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Assessing the impact of public accounting reforms in Algeria: An analytical study of the government accounting system under the organic finance law (LOLF)

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***Abstract*---**This study examines the impact of public accounting reforms in Algeria, particularly the transition from a cash-based accounting system to an accrual-based framework under the Organic Finance Law (LOLF) of 2018. The research assesses the limitations of the previous accounting system, which was inadequate in providing a comprehensive financial overview of public entities. The LOLF introduces significant changes in budgeting, financial accounting, and management accounting, aiming to enhance transparency, efficiency, and performance in public finance management. By aligning Algeria's accounting practices with International Public Sector Accounting Standards (IPSAS), the LOLF seeks to improve the accuracy and reliability of financial information, thereby supporting better fiscal policy decisions and more effective resource allocation. The study also explores the challenges faced during the implementation of these reforms, including the cultural shift within public administration towards performance-based management and the complexity of developing and applying Key Performance Indicators (KPIs). The findings indicate that while the reforms have led to significant improvements in financial reporting and accountability, there are ongoing challenges that need to be addressed to fully realize the benefits of the LOLF. Recommendations include enhancing budget sincerity, refining performance measurement frameworks, and strengthening internal controls to ensure the long-term effectiveness of public financial management in Algeria.

***Keywords*---**Organic Finance Law (LOLF), Public Accounting Reforms, Accrual Accounting, Financial Transparency, Performance Indicators (KPIs).

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Introduction

The modernisation of managerial practices within public institutions has become essential in response to significant global transformations and the adoption of new management approaches. Under the framework of New Public Management (NPM), the focus on efficiency, effectiveness, and decentralisation has become paramount. Achieving these objectives requires reliable and accurate financial and accounting information, which has historically been a challenge for the Algerian state, particularly regarding the assessment of public assets.

Algeria's current cash-based accounting system has proven inadequate in capturing the full financial picture of public entities. In light of these limitations, the Algerian government has initiated a comprehensive reform to transition to an accrual accounting system, aligned with the International Public Sector Accounting Standards (IPSAS). This reform is part of a broader initiative to modernise the country's budgetary systems, as established by the Organic Finance Law (LOLF) of 2018.

The LOLF introduces significant changes in budgeting, financial accounting, and management accounting, aiming to enhance the performance of public service management. It underscores the necessity of a normative and institutional framework to support the ongoing Modernisation of the Budgetary System (MSB) within the Ministry of Finance.

This research examines the accounting reform, focusing on the transition from a cash-based system to an accrual-based accounting framework within public entities. The primary objective of this reform is to improve the efficiency of public expenditure by providing relevant, reliable, and accurate financial information. The reform is designed to ensure that fiscal policies reflect national and sectoral priorities while offering a comprehensive view of the state's financial and patrimonial situation.

The primary objective of this research is to assess the impact of public accounting reforms in Algeria, particularly focusing on the transition to an accrual-based accounting system under the Organic Finance Law (LOLF). Specifically, this study aims to:

- Evaluate the limitations and inadequacies of the existing cash-based accounting system within the Algerian public sector.
- Analyse the prerequisites and contributions of the accounting reforms implemented under the LOLF.
- Examine how the LOLF influences performance evaluation in public finance management.

The central research question guiding this study is: How does the transition from cash-based to accrual-based accounting under the LOLF impact the effectiveness and transparency of public finance management in Algeria? To address this primary question, the study will explore the following sub-questions:

- What are the key limitations and shortcomings of the current cash-based accounting system?

- What are the necessary prerequisites for the successful implementation of the accounting reforms under the LOLF, and what potential benefits can be expected?
- How does the LOLF enhance the evaluation of performance in public finance management?

Based on these questions, the following hypotheses will be tested:

- **H1:** The current cash-based accounting system lacks the necessary elements of accrual accounting required for producing balance sheets and income statements that meet internationally recognised standards.
- **H2:** The accounting reforms introduced under the LOLF are integral to the broader modernisation efforts in Algeria, particularly in restructuring public expenditure processes.
- **H3:** The LOLF establishes a dual system that combines cash-based budgetary accounting with accrual-based general accounting, thereby improving the accuracy and transparency of the state's financial and patrimonial reporting.

