

**Algeria: Report on the Observance of Standards and Codes—
Fiscal Transparency Module**

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ALGERIA

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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December 23, 2004

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in the People's Democratic Republic of Algeria in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other entities, the authorities' response to the IMF Questionnaire on Fiscal Transparency, and other sources of information. The IMF *Manual on Fiscal Transparency* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

In its transition toward a market economy, over the past few years Algeria has carried out reforms that have helped to clarify the roles of stakeholders in the public sector and elucidate the ways in which the authorities operate in the economy.

However, major progress is needed to attain a satisfactory level of transparency in the fiscal sector. The quasi-fiscal activities of banks and public enterprises are still significant, even though they are not accurately assessed and the available fiscal data refer for the most part only to central government. The legal framework governing budget preparation and execution and government accounting and auditing can still be improved, and it is not always complied with. Finally, very little information is made available to Parliament and the general public regarding budget options and the state of government finance.

This report suggests a set of short- and medium-term measures designed to bolster transparency:

- First, the information provided to Parliament and the public needs to be improved by overhauling budget documents and through much broader dissemination of the fiscal data currently at the disposal of the financial authorities.
- The roles performed by the various participants should be clarified by enacting an organic law governing financial legislation, replacing the quasi-fiscal activities of public sector entities with a system of direct fiscal subsidies, and reforming local government financing.
- Fiscal management should be strengthened, first and foremost by modernizing the budget classification system, the accounting framework, and fiscal audits.

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ACRONYMS

ACCT	Agence centrale comptable du Trésor (Treasury's Central Accounting Unit)
ANDI	Agence nationale pour le développement de l'investissement (National Investment Promotion Agency)
BA	Banque d'Algérie (central bank)
CNEP	Caisse nationale d'épargne et de prévoyance (National Savings and Provident Bank)
CNI	Conseil national de l'investissement (National Investment Council)
DGI	Direction générale des impôts (Directorate General of Taxes)
DGT	Direction générale du Trésor (Directorate General of the Treasury)
EPA	Etablissement public à caractère administratif (Public institution under administrative law)
FCCL	Fonds commun des collectivités locales (Local Governments' Common Fund)
FRR	Fonds de régulation des recettes (Revenue Regulation Fund)
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
IAS	International Accounting Standards
IGF	Inspectorate General of Finance
ROSC	Report on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard
SNA	System of National Accounts
SROT	Situation résumée des opérations du Trésor (Summary Statement of Treasury Operations)

Principal websites:

Ministry of Finance: <http://www.finances-algeria.org/>

Ministry of Energy and Mines: <http://www.mem-algeria.org>

Banque d'Algérie: <http://www.bank-of-algeria.dz/>

National Audit Court: <http://www.ccomptes.org.dz>

National Statistical Office: <http://www.ons.dz/index.htm>

Official Gazette: <http://www.joradp.dz>

Sonatrach: <http://www.sonatrach-dz.com>

I. INTRODUCTION

1. This draft report provides an assessment of fiscal transparency practices in the People's Democratic Republic of Algeria in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency*¹. The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in the People's Democratic Republic of Algeria.²

II. DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

Definition of government activity

1.1.1

2. **The definition of the general government in the national accounts is consistent with the GFS manual's definition.** General government consists of: central government, comprising ministries with central agencies and decentralized authorities distributed throughout the country, institutions such as Parliament, the National Audit Court, and the various Councils (such as the National Economic and Social Council), national public institutions under administrative law (EPA), such as universities and hospitals;³ social security funds;⁴ and all levels of local government: 48 wilayas (provinces) and 1,541 municipalities, which are run by elected assemblies and have their own autonomous budgets. At the decentralized level, general government also includes local public institutions (*établissements publics locaux*). It should be noted that *wilayas* are also administrative units of central government.

¹ Discussions on fiscal transparency were held in Algiers from February 22 to March 7, 2004. The IMF mission, comprising Messrs. Lazare (head of mission), Bouley and Calcoen (all FAD), and Bifani (member of the FAD panel of experts), met with the Minister of Finance and the Governor of Banque d'Algérie, senior officials from various ministries, agencies, and public enterprises, and representatives of private sector employers. The mission also met with authorities from the National Audit Court and the Inspectorate General of Finance, and with a representative of the National Economic and Social Council.

² The People's Democratic Republic of Algeria shall hereinafter be referred to as "Algeria."

³ There are some 5,560 national and local EPA, according to an IMF Statistics Department mission.

⁴ These comprise the National Health Insurance Fund for Wage Earners (*Caisse nationale d'assurance maladie des travailleurs salariés*), the National Pension Fund (*Caisse nationale de retraite*), the National Unemployment Insurance Fund (*Caisse nationale d'assurance chômage*), and the Self-Employed Social Insurance Fund (*Caisse d'assurance sociale des non salariés*).

3. Government activities are for the most part clearly distinguished from those of public financial institutions and nonfinancial public enterprises—although some of the latter engage in quasi-fiscal activities. 1.1.4

General government agencies and institutions do not engage in commercial activities. A clear distinction is made between the government's noncommercial activities and the rest of the economy. Nevertheless, some public financial institutions do perform certain activities that subsidize or support specific economic sectors, which constitutes a quasi-fiscal activity not taken into account by general government (see paragraph 7). Furthermore, the use of administered prices for certain goods and services leads to implicit subsidization by public enterprises.

Government relations with the central bank and public financial sector 1.1.4

4. The central bank (Banque d'Algérie—BA) is mostly independent from an operational standpoint. Since 1990 (Money and Credit Law No. 90-10 of April 14, 1990), the BA (<http://www.bank-of-algeria.dz>) has in practice greatly increased its operational autonomy. Order (*Ordonnance*) No. 03-11 of August 26, 2003 which replaced the 1990 Money and Credit Act aimed at improving coordination between BA and the ministry of finance.⁵ However, in the staff's view, it does not provide all the requisite legal guarantees for independence. For instance, it contains no explicit reference to the independence or autonomy of the BA, while certain provisions in the Order could under certain circumstances curtail such independence (for example, since a 2001 Order that had amended Law 90-10, the Governor or Vice Governors do not have any more a fixed-term mandate). Central bank credit to the government is subject to strict limits: Article 46 of the 2003 Order caps Treasury advances on current account at 10 percent of the Government's current revenue in the preceding fiscal year, for a term not to exceed 240 days per year. Furthermore, the BA may, in exceptional cases, lend to the Treasury, solely for purposes of ensuring the active management of the external public debt.

5. The central bank does not engage in quasi-fiscal activities. Order No. 03-11 of August 26, 2003 on money and credit defines the financial operations that Banque d'Algérie may conduct on the Treasury's behalf, particularly in Article 46. Article 47 of the same order states that "the central bank may discount or receive under repurchase agreements (*prise en pension*) bills of exchange or secured liabilities (*obligations cautionnées*) made payable to the Treasury accounting officers (*comptables du Trésor*) and maturing within three months." Operations performed by the BA in the name or on behalf of the General Government are defined under Article 49, while Article 50 governs the same operations vis-à-vis local governments and public institutions.⁶

⁵ An order has the same legal status as a law.

⁶ Article 49: "The BA is the government's financial agent for all its cash, banking, and credit operations. It maintains the Treasury's current account and handles all credit or debit transactions on this account free of charge. The credit balance on current account earns one percent less interest than that charged for debit

(continued...)

