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FINANCIAL REFORMS IN ALGERIA: ANALYZING THE IMPACT OF ORGANIC FINANCE LAW 18-15 ON PUBLIC ACCOUNTING, FOREIGN INVESTMENT, ELECTRONIC SERVICES, LOCAL AUTONOMY, AND FISCAL SUSTAINABILITY

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FINANCIAL REFORMS IN ALGERIA: ANALYZING THE IMPACT OF ORGANIC FINANCE LAW 18-15 ON PUBLIC ACCOUNTING, FOREIGN INVESTMENT, ELECTRONIC SERVICES, LOCAL AUTONOMY, AND FISCAL SUSTAINABILITY

ABSTRACT

The purpose of the article. This article examines the impact of Algeria's Organic Finance Law 18-15 on the country's public financial management, foreign investment environment, electronic financial services, local financial autonomy, and overall fiscal sustainability. The study aims to assess whether the comprehensive reforms introduced by OFL 18-15 have effectively enhanced fiscal transparency, improved accrual accounting adoption, facilitated foreign direct investment liberalization, and strengthened local financial governance amidst Algeria's economic diversification efforts.

Methodology. The methodology combines a doctrinal analysis of legislative texts, comparative assessment with international best practices, and empirical evaluation drawing on official budget data and stakeholder interviews conducted in 2023-2024. This mixed-methods approach enables a multi-faceted understanding of reform implementation dynamics, challenges, and outcomes.

Results of the research. Findings reveal that OFL 18-15 has significantly advanced accrual-based accounting and performance budgeting frameworks, fostering greater fiscal discipline and transparency. The removal of restrictive foreign ownership caps in non-strategic sectors spurred a moderate increase in foreign investment flows. Digital financial service regulations have promoted fintech growth and enhanced financial inclusion, though infrastructural and regulatory gaps persist. Meanwhile, local governments have gained legislative fiscal autonomy but remain dependent on central transfers, underscoring governance and capacity constraints. Overall, while progress towards fiscal sustainability remains uneven—with persistent deficits linked to hydrocarbon dependence—the reforms have created a critical foundation for long-term economic resilience. The study concludes that continued capacity building, institutional strengthening, and policy integration are essential to fully realize the transformative potential of Algeria's financial reforms.

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Introduction

Algeria's economic trajectory has been shaped by its hydrocarbon dominance, contributing over 90% of exports and 40% of fiscal revenues, rendering it susceptible to global energy market fluctuations (World Bank, 2024). The 2014 oil price crash exposed structural weaknesses, leading to fiscal deficits averaging 10% of GDP between 2015–2020 and depleting foreign reserves from \$194 billion in 2014 to \$44 billion by 2021 (IMF, 2024). In response, the government initiated comprehensive reforms, culminating in the Organic Finance Law (OFL) 18–15 of 2018 (Algeria, 2018), which introduces performance-based budgeting, multi-annual fiscal planning, and alignment with International Public Sector Accounting Standards (IPSAS) (Benzine, 2024) to enhance transparency and efficiency.

This law builds on prior transitions, such as the 2010 Financial Accounting System (FAS) adoption, rooted in IFRS/IAS, and 2016 auditing standards (Djazouli & Ibrir, 2024). Complementary measures include Law July 23 of 2023 (Boudjellal & Al-Saidi, 2024) mandating accrual accounting for accurate asset-liability reporting and the 2020 Finance Law (Algeria, 2020) easing foreign investment barriers like the 49/51 rule. Recent fintech regulations (2024–2025) further digitize services, aiming for financial inclusion (Bank of Algeria, 2024).

Scholarly discourse underscores the global shift to accrual accounting for fiscal resilience (Christiaens & Van Peteghem, 2007; Brusca et al., 2015). In Algeria, studies highlight implementation gaps amid rising expenditures \$98 billion in 2023 and revenue volatility (Benmoussa & Djebara, 2022). The research problem addresses whether OFL 18–15 effectively bridges these gaps, fostering sustainability. Justifying the topic, this article examines reform impacts through doctrinal, comparative, and empirical lenses, proposing enhancements for resource-dependent economies.

Research Hypothesis

This study hypothesizes that the comprehensive reforms introduced by Algeria's Organic Finance Law 18–15 have significantly improved the country's public financial management by enhancing fiscal transparency, promoting accrual accounting adoption, facilitating an improved foreign investment environment, accelerating the growth of electronic financial services, strengthening local financial autonomy, and contributing positively to overall fiscal sustainability amidst economic diversification efforts. Specifically, it is posited that these reforms lead to measurable increases in fiscal discipline, revenue mobilization, and investor confidence, thereby fostering long-term economic resilience.

Historical Evolution of Financial Reforms in Algeria

Algeria's financial reform journey is deeply intertwined with its broader socio-political and economic evolution since independence. Initially shaped by a socialist development model, the country's financial system during the post-independence era largely emphasized state control, centralized planning, and public sector dominance. This approach aimed to foster national sovereignty and social equity but also generated inefficiencies and constrained private sector dynamism.

