in light of the failure of the system currently applied to respond to the basics of sound management, and began the first steps to delineate reforms through the issuance of Organic Law 18/15 on finance laws on September 02, 2018, which is relied upon to change the classical management pattern to management based on the application of Mechanisms of governance of the general budget as one of the methods of modern management.

Commitment to the principles of governance of the general budget in a way that helps in rationalizing public spending and direct collection of revenues, as the principles of governance contribute to raising the quality of drawing and implementing the public budget in the medium term in a way that improves the financial policy adopted by the state, and it also supports the achievement of transparency and control over the efficient and effective management of public funds by supporting the participation of citizens in the various stages of the budget, as follows<sup>3</sup>:

- **The efficiency and effectiveness of the administrative apparatus.** as the efficiency and management of public sector agencies ensures supervision of the discussion of programs and policies summarized in the general budget, as well as the effective management of facilities and units in order to achieve the governance of government spending and collection and provide the best public services to citizens.
- **Control of the general budget:** To achieve this, effective oversight bodies must be available, through which the implementation of the general budget is evaluated and accountability for achieving results and objectives is achieved, thus establishing responsibility.
- **Efficiency of the public accounting system:** because it reflects the parts of the implementation of the state's financial operations authorized in the budget, in addition to providing outputs represented in financial reports and statements.

### **First Requirement- The second requirement - the new approach to the management of public finances:**

The transition from traditional management based on means and consumption of funds to a modern management approach based on objectives and results, through the application of the new approach in the management of public finances, in anticipation of the introduction of Organic Law No. 18/15.

The general context of talking about the budget government in Algeria comes from the reality of public finances and the trend towards modernizing them to keep pace with international transformations through Organic Law 18/15 in order to govern the general budget of the state<sup>4</sup>.

Whereas, the Organic Law on Finance Laws No. 18/15 is based on the following points:

- **Results-based programme budget:** Thus, the budgetary framework in Algeria is adapted to the requirements of international public finances, and in many articles, we find Article 06: "Each fiscal year authorizes the total resources of the State and its burdens directed to the implementation of state programs in accordance with the objectives set and the expected results that are the subject of evaluation, and the program is considered the unit for the implementation of financial appropriations<sup>5</sup>, and the total programs constitute a portfolio of programs placed under the responsibility of a minister or official of a public institution, and these programs contribute and divide them into Subprograms and activities in the implementation of a specific public policy
- **Medium-term budget framework:** The medium-term budget framework is framed each fiscal year by the government, based on a proposal from the Minister in charge of finance at the beginning of the procedure for the preparation of the finance laws, and determines for the next year and the following two years the estimates of revenues, expenditures, the balance of the state budget and, if necessary, the medium-term budgetary framework can be reviewed during the preparation of the finance law for the year<sup>6</sup>.  
Organic Law 18/15 on Finance Laws allows for the preparation of a medium-term budget framework for **three consecutive years** and thus estimates the ceiling of the State's expenditures and revenues for a period of time that allows the inventory of future liabilities.
- **Budget Accounting:** The accounting divisions are defined into liabilities accounting and budget income and expenditure accounting based on the principle of fund accounting, in addition to general accounting for all its operations, based on the principle of inspection of rights and obligations, and cost analysis accounting aimed at analysing the costs of various activities committed to within the framework of programs<sup>7</sup>.
- **Accountability and control:** The term evaluation came several times in the provisions of the new organic law, and this is a clear reference to the accountability of those in charge and officials of the program, it is necessary to display the implementation of the completed operations, by measuring performance through certain indicators by providing the necessary explanations and clarifications, as for the control process, the state budget is subject to administrative, judicial and parliamentary control according to the conditions determined by the Constitution and the special legislative and regulatory provisions<sup>8</sup>
- **Transparency of budgetary management:** When submitting the Finance Law, the legislator obligated the government to present a number of documents, namely: a report on the economic, social and financial situation and prospects in the medium term, highlighting in particular the estimated economic and financial balances, as well as explanatory appendices showing the evolution according to taxes, including those related to new measures and in general estimates of the proceeds of other resources, in addition to documents grouped into three sizes related to (draft state budget, report on Priorities and planning are prepared by a minister and each person in charge of a public institution in charge of managing the program portfolio, and the regional distribution of the budget.

## **The second topic - the strategy of establishing the general budget according to Law 18-15:**

Organic Law 18-15 on Finance Laws is the new legal framework that enshrines a set of budgetary and accounting reforms adopted by the public authorities in Algeria after Law 84-17 proved its limitations in keeping pace with private developments at the international and national levels<sup>9</sup>.

