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The financial corruption in the Algerian economic environment between hindering development and the efficiency of the anti-corruption mechanisms under governance challenges: Case study of the tax administration

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***Abstract*---**The financial corruption is one of the main obstacles of the economic development in Algeria, as it negatively affects the stability of the public companies. This corruption covers different aspects, including bribery, embezzlement, invoice inflation, and tax evasion. It wastes the public resources and hinders the sustainable development actions. In this regard, this study aims at analyzing the aspects of the financial corruption in the Algerian economic environment, and at evaluating the efficiency of the institutional and legislative anti-corruption mechanisms, with a focus on the sector of taxes. Moreover, the study aims at identifying the factors that hinder the implementation of the good governance and combating corruption. In so doing, the study uses a descriptive analytical method and relies on official and international reports and data to suggest realistic practical solutions.

***Keywords*---**financial corruption, governance, economic environment, development, Algeria, combating mechanisms, taxes administration.

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Introduction

The financial corruption is one of the big challenges in achieving a sustainable economic development in Algeria. It hinders the implementation of the public policies, weakens the citizens' trust in the governmental organizations, and distorts the business environment. This phenomenon is not limited to individual practices, as the state institutions are concerned. It manifests in bribery, embezzlement, abuse of public funds, etc. Despite the big efforts of the Algerian state, including the laws enacted and the control entities established, corruption still impedes the national economic growth and the stability of the institutions. In this context, the financial corruption in Algeria turned into a complicated structural phenomenon that requires an analysis of its factors and cooperation to strengthen the combating mechanisms. In this context, the taxes sector is one of the main fields affected by corruption, which negatively impacts the public revenues and wastes the resources needed for the developmental projects.

The study problematic:

The financial corruption in Algeria raises a direct threat to the sustainable development and affects the stability of the governmental institutions despite the state had established different procedures. Thus, we believe it is necessary to raise the following problematic, "how can we improve the efficiency of the institutional and legal mechanisms in Algeria to limit the financial corruption and foster development under an environment that witnesses weak control and governance?" From this question, sub-questions arise, as follows:

- What are the main aspects of the financial corruption in the Algerian economic environment?
- How does corruption affect the indices of the socio-economic development in Algeria?
- To what extent are the legal and institutional frames efficient in fighting corruption?
- What are the real obstacles that hinder the achievement of efficient governance that stops corruption?

Importance of the study:

The study draws its importance from different considerations, mainly:

***The theoretical importance:** This study aims at providing a comprehensive scientific analysis of the financial corruption in Algeria under the concepts of governance and transparency to contribute to the local literature on this topic.

***The practical importance:** This study aims at evaluating the efficiency of the institutional and legal anti-corruption mechanisms, and at suggesting practical solutions to improve them.

***Topicality:** The financial corruption raises worries and is discussed in local and international reports. Thus, it is a vital topic in the political and economic discourse in Algeria.

Aims of the study:

This study aims at:

- Diagnosing the status-quo, types, and causes of the financial corruption in Algeria, with a focus on the taxes sector.

- Analyzing the effect of corruption on the socioeconomic development based on the different performance indices.
- Evaluating the legal and institutional anti-corruption mechanisms in Algeria.
- Suggesting methods to promote governance as a strategic introduction to improve the anti-corruption mechanisms and build a transparent control.

First: The conceptual frame of the financial corruption in the Algerian context:

The financial corruption is the illicit use of the public authority to make personal or collective gains. It manifests in bribery, embezzlement, nepotism, money laundering, and forgery. It affects the institutional performance and the citizens' trust in the state. Since corruption is usually found in an environment that lacks transparency and independent controls, it is part of "an organizational culture" fed by mutual interests inside and outside the state entities.

1. Definition of the financial corruption: It is the illicit exploitation of the job or position to achieve personal or categorical benefits. It manifests in bribery, embezzlement, fraud, manipulation, and the abuse of the public resources (Ben Azzouz, 2016).

2. The characteristics of the financial corruption: The main characteristics are (Ben Saida Amin, 2022):

- **Secrecy:** Corruption is practiced far from the public control, and is hard to detect.
- **Interference of interests:** It is made by more than one party (decision maker, benefiter, and mediator).
- **Frequency and renewal**: It adapts with every new organizational environment and continuously reproduces itself.
- **Relation with the social administrative and cultural structure**: It sometimes depends on deeply-rooted norms that cannot be easily separated from the institutional actions.