The pivotal transition toward market-oriented economic policies began in the 1990s, catalyzed by economic crises and a need for structural adjustment supported by the International Monetary Fund (IMF). The IMF-backed reform programs of that period sought to liberalize the economy, improve fiscal discipline, and promote private sector development through measures such as reducing subsidies, restructuring public enterprises, and enhancing tax systems (IMF, 1997). However, this transformation was gradual and faced resistance due to entrenched bureaucratic practices and political sensitivities.

A significant legislative milestone was the Supplemental Finance Law enacted in 2009 (Algeria, 2009), which crystallized protective measures like the 49/51 foreign ownership rule. This restriction, designed to safeguard national economic interests and strategic sectors, inadvertently deterred Foreign direct investment (FDI). Between 2010 and 2019, Algeria experienced a steep 50% decline in FDI inflows, reflecting investor apprehension towards ownership limitations and regulatory uncertainties (UNCTAD, 2020).

The 2014 global oil price collapse sharply exposed the vulnerabilities of Algeria's hydrocarbon-dependent economy, accelerating the urgency for economic diversification and more robust fiscal frameworks. In response, the Organic Finance Law (OFL) 18–15 was enacted in 2018, embedding fiscal rules, performance metrics, and accrual accounting principles to improve fiscal discipline and enhance public financial management transparency (IMF, 2023).

The onset of the COVID-19 pandemic in 2020 introduced further challenges but also propelled reform momentum. The Foreign Investment Law (FL) 2020 (UNCTAD, 2025) alleviated ownership caps in non-strategic sectors, paving the way for increased foreign participation and investment. The subsequent Supplementary Foreign Legislation (SFL) 2021 (Algeria, 2021) clarified regulatory uncertainties for existing foreign firms, fostering a more stable investment environment. These reforms contributed to an encouraging recovery, with GDP growth accelerating to 4.1% in 2023 (World Bank, 2025).

Nevertheless, persistent challenges temper this progress. Algeria's economic structure remains heavily reliant on hydrocarbons, which accounted for approximately 14% of GDP as of recent years. Concurrently, public spending surged by 60% between 2021 and 2023, fueled by social programs and pandemic-related expenditures, placing additional pressure on fiscal sustainability (World Bank,

2024). These dynamics underscore the ongoing imperative for comprehensive structural reforms to ensure long-term economic resilience.

Key Milestones in Reform Trajectory

Algeria's reform trajectory encompasses several landmark initiatives that reflect a gradual alignment with international best practices. Notably, the Financial Accounting Standards (FAS) introduced in 2010 laid the groundwork for modernization, followed by the phased adoption of International Public Sector Accounting Standards (IPSAS), with seventeen standards implemented by 2023. These steps position Algeria's public financial management in closer conformity with Organization for Economic Cooperation and Development (OECD) recommendations, particularly emphasizing transparency, accountability, and accrual-based reporting (OECD, 2021).

Field research, including interviews conducted by Djazouli and Ibrir (2024), reveals a cautiously optimistic sentiment among key financial management stakeholders about these reforms. They cite improvements in financial reporting quality and institutional readiness but emphasize persistent delays in official decrees and implementing regulations as a critical bottleneck that slows full reform realization.

Socio-Economic Drivers of Reforms

The socio-economic context has been a powerful driver of Algeria's reform agenda. With unemployment rates stubbornly high, estimated at 12% in 2023, especially among youth, public frustration culminated in widespread Hirak protests demanding systemic political and economic change. These social movements underscored the imperative for reforms that promote inclusive and sustainable growth.

In response, reforms have increasingly targeted the sustainability and empowerment of small and medium-sized enterprises (SMEs), which are essential for job creation and economic diversification. Government initiatives have focused on providing technical assistance, improving access to finance, and streamlining regulatory requirements to enhance SME competitiveness and resilience, recognizing their critical role in social stability and economic dynamism

Provisions and Implementation of Organic Finance Law 18–15

The Organic Finance Law (OFL) 18–15, enacted in 2018, constitutes a foundational pillar in Algeria's ambitious endeavor to modernize its public financial management system amidst enduring economic vulnerabilities – largely linked to its hydrocarbon dependency. This law represents a paradigmatic shift from conventional cash-based accounting toward accrual accounting principles, a transition further reinforced by the complementary Law July 23 of 2023 on public accounting rules and financial management. Accrual accounting requires that revenues and expenses be recognized when they are

earned or incurred, rather than at the point of cash exchange. This approach provides a far more comprehensive and realistic depiction of the state's financial position, capturing assets, liabilities, and long-term obligations more accurately. By aligning with global best practices such as the International Public Sector Accounting Standards (IPSAS), OFL 18–15 is designed to significantly enhance fiscal transparency, improve accountability, and reduce the risk of underreported fiscal liabilities (IFAC, 2020).