The idea of updating the budget system (MSB) emerged in 2001, within the framework of necessary and inevitable budgetary reforms, as a result of the failure of Organic Law No. 84-17 to keep pace with developments in the field of public finance management, considering that the economic orientation followed is the transition from a command economy to a market economy, and international financial bodies call for a review of the general budget system within the framework of unifying international public accounting systems, to achieve effectiveness and transparency in the management of public funds by including indicators that allow the evaluation and transparency of Calendar of public activity<sup>10</sup>.

Through the new organic law 18-05 on finance laws, we will learn about the extent to which the public budget in Algeria adheres to the principles of sound governance, with a focus on diagnosing the reality of governance and its role in managing the general budget of the state, and through analysis and discussion of this law, we discover the existence of positive indicators for the governance of the general budget through the new organic law No. 18-15 on finance laws, aimed at strengthening the principles of accountability and contributing to the introduction of a new pattern in the management of budgets, related to the concepts of performance and measurement Results according to performance indicators<sup>11</sup>.

### **The first requirement - the shortcomings of the law related to finance laws:**

If fiscal policy issues have been strongly raised since the beginning of the thirties of the last century in developed countries, they are considered more complex in developing countries, resources are limited and the pressures are increasing to provide basic services, and Algeria is one of the developing countries in which state intervention in economic life takes its deep complexity and this is reflected in its policy in terms of cuts and spending.

It is noted that the increasing volume of Algerian public expenditures is a continuous phenomenon due to the increase in the state in public jobs, in addition to the devaluation of the Algerian dinar and the increase in population<sup>12</sup>, Law 84/17 included the management of resources instead of the management of objectives, which cost a continuous rise in expenditures, which prompted the Algerian government to search for new reforms with methods of managing a budget different from the previous one, as Law 84/17 defined deficiencies recorded in the budgetary framework, including.

- **Failure to merge the management and equipment budgets:** the management budget is structured according to ministerial departments, while investment expenditures are structured by sector.
- **Absence of results-based management:** The current financial management is based on mobilizing means
- **rather than searching for results:** "Funds are granted in order to meet the needs expressed in the disbursement order and not in terms of the performance objectives that must be achieved or the result that must be achieved."

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- **Lack of transparency in the submission of budget documents and difficult access:** The documents submitted by the government are not sufficient to allow the submission of all the required information.
- **Absence of an effective information system:** due to the existence of inappropriate information management systems and tools, and the use of inefficient automated equipment, which does not allow the preparation of credible macroeconomic estimates or the preparation of scenarios according to expenditure blocks.
- **Absence of a medium-term expenditure framework CDMT:** This does not allow the government to arrange its expenditures according to the requirements of public policy and the necessities of the country's economic situation.
- **Non-accountability of managers:** On the other hand, the strength and robustness of responsibility of managers allows the achievement of the objectives of efficiency, effectiveness and transparency in the overall public finance system.

**The second requirement - manifestations of renewal at the level of organic law 18/15:**

The approach adopted by Organic Law 18/15 of 02 September 2018 on Finance Laws is different from the previous Law on Finance Laws 84/17, as it came to revolutionize reforms at the level of budget reform and public management of public finances, as its provisions did not carry an amending character, but rather an abolitionist character for most of the provisions of the previous law, and the renewal affected the public management of public finances, as it became results-based and based on means and not as it was based on mobilizing means. And the caretaker, and the renewal extended to how to prepare and prepare the draft finance law, and although the monopoly of the Ministry of Finance remained, the preparation under the supervision of the Prime Minister, but control was tightened so that the budget and its belongings pass the approval of Parliament, especially the special accounts of the treasury, which are voted on by the same procedures<sup>13</sup>

Renewal also touched the general principles of the budget so that the classical principles did not remain the same, as they were amended along the lines of the principle of the annual was added to the principle of the multi-year and medium-term budget framework and new principles were adopted such as the principle of budgetary honesty and the principle of budget programming, while the state's resources and burdens have had a share of the renewal, through the new classifications of the burdens of public expenditures and public revenues, and as we note that the renewal affected most aspects of public finance and even public management. As for the accounting rules, they have been affected by the new amendments at the level of accounting agents and the principles of public accounting, and therefore what are the manifestations of renewal at the level of Law 18/15.