1. The Algerian Government Accounting System Before the LOLF

1.1 Overview of the Pre-LOLF Accounting Framework

1.1.1 General Public Accounting Principles in Algeria

Before the implementation of the Organic Finance Law (LOLF), the accounting system in Algeria was predominantly governed by principles centred on cash-based operations.(Mohammed & Bouflaja, 2024) (Mechta et al., 2024) The Directorate General of Accounting, together with various financial agencies—such as the tax authorities, land administration, and customs—oversaw the accounting framework. This framework was crucial for ensuring financial sustainability and transparency within public sector entities.(Zoumi, 2023)

The system emphasised a cash-based approach, where budget execution was documented at the moment of cash receipt or disbursement. This method aligns with the traditional management practices of the public sector, which have historically depended on cash basis accounting to monitor budget execution as the primary financial strategy for state and local governments. Although accrual accounting offers significant advantages in enhancing transparency and accountability, the cash basis remains prevalent, especially in overseeing the execution of national projects, where stringent financial oversight is vital.(Chebyshev, 2021).

The operations were categorised according to budgetary nomenclature, in line with Article 1 of Law 90-21, dated 15 August 1990, which defines public accounting as the set of rules governing the financial and accounting operations of the State, local communities, and their public institutions. (The Official Journal of the Algerian Republic N °35, 1990, p12).

1.1.2 Structure and Functions of Treasury Accounts

The pre-LOLF accounting system was primarily oriented towards ensuring the execution of budgetary and treasury operations, as guided by the Treasury

Accounts nomenclature.(Lascombe & Vandendriessche, 2006) This nomenclature, established by the 1967 General Instruction on Treasury Accounting, included a comprehensive set of accounts used for recording the financial activities of the State. The structure was designed to support the management of public funds, with accounts organised into groups and subgroups that reflected the nature and destination of transactions. This structure, while methodical, lacked the flexibility and integration necessary for modern accounting needs, particularly in terms of capturing a full picture of the State's assets and liabilities.

- **Special Accounting and Its Role**: In addition to cash accounting, the Algerian State employs a special accounting system, also rooted in the 1967 General Instruction. This system is designed to keep an inventory of physical and financial assets, including materials, values, and securities. The special accounting framework plays a crucial role in providing the government with essential budgetary and treasury information, which is vital for steering fiscal policies and financial management. Moreover, it equips the Parliament and the Court of Accounts with the necessary tools to exercise oversight over state accounts.
- **Treasury Accounts Nomenclature**: The Treasury Accounts Nomenclature (NCT) is a fundamental tool used by the Directorate General of Accounting and its external services. It allows for the centralisation of accounting information, which is critical for managing state treasury and monitoring the execution of Finance Laws. Accountants are strictly prohibited from making any alterations to the nomenclature. The creation, modification, and operation of these accounts are exclusively controlled by the Directorate General of Accounting, ensuring a standardised and regulated approach. (Government of Algeria *Décret exécutif n° 91-313*, 1991)
- **Basic Structure of the Treasury Accounts Nomenclature**: The Treasury Accounts Nomenclature is a comprehensive accounting plan that authorises Treasury accountants to record various operations. It provides a structured accounting system centralised by the Central Accounting Agency of the Treasury (ACCT), which produces periodic accounting documents required by the Ministry of Finance and supervisory authorities. The nomenclature is divided into three main categories: groups, general accounts, and specific accounts, each designed to categorise operations by their nature or purpose. (Ministère des Finances, 2014, p. 8) (Cour des Comptes, 1968)
- **Functionality and Classification of Accounts:** The Treasury Accounts Nomenclature categorises accounts by their nature, distinguishing between provisional and definitive accounts. Definitive accounts receive operations that have reached their final destination in the accounting records and must be justified with supporting documents such as revenue orders or payment mandates. Provisional accounts are used for operations that require further processing or justification. The system also includes financial accounts, fund movement accounts, and order accounts, which are essential for managing state finances and ensuring transparency. (Ministère des Finances, Direction Générale de la Comptabilité, Direction de la Règlementation et de l'Exécution Comptable des Budgets, 2009, p. 9)
- **Role of Public Accountants in State Accounting**: State accounting is maintained by a hierarchy of public accountants, ranging from the Central Treasury Accountant to various regional treasurers and financial receivers.