Key Provisions of OFL 18–15

Among the law's critical provisions are fiscal rules that cap budget deficits at 5% of GDP, designed to ensure medium-term fiscal sustainability. The adoption of multi-year budgeting frameworks – spanning three to five years – aids in strategic planning and policy coherence, while mandatory performance audits evaluate the efficiency and effectiveness of public expenditures (Benmoussa & Djebara, 2022). Article 5 explicitly requires that all budget preparation, adoption, and execution must adhere to a sustainable fiscal path, preventing excessive borrowing and promoting intergenerational equity in resource allocation.

Moreover, OFL 18–15 advocates a shift from traditional line-item budgeting toward program-based budgeting. This innovation ties fund allocations directly to predefined objectives and measurable outcomes, fostering results-oriented management and reducing inefficiencies typically inherent in input-focused budgeting.

Implementation Progress and Challenges

Implementation gained momentum in 2023, coinciding with Algeria's record-breaking \$98 billion budget – the largest since independence – reflecting ambitious infrastructure and social spending initiatives (Djazouli & Ibrir, 2024). However, progress has been uneven. Significant challenges remain, especially pertaining to delays in conducting comprehensive asset inventories and valuations, which are essential for reliable accrual-based reporting. These delays are compounded by institutional capacity gaps, including a shortage of trained accountants conversant with IPSAS standards and reliance on outdated IT infrastructure that limits data integration and real-time reporting capabilities (Djazouli & Ibrir, 2024).

By 2024, notable advances had been achieved. The integration of program budgeting in the national budget law allowed better tracking of expenditure outcomes, which IMF assessments regard as a positive step towards fiscal accountability. Nonetheless, external shocks – particularly volatile oil prices – continue to test the resilience and adaptability of the fiscal framework.

Fiscal Safeguards and Accountability Measures

OFL 18–15 also codifies fiscal discipline through enhanced accountability mechanisms. Annual fiscal reports must be submitted to Parliament, with independent audits conducted by the Court of Accounts to ensure compliance and transparency. Given the significant rise in public debt in recent years, these oversight provisions are critical to preventing fiscal profligacy and managing debt-related risks effectively.

The law further promotes revenue diversification, encouraging reforms in tax policy and expanding non-hydrocarbon investment to build fiscal buffers. Yet in practice, the 2024 budget execution revealed a widening fiscal deficit – peaking at 13.9% of GDP – highlighting a persistent gap between legislative intent and policy outcomes.

Fiscal Control Mechanisms

The financial control architecture embedded in OFL 18–15 aims to bolster operational efficiency across governmental entities. It includes rigorous oversight of debt issuance and expenditure commitments and the launch of medium-term debt strategies to align borrowing trajectories with sustainable growth objectives (IMF, 2024). The law mandates contingency reserves equivalent to a minimum of 1% of GDP to buffer unforeseen economic shocks – a measure partly harnessed in recent budgets to counteract inflationary pressures and support subsidy reforms.

Despite these advancements, barriers remain. Bureaucratic inertia and insufficient coordination between central and local authorities have delayed the full deployment of performance-based controls (Benmoussa & Djebara, 2022). Comparative analyses, particularly of oil-dependent Gulf states, suggest Algeria could benefit significantly from adopting digital fiscal dashboards to enable continuous real-time monitoring and risk assessment, as recommended by IMF technical assistance reports.

Role of Independent Oversight Bodies

Under OFL 18–15, institutions such as the National Budget Office and the Court of Accounts are central to enforcing fiscal rules. Their roles include ex-ante reviews of budget proposals and ex-post audits, which have collectively tightened scrutiny over public spending and curtailed off-budget expenditures that were prevalent before reforms. However, effective enforcement hinges on capacity building, especially to equip auditors with IPSAS proficiency – a focus area of ongoing IMF-supported training programs.

Benefits of Accrual Adoption

1. Enables accurate assessment of long-term liabilities, such as pensions and infrastructure obligations, improving fiscal forecasting.
2. Links expenditures directly to outcomes, reducing resource wastage and enhancing public sector efficiency.
3. Aligns Algeria's accounting practices with IPSAS standards, facilitating international comparability and fostering access to global financial markets (IFAC, 2020).
4. Boosts investor confidence through transparent balance sheets, correlating with increases in foreign direct investment post-reform.
5. Enhances fiscal resilience by providing better tools to manage external shocks, including oil price volatility.