6. The BA does not apply multicurrency practices and does not require import deposits (whereas commercial banks may decide to do so); there are, therefore, no quasi-fiscal activities in exchange regime-related operations. As for financial system-related operations, no bailouts have been carried out by the BA (any repurchase or recapitalization of public banks—if they occur—are performed by the Treasury); and there are no longer any caps on credit. On the other hand, the banks' reserve requirements have earned a fixed (2.5 percent) rate of interest since December 2002, which means they may be earning less than the market rate. As for subsidized loans, now that terms are no longer imposed upon banks and in the absence of government-mandated arrangements, there are no longer any regulated rates, and preferential rediscounting is no longer practiced. Banks are supposed to manage their risks without concessions for poorer quality debtors, and loan guarantees, when they exist, are granted by the Treasury, not by the BA.

7. **Certain operations by public financial institutions constitute quasi-fiscal activities.** In principle, the government no longer insists on lending without a compensation or collateral. However, as pointed out in the report for 2003 on the annual Article IV consultation (IMF Country Report No. 04/33), there are still cases of loans granted to public enterprises running a structural deficit. Such loans constitute cases of directed credit.⁷ Public banks are under no legal or regulatory obligations to extend credit to these public enterprises; however, curtailing bank financing of the latter has proved politically and socially difficult. Also, public banks have been repeatedly bailed out by the treasury since the early 1990s, which has not created incentives to adopt a tighter credit policy (moral hazard).⁸ There are other cases of direct intervention by the government: e.g., the government's decision in April 2000 that the CNEP should resume financing of a project aimed at the construction of 35,000 housing units, even if the Treasury has undertaken in principle to repurchase housing units that would remain ultimately unsold.⁹

balances. The latter rate is set by the Money and Credit Council. The BA also places, free of charge, government or government-guaranteed bond issues and, together with the Treasury's agencies (*les caisses publiques*), makes payment on the coupons of government or government-guaranteed securities."

Article 50: "The BA may handle the servicing of government borrowing and safeguard and manage government-owned securities; and for local governments and public institutions, the BA may place and service their borrowing, make payments on the coupons of the securities they issue, and perform the operations contemplated in Article 49."

⁷ It is estimated that these activities currently cost the Treasury the equivalent of at least one percentage point of GDP per year.

⁸ The Treasury occasionally extends explicit guarantees on banking liabilities of some public enterprises or "freezes" liabilities of distressed enterprises (i.e., pending financial restructuring decisions, the treasury services the debt incurred by these enterprises). Furthermore, in the case of at least one of the larger public enterprises, the Treasury has extended an explicit guarantee on bank credit that might be needed to pay the wage bill.

⁹ Determination of the repurchase price will be a key factor in the ultimate assessment of the degree of transparency involved in an operation of this kind. However, there are some grounds for doubt, in this respect,

(continued...)

Government relations with nonfinancial public corporations

1.1.4

8. **Public enterprises undertake a range of quasi-fiscal activities.** The sale of petroleum products and natural gas in the domestic market by Sonatrach and its subsidiaries at prices far below international market prices is an implicit subsidy that is not shown in the government's budget, but considerably reduces government revenue.¹⁰ Low income consumers of electricity also benefit from implicitly subsidized prices through a cross-subsidization mechanism among households. Electrification in rural areas and electricity consumption in the South of the country are, however, explicitly subsidized through the budget.¹¹

Regulation of the private sector, regulation, and equity holdings

1.1.5

9. **Despite recent efforts to render the regulatory framework of the nonbank private sector more transparent, the business climate in Algeria remains challenging.** In particular, Executive Decree No. 03-80 of February 25, 2003 (pursuant to Law No. 01-18 of December 12, 2001 on guidelines for the promotion of small and medium-sized enterprise) established a National Consultative Council for the Promotion of SMEs, with responsibility for fostering dialogue and consensus building between the SMEs and their trade associations, on the one hand, and the authorities, on the other.¹² However, the World Bank's *Doing Business* database (<http://rru.worldbank.org/DoingBusiness/>) shows that investing and operating a business in Algeria requires going through numerous, cumbersome, and lengthy procedures.

10. **Privatization procedures are characterized by considerable flexibility, which in practice limits transparency.** Order No. 01-04 of August 20, 2001 on the organization, management, and privatization of economic public enterprises (*entreprises publiques économiques*) states that privatization must abide by the rules on transparency and disclosure (*publicité*) (Article 14). Privatization may be effected through competitive bidding,

given that an explicit governmental guarantee, in another case in 2003, called in by the CNEP, never materialized.

¹⁰ The government estimates that the implicit subsidies in energy prices total approximately US\$1 billion per year, but this amount varies with oil price fluctuations. This information is not published.

¹¹ Furthermore, the electricity and gas distribution company (Sonelgaz) receives a budget transfer to offset the cost of maintaining at below market prices the prices of energy sold to the steel making company privatized in 2001.

¹² The principal laws governing the nonbank private sector are Order No. 03-03 of July 19, 2003 on competition; Order No. 01-02 of August 28, 2001 on investment promotion; Order No. 95-25 of September 25, 1995 on the management of government assets (*capitaux marchands de l'Etat*); Order No. 03-04 of July 19, 2003 on the general rules applicable to commodity imports and exports; Amended and Supplemented Law No. 90-22 of August 18, 1990 on the commercial register; and amended and supplemented Order No. 75-59 of September 26, 1975, containing the Commercial Code.

divestiture by mutual agreement, or a public issue. Two cellular telephony licenses were awarded after competitive bidding. However, most of the few successful privatizations were carried out by unpublished mutual agreements, which detracts from the transparency of those transfers. The privatization receipts—which were quite modest—were credited to a special earmarked funds account (*compte d'affectation spéciale*).¹³

11. **The government's newly acquired equity holdings are not extensive.** Recent acquisitions resulted from some occasional contributions of public enterprise assets to newly established joint venture enterprises (in which the public sector for the most part holds only a fraction of the equity). There is, however, no published report on equity holdings.

Fiscal management relations among different levels of government

1.1.2

12. **The allocation of responsibilities between different levels of government is clearly defined by law, but local governments' autonomy is limited by internal funding constraints.** Administered by elected assemblies, the *wilayas* (i.e., provinces) and municipalities are legal entities with budgets of their own. Their expenditure responsibilities, the share of tax revenue directly assigned to them, and the mechanisms through which the central government oversees and approves their budgets¹⁴ are determined by the municipalities code and the *wilayas* code. However, the bulk of their funding derives from government transfers via the Local Governments Common Fund (FCCL). Financed by a percentage of the principal taxes and general budget appropriations, the FCCL compensates for tax policy measures taken by the government that lead to a reduction in local government tax revenue, ensures equalization among local governments in accordance with criteria established by law, and disburses subsidies to balance the budgets of municipalities running a deficit (approximately 1,200). This latter activity causes the central government to intervene extensively in the preparation of municipality budgets. In recent years, the central government has also had to absorb district debts to certain public enterprises.

Fiscal management relations among the branches of government

1.1.2

13. **The roles of the executive, legislative, and judicial branches are clearly defined in the Constitution.** The national budget, in common with the budget review law (*loi de règlement*) which brings the fiscal year to a close, must be adopted by both houses of Parliament: the National People's Assembly and the National Council (*Conseil de la Nation*). However, should Parliament fail to adopt the budget law within the 75 days allowed by the Constitution, the President of the Republic may, in accordance with Article 120 of the

¹³ The receipts from the sale of the cellular telephony licenses were however posted under nontax revenue.

¹⁴ Oversight over district budgets is exercised by the walis, the government's representatives at the wilaya level, or by the heads of the daïra, the government's representatives at the daïra level between the municipality and the wilaya levels). The Ministry of the Interior oversees the wilaya budgets. The walis are also in charge of executing the wilaya budget.