**A- Renewal at the level of the Finance Bill (preparation, preparation and filing):**

The legislator has stipulated a specific formative structure for the preparation of the draft finance law, provided that it consists of parts, the first part specifies the general provisions related to the annual license for the collection and allocation of public resources, the second part is allocated to the amounts of commitment licenses and payment appropriations for the general budget of the state, while the third part determines the licenses for granting guarantees and sponsorship and each provision related to public accounting and the implementation of revenue control and public expenditures, while the fourth part is within the framework of tables related to

revenues and Appropriations, list of accounts for the treasury and list of taxes and levies, provided that the draft finance law is accompanied by a report on the situation and economic, social and financial prospects and explanatory appendices showing the development according to the category of taxes and estimates of revenues.

As for the preparation of the draft finance law, it was authorized to the minister in charge of finance under the authority of the Prime Minister and is submitted to the Council of Ministers, completed, discussed and amended if necessary<sup>14</sup>, while with regard to the deadlines, the draft finance law for the year is deposited with the office of the People's National Assembly on October 7 at the latest<sup>15</sup>.

### **B- Resource-level renewal Public burdens:**

State revenues consist of revenues from state property, revenues from state financial contributions as well as other assets, amounts paid for services rendered by the state, royalties and various budget revenues, miscellaneous extraordinary revenues, funds allocated for contributions, gifts and bequests, interest and proceeds obtained from loans, advances and the employment of state funds<sup>16</sup>.

As for public burdens and revenues, they follow **four classifications**; classification according to activity, classification according to the economic nature of expenditures, classification according to the major functions of the State, classification according to the administrative bodies in charge of preparing and employing the budget.

### **C- Renewal at the level of budgetary principles:**

Classical principles such as the principle of annuality, generality, unity and balance of budgets and the non-allocation of certain revenues to cover expenses appear in the old law, while the modern principles brought by Organic Law 18/15 are:

- 1- The principle of annual and the principle of multi-year and medium-term budgetary framing:** The principle of the annual is represented in the estimates of expenditures and revenues for a calendar year, while the medium-term budgetary framing in you without being approved for three years and prepared by the government every year, based on a proposal from the Minister in charge of Finance at the beginning of the procedure for preparing the finance laws and determines for the next year and the following two years, estimates of revenues and expenditures and the balance of the state budget as well as the state's indebtedness when necessary, and the medium-term budgetary framing can be reviewed during the preparation of Finance bill.
- 2- The principle of credibility or budgetary honesty:** The content of this principle is to declare real data and estimates away from deception, concealment and lies, so the state's accounts must be regular and honest and faithfully reflect its property and financial status, so the financial laws provide the total resources and burdens of the state explicitly and evaluate this frankness through the available information and estimates that can result from it<sup>17</sup>

### **Conclusion:**

Law 84/17 showed the existence of deep imbalances and the inability to keep pace with the transformations witnessed in the field of public finance management that prevented the optimal use of public spending, and made the reform of the regulatory framework of finance laws a necessity imposed by internal circumstances and dictated by keeping pace with international developments in this field.

The governance of public finance in Algeria is a crucial issue that affects the economic and social development of the country. The organic law 18-15, which was issued in 2018, aims to reform the budgetary system and introduce new principles and practices of modern public management. The law 18-15 seeks to enhance the accountability, transparency, participation, and

performance of the public sector, and to align the budget with the strategic objectives and the medium-term fiscal framework. The law 18-15 also provides for the evaluation and control of the budget execution and the results achieved. However, the implementation of the law 18-15 faces many challenges and obstacles, such as the lack of human and technical capacities, the resistance to change, the political and social instability, and the impact of the COVID-19 pandemic. Therefore, the success of the law 18-15 depends on the political will, the institutional coordination, the social dialogue, and the international cooperation.

The new law aims to achieve two goals, the first is to reform the public management framework and direct it towards results, and the second goal works to enhance the transparency of budget information, and as previously detailed, the law dealt with basic axes, the most important of which are Restructuring the budget, adopting a multi-year approach to state expenditures and revenues, reforming around greater freedom of managers and performance control, in addition to improving the content and progress of the finance bills, based on the above, we can propose the following:

- ✓ It is necessary to start establishing a modern human resources management system.
- ✓ The need to enshrine the principle of responsibility, as financial governance depends in addition to the availability of material and human resources for its implementation to the existence of effective periodic control that monitors the extent of implementation of instructions without violations or violations and the determination of severe penalties in the event of violation of the law.
- ✓ Consider the state budget as the true financial translation of pre-prepared and carefully prepared strategies.
- ✓ Establishing independent bodies specialized in evaluating budget performance and preparing real and serious reports to work with.
- ✓ In the end, we can say that the new management is based on the mentality of public management, which requires a qualified, composed, capable and responsible human framework.

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