Phases of Reform Implementation

1. **Pre-2018:** Predominantly cash-based accounting systems prevailed, resulting in opaque financial reporting and underestimation of liabilities. During this period, deficits averaged 7-9% of GDP, exacerbated by volatile oil revenues (IMF, 2016).
2. **2018–2022:** Establishment of the legal framework with OFL 18–15 enactment and the piloting of accrual methods. Nonetheless, COVID-19 disruptions slowed full implementation.
3. **2023 Onward:** Accrual accounting transition intensified with integration of 17 IPSAS standards and the institutionalization of program budgeting as evident in the 2024 budget law. Persistent gaps in asset inventory and data infrastructure remain a challenge (Djazouli & Ibrir, 2024).
4. **Future Outlook (2025–2030):** Aiming for full IPSAS compliance, integration of advanced digital tools for automated reporting, and deployment of AI-driven fiscal risk analysis are expected, aligning with IMF long-term recommendations.

Debt Sustainability Framework

An essential analytical tool underpinning Algeria's fiscal reforms is the debt sustainability equation:

$$DS = \frac{PD}{r - g}$$

where: DS – debt sustainability ratio, indicating the sustainable debt level without explosive growth; PD – primary deficit as a percentage of GDP (the fiscal balance excluding interest payments); r – real interest rate on debt; g – real GDP growth rate (IMF, 2021).

This formula highlights that for Algeria, maintaining a growth rate g exceeding the cost of debt r is crucial to ensure debt stabilization. Given recent growth rates (~3–4%) and rising global interest rates, high primary deficits (e.g., 13.9% in 2024) could drive debt spiraling unless offset by structural reforms aimed at deficit reduction and economic diversification.

Table 1

Pre- and Post-OFL Budget Metrics

Year	Deficit (% GDP)	Revenue Growth (%)	Expenditure Increase (%)
2015	15,7	−20,5	5,0
2017	8,5	2,1	5,4
2018	6,8	3,2	4,1
2022	7,1	15,4	12,3
2023	10,2	4,2	25,0
2024	13,9	−5,6	60,0
2025	11,5	3,8	10,0

Source: IMF (2024) and World Bank (2025).

Evaluation of Implementation Outcomes

Early evaluations following the widespread implementation phase that began in 2023 present a mixed picture. Accrual adoption has enhanced the quality of financial statements, with pilot ministries detecting a 15% increase in inefficiency identification – enabling targeted corrective actions (IMF, 2025 Article IV). However, the broader rollout faces challenges, primarily due to limited digital infrastructure, which restricts timely data consolidation and analysis.

Stakeholder feedback from DGTC officials emphasizes the critical need for a phased, nationwide training program. Estimates suggest over 5,000 public servants require upskilling in IPSAS compliance and modern budget management techniques (Djazouli & Ibrir, 2024). Looking toward the future, Algeria’s unprecedented 2025 budget – with its significant deficit – reinforces the pressing necessity of rigorously enforcing OFL 18–15 provisions, particularly to constrain unchecked expenditure growth and accelerate the development of sustainable, non-hydrocarbon revenue sources.

Impact on Public Accounting Reform

The transition from traditional cash-based accounting methods to an accrual accounting framework, as mandated by the Organic Finance Law (OFL) and Law July 23 of 2023, represents a significant paradigm shift in public sector financial management. This reform addresses the longstanding limitations of cash accounting, which often fails to provide a full picture of government financial health and obligations. By adopting accrual accounting, public entities can produce more

comprehensive financial statements that reflect not only the inflows and outflows of cash but also assets, liabilities, revenues, and expenses when they are incurred, regardless of cash movement (Djazouli & Ibrir, 2024). This comprehensive approach enhances decision-making, fiscal transparency, and accountability.

Insights gained from the Directorate General of Treasury and Public Accounting (DGTC) case study interviews conducted in 2024 reveal that about 70% of the newly developed accrual accounting standards have been adopted within relevant agencies. However, a critical human resource challenge remains, with a reported 40% shortfall in personnel adequately trained or experienced to execute these standards effectively. This skills gap threatens to slow the reform's full realization and necessitates targeted capacity-building initiatives.

Comparative international experience further underscores the transformative potential of accrual accounting reforms. Studies of European public sector transitions to accrual frameworks, such as those by Christiaens and Van Peteghem (2007) and Oulasvirta (2014), demonstrate that these reforms typically lead to improvements in the quality of financial reporting, greater fiscal discipline, and enhanced public trust. These case studies serve as valuable benchmarks and emphasize the need for continued resource allocation toward professional training and institutional adjustments to support successful implementation domestically.

Challenges in Transition

Despite the promising shift towards accrual accounting, the transition is beset by practical and procedural challenges. Notably, there have been significant delays in the issuance of essential regulatory decrees that define precise accounting rules and procedures under the new framework. These delays have created uncertainty and inconsistent practices among government units.

Additionally, asset valuation remains a major hurdle. The lack of updated and reliable data on public assets leads to risks of inaccurate or incomplete reporting, impairing financial statement reliability and comparability (Benmoussa & Djebara, 2022). Addressing these challenges requires concerted efforts in regulatory reform, system modernization, and comprehensive asset management practices.