3. The aspects of the financial corruption in Algeria:

The financial corruption in Algeria takes different forms (Hamriche Samia, 2018):

- **Bribery:** It is the most common aspect, where money or services are provided in return for illegal facilitations.
- **Nepotism:** It is about prioritizing the in-laws in contracts and recruitments.
- **Fraud:** It is falsifying official documents or projects contracts.
- **Falsification and administrative laxity:** It implies the manipulation of the official documents and the abuse of power.
- **Money laundering:** It is about using the banking system or smuggling to hide the illegal sources of money.

In Algeria, corruption has a structural nature and different characteristics that distinguish the local political and institutional contexts. In this regard, the state suffers a clear weakness in audit and controls, paving the way for violations without accountability. In addition, the centralization of decisions and the dependence of justice limit the efficiency of the legal prosecution of corrupt people and undermine the credibility of the state entities. Besides, the organizational frame of the institutions is fragile, as we find no clear transparent rules in management, and no accountability in the administrative council, what helps the corrupt people escape sanctions. This situation deepens the political enclosure, limits the freedom of media, hinders the access to information, weakens the civil society, and feeds corruption (Khadem Nabil, 2022).

Second: The aspects of the financial corruption and its effect on the economic development:

In Algeria, the financial corruption impedes the economic development due to its different aspects and causes, and to the deficits in the institutional and economic systems. Its effects are directly seen in the low economic performance, the decrease of investment, and the waste of the local resources.

1. The different aspects of the financial corruption in Algeria:

The practical aspects of financial corruption in Algeria manifest in bribery that dominates the administrative and economic transactions to get licenses and pass public contracts, and in invoices inflation, which wastes money and hinders the achievement of new projects. Besides, we find nepotism in recruitment and in granting privileges, which excludes the competent people and hinders the work of the economic and administrative elites. Moreover, money laundering is another form, where the banking and customs gaps are used for transforming the illicit sources of money into legal; this harms the resources and turns the economic cycle into an unproductive space (Antar Ben Marzouk, 2009).

2. The relation between the financial corruption and the weak economy:

Corruption brings about deficits in resources sharing and harms the economic policies. Regarding the economic growth, corruption weakens the revenues of the public investment, reduces the efficiency of using the public funds, inflates the unproductive projects, and increases the costs without palpable results. At the fiscal level, it decreases the fiscal revenues due to potential tax evasion that is sometimes protected by informal relations inside the administration. As for investment, an environment marked with corruption does not attract capitals because it lacks transparency and stability (Hijazi, 2005).

3. The effects of the financial corruption on the business atmosphere:

The financial corruption decreases the quality of the infrastructure, making the public projects cost a lot in return for a low quality. Many reports show that corruption increased the costs of projects in Algeria to the double, creating a gap between expenditure and the achieved results. In addition, such practices weakened the state ability to fund vital sectors, such as health and education, due to the devotion of the resources to unnecessary projects or projects with private interests (Ibtihal Mohamed Rida, 2016). Besides, the financial corruption distorts the business atmosphere, creates imbalance in the opportunities, undermines the principle of equal opportunities between the economic operators, harms competition, excludes the honest people from the market, or pushes them towards illegal nets to ensure stability. Such situation creates a parallel informal economy that reduces the role of the state as an honest organizer of the market (Wissam Abd al Aziz, 2012).

Third: The institutional anti-corruption frame and the governance mechanisms:

The institutional anti-corruption frame is one of the main pillars for achieving a sustainable development in any state. In this context, it requires a strong legal system and active institutions that can control the governmental performance and fight all sorts of corruption. Despite the Algerian efforts against corruption, the real enforcement of the laws and systems is still inefficient due to the weak governance mechanisms.

1. The legal and institutional anti-corruption frame in Algeria:

The fight against corruption in Algeria had started with the foundation of legal frames and entities, including the law of combating corruption in 2006, which founded a legal basis for treating the corruption issues at all the government levels. Besides, the national board for preventing and fighting corruption was established to monitor corruption issues. In addition, different complementary laws on the declaration of assets, the regulation of the public contracts, and money laundering have been adopted. However, they are inefficient against corruption, mainly in the absence of a real political will to enforce the laws (Kaufmann, D., Kraay, A., &Mastruzzi, M., 2010).

2. The obstacles of control and accountability:

- **The low independence and influence:** The dependence of the judicial and control institutions is one of the main factors that hinder the work of the control institutions in Algeria, as such institutions face political and financial pressure that limits their activities. Studies show that the states with no checks and balance are likely to suffer corruption, as is the case of Algeria, where control is most of the time formal with no real accountability (World Bank, 2010).
- **Corruption in the administrative system:** The Algerian reality shows that the administrative corruption is one of the main aspects of corruption, all along with nepotism and the appointments that are not based on competency. Such practices decrease the efficiency of the governmental institutions and promote an opaque environment far from the main principles of governance (Peterson, 2015).