Constitution, promulgate the government's draft by order (*ordonnance*). The government must provide both chambers of Parliament with a report on the manner in which budget appropriations have been used. Furthermore, Article 170 of the Constitution invests the National Audit Court with responsibility for ex-post audit of fiscal accounts of the central government, the local governments, and state services.

The legal and administrative framework for budget management

1.2.1

14. **Fiscal management is defined by a relatively clear legal and administrative framework, which focuses principally on verifying compliance with legal procedure (*contrôle de régularité*) but is not fully observed.** Budget framework Law No. 84–17 of July 7, 1984 establishes, in particular, the content and presentation of budget laws, voting rules, and the terms and limits governing modification of appropriations by the government in the course of the year. However, contrary to the provisions of Article 123 of the Constitution, Law No. 84–17, which was passed prior to adoption of the Constitution, is not an organic law.¹⁵ It may therefore be amended—and has in fact been amended on several occasions—by the budget laws to which it applies. In addition, its provisions are not fully observed, be it with regard to the rules governing the special Treasury accounts (STA) (see box 1), the annexes that are supposed to be attached to the draft budget law, or the submission of the budget review law. Budget execution procedures are addressed in Law No. 90–21 of August 15, 1990, on government accounting, which defines the roles and responsibilities of the various stakeholders involved in budget execution and the recording of revenue and expenditure transactions in the accounts. That law specifically provides for strict demarcation between officials responsible for commitment, verification, and payment authorization operations (the authorizing agents—*les ordonnateurs*) and those officials in charge of revenue collection, payment of expenses, and management of funds (the government accounting officers—*les comptables publics*).

15. **Mechanisms for the coordination and management of budgeted and extrabudgetary activities are not sufficiently well defined or observed.**

1.1.3

Investment outlays, including externally financed capital expenditures, are recorded in the annual budget but largely executed by specialized public financial institutions outside the budget, such as Banque Algérienne de Développement (BAD) in the case of externally financed capital expenditures, or the National Agricultural Mutual Insurance Fund (*Caisse Nationale de Mutualité Agricole*) in the case of agricultural development assistance. Management of these expenditures, therefore, partially circumvents government accounting requirements. STA transactions are subject to special terms and are barely subject to annual budget constraints. Envisaged in Law No. 84-17 as a means of getting round the annuality principle (the appropriations can be carried forward) or the principle that revenue cannot be earmarked for expenditures, STAs may only be established pursuant to a budget law, and

¹⁵ Nevertheless, the Minister of Finance recently undertook, in a speech to Parliament, to submit a draft organic law on budget laws to it in the course of 2004. It is envisaged that such a text tackles the STAs' shortcomings.

transactions on those accounts are, in principle, recorded in the annual budget law. Strictly speaking, therefore, they are not extrabudgetary funds. In practice, however, these rules are not observed and the special Treasury account operations are not sufficiently transparent (see Box 1).

The legal and administrative framework for tax policy and administration 1.2.2

16. **There is an explicit legal basis for taxation, but there is room for administrative discretion in its implementation.** Taxes and duties can only be established by law, pursuant to the provisions of Article 64 of the Constitution, which also declares that all citizens must be treated equally in respect of taxation. Similarly, Article 122 of the Constitution grants Parliament exclusive power to legislate on the creation, base, and rates of taxes, contributions, levies, and duties of any kind, including customs duties.¹⁶ In practice, too, all measures related to the above are enacted by law, either in specific laws or in the budget law. Degrees of discretion are governed by regulations. Tax exemptions for investment are clearly listed when they come under general provisions. However, a special regime (*le régime dit dérogatoire*)—applicable only to areas or sectors established by the National Investment Council (CNI)—allows the National Investment Promotion Agency (ANDI) to negotiate through an agreement the nature of the tax benefits and other subsidies granted to an investor. The agreement, which must be approved by the CNI, is then published in the Official Gazette. In addition, the complexity of some legislative provisions, such as the VAT exemptions or the *forfait* system for small taxpayers, gives room for administration discretion in the implementation of the laws and limits their transparency.

17. **Explanatory materials on taxes and tax collection are prepared and updated every year and can be accessed in booklets and on the website of the Directorate General of Taxes.** A tax procedures code was introduced two years ago and published on the website and elsewhere. Customs procedures have also been codified. On the other hand, new measures are inadequately publicized and the consultation with social partners continues to be relatively limited.¹⁷ With respect to the clarity of the information divulged, the existence of parafiscal taxes means that the full extent of the tax burden is not entirely apparent from the budget law.¹⁸ Moreover, local government taxation is not reported in documents to which the public has access. Departmental directorates do prepare reports on their activities, but they are only brought to the attention of the Minister of Finance.

¹⁶ The petroleum sector is subject to a specific taxation system (Box 2).

¹⁷ While the periodic “Tripartite” (government, trade unions and employers) meetings and the existence of the National Economic and Social Council serve to reinforce social dialogue, there are no systematic consultation of social partners on tax policy issues.

¹⁸ Parafiscal taxes are taxes and duties collected by the government and earmarked to legal entities other than central and local governments. They must be authorized by a budget law (article 15 of the Budget Framework Law No 84-17).

Box 1. The Special Treasury Accounts

There are six categories of Special Treasury Accounts (STA), established by Article 48 of Law No. 84-17:

- Special accounts for trading state services (*comptes de commerce*), designed to record the amounts involved in industrial or commercial transactions carried out in an incidental capacity by state services. Their expenditure projections are regarded as estimates.
- Special accounts for earmarked funds (*comptes d'affectation spéciale*), which record transactions carried out with earmarked funds. These resources may be supplemented by an appropriation from the general budget.
- Special accounts for the funding of advances (*comptes d'avances*), which track operations related to the allocation or repayment of (under two years) advances from the Treasury.
- Special accounts for loans (*comptes de prêts*), which record operations related to the granting or repayment of Treasury loans.
- Special accounts for transactions with foreign governments (*comptes de règlements avec les gouvernements étrangers*), which record operations carried out under duly approved international agreements.
- Special accounts for participations and obligations (*comptes de participation et d'obligations*).

STAs may only be established by a budget law. Except in respect of special provisions, such as the carrying forward of their balance from one year to the next, Law No. 84-17 states that transactions on these accounts, with the exception of the accounts for loans and advances, shall be planned, authorized, and executed on the same terms as general budget operations (Article 50). Except for the special accounts for trading state services, for which the budget law may establish a maximum overdraft, the special Treasury accounts are in principle funded by capped appropriations, which may in the case of earmarked accounts be increased through an administrative decision if, in the course of the year, the volume of resources exceeds projections. Finally, Article 68 of Law No. 84-17 stipulates that the complete list of STAs must be annexed to the draft budget law, along with projected receipts, expenditures, and overdrafts for these accounts.

Actual practice is, however, far removed from the principles and rules promulgated by Law No. 84-17. Thus, special accounts for earmarked funds, of which there were 60 in 2004, are often used to circumvent the prohibition on carrying forward general budget appropriations. Contradicting their initial purpose, these accounts are in fact mostly financed by appropriations from the general budget. The principal special accounts for earmarked funds are: the Local Governments Solidarity Fund, the National Housing Fund, the National Fund for Agricultural Regulation and Development, the Revenue Regulation Fund or the account for managing public investment operations listed in the economic revitalization support program.

The receipts, expenditures, and balances of the special Treasury accounts are not recorded in the annual budget laws, though their monies are consolidated within the single Treasury account at the central bank. Thus, Parliament is not apprised of the total amount of projected or actual expenditures and receipts on these accounts. While in principle outlays from accounts for specific appropriations or the special accounts for trading state services are limited to the amount of funds in them, no ceiling is set on the amounts of the advances and loans that the Treasury may grant.