These accountants are responsible for centralising financial operations and reporting to the Central Accounting Agency of the Treasury (ACCT). The ACCT consolidates and produces budgetary and accounting statements, which are periodically submitted to the central structures of the Ministry of Finance for oversight and further action. (Ministère des Finances, Direction Générale de la Comptabilité, Direction de la Règlementation, PCE, 2007, p. 46)

1.1.3 Governance and Regulation under the Previous System

The governance and regulatory framework of Algeria's public accounting system has historically been shaped by various legislative acts, notably the Finance Laws and Public Accounting Laws. The earlier system, particularly under Law No. 84-17 of 7 July 1984, focused primarily on the state's budgetary and financial operations. This law, while comprehensive, was limited in scope, addressing only the financial management of the state, without encompassing the broader aspects of public accounting that were later covered by Law No. 90-21 of 15 August 1990. The latter law expanded the regulatory framework to include not only budgetary operations but also the accounting practices of state and local governments, as well as public institutions. The regulatory framework governing public accounting in Algeria includes several fundamental principles (Government of Algeria *Décret exécutif n° 91-313*, 1991):

- **Separation of Roles**: A crucial principle in public financial management is the separation of duties between authorising officers (ordonnateurs) and public accountants. This separation is intended to ensure checks and balances within the financial system, preventing conflicts of interest and fraud. However, the system was largely procedural, focusing on compliance with regulations rather than the efficiency or effectiveness of financial management. The regulation was primarily oriented towards maintaining control over cash flows, with limited scope for performance evaluation or asset management.
- **Distinction Between Opportunity and Regularity**: Another key principle is the distinction between the legality of financial operations and their appropriateness or effectiveness. While public accountants are responsible for ensuring the legality and regularity of transactions, decisions regarding the appropriateness of expenditures rest with the authorising officers.
- **Personal and Pecuniary Responsibility of Public Accountants**: Public accountants in Algeria are personally and pecuniarily liable for their actions. This responsibility is rooted in the principle that public funds must be managed with the highest degree of integrity and accountability.
- **Non-Allocation of Revenues to Expenditures**: Public finances in Algeria adhere to the principle that revenues and expenditures must be treated separately, preventing the direct allocation of specific revenues to particular expenditures. This ensures greater flexibility and transparency in financial management.

Despite the robustness of these regulatory frameworks, the previous public accounting system in Algeria faced several challenges and limitations:

- **Lack of Asset and Liability Accounting**: The system's cash-based approach did not account for the state's assets and liabilities comprehensively, limiting the ability to present a full picture of the state's financial position.

- **Inflexible Accounting Structure**: The linear numbering system used in the Treasury Accounts Nomenclature was rigid and outdated, making it difficult to introduce new accounts or adapt to changing financial management needs.
- **Manual Processing and Data Integration Issues**: The reliance on manual processes and outdated information systems led to delays in data centralisation and the preparation of financial reports, which were often produced too late to meet modern management requirements.
- **Incompatibility with International Standards**: The existing system lacked the features necessary to align with international accounting standards, making it difficult to produce consolidated financial statements or assess the state's financial health accurately.

1.2 Limitations of the Pre-LOLF Accounting System

1.2.1 Key Shortcomings of the Previous System

The pre-LOLF accounting framework in Algeria was marked by several significant limitations: Lack of Transparency and Accountability, Inefficiency in Resource Allocation and Insufficient Performance Measures

The pre-LOLF accounting system in Algeria was inherently limited in its capacity to effectively manage the state's finances, primarily due to its cash-based nature.which significantly constrained its ability to provide a comprehensive view of the state's financial position. Unlike accrual accounting systems, which account for assets, liabilities, and other financial activities in a holistic manner, the cash-based system used prior to the implementation of the LOLF failed to capture the full spectrum of the state's financial health. This limitation made it difficult for decision-makers to evaluate the state’s financial position accurately, thus impeding effective financial planning and management.(Belacel, 2018)

Furthermore, the system was not designed to support the development of tools necessary for analysing the costs of assets and liabilities or optimising investment decisions. The absence of a consolidated view of state accounts, coupled with the system's disregard for critical financial concepts such as debt and receivables, severely weakened its utility as a comprehensive financial management tool. (Chauvin, 2005, p. 8) (Montagnier, 1981) This lack of integration and standardisation not only hindered the consolidation of financial data but also complicated the evaluation of the overall financial performance of the state.

The structural limitations of the pre-LOLF accounting system were further exacerbated by its operational inefficiencies. The rigid, linear numbering technique employed in the Treasury Accounts Nomenclature created an inflexible and outdated system that struggled to adapt to evolving financial needs. This rigidity was compounded by the lack of integrated information systems, which led to significant delays in data centralisation and reporting. The system's reliance on manual processes increased the risk of errors and information loss, as transactions had to be recorded multiple times across different stages by various personnel. This redundancy not only slowed down the accounting process but also made data centralisation cumbersome and prone to delays.(Acha & Ghouini, 2020)

1.2.2 Case Studies or Examples Illustrating These Limitations

To illustrate these limitations, consider the following examples:

- **Example 1: Asset Management Deficiencies:** The lack of accrual-based accounting meant that public assets were not systematically recorded or valued, leading to gaps in the State's ability to manage its wealth effectively. This often resulted in underutilisation or mismanagement of public resources.
- **Example 2: Delayed Payments and Penalties:** The procedural delays inherent in the system led to significant payment delays to creditors, which in turn caused additional costs for the government in the form of late payment penalties and interest charges. These delays also hindered the timely execution of public projects, affecting overall economic efficiency.