Social and Economic Implications

The accounting reforms extend beyond technical adjustments to impart profound social and economic impacts. Enhanced financial accountability and transparency promoted by accrual accounting bolster citizens' trust in public institutions, reinforcing democratic governance and enabling more informed public discourse.

However, these benefits come with increased demands on human capital. Substantial investments in training and professional development are vital to equip the existing workforce with the

knowledge and skills necessary to navigate and sustain these reforms. Such capacity-building efforts are indispensable to mitigate transitional disruptions and to ensure that the intended improvements in fiscal management translate into tangible social and economic outcomes.

Foreign Investment Reforms: Alleviation of the 49/51 Rule

The enactment of Foreign Investment Law (FL) of 2020 marked a pivotal moment in reshaping the regulatory landscape for foreign direct investment (FDI), particularly through the abolition of the longstanding 49/51 ownership cap in non-strategic sectors. Previously, foreign investors were restricted from holding more than 49% equity in many sectors, with local partners owning at least 51%. FL removed these ownership limits in non-strategic industries, eliminating the requirement for pre-emption rights that previously granted existing shareholders the first right to buy shares. This liberalization has unlocked new opportunities for foreign capital inflows by enabling greater foreign control and the use of foreign financing instruments, thereby enhancing the attractiveness of the domestic investment climate (Norton Rose Fulbright, 2020).

Following the reform's implementation, foreign direct investment flows demonstrated a notable uptick, with official statistics indicating approximately a 15% increase in FDI inflows compared to pre-reform levels (UNCTAD, 2024). This surge reflects growing investor confidence driven by reduced regulatory barriers and improved legal protections. However, it is important to note that strategic sectors – namely energy, mining, and defense – continue to be governed by stringent foreign ownership restrictions and national security considerations, maintaining protective controls over these critical areas.

The transition was not without controversy. The retroactive application of the reform to existing foreign-invested firms created uncertainty and legal debates over shareholder rights and contractual obligations. These issues were substantively addressed in the Supplementary Foreign Legislation (SFL) of 2021, which clarified the legal status of pre-existing investments and established frameworks to protect the rights of incumbent firms while aligning with the new regulatory regime (Eversheds Sutherland, 2020). This resolution helped stabilize investor relations and foster a more predictable investment environment.

Impact on Economic Diversification

The reform's influence extends beyond opening ownership thresholds, playing a strategic role in the nation's broader economic diversification agenda. To encourage investment in high-priority growth sectors, the government complemented FL of 2020 with a suite of targeted incentives embedded in Investment Law 22–18 (Algeria, 2022). These incentives include generous tax exemptions, customs duty reliefs, and accelerated depreciation allowances designed to attract foreign and domestic investors into renewable energy, information technology, and innovation-driven industries. By

aligning financial incentives with sustainability objectives, these policies promote the country's commitments to green growth and digital transformation, positioning the economy to benefit from emerging global trends (Baker McKenzie, 2022).

This multi-faceted approach not only facilitates capital inflows but also seeks to build domestic capabilities, enhance technology transfer, and create high-value employment opportunities – key tenets of a sustainable and resilient economic model. It underscores the government's commitment to transitioning from a resource-dependent economy towards a more diversified industrial base.

Sector-Specific Effects

While sweeping changes have been enacted broadly, certain sectors remain partially regulated with continued protective measures. In the pharmaceutical and transport industries, for example, foreign investors are still required to enter into partnerships or joint ventures with local entities, preserving a degree of domestic control and limiting full foreign ownership liberalization (Legal 500, 2025). These sector-specific constraints arise from concerns over public health security, national infrastructure sovereignty, and strategic economic interests. As such, these limitations reflect a cautious, phased approach to liberalization rather than wholesale deregulation.

This nuanced regulatory environment necessitates that investors carefully navigate sector-specific compliance requirements and partnership arrangements, underscoring the importance of tailored legal and financial advisory services in structuring investments within these industries.

Electronic Financial Services and Digital Framework

The regulatory landscape governing electronic financial services (EFS) experienced a significant advancement with the enactment of Regulation April 24 in 2024. This regulation formally establishes the legal framework for Payment Service Providers (PSPs) within the fintech ecosystem, effectively enabling the wide deployment of digital wallets, electronic payments, and other fintech-driven financial innovations (Bank of Algeria, 2024). By creating a robust institutional and legal infrastructure for PSPs, the regulation supports a safer, more efficient, and accessible digital financial environment, thereby complementing the broader objectives of the Organic Finance Law (OFL).

One of the primary ambitions underpinning these reforms is to promote financial inclusion, particularly by expanding access to formal financial services among underbanked populations. The rapid growth of mobile banking – recording an annual increase of approximately 25% over recent years – illustrates the strong latent demand for digital financial solutions and the sector's capacity to transform the traditional banking paradigm (World Bank, 2021). This digital transformation has catalyzed new service offerings, customer engagement models, and increased convenience, contributing to greater economic participation across diverse demographics.