Finally, the special accounts for the funding of advances are sometimes used to get round the constraints on general budget appropriations. Emergency outlays are sometimes made out of advances accounts and “repaid” the following year out of budget appropriations, thereby detracting from the principle of annuality.

Box 2. Taxation in the Petroleum Sector and the Revenue Regulation Fund

The legal and tax regime for the oil and gas sector is defined by amended Law No. 86-14 of August 19, 1986. Prospecting, exploration, production, and transportation via pipeline may only be carried out by the Algerian public enterprise Sonatrach, either directly or in association with foreign enterprises. The accounts of Sonatrach are audited by national audit companies and published on the company's website.

These activities are subject to a special tax regime, comprising a royalty on oil and gas output and a tax on earnings.

- The royalty is 20 percent of the value of the oil and gas extracted. This rate falls to 16 percent or 12.5 percent for output in areas in which exploration or production is particularly difficult.
- Income tax, on gross annual profits, is calculated at the rate of 85 percent in the case of prospecting, exploration, or production activities (reduced to 75 percent or 65 percent when production is carried out under difficult conditions) and at the normal corporate tax rate of 38 percent for activities involving pipeline transportation, liquefaction of natural gas, and processing and separation of liquefied petroleum gases extracted from the deposits.

Given the manner in which Sonatrach operates, it is the only entity responsible for payment of the above taxes, which it pays to the Treasury on its own behalf and on behalf of the enterprises with which it enters into partnerships. Control by the tax directorate over tax declarations submitted by Sonatrach has been weak so far, but should be improved once the Large Taxpayer Unit is established.

Oil tax revenue, equivalent to 20–30 percent of GDP and 60–75 percent of government revenue, is mostly assigned to the central government budget (*budget général de l'Etat*). However, since the supplementary budget law for 2000, oil revenue recorded in excess of budget law projections (which are based on prudent price per barrel forecasts) is allocated to a newly created special account for earmarked funds, the Revenue Regulation Fund. Like all treasury special accounts, deposits in the Fund are consolidated within the single Treasury account at the central bank. As of the 2004 budget law, the Fund resources may be supplemented by the advances that Banque d'Algérie is authorized to grant the Treasury for active public debt management purposes (Article 46 of the Order on money and credit). The 2004 budget law also provides that the Fund can only be used to:

- Offset the shortfalls resulting from oil tax revenue below budget law projections.
- Reduce the external public debt.

In practice, since the FRR was set up, only expenditure on amortization of the principal of the public debt has been debited in the accounts of the FRR.

Position of the Revenue Regulation Fund at End-2002 (Billions of DA)

Credit		Debit	
Oil tax surpluses 2000	453.24	Public debt 2000	221.10
Oil tax surpluses 2001	123.86	Public debt 2001	106.97
Oil tax surpluses 2002	26.50	Balance outstanding (end-2002)	275.30
Total	603.60	Total	603.60

Source: Report presenting the draft budget law for 2004.

18. **Provisions for the settlement of tax disputes exist and are provided for by law but are insufficiently effective.** Certain discrepancies exist in application of the laws (disagreements, for instance, among tax bureaus on interpretation of a tax provision); and the authorities only adopt appropriate measures once the matter has been brought to their attention. An internal audit system exists, which reports to the Director General, while the role of the *IGF* is limited to providing evaluation and expertise. Several levels of appeal exist for administrative reviews of decisions and taxpayers may appeal to an independent judicial body. However, procedures are so slow as to diminish the effectiveness of this remedy.¹⁹

Public servants' code of behavior and anticorruption activity

1.2.3

19. **Civil servants are subject to elements of a code of conduct.** The rights and duties of civil servants are established by decree No. 85-59 of March 23, 1985, whereas they should be contained in a law. The decree includes some elements of a code of conduct for public servants. As regards tax officials, a code of ethics was introduced for the Tax Authorities in 2002 and is published on their website. In addition, all officials have, for the past two years, been obliged to declare their assets. However, it is in practice difficult to verify to what extent these provisions have been implemented and assets monitored after they were declared.

B. Public Availability of Information

The coverage and quality of budget documents

2.1.1

20. **The budget documents cover most central government fiscal activities, except for the special Treasury accounts, but do not provide information on fiscal activities for the whole of general government.** The annual budget law presents all general budget revenue by major categories, all outlays by ministry (in the case of current expenditure) or by sector (for investments), as well as the complete list of parafiscal taxes. Attached are booklets showing a breakdown of appropriations by ministry according to a detailed classification system and a presentation report summarizing the macroeconomic context and the main assumptions used. However, contradicting Article 68 of Law No. 84-17, no information is published on special Treasury account transactions. The only data provided refer to the general budget allocations to certain accounts for earmarked funds, along with a brief synopsis (in the presentation report) of past operations of the Revenue Regulation Fund. A list of accounts for specific appropriations is provided to the budget committees of the Assemblies when they are working on the budget law. However, that list is not published. No data are to be found in the budget documents on the fiscal activities of local governments, public corporations, or social security funds. The budget only records possible central government transfers to these governments and agencies carried out via general budget appropriations, such as government reimbursement of family allowances disbursed by the

¹⁹ Tax legislation is contained in five codes: direct taxes and others in the same category; indirect taxes; turnover taxes; registration taxes; and stamp taxes. There is also a customs code (due to be reformed).

National Social Insurance Fund. The share of tax revenue not directly assigned to the general budget (the portion assigned to local governments, the Local Governments Common Fund, or to other Funds) is not recorded in the budget documents.

21. **Defense expenditures are included in the budget.** Current expenditures are listed using a simplified classification system in the budget law while investment expenditures are not distinguished from those of the civilian authorities.

Past and forecast fiscal data in the budget 2.1.2

22. **The budget documents give a brief overview of the principal fiscal aggregates for the two years prior to the budget year and for the two years beyond it.** These data are provided as aggregates (oil, nonoil, and other tax receipts on the revenue side; current and investment expenditures on the expenditure side) in the presentation report. More detailed information is reportedly provided to the Finance commission of the Assembly.

Budget treatment of off-budget fiscal activity 2.1.3

23. **Statements of contingent liabilities are not included in the budget documents presented to Parliament.** Nevertheless, internal government documents on the external public debt include guarantees and identify them separately.

24. **No estimate of tax expenditure is published.** Nevertheless, this item (including the various tax benefits provided for in Order 01-02 of August 20, 2001 on investment promotion and the overriding provisions contemplated in tax legislation in respect of corporate profits and the income of individuals) is probably far from negligible.

25. **Quasi-fiscal activities are extensive and their estimated cost is not included in the budget documents presented to Parliament.** Quasi-fiscal activities of public banks described in section A, which have given rise to several Treasury restructurings of these bank balances since the early 1990s, are not reflected in the government budget balance. Its surplus (or deficit) is therefore overestimated (underestimated) by that amount. Moreover, government entities of various kinds (Sonelgaz, Banque Algérienne de Développement, Algérie Télécom, and others) are carrying nonperforming loans or claims possibly totaling over US\$1 billion, which will, at some point, have to be absorbed in whole or in part by the Treasury. No complete inventory of these nonperforming loans exists.²⁰

Publication of data on debt and financial assets 2.1.4

26. **Information on gross public debt is partially published, on an annual basis and for a limited audience. Information on financial assets is not published.** The General

²⁰ Some of these nonperforming claims may be relatively old.