1.2.3 Analysis of Governance Challenges

The governance model, while designed to prevent fraud and ensure compliance, also contributed to the inefficiencies of the system. The strict separation of roles between authorising officers and accountants created a fragmented approach to financial management, where decision-making was slowed down by the need for multiple approvals and checks. Furthermore, the lack of a unified and automated accounting system increased the risk of errors and inconsistencies, as transactions were manually processed across different entities.

2. The Introduction of the LOLF and Its Accounting Reforms

2.1 The Principles and Goals of the LOLF

The introduction of the Organic Law on Finance Laws (LOLF) marked a significant shift in the approach to public financial management in Algeria. This reform introduced several new methodologies aimed at improving the efficiency and accountability of government spending.(Mohammed & Bouflaja, 2024)

2.1.1. New Approaches: Performance-Based Budgeting and Multi-Year Financial Planning

The Organic Law on Finance Laws (LOLF) introduced in Algeria represents a paradigm shift in public financial management, particularly through the adoption of performance-based budgeting and multi-year financial planning. These approaches mark a departure from the traditional methods of budgeting that primarily focused on the allocation of funds without a strong emphasis on the outcomes of expenditures. (Mordacq, 2023) This law, enacted in 2018, introduces a comprehensive legal framework aimed at transitioning from the traditional cash-based accounting system to an accrual-based system, in line with International Public Sector Accounting Standards (IPSAS).(People's Democratic Republic of Algeria, 2018)

- **Performance-Based Budgeting (PBB):** Performance-based budgeting is a method that links the allocation of resources to the achievement of specific outcomes. (Dokalskaya & Pauluzzo, 2024) Under this approach, government agencies are required to define clear objectives for each program or initiative, and their budgets are tied to the expected results. This system compels public sector managers to focus not just on how much money is spent, but on what that spending actually achieves in terms of public service delivery and policy outcomes.(Hoque, 2022) (Pebrianti & Aziza, 2019) (Lazarova et al., 2021) as outlined in Article 16.By introducing PBB, the LOLF aims to improve the efficiency of public spending, ensuring that funds are directed towards programs that deliver measurable benefits to the public. (Carrillo et al., 2021). By mandating these reforms, the LOLF has established a dual accounting system where cash-based budgetary accounting is complemented by accrual-based general accounting, thereby enhancing both the accuracy and transparency of the State's financial and patrimonial reporting. This legal framework sets the stage for a more strategic allocation of public resources, improved financial discipline, and greater accountability within the public sector.

PBB represents a significant change in how budgets are prepared and evaluated. Traditionally, budgets were often incrementally increased based on historical expenditure patterns, with little consideration of the actual impact of the spending. In contrast, PBB requires a more rigorous analysis of each program's effectiveness, encouraging a culture of accountability within the public sector. This approach is designed to eliminate wasteful spending and redirect resources towards more effective and efficient programs, ultimately improving the quality of public services.(Carrillo et al., 2021)

- **Multi-Year Financial Planning:** In addition to performance-based budgeting, the LOLF introduced the concept of multi-year financial planning, which allows for a longer-term perspective in managing public finances. Unlike the traditional approach, which typically focuses on a single fiscal year, multi-year planning involves preparing budgetary frameworks that span several years.(Rahman, 2023) This approach helps in anticipating future financial needs and challenges, providing a more stable and predictable financial environment.(Harchenko, 2024)

  Multi-year financial planning is essential for the sustainability of public finances, as it enables governments to manage substantial investments, such as infrastructure projects, over extended periods. This approach mitigates the risk of fiscal shocks associated with large expenditures concentrated in a single year, thereby enhancing financial stability (Harchenko, 2024). Long-term planning not only aligns short-term budgetary decisions with strategic goals but also allows for the anticipation of future challenges and economic risks(OECD, 2024). Effective capital budgeting processes, which include medium-term budget forecasting, further support this by ensuring that public investments are affordable and manageable(OECD, 2023). For instance, Article 5 of the LOLF emphasizes the importance of medium-term budgetary planning, which allows for more accurate forecasting and management of public funds over several fiscal years. This is a significant departure from the previous cash-based system, which often failed to capture the full scope of the government's financial obligations and assets. (République Algérienne Démocratique et Populaire, 2018)

Additionally, the need for universities to adapt their financial strategies in response to crises highlights the importance of long-term planning in various sectors, reinforcing the idea that a coherent and accountable framework is vital for achieving financial sustainability(Yurchyshena, 2023). Overall, multi-year financial planning is a critical tool for governments to ensure fiscal resilience and strategic alignment in their financial policies.