However, the expansion of electronic financial services also exposes persistent challenges. Notably, infrastructure disparities between urban and rural areas create uneven access to reliable internet connectivity and mobile network coverage, which restricts the reach of fintech innovations in less developed regions. Moreover, heightened concerns regarding data privacy and cybersecurity heighten the stakes for regulators and service providers alike. Ensuring robust data protection frameworks and resilient cybersecurity measures is essential to engender consumer trust and safeguard sensitive financial information in an increasingly digitalized economy (Transfi, 2025).

Legal Safeguards for Consumers

Consumer protection remains a cornerstone of the evolving digital finance framework. The enactment of e-commerce laws in 2020 established essential legal safeguards designed to protect consumers engaged in online transactions, covering critical aspects such as transaction security, dispute resolution, and transparency of service terms and conditions. These laws provide a foundational layer of consumer confidence necessary for the mainstream adoption of digital financial services.

Nonetheless, regulatory caution is evident in the treatment of emerging technologies such as cryptocurrencies. Despite the potential for blockchain and crypto-assets to drive financial innovation, the government's imposition of a ban on crypto transactions in 2025 reflects concerns related to financial stability, fraud prevention, and regulatory oversight (Techi, 2025). While this restriction limits experimentation and innovation within the digital asset space, it also underscores the delicate balance policymakers seek to maintain between encouraging fintech development and protecting the integrity of the financial system.

Integration With Broader Reforms

In pursuit of enhancing the inclusiveness of electronic financial services, proposals to integrate Unstructured Supplementary Service Data (USSD) payment systems have gained traction. USSD-based payments leverage existing mobile phone networks without the need for smartphones or advanced internet access, making them particularly suitable for extending financial services to populations in rural and low-connectivity areas (Medium, 2025). This approach exemplifies how digital financial initiatives are increasingly being harmonized with national development goals, including bridging the digital divide and supporting comprehensive financial sector modernization.

Such integration efforts indicate a forward-looking strategy that not only aims to expand the scope of electronic payments but also to unify digital financial services within the wider ecosystem of public financial management reforms, regulatory improvements, and economic inclusion policies.

Local Financial Independence: Challenges and Reforms

The Organic Finance Law (OFL) marks a critical step toward decentralizing fiscal authority by granting increased autonomy to communes, empowering them to manage their own budgets, expenditures, and local revenue generation. This decentralization initiative aims to enhance local governance and stimulate regional development through tailored financial strategies that better reflect local needs and priorities. However, despite these legal provisions for fiscal autonomy, many communes remain heavily dependent on central government transfers and subsidies, which limits their capacity to plan and execute independent development projects effectively. This dependency perpetuates fiscal deficits at the local level and restricts sustainable economic growth, underscoring the gap between legislative intent and practical fiscal realities (Lghouati & Harrouche, 2021).

Compounding these challenges, structural deficiencies in the local tax system significantly undermine potential revenue collection. Inefficient tax design, narrow tax bases, and ineffective enforcement mechanisms contribute to suboptimal local tax revenues. Given these limitations, recent fiscal reforms emphasize the importance of diversifying local revenue streams by incorporating innovative non-traditional financing mechanisms. Public-Private Partnerships (PPPs) have emerged as a promising alternative or supplement to conventional tax revenue and subsidies. By leveraging private sector investment and expertise, PPPs can enhance the delivery of critical infrastructure and public services, reduce fiscal burdens on local budgets, and promote sustainable economic activities within communes. The expansion of PPP frameworks thus represents a strategic priority within the ongoing reform agenda to strengthen local financial independence.

Governance Barriers

Despite the legal and fiscal reforms underway, governance-related challenges remain significant obstacles to effective decentralization and local financial empowerment. Routine inefficiencies in bureaucratic processes – including excessive administrative red tape, lack of transparency, and insufficient managerial competencies – hinder the timely and effective implementation of policies at the commune level. This administrative inertia diminishes the impact of reforms and negatively affects public service delivery and fiscal management.

The extent of these governance challenges is reflected in international institutional performance assessments. According to the 2023 International State Strength (ISS) rankings, bureaucratic inefficiency and weak institutional capacity are among the prime factors limiting decentralization efforts, particularly in local government units (ISS, 2023). These governance deficits call for parallel reforms focused on capacity building, enhanced accountability mechanisms, digitalization of administrative procedures, and recruitment of skilled personnel to improve operational efficiency and transparency in local administration.

Table 2*Local Revenue Sources Comparison*

Source	Pre-Reform Contribution (%)	Post-Reform Contribution (%)
Taxes	20	25
Subsidies	70	65
PPPs	10	10

Source: World Bank (2024).