Directorate of the Treasury (DGT) makes available data on the public debt. A brief quarterly bulletin exists, called *Informations trimestrielles—Marché des Valeurs d’Etat* (Quarterly data on the Government Securities Market), which is published and covers the issuance program for the year on the primary market, with information on the volumes placed and amounts outstanding, specifying the amount of the issue and the amount redeemed. It also covers trends in interest rates and the rate of return on the auction, the amounts auctioned, and their distribution by category of security, in addition to information on the secondary market. The DGT also publishes an annual bulletin in January, called *L’Evolution du Marché des Valeurs d’Etat* (Performance of the Government Securities Market), which incorporates the data contained in the quarterly bulletins with a brief look at past and prospective trends. Finally, the DGT publishes an annual survey of the public debt, specifying the individual components of both the domestic and the external debt, as well as the State-guaranteed debt and other contingent liabilities, if any. This document is transmitted to the Minister of Finance, who forwards it to the Head of Government’s staff. The DGT does not yet have a website.

The BA also discloses an annual survey of the public debt in its in-house journal “Mediabank,” and on its website. This consists of a ten-year series of outstanding medium- and long-term debt and the short-term debt, as well as a number of indicators on external indebtedness and trends in the structure of the stock of debt. Data are also provided on debt servicing trends, along with a breakdown of the outstanding debt by currency.

Commitment to timely publication of fiscal data

2.2.1/2.2.2

27. **Formal commitments for regular publication of fiscal data have not been made and advance release calendars are not announced.** Algeria has not yet subscribed to the IMF’s General Data Dissemination System (GDSD). The only obligation established by law is the required presentation by the government, along with the draft annual budget law, of the draft budget review law for fiscal year N-3, indicating in particular the outturn of the appropriations voted on. However, this obligation is not observed (see paragraph 43). Highly aggregated national budget execution data can be found in the report introducing the draft budget law, on both a payment order basis (budget law execution) and a cash basis. During the course of the year, but only on a cash basis, similar data are provided in the quarterly note on the current economic cycle produced with a 2–3 month lag by the Directorate General of Economic Studies and Projections of the Ministry of Finance. This note is published on the Ministry’s website. Those data appear to be taken from the Summary Statement of Treasury Operations (SROT), which is somewhat more detailed but not disseminated outside the government. No information is available on the fiscal data of local governments and public institutions. In the context of the national accounts published each year, the National Statistics Office publishes intermediate balances (*soldes intermédiaires*) for general government, but the data published are highly aggregated and not broken down by subsectors of general government.

C. Open Budget Preparation, Execution, and Reporting

The budget preparation process: clarity and consistency of process and presentation

3.2.1

28. **Budget preparation is an internal government affair, directed by the Minister of Finance.** Budgetary procedures follow a regular timetable, setting the various steps necessary to the preparation of the budget. The Budget Directorate organizes the process and prepares the discussions on budget options with the various central government departments. The macroeconomic framework for budget preparation is worked out by the Economic Studies and Projections Directorate and is used to prepare the circular sent to all levels of government by the Budget Directorate.

29. **Budget classifications are not well suited to the purpose.** Different classifications are used for current and capital expenditure: while the classification used for the current expenditures budget is essentially administrative, arranging budget headings according to ministry, and then by departments at the section and subsection levels and facilitating therefore clear definition of the administrators of budget appropriations (*gestionnaires de crédits budgétaires*)²¹, capital expenditure are classified by sectors and subsectors. There is no bridging table between sectors and ministries. The subclassification (at the title, part and chapter levels) is mainly economic, but this classification is inaccurate and does not match the economic classification of expenditures set forth in the *Government Finance Statistics Manual*. For example, titles 3 and 4 both record current transfers to public agencies, and certain transfers are classified as payroll expenses in Title 3. In addition, the classification by parts (a subclassification under Title) is not homogeneous because for Title 3 it consists of an economic classification, whereas for Title 4 the classification is based on objectives. There is no budget classification by program or function.

²¹ Administrators of appropriations are not truly held accountable, despite the laws in force, except in cases of gross misconduct or embezzlement. Responsibility for budget execution boils down to the personal and pecuniary liability of the government accounting officer.

The Title is currently the basic unit for presentation of budget expenditures according to broad economic categories, for both the current expenditures budget and the investment expenditures budget.

Description of the classification y Title

Title 1: Debt servicing (*Charges de la dette publique*)
Title 2: Public authorities (*Dotations des pouvoirs publics*)
Title 3: Goods and services (*Moyens des services*)
Title 4: Government interventions
Title 5: Government investment
Title 6: Investment subsidies
Title 7: Other capital expenditure

30. **The information provided in the annual budget law is limited and not widely disseminated.** The overall financial equilibrium of the budget law is not described in it. The amount for repayment of principal of the debt is missing. Nor are cash transactions (*opérations de trésorerie*) for the upcoming year quantified. The budget law contains no authorization to borrow. The fiscal rules adopted in Algeria are not spelled out.

The detailed presentation of the draft budget law is distributed to members of Parliament. The budget presentation in the “draft budget” document is particularly difficult to follow. It shows the investment budget not by sectors, but by subsectors.

Once the budget has been passed, it is made available to everyone via publication in the Official Gazette. However, its presentation within the budget law is succinct and limited to statements A, B, and C. Statement A is a 13-line description of the final revenues in the national budget. Statement B contains a one-line-per-ministry account of the appropriations for current expenditures. Statement C lists final expenditures under the National Plan in two groups: investment expenditures in broad sectors and capital operations mainly by Fund.

A more detailed description of the budget is available for current expenditure appropriations, except for appropriations for the Ministry of National Defense and global outlays (*charges communes*). This description is presented in the context of presidential decrees or executive decrees on the apportionment of appropriations for the current expenditures budget (*budget de fonctionnement*). This apportionment is shown by ministry, section and subsection, title, part, and chapter.

The macroeconomic framework and policy basis for the budget

31. **The macroeconomic framework and the budget’s underlying assumptions are disclosed in the presentation report introducing the draft budget law, but they are adversely affected by the use of conventional assumptions.**

3.1.3

The macroeconomic framework is drawn up by the Ministry of Finance and updated during the budget preparation process. However, the consistency of the framework model is impaired by the conventional nature of the assumptions used regarding the price of a barrel of oil: the flat-rate reference price used in the model is set at a level deemed to be prudent but does not reflect the short- and medium-term projections currently used in the markets.

32. A statement on medium-term fiscal policy objectives is not included in the budget documents. 3.1.1

Clear fiscal targets are not set and fiscal policy is not conducted according to predefined policy rules, with the exception of the ceiling on central bank advances. Three-years' projections are included in the report introducing the budget law, but they serve only as a rough guide, not to shape medium-term fiscal policy. They are not based on detailed analysis of expenditure programs.²² The budget documents do not provide analysis of medium or long-term fiscal sustainability.

33. The overall balance of general government and that of the public sector are not monitored. The principal indicator of the fiscal position is the overall balance of central government, not counting the Revenue Regulation Fund. 3.2.3

The annual budget law shows total government revenue and expenditure (with the exception of the special Treasury accounts), but does not indicate the budget balance. The budget execution balance published in the notes on the current economic conditions includes the balance of the general budget and the special Treasury accounts, with the exception of the Revenue Regulation Fund. Its economic significance is therefore limited, in as much as the distribution of oil tax revenue between the general budget and the Regulation Fund is not based on economic criteria but on the level of revenue specified in the budget law, which in turn is calculated on the basis of conventional flat-rate oil price and exchange rate assumptions that are subject to change from one budget law to another. The nonoil balance and the primary balance are not calculated. The overall general government balance is calculated by the National Statistics Office with a two-year lag and is not used as an indicator in conducting economic policy. Despite the extensive range of quasi-fiscal activities and deficits in financial and nonfinancial public enterprises, the public sector balance is unknown.