2.1.2 Objectives: Enhancing Accountability and Financial Management

The primary objectives of the LOLF are to enhance government accountability and improve financial management practices. These goals are at the core of the reforms introduced by the LOLF, which are designed to create a more transparent, efficient, and results-oriented public sector.

Enhancing Accountability: One of the key aims of the LOLF is to increase the accountability of government agencies. By linking budgets to performance, the law holds public managers responsible for delivering results. This accountability is reinforced by the requirement for regular reporting and evaluation of outcomes, ensuring that government agencies are transparent about how they use public funds. The shift towards accountability also involves greater oversight by legislative bodies, such as the parliament, which are now better equipped to scrutinize government spending and ensure that it aligns with public policy objectives.(MBA Student, School of Business Management and Economics, Mount Kenya University, Rwanda. et al., 2024) (Harchenko, 2024)

Improving Financial Management: The LOLF also seeks to improve the overall management of public finances. By introducing modern accounting practices, such as accrual accounting, and integrating financial planning with performance management, the law aims to make government operations more efficient. This efficiency is achieved by ensuring that resources are allocated based on actual needs and potential impacts, rather than simply following historical spending patterns. The focus on performance and results encourages a more strategic approach to budgeting, where the success of government programs is measured not just by financial inputs but by the tangible benefits they deliver to society.(Pondaag et al., 2024)

2.2 Key Changes in Public Accounting under the LOLF

The implementation of the Organic Law on Finance Laws (LOLF) in Algeria has introduced significant changes in the field of public accounting. These changes are designed to modernize the management of public finances by aligning them with international standards and improving transparency and accountability.

- **Introduction of Accrual Accounting:** One of the most transformative changes introduced by the LOLF is the adoption of accrual accounting in public sector accounting. Unlike the traditional cash-based accounting system, which records transactions only when cash is exchanged, accrual accounting recognizes financial events when they occur, regardless of when cash transactions happen. This approach provides a more accurate picture of the government's financial position by capturing all liabilities and assets as they are incurred, not just when cash is paid or received.(Kondoh & Ogawa, 2023) (Kasingku, 2022)

Accrual accounting allows for a more comprehensive understanding of the state's financial obligations and resources. It helps in tracking government liabilities, such as pensions and loans, and assets like infrastructure and receivables, providing a clearer and more detailed balance sheet. This shift enhances the government's ability to manage its finances more effectively, as it ensures that all financial activities are recorded, providing a more complete view of financial health.(Flynn et al., 2016) (Warren, 2013 (Molland & Clift, 2008)

- **New Chart of Accounts:** The introduction of a new chart of accounts under the LOLF is another critical change in public accounting practices. The new chart of accounts is designed to be more aligned with international accounting standards, making it easier to compare Algeria's financial data with that of other countries. (Jorge et al., 2022)This standardization also facilitates better integration with modern financial management systems, allowing for more efficient processing and reporting of financial data. Research indicates that the implementation of international public sector accounting standards (IPSAS) in Algeria has reached approximately 60%, which is a substantial step towards modernizing the public accounting system and improving financial reporting practices.(Mohammed & Bouflaja, 2024)

  The new chart of accounts is more detailed and structured, providing a clearer categorization of financial transactions. It includes specific accounts for various types of assets, liabilities, revenues, and expenses, which helps in better tracking and management of public funds. This structure not only improves the accuracy of financial reporting but also supports the strategic objectives of the LOLF by ensuring that all financial activities are transparently recorded and reported(Yamamoto & Schührer, 2023).

- **Focus on Performance Indicators:** A key element of the reforms under the LOLF is the emphasis on performance indicators in financial management. The new system requires that budget allocations be linked to specific performance outcomes, shifting the focus from merely tracking expenditures to evaluating the effectiveness of spending. This approach ensures that public funds are used efficiently and that government programs achieve their intended results.(Corbett, 2010, pp. 1998–2001)

  Performance indicators are now integrated into the budgeting process, requiring government agencies to set clear objectives and report on their progress. This system of performance-based budgeting is designed to enhance accountability by making it easier to assess whether public funds are being used effectively. It also allows for better decision-making by providing policymakers with the information they need to allocate resources to the most effective programs.