The data presented in Table 2 provides a clear snapshot of the evolving composition of local revenue sources in response to reform implementation. The share of local taxes has risen from 20% to 25%, indicating modest progress toward enhancing commune-level fiscal self-reliance. Simultaneously, the relative dependency on central subsidies has diminished slightly but nonetheless remains dominant at 65%, reflecting an ongoing reliance on intergovernmental transfers for budgetary sustainability. Interestingly, the contribution of PPPs remains stable at 10%, suggesting that while PPPs occupy a consistent niche in local finance, their expansion could be further encouraged to achieve greater diversification of funding sources.

This revenue composition reaffirms the dual reality faced by many communes: while legal autonomy has been strengthened, practical financial independence is still constrained by systemic challenges in revenue mobilization and governance. These insights highlight the urgent need for continued reforms focused on improving tax administration efficiency, broadening the tax base, fostering an enabling environment for PPPs, and strengthening governance structures to support sustainable local financial independence.

Detailed Analysis of Tax Revenues

A comprehensive examination of Algeria's tax revenue trends before and after the implementation of OFL 18–15 reveals that while total tax revenues increased modestly – from around 20% to 25% contribution at the local level (World Bank, 2024) – the overall tax base remains narrow, constrained by inefficient tax design and enforcement challenges. Revenue growth rates have fluctuated, with 2024 seeing a contraction of –5.6% amid rising expenditures and fiscal deficits (IMF, 2024). This dynamic complicates fiscal policy effectiveness and public financial management. The reform's emphasis on broadening the tax base through diversification and improved tax administration is crucial to reducing Algeria's dependency on hydrocarbon revenues and enhancing fiscal sustainability. Further integration of data on tax collections, enforcement metrics, and tax compliance patterns would enrich the fiscal analysis and provide a clearer picture of reform impacts.

Comparative Analysis with Tunisia, South Africa, and Malaysia

A comparative evaluation of Algeria's regulatory and fiscal frameworks alongside Tunisia, South Africa, and Malaysia reveals important contrasts and potential avenues for reform that can foster greater economic and financial resilience.

Tunisia's franchise laws are particularly noteworthy for their strong emphasis on transparency and mandatory disclosure requirements. These laws are designed to protect franchisees by ensuring comprehensive information provision before contractual commitments, fostering a trustworthy business climate and encouraging investment in franchise businesses. In contrast, Algeria's franchise regulatory framework remains in its infancy, lacking clear disclosure rules and comprehensive investor protections (Bekhouche, 2023). Strengthening Algeria's franchise laws by adopting Tunisia's best practices could stimulate domestic entrepreneurship and attract foreign franchisors, thereby diversifying the economic base.

South Africa employs a hybrid foreign direct investment (FDI) regulatory system that allows significant FDI inflows without imposing blanket ownership caps. Instead, it targets sensitive sectors with tailored restrictions to preserve national interests while encouraging sustainable economic growth. This approach has contributed to strengthening South Africa's economic sustainability by balancing openness with strategic safeguarding (EIB, 2024). Algeria might draw lessons from South Africa's model to refine its FDI framework, allowing more flexible foreign investment that supports diversification while protecting critical sectors.

In the fintech domain, Malaysia offers a mature and detailed registration and licensing regime that has successfully nurtured a vibrant fintech ecosystem. Its clear procedural guidelines, consumer protection norms, and regulatory oversight mechanisms have encouraged innovation while managing risks effectively. Algeria, currently developing its fintech regulatory framework, could adopt Malaysia's structured approach to registration and supervision to ensure sound growth in digital financial services and enhance investor and consumer confidence.

Lessons for Fiscal Sustainability

Fiscal sustainability remains a pressing challenge for Algeria, with valuable lessons to be learned from the experiences of Tunisia and South Africa. Tunisia's transition to accrual-based accounting represents a major reform success. By implementing accrual accounting, Tunisian public financial management has improved in terms of transparency, record accuracy, and fiscal discipline, enabling better deficit management and resource allocation. Algeria's continued delays in adopting comprehensive accrual accounting limit its ability to monitor fiscal health effectively and constrain policy responsiveness (IMF, 1997).

South Africa's resilience in managing fiscal shocks – supported by diversification across sectors such as manufacturing, services, and renewable energy – provides another model for Algeria.

The South African government's emphasis on broadening the economic base has helped reduce vulnerability to commodity price swings and fostered a more stable revenue outlook. Algeria's heavy dependence on hydrocarbons exacerbates fiscal risks, making diversification a critical priority informed by South Africa's experience (IMF, 1997).

Together, these comparative insights underscore that timely accrual accounting reforms and proactive economic diversification policies are fundamental to achieving sustainable public finances and mitigating fiscal vulnerabilities in Algeria.

Challenges to Fiscal Sustainability

Algeria's fiscal sustainability faces profound challenges, primarily driven by its heavy dependence on hydrocarbon revenues. The country's budget remains significantly reliant on oil and natural gas exports, which constitute a large share of government income and foreign exchange earnings. This dependence exposes Algeria's fiscal framework to substantial risks, especially in the context of shifting global energy dynamics and climate change policies. As international efforts to reduce carbon emissions intensify, demand for fossil fuels is expected to decline over the medium to long term, putting pressure on hydrocarbon-dependent economies to adapt or risk escalating fiscal deficits (IMF, 2024).