34. The budget documents distinguish clearly between cost and revenue estimates for new initiatives, on the one hand, and estimates of the ongoing costs of policies already in place. 3.1.4

The draft budget document clearly states, for the current expenditures budget, the grounds for changes in appropriations vis-à-vis the draft budget, regardless of whether increases or reductions of appropriations are involved. For the investment expenditures budget, the

²² Thus, in the report introducing the 2004 budget law, operating expenditures for 2005 and 2006 are calculated simply by raising them 2 percent per year.

document presents new programs for the new fiscal year. However, the programs under way are not clearly spelled out, in terms of program authorizations that have not yet been used.

35. There is no presentation of the objectives to be achieved by implementing the budget. 3.2.2

Budgeting is currently carried out in terms of inputs rather than objectives and results. However, a move towards program budgeting is envisaged in the medium term.

Fiscal risks and sensitivity analysis 3.1.5

36. The budget does not include analysis of the sensitivity of the estimates to changes in economic variables and the principal fiscal risks are not disclosed. The budget documents do not analyze the sensitivity of fiscal aggregates to the economic assumptions, such as the price per barrel of oil. Nor do they pinpoint the main financial hazards that could be triggered, for instance, by the financial situation of the public enterprises.

Clarity of control of budget execution 3.3.1/3.3.3.

37. The accounting system should allow for the assessment of payment arrears, but arrears are not systematically monitored. Financing is not currently a significant problem in Algeria, so that arrears are probably limited and any arrears must be related to fiscal management problems and, principally, end-of-fiscal-year operations, when appropriation carryovers are restricted. The existence of a supplementary fiscal period at both the current expenditures and investment budget levels limits the problems associated with the absence of carryovers. The double-entry accounting system that was introduced in 1991 allows for the assessment of outstanding payable amounts (“restes à payer”) and hence of payment arrears, but they do not seem to be systematically monitored.

38. A comprehensive internal audit system is in place, but follow-up is limited. The verification and internal audit system relies on a certain number of supervisory entities: financial controllers, government accounting officers, in-house auditors, and inspectorates of specific services in the government’s financial departments. All these supervisory entities may be overseen by the Inspectorate General of Finance, which has broad powers to investigate. More often than not, this is a matter of verifying the conformity to legal procedure (rather than making a more substantive judgment) of operations. However, there is no monitoring of the findings and of recommended control activities, which limits the effectiveness of the supervision.

Procurement and employment regulations

3.3.2

39. **A new procurement code specifying contracting and procurement rules is being introduced.**²³ Its effect will be to bolster transparency in the management of government spending. Nevertheless, the provisions on advances, down payments, and amendments might be reviewed since they could run counter to the government's interests, and the outcome of public bids are not always publicized.

40. **The rules governing employment and wages are complex but are in the process of being revised** with a view to improving government personnel management. They stem from a time when government service was the rule and private employment an exception. Nevertheless, some transparency has been introduced for appointment to a career position in the civil service (*emploi statutaire*), which is now subject to a well publicized competitive examination.

Clarity of internal control and independence of tax administration

3.3.4

41. **The national tax administration is not given effective legal protection against political interference.** The tax authorities (the tax and customs directorates) do not enjoy independence or administrative autonomy vis-à-vis the Ministry. Senior officers in the administration are appointed by a decree issued by the Council of Ministers and there are no statutory protection provisions contemplated for them.

The aforementioned reports of the tax authorities are submitted exclusively to the Minister of Finance. Consequently, any information provided to Parliament comes through him. Finally, there is no regular report on measures adopted to enforce tax laws, nor a study of the costs involved in such measures. As regards officials at the local level, their contribution to the information system needs to be brought up to date.

Accounting and reporting on budget execution

42. **The accounting system would allow for the preparation of reports on the fiscal and financial execution of government operations, based on current classifications, but these statements are not disclosed.**

3.3.1

There are two accounting systems to record government operations and to extract from them the summary statements the administrators would like to have.

- Budget accounting, which describes budget outturn in terms of use made of the appropriations voted for by Parliament. This is a description of events in time. For each appropriation, over time, it points (for instance in the case of expenditures) to the amounts of the appropriations committed, the appropriations authorized, and the

²³ Procurement regulations were the subject of a Presidential Decree of July 24, 2002, amended and supplemented by a Presidential Decree dated September 11, 2003.

appropriations taken into account by the government accounting officers. This accounting system makes it possible to pinpoint at any time the amount of appropriated funds available, for each appropriation. The identification is done by using the budget classification system.

- The government's general accounting system, which provides information on the financial execution of government operations, whether budget or treasury.

Based on these accounting systems, the Treasury's Central Accounting Unit (ACCT) can produce the following data:²⁴

- A balance for each accounting officer.
- An overall balance synthesizing the accounts of all government accounting officers.
- A general statement of the current expenditure budget.
- A general statement of investment budget.
- A monthly summary of the revenue accounts.
- A monthly budget execution statement.

However, these statements do not circulate outside the Finance Ministry. Statements of operations by local governments do not appear to be available. No indication of the order of magnitude of these operations has been provided.

43. Closure of the accounts at the end of the fiscal year poses a problem, in as much as the budget review law is no longer presented to Parliament. 3.4.2

The ACCT closes the books for a given year. Article 76 of Law 84-17 states that the budget review law establishes the income statement for the year but does not specify whether it is simply a law that records a given result or a law that definitively brings a fiscal year to a close. Furthermore, no budget review law has been submitted to Parliament since the 1982 final accounts.

44. Parliament does not undertake a midyear review. 3.4.1

The legislative authorities do not receive complete and systematic information midway through the fiscal year. As mentioned above, no draft budget review law has been submitted to Parliament since 1985. On the other hand, a document on budget outturn for the years n-2 and n-1 is presented to Parliament every year along with the draft budget law. That said, the legislative authorities are sometimes asked to pass supplementary budget laws, naturally at the request of the executive branch. In practice, members of parliament frequently request specific reports from Ministry of Finance staff, especially from the Inspectorate General of Finance.

²⁴ The mission would have liked to receive samples of these statements, in order to examine their contents and possibly make recommendations with a view to extracting the maximum amount of data.

D. Assurances of Integrity

Integrity of data processes

45. The stated basis of accounting is blurred by the uncertainties surrounding the length of the supplementary period. 4.1.2

Operations are recorded on a modified cash basis that allows certain items awaiting payment or collection to be taken into account.²⁵ End-of-year budget execution operations employ a specific procedure, known as the supplementary budget period, of variable duration, which may last several months. This complicates the preparation of financial statements and impairs the transparency of operations. The government's general accounting system uses a specific classification system dating back to 1967. The double entry accounting system was fully in place by 1991 and the nomenclature underwent major updating up to 1998. It is still in use today, although a major reform is under way that will introduce a government chart of accounts in line with Algeria's national chart of accounts. The latter will have the capacity to record government assets and ultimately to implement accrual basis accounting. The government chart of accounts has been tested and should be ready for implementation in 2004 (see Box 3).

46. Accounting procedures allow for reconciliation of fiscal, accounting, and monetary data, but the fact that these data are not reported and nonpublication of the methodology underlying them makes it difficult to vouch for their reliability. 4.1.3

The data centralization system ensures ongoing reconciliation of fiscal and accounting data at the Treasury's Central Accounting Unit (ACCT) in respect of the amounts payable by the Treasury. This accounting unit is responsible for supplying all the consolidated and centralized data on the government's financial transactions to the other directorates in the ministry of finance: the directorates general of budget, accounting, economic studies, and the Treasury. The centralized monthly statements²⁶ are drawn up within six weeks of the end of the month.²⁷ Reconciliation of the Treasury's financial data with the accounts of the financial institutions is facilitated to the extent that all Treasury operations are recorded in a single master account of the Treasury at Banque d'Algérie. However, no systematic periodic data

²⁵ Expenditures are recorded on a payment order basis, not on a basis of disbursement.