3. Evaluating the Impact of the LOLF on Government Performance

3.1 The Foundations of Performance Evaluation under the LOLF

3.1.1 Definition of Performance in the Context of Public Finance

In the realm of public finance, "performance" refers to the efficiency and effectiveness with which government entities achieve their designated goals, utilizing allocated resources to maximize public value. Under the Organic Law on Finance Laws (LOLF), performance is not just about adhering to budgets but about achieving specific, measurable outcomes that contribute to the public good. This concept of performance is central to modern public financial management, where the focus shifts from merely monitoring inputs, such as budget allocations and expenditures, to evaluating the results and impacts of public spending.(Calmette, 2006) (Eyraud et al., 2020) (Lambert & Migaud, 2006)

The LOLF fundamentally redefines how performance is viewed and measured within government operations. It introduces a results-oriented framework, where every dinar spent must contribute to achieving clearly defined objectives. This shift from a focus on the volume of resources allocated to the effectiveness of spending is designed to enhance the transparency and accountability of government activities. By measuring performance in terms of outcomes rather than inputs, the LOLF seeks to ensure that public resources are used efficiently to deliver tangible benefits to citizens.

3.1.2 The Role of the LOLF in Setting up a Framework for Measuring Government Performance

The LOLF establishes a comprehensive framework for evaluating government performance, embedding it within the broader context of public financial management. This framework is built on several key principles aimed at improving the transparency, accountability, and efficiency of public spending.

First, the LOLF mandates a clear articulation of objectives for each government program, which are then linked to specific performance indicators. These indicators serve as benchmarks for assessing the effectiveness of public policies and the efficiency with which resources are utilized. The performance of government programs is evaluated based on their ability to meet these objectives, which are aligned with broader public interest goals.

Second, the LOLF requires that public financial management be guided by a multi-year planning perspective. This involves the adoption of performance-based budgeting, where budgets are allocated not just based on historical expenditures but on the expected outcomes of programs. This approach ensures that financial resources are directed towards programs that demonstrate the highest potential for delivering public value.

The LOLF also emphasizes the importance of transparency in public finance. By presenting the budget in terms of public policies, or "missions," rather than by traditional expenditure categories, the LOLF enables both the Parliament and the public to understand how resources are being used to achieve government objectives. This transparency is further enhanced by the requirement for government agencies to report on their performance annually, detailing the extent to which they have achieved their goals and explaining any deviations from expected outcomes.

3.2 Innovations in Public Finance Introduced by the LOLF

3.2.1 Transformation of Financial Management, Budgeting, and Reporting in Algeria

The Organic Law on Finance Laws (LOLF) represents a paradigm shift in Algeria's approach to public financial management, the LOLF has moved the country from a traditional, input-based financial system to one that prioritizes outcomes and accountability, aligning financial practices with international standards and modern management principles.

- **From Means to Results-Oriented Budgeting:** One of the key changes is the mandatory requirement for government entities to adopt accrual accounting, as stipulated in Article 8 of the LOLF. This shift not only allows for a more accurate representation of the government's financial position but also provides a clearer view of its assets and liabilities. Before the implementation of the LOLF, budgeting in Algeria was primarily focused on the allocation of resources without a strong emphasis on the outcomes those resources were intended to achieve. The LOLF redefines this approach by requiring that budgets be linked directly to public policies and the results they aim to produce, as mandated in Article 16. This results-oriented approach ensures that resources are allocated based on actual performance metrics rather than historical expenditure patterns, thereby enhancing the overall utility of public expenditure. This shift facilitates a more strategic allocation of public funds, ensuring that each dinar spent contributes directly to the achievement of clearly defined objectives.

  Moreover, the LOLF mandates regular financial reporting and audits, as outlined in Article 22, which has significantly increased the level of transparency in public finance. These reports provide detailed accounts of government spending, enabling both legislative bodies and the public to scrutinize how funds are utilized. (People's Democratic Republic of Algeria, 2018)

- **Enhancing Transparency and Accountability :** One of the key innovations introduced by the LOLF is the increased transparency in public finance. The LOLF mandates that the state budget be presented by public policy (referred to as "missions") rather than by categories of expenditure (e.g., personnel, operations, investment). This restructuring allows both the Parliament and the public to better understand how resources are allocated across different policy areas and assess the effectiveness of these expenditures. By doing so, the LOLF fosters greater accountability, as it makes it easier to track how public funds are used and the outcomes they generate.