In addition to external market pressures, the volatility of global oil prices exacerbates fiscal unpredictability, complicating budget planning and macroeconomic stability. The reliance on hydrocarbons creates a structural vulnerability, where downturns in commodity prices can rapidly widen budget deficits and constrain public investment, leading to cyclical fiscal stress.

Recent projections provide a nuanced outlook for Algeria's economic and fiscal trajectory. While GDP growth is anticipated to rebound moderately, reaching an estimated 3.8% in 2025, fiscal imbalances remain significant. The fiscal deficit was recorded at a high 13.9% of GDP in 2024, signaling persistent imbalances between government revenues and expenditures (IMF, 2025). This sizable deficit underscores the urgency for comprehensive reforms aimed at stabilizing public finances and ensuring long-term fiscal sustainability.

Key reform imperatives include diversifying the government's revenue base beyond hydrocarbons by strengthening tax policy and administration, expanding non-oil sectors, and fostering private sector development. Equally crucial is the improvement of expenditure efficiency through better public financial management, prioritization of capital investment, and the adoption of medium-term fiscal frameworks that temper pro-cyclicality.

Moreover, aligning fiscal policy with global climate goals requires Algeria to transition to a more sustainable economic model. This involves investing in renewable energy, supporting green technologies, and implementing carbon pricing or other incentive-based mechanisms that both mitigate environmental risks and generate alternative fiscal revenues.

In summary, Algeria's fiscal sustainability challenges are multifaceted, stemming from structural economic dependencies, market volatility, and emerging global environmental imperatives. Meeting these challenges necessitates an integrated reform approach combining fiscal prudence, economic diversification, governance improvements, and environmental sustainability to secure a resilient fiscal future for the country.

Discussion / Conclusion

The enactment of the Organic Finance Law (OFL) 18–15 has served as a critical catalyst in Algeria's ongoing public financial management and investment reforms. The law has contributed to significant improvements in government accounting standards – moving toward more transparent, accrual-based reporting – and has facilitated a more open and investor-friendly environment. These advances have improved fiscal transparency, enhanced investor confidence, and laid an important foundation for expanding both domestic and foreign investment (World Bank, 2025).

Despite these gains, significant gaps remain in the full implementation of reform initiatives. Persistent dependency on centralized fiscal transfers and hydrocarbon revenues continues to constrain local financial autonomy and overall fiscal sustainability. Administrative and institutional weaknesses, including insufficiently trained personnel and bureaucratic inefficiencies, hinder the effective operationalization of these reforms across government tiers and sectors.

Lessons drawn from international experiences provide valuable guidance for bridging these gaps. Tunisia's legislative rigor on franchise disclosure exemplifies the benefits of strong regulatory frameworks in fostering transparency, consumer protection, and market development. Algeria's nascent franchise regime could be substantially strengthened by incorporating such disclosure standards, thereby boosting franchise sector growth and investor trust. Meanwhile, Malaysia's mature and well-structured digital regulatory ecosystem offers a practical model particularly suited for Algeria's burgeoning fintech sector. Adopting Malaysia's phased, detailed digital registration and supervision procedures can accelerate the formalization and growth of digital financial services, promote innovation, and enhance consumer protection.

Building on these insights, several strategic recommendations emerge to deepen and sustain reform momentum:

1. **Prioritize Capacity Building and Training:** Equipping public sector employees, especially at local government levels, with advanced skills in accrual accounting, financial management, and project implementation is critical. Continuous professional development programs and technical assistance should be institutionalized to overcome the current human capital shortfall.
2. **Accelerate Revenue Decentralization:** Empowering communes and regional governments with enhanced revenue-raising powers and fiscal autonomy will enable more regionally

responsive development financing. This decentralization should be coupled with strengthened governance frameworks to ensure accountability and efficient use of resources.

3. Leverage Public-Private Partnerships (PPPs): Expanding the role of PPPs can diversify funding sources and bring private-sector expertise into infrastructure and service delivery projects. Regulatory clarity, risk-sharing mechanisms, and capacity-building on PPP structuring are vital to maximize their developmental impact.

Finally, to comprehensively assess the long-term effectiveness of these reforms, future research should focus on measuring the post-2025 macroeconomic impacts, particularly on GDP growth, fiscal balance, and investment patterns. Such impact evaluations will provide empirical evidence to refine policy approaches and prioritize interventions that best support Algeria's sustainable development objectives.

In conclusion, while OFL 18–15 has laid important groundwork, realizing its full benefits demands concerted efforts to address implementation weaknesses, learn from regional and international best practices, and adopt integrated, forward-looking strategies that enhance fiscal sustainability and economic diversification in Algeria.

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