²⁶ The wilaya treasurers are senior accounting officers (*comptables principaux*) and they centralize the findings of the secondary accounting units in their district, which may extend over more than 400,000 square kilometers.

²⁷ The geographical distribution of the government accounting officers partly accounts for this not unreasonable lag. Indeed, sometimes there may be a distance of over 700 km between a secondary accountant and the latter's centralizing accountant.

Box 3. The Government Accounting Framework			
The current system using the 1967 Treasury Accounts Classification		Government Chart of Accounts Scheduled for 2004	
The basic unit is the group		The basic unit is the class	
Contents			
Group I	Cash and portfolio	Class 1	Earnings (<i>Résultats</i>) and debts
Group II	Budget operations	Class 2	Fixed assets
Group III	Treasury operations	Class 3	Liaison accounts and stock accounts
Group IV	Correspondents	Class 4	Third party and correspondent accounts
Group V	Operations awaiting classification	Class 5	Financial accounts
Group VI	Earnings	Class 6	Expenditure accounts
Group VII	Government-guaranteed debts	Class 7	Revenue accounts
Group VIII	Government claims (<i>Créances de l'Etat</i>)	Class 8	Treasury holdings and overdrafts
		Class 9	Budget execution
The current system is structured in such a way as to provide financial information in a context in which operations are limited. This system quickly reaches its limits and is a source of confusion due to the proliferation of suspense accounts where numerous accounting operations are required.		This chart of accounts is based on the Algerian national chart of accounts, which follows “continental” standards and is characterized by: a focus on government assets (<i>approche patrimoniale</i>); a statistical and fiscal approach to bookkeeping; a legal chart of accounts; a compulsory accounting framework and a marked emphasis on standardization. The introduction of IAS is fully compatible with this system. 1/	

1/ See Conseil national de la comptabilité, RADP, Council Bulletin, September 2002.

reconciliation is done and reconciliation is only undertaken when substantial differences become apparent.²⁸ Public institutions and the decentralized authorities ought to deposit their funds at the Treasury.²⁹ The same applies for postal check current accounts.

Independent oversight: external audit

4.2.1

47. **The external auditors are guaranteed independence, but their findings are no longer published.** Article 170 of the Constitution empowers the National Audit Court (*Cour des comptes*) to oversee the finances of the central government, the local governments, and state services ex post. The missions, organization, and procedures of the National Audit Court are established by Order No. 95-20 of July 17, 1995 on the National Audit Court, while Order No. 95-23 of August 26, 1995 defines the status of the members of the Court. The National Audit Court is responsible for overseeing the quality of management in supervised agencies, it rules on the accounts of the government accounting officers, and on breaches of fiscal and financial discipline. Its members have the status of magistrates who may not be removed and their career comes under the aegis of a council in which the majority of members are elected by the magistrates in the Court. The Court sets its own work schedule and any case within its sphere of competence may be referred to it by the President of the Republic, the President of the Legislature, and the Chair of any parliamentary group. However, this right has never been exercised. Nevertheless, even though Article 16 of Order No. 95-20 provides for its annual report, addressed to the President of the Republic with a copy to the Legislative Assembly, being wholly or partially published in the Official Gazette, only its annual reports for 1996 and 1997 were published. Similarly, although the National Audit Court issued evaluation reports on preliminary draft budget review laws up to and including fiscal year 1996, the last draft budget review law and evaluation report submitted to Parliament dates back to the 1982 final accounts.

48. **Audit capacity needs to be strengthened.** In practice, the National Audit Court has great difficulty doing what it is supposed to do. It has thousands of government accounts to oversee (each public institution is involved) and it lacks the wherewithal for such a task. For their part, pursuant to the 1995 Order, public enterprises are now only monitored for sound management.

²⁸ For administrative centers in *wilayas* where there is no branch of Banque d'Algérie, a correspondent is appointed to fulfill this function. The BA's monthly position is published. Each month the BA draws up a statement of its assets and liabilities with the Treasury's current account balance. This statement is published at irregular intervals in the Official Gazette. This information serves to verify the consistency of Treasury data.

²⁹ However, this rule was not systematically enforced prior to 2004.

Independent oversight: economic projections and statistics

49. **Independent evaluation of macroeconomic and fiscal projections is hampered by the weakness of the data furnished by the administration and by the lack of genuine expertise in nongovernment circles.** 4.2.2

The National Economic and Social Council, consisting of representatives of the social partners and civil society, prepares a report on the current economic situation and may be called upon to discuss public policies, but it does not examine the draft budget law.

50. **The National Statistics Office (ONS) enjoys the technical independence it needs for its work but has limited capacity with respect to fiscal statistics.** 4.2.3

Legislative Decree No. 94-01 of January 15, 1994 on the statistics system and Executive Decree No. 95-159 of June 3, 1995 on revision of the by-laws of the National Statistics Office provide the institutional framework and determine the objectives of the ONS, which has national public institution status and financial autonomy. While, technically speaking, it reports to the Planning Ministry, it is run by a Director General appointed by the President of the Republic and is genuinely independent in its day-to-day technical work inasmuch as no committee exists to validate the numbers. The National Statistics Council, which draws up the national schedule for statistical studies, monitors observance of the code of ethics and of the technical and scientific standards governing the production and dissemination of statistics. However, it is not explicitly incumbent upon the ONS to verify or validate the quality of the fiscal data, which for the most part are produced by the Ministry of Finance. When the economic accounts are drawn up, national accounting staff use the fiscal statistics and reprocess them, where necessary, to produce the accounts of the institutional sector of general government. However, these data remain very highly aggregated (there is no breakdown by subsector) and are adversely affected by the weakness of the source data, especially in the case of local governments and public institutions, and by the shortcomings of the human resources working on the national accounts.

III. IMF STAFF COMMENTARY

51. **After a long period in which Algeria was a centrally planned economy, since the late 1980s, and consistently since 1994, the country has embarked on the road to economic liberalization.** The transition pursued over the past five years has led to the adoption of major structural reforms that have had a positive impact on transparency in the public sector and in public finance: (1) the introduction, since 2001, of a new customs tariff schedule; (2) a reform of the legal framework governing public sector management and privatization; (3) a new investment code; (4) new procurement legislation; (5) the introduction of a code of tax procedures; (6) the passing of a new law on competition; and (7) a reduction in quasi-fiscal activities through divestiture to the private sector of government assets in the steel sector. Furthermore, Algeria has signed (but not yet ratified) an association agreement with the European Union.

These reforms have been accompanied by noticeably more robust macroeconomic stability and a stronger financial position of the Algerian government. As a result of these developments, the reforms aimed at increasing fiscal transparency have become more achievable and more necessary than ever.

52. **Despite these efforts, major progress is still needed to enhance fiscal transparency in Algeria.** The reporting of data to Parliament and to the general public is largely inadequate. Some of the transparency requirements of the existing legal framework are not fully respected. The draft annual budget and the documents that go with it are incomplete and sometimes difficult to understand. The dissemination of data on budget execution and the state of public finance is highly restricted and sporadic. Moreover, the data available cover only part of general government and the relationships between different components in the public sector are unclear. The budget and financial data available are essentially restricted to the central government budget, even though local governments, public institutions, and social security agencies account for a significant share of public expenditure and maintain sometimes complex financial relations with central government. There are still significant quasi-fiscal activities carried on by public enterprises and financial institutions. Finally, data quality is impaired by shortcomings in the accounting system and in oversight and audit arrangements.