- **Supporting Structural Budgetary Balance:** The LOLF also emphasises the importance of supporting structural budgetary balance through the establishment and periodic updating of the Medium-Term Budgetary Framework (CBMT). This framework is crucial for evaluating potential financial risks and managing the trajectory of public finances. Although previously understated, the CBMT's role is now recognised as integral in ensuring the stability and sustainability of Algeria's financial management practices.

3.2.2 Introduction of Key Performance Indicators (KPIs) and Their Application in Public Finance

The LOLF introduces the concept of Key Performance Indicators (KPIs) into the management of public finance, representing a crucial step towards performance-based management.

- **Defining KPIs in Public Finance**

KPIs under the LOLF are specific, quantifiable measures used to evaluate the performance of public programmes and policies. These indicators are designed to assess various aspects of public finance, including the efficiency of resource use, the effectiveness of policy implementation, and the quality of services delivered to citizens. For instance, a KPI might measure the proportion of students who meet basic competency standards in primary education or the cost-effectiveness of employment services provided by the state.

- **Application of KPIs in Budgeting and Reporting**

KPIs play a central role in both the planning and evaluation stages of the budgeting process under the LOLF. During the planning phase, ministries and public institutions must define specific objectives and the KPIs that will be used to measure progress towards these objectives. These KPIs are then used to guide the allocation of resources, ensuring that budgetary decisions are aligned with strategic goals.

In the reporting phase, KPIs provide a basis for assessing the performance of public programmes. Annual performance reports (Rapports Annuels de Performances - RAP) are produced to compare actual outcomes against the targets set at the beginning of the fiscal year. This comparison helps to identify areas where public spending is most effective and where improvements are needed. The use of KPIs ensures that the performance of public services is not only monitored but also continuously improved, making public administration more responsive to the needs of citizens.

3.3 Impact Assessment of the LOLF on Government Performance

3.3.1 Case Studies or Empirical Data Assessing the Effectiveness of the LOLF

- **Improving Financial Discipline** The implementation of the LOLF has significantly enhanced financial discipline within Algerian public administration. By transitioning from a means-based to a results-oriented approach, the LOLF has ensured that public spending is more strategically aligned with predefined objectives. This shift has contributed to a more efficient allocation of resources, as expenditures are now directly linked to the achievement of specific, measurable outcomes. The introduction of this results-based budgeting framework has enabled the government to better control spending and avoid unnecessary expenditures. For example, in the Ministry of Education, the adoption of performance-based budgeting has led to more strategic investments in educational infrastructure and resources. This shift was guided by the legal framework established by the LOLF, particularly the requirement for setting and monitoring Key Performance Indicators (KPIs) as mandated in Article 17. The Ministry now allocates funds based on measurable outcomes, such as student performance and graduation rates, rather than merely increasing budgets based on previous years' spending.

Another notable case is the Ministry of Health, where the LOLF has facilitated better management of public health expenditures. By implementing accrual accounting as required by Article 8, the Ministry has gained a clearer understanding of its long-term liabilities, including pension obligations and the depreciation of medical equipment. This has enabled more effective planning and allocation of resources, leading to improved healthcare services and a reduction in unnecessary spending. The legal provisions of the LOLF have thus played a crucial role in enhancing financial discipline across various government sectors, leading to more efficient and accountable public service delivery.

- **Enhancing Transparency** Transparency has been a cornerstone of the LOLF's reforms. The LOLF has restructured the budget presentation by categorising expenditures under public policies (referred to as "missions") rather than by types of expenses such as personnel or operations. This reform allows both Parliament and the public to gain a clearer understanding of how public funds are allocated and utilised across different sectors. Moreover, the LOLF's commitment to the principle of budget sincerity has further bolstered the credibility of financial estimates, ensuring that both revenue and expenditure projections are realistic and reliable.

- **Increasing Efficiency** The efficiency of public administration has been a key focus of the LOLF. The use of Key Performance Indicators (KPIs) has played a crucial role in this regard, providing a means to assess the effectiveness of public programmes. For instance, KPIs allow for the measurement of outcomes such as student proficiency levels in education or the cost-effectiveness of employment services. These metrics enable a more objective evaluation of programme success and guide future resource allocation decisions to enhance efficiency.

- **Evaluating the Long-Term Impact of the LOLF on Government Performance:** The long-term impact of the LOLF on government performance is becoming increasingly evident as more sectors adopt the reforms mandated by the law. For instance, the introduction of a Medium-Term Budgetary Framework (MTBF), as required by Article 5, has allowed for better fiscal planning and stability. This framework requires government entities to project their financial needs over several years, ensuring that budgetary decisions are made with a longer-term perspective. As a result, there has been a marked improvement in the strategic alignment of public spending with national development goals.