A. Recommended Short-term Measures

53. **In order to bring about swift improvement in fiscal transparency, it is necessary to contemplate urgent measures, based on existing systems and the existing legal framework, aimed at increasing communication among the different stakeholders in execution of government financial operations and at disseminating data among the public and civil society.** Such measures affect budget preparation, execution, and oversight:

- **The budget documents presented to Parliament need to be revised, with a view to making the data easier to understand.** Exhaustive statements for each ministry should be submitted, describing proposed appropriations for both the current expenditure and the investment budgets. The latter budget needs to be presented in such a way that it clearly identifies the stages of project execution, in respect of both program authorizations and payment appropriations (*crédits de paiement*).
- **The financial balance of the budget law needs to be stated.** The data to be presented should take into account those already presented in statements A, B, and C, which would be supplemented by those of the special accounts for earmarked funds, the advance and loan accounts, as well as temporary liquidity operations, projections for repayment of principal of the debt, and the borrowing authorization. Other fiscal indicators, including the primary balance and the nonoil balance, should also be provided.

- **The budget law could come with annexes** containing: (1) an evaluation of all tax receipts, including the percentage assigned to local governments and various different agencies, and (2) detailed projections for special treasury account receipts and expenditures. Efforts should also be undertaken to include as soon as possible a projection for tax expenditures, and an assessment of the government's financial assets, of government guarantees and of the implicit subsidies resulting from quasi-fiscal activities conducted by certain public enterprises and government banks.
- **The budget review law should be attached to the annual budget law, as provided for by the Law 84-17.**
- **Budget execution data should be published and posted on the website of the Ministry of Finance each month, based on the consolidated balance of accounts drawn up by the ACCT and on other centralized statements.** These statements should be presented in the same way as the SROT, but in greater detail, to allow monitoring of data consistency.
- **There needs to be more detailed and more frequent reporting of data on public debt to Parliament and publication of these data.**
- **Local government data should be consolidated, centralized and published every quarter by the Directorate General of Accounting.** This centralization will provide greater insight into the financial problems facing these autonomous entities and make it easier to determine ways and means of enhancing the viability of certain authorities.
- **The various reports drawn up by the National Audit Court should be transmitted systematically to the National People's Assembly and to the National Council.** These reports—or extracts from them—should be published directly by the Court itself (in the Official Gazette and on the Court's website). The contents of the annual reports could be debated in a parliamentary session convened for that specific purpose. Parliament would thereby have as much right to see the reports as the President of the Republic. At any rate, a follow-up mechanism should be devised to ensure that full advantage is taken of the contents. All of these measures should be formally undertaken by adopting an amendment to Order No. 95-20 of July 17, 1995.

B. Management Framework Reforms

54. **Certain improvements of fiscal transparency require more thorough reforms of the management framework.** In tandem with the immediate measures, an effort should be made over the medium term to clarify the roles of the various stakeholders and to improve the fiscal management and information system. Clarification of the roles of the various participants presupposes the following:

- **The legal framework for the preparation and execution of budget laws could be clarified by drafting an organic law** to replace Law No. 84-17, in accordance with Article 123 of the Constitution. This organic law could, in particular, specify and clarify the conditions governing recourse to the special Treasury accounts and the nature (capped appropriations, overdrafts, etc.) of the annual authorization granted in the budget law; require a definition in budget laws of the balancing of the accounts for the fiscal year and the terms governing recourse to borrowing; and establish the manner in which budget laws must be presented and voted on, and the content and scope of budget review laws. The organic law could also specify the type of documents to be appended to budget laws and make it a legal obligation to disseminate the aforementioned data.
- Under this new legal framework, **recourse to special Treasury accounts would have to be restricted**, particularly in respect of accounts for specific appropriations. Recourse to special accounts for earmarked funds primarily funded by grants from the general budget should be avoided. Expenditure and overdraft ceilings should be specified in the budget law for each of the special accounts.
- **The quasi-fiscal activities of public sector entities should be closely audited and monitored, with a view to their being gradually replaced by subsidies included in the national budget.** The assistance provided by government banks to public enterprises running deficits could be replaced by direct government budget subsidies under clearly defined and time-limited restructuring programs. Likewise, the practice of setting energy product prices far below international market prices should be replaced by direct government subsidy programs for certain consumer categories (low-income households, underdeveloped areas, etc.).
- **Clarification of the responsibilities of government and of local governments requires a review of the mechanisms for financing local governments and the resources assigned to them**, whether in the form of tax revenue or government transfers, in order to equip them with the resources to cover the expenditures they are called upon to make and to put an end to the present system of discretionary subsidies to balance their books.
- **The special tax regime (*régime dérogatoire*) under the investment code should be abolished.**
- **New civil service regulations need to be adopted.** The inadequacy of the 1978 law on the status of workers led the authorities to define the rights and duties of government officials in Decree No. 85-59 of March 23, 1985, which incorporated the main ingredients of the 1966 law. A new law is needed to provide simple and consistent, suitably differentiated and fair foundations for the salary scale (which will then be shaped by implementation regulations) and to provide civil servants with a legal standing that shields them legally from political interference, while at the

same time spelling out their rights and obligations (the conditions governing promotion, training, codes of ethics, etc.).

C. Improvement of Systems to Ensure Data Quality and Clarity

55. **The enhancement of transparency also presupposes improvement of systems to ensure data quality and clarity.** The systems can only be improved by revamping public finance. In the context of a World Bank loan, the Ministry of Finance has embarked on a Fiscal Systems Modernization project aimed at an in-depth reorganization of budgeting and fiscal management. The goal is to establish a medium-term program-based budgeting system. However, it would be worth reexamining the scope, timetable, and sequencing of this highly ambitious program. A certain number of prior steps are needed to improve fiscal management and eventually consider implementation of program-based budgets:

- **Implementation of an efficient accounting system** that would make it possible to record accurate and truthful accounting information and to produce summary statements of general government financial operations. Priority should therefore be given to effective implementation of the new government chart of accounts (*Plan comptable de l'Etat*—PCE).
- **Use of budget classifications that furnish clear information on expenditures:** their purpose, economic nature, administrator, geographical location, beneficiary, financing, etc. These classifications must follow a certain number of rules in order to ensure consistency. Local governments must also be able to use these classifications in order to facilitate consolidation of the fiscal operations of as much of the general government sector as possible.
- **Strengthening of the audit system:** The Inspectorate General of Finance needs to be given a clear audit mandate and better qualified and specialized staff. The entities audited should be obliged by law to provide IGF with explanations and to take its recommendations into account. It should be entitled to send a copy of its reports to the competent judicial authorities, when such action is warranted. For its part, the National Audit Court should also be given a legal mechanism for follow-up on its reports, including vis-à-vis public enterprises, regarding which its area of responsibility needs to be expanded. At the same time, it should be able to propose its draft budget to Parliament without going through an intermediary and it should have a fast-track expenditure process. It would also be a good idea to give the Legislative Branch a say in the appointment of its president and presidents of the chambers. Finally, it should be mandatory to consult the National Audit Court regarding draft laws having fiscal implications, provided that tight deadlines are set.

- **Implementation of medium-term fiscal frameworks**, associated with an explicit statement of medium-term fiscal policy objectives, in order to place annual budget preparation within a medium-term perspective. However, it should be noted that medium-term fiscal frameworks are administratively and politically demanding and their implementation should not hamper other priority reforms.