Moreover, the emphasis on transparency and accountability, as outlined in Articles 22 and 24, has led to more rigorous oversight by the Parliament and other regulatory bodies. These entities are now better equipped to evaluate the effectiveness of government programs and to hold public managers accountable for their performance. This increased oversight has contributed to a reduction in wasteful spending and has fostered a culture of continuous improvement within the public administration. The legal framework provided by the LOLF has thus established a solid foundation for sustained improvements in government performance, ensuring that public resources are used more effectively to achieve national objectives.

3.3.2 Challenges Faced in Implementing the LOLF and Their Implications on Performance Evaluation

- **Implementation Challenges** The implementation of the LOLF has not been without its challenges. One of the primary difficulties has been the cultural shift required within the public administration. Moving from a traditional management culture to one that prioritises performance and results has proven challenging. The LOLF demands a comprehensive understanding and adoption of new management tools, which has taken time for public officials to fully integrate into their daily operations. Additionally, the complexity of developing and applying KPIs across all levels of government has posed significant obstacles.

- **Implications for Performance Evaluation** The challenges associated with the implementation of the LOLF have had direct implications for the evaluation of government performance. For example, the overemphasis on a limited number of KPIs can lead to a narrow focus, potentially distorting the broader objectives of public policies. This focus on specific indicators might undermine the comprehensive evaluation of programmes, resulting in an incomplete understanding of their effectiveness. Furthermore, the slow adaptation to new internal control mechanisms has hindered the accurate and timely assessment of performance.

3.3.3 Recommendations for Further Improvement in the Accounting System and Performance Measurement

- **Enhancing the Accounting System** To further strengthen the LOLF's impact, it is recommended that Algeria's accounting system continue to evolve, particularly with a greater emphasis on the principle of budget sincerity. This would involve more rigorous and transparent financial reporting, ensuring that all financial transactions are accurately recorded and reported. Additionally, the internal control systems should be bolstered to provide more reliable financial data, which is critical for informed decision-making.

- **Developing Performance Measurement** There is a clear need to refine the system of performance measurement within the framework of the LOLF. This could involve expanding the range of KPIs to ensure a more comprehensive evaluation of public programmes. The current focus on a limited set of indicators risks oversimplifying the assessment process. Therefore, introducing a balanced mix of qualitative and quantitative KPIs would provide a more nuanced view of performance. Additionally, continuous training and capacity building for public officials are essential to ensure that they are fully equipped to implement and interpret these performance measures effectively.

- **Risk Management and Internal Controls** The LOLF's framework could benefit from a more systematic approach to risk management. Implementing detailed risk mapping and analysis as part of the internal control processes would help identify potential challenges before they affect financial stability or programme outcomes. Strengthening internal controls and ensuring that financial managers are well-trained in these practices will enhance the overall effectiveness of public financial management.

Conclusion

The modernisation of managerial practices within public institutions, particularly in response to global transformations, has necessitated the adoption of new management approaches such as New Public Management (NPM). Central to these approaches is the requirement for reliable and accurate financial information, which has historically been a challenge in Algeria due to the limitations of its cash-based accounting system. This study explored the transition from a cash-based to an accrual-based accounting system within Algeria’s public sector, focusing on the impact of the Organic Finance Law (LOLF) of 2018.

Key Findings:

- Algeria’s previous cash-based accounting system was inadequate for modern financial management. It failed to capture a comprehensive view of the state's financial position, particularly regarding public assets and liabilities. This limitation hindered effective financial planning and transparency, which are crucial for accountability in public finance.

- Effectiveness of the LOLF Reforms: The transition to an accrual-based accounting system under the LOLF has significantly improved the efficiency, transparency, and accuracy of financial reporting in Algeria. By aligning the country’s accounting practices with International Public Sector Accounting Standards (IPSAS), the LOLF has facilitated a more comprehensive view of the state’s financial health, enabling better decision-making and more strategic allocation of resources.

- The study identified several challenges in the implementation of the LOLF. These include the cultural shift required within public administration towards performance-based management, the complexity of developing and applying Key Performance Indicators (KPIs), and the slow adaptation to new internal control mechanisms. These challenges have implications for the effectiveness of performance evaluation and the overall success of the reforms.

- The study recommends enhancing the accounting system by placing greater emphasis on budget sincerity and transparency. Additionally, the performance measurement framework should be refined by expanding the range of KPIs to provide a more comprehensive evaluation of public programmes. Finally, a more systematic approach to risk management and the strengthening of internal controls are essential to ensuring the long-term effectiveness of public financial management in Algeria.

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