3. The mechanisms of good governance:

The good governance is key for the efficient economic development and fighting corruption. It requires transparency, accountability, citizen participation, and judicial independence. However, Algeria witnesses big challenges in implementing these principles due to the weak freedom of press, access to information, and government efficiency. This situation fosters the spread of corruption and undermines the ability of the anti-corruption institutions (World Bank Government Indicators, 2016). The civil society institutions and the media outlets play a vital role in fostering transparency and participation in any developmental process or fighting corruption. Nevertheless, in Algeria, such institutions face many challenges under restrictions on the media outlets, leading to the decrease of the efficient societal control. In this context, consolidating the role of the civil society and the media outlets is crucial for the efficient governance and fight against corruption (Boumazzou, I., 2014).

Fourth: The indicators of corruption and performance in Algeria:
Measuring the level of corruption based on the international indicators is an efficient tool to assess the states' commitment to the transparency and integrity principles. In addition, it helps spot the deficits in the institutional system. In this regard, Algeria ranks late on most of the governance and corruption assessments, reflecting structural challenges and decreasing the investors and citizens' trust.

1. The corruption perception indicator:
It is annually issued by Transparency International and measures the perception of corruption in the public sector on a scale from 00 (the most corrupt) to 100 (the least corrupt). Lately, Algeria has been ranking in the lowest third of the international rank, as it ranked 116 out of 180 states in 2023, with an average of 33 points, reflecting the dominance of bribery, low transparency, and limited freedom of expression (Transparency International).

2. The worldwide governance indicators:
They are issued by the World Bank and cover 06 dimensions that indirectly reflect the spread of corruption. They include the government efficiency, the regulatory quality, the rule of law, and the control of corruption. Algeria has a low rank, as its average is between -0.8 and -1.1 on a scale of -2.5 and +2.5. Thus, it is among the states that suffer an institutional fragility and weak governance (World Bank, 2023).

3. The rule of law indicator:
It is issued by the World Justice Project and uses 08 criteria, including limiting corruption. In 2023, Algeria ranked 101 out of 142 states, reflecting a weakness in enforcing the laws, absence of an efficient control on the executive authority, and a low trust in the judicial branch (World Justice Project, 2013).

The economic freedom indicator:
It is issued by Heritage Foundation and measures the freedom of business, the protection of the property rights, and the extent of the administrative corruption. In 2023, Algeria ranked 168 out of 184 states, and is among the economically non-free states due to the bureaucratic restrictions and the spread of nepotism (Heritage Foundation, 2023).

4. The international performance indicators:
These indicators show that Algeria still suffers a weak institutional and judicial control, a lack of transparency in the public contracts, vagueness in the management of the public funds, and a restriction on the freedom of press and on the civil society. This undermines the development opportunities, weakens the citizens' trust in the state, and limits the foreign investments and economic competitiveness.

Fifth: The role of the tax administration in combating the financial corruption:
1. The tax evasion methods: Tax evasion aims at manipulating the fiscal system to reduce or avoid the taxes. It is made by the accounting manipulation, the material fraud, and the use of the legal gaps. Besides, its main methods are:

- The tax evasion through accounting manipulation: The fiscal law requires the tax payers to submit comprehensive fiscal statements that show the revenues and gains during the fiscal year. However, some taxpayers manipulate the statements by:

- **Reducing the declared revenues** to reduce the fiscal base and evade paying taxes.
- **Increasing the declared costs** by inflating the costs of procurement and submitting fake bills to reduce the declared gains and, thus, the taxes.

Examples of the illegal accounting methods:

- Recording purchases with prices less than the real.
- Sharing unreal gains between imaginary partners.

- Evasion through material methods: some taxpayers do not declare all their sales or products, committing material fraud. In this regard, they hide either part of the commercial activity or the product to reduce the taxes.

- **The partial hiding:** They hide part of the sold or imported goods to avoid paying customs fees or taxes.
- **The full hiding**: They build isolated factories or workshops that are not easily accessed in order to work far from the fiscal control.

- Evasion through legal manipulation:

It is through establishing unreal legal cases that allow them to take advantage of unmerited fiscal advantages. This evasion takes two main forms:

- **Evasion through unreal actions:** By using unreal bills of buying and selling products to avoid paying taxes thanks to illegal fiscal discounts or advantages.
- **Manipulation of the legal adjustment of cases**: It is about turning a fiscal case into another case exempted of taxes, or enjoying discounts, such as recording a sale as a donation to avoid taxes and fees.

2. The tools of fighting tax evasion:

Tax evasion requires a set of complementary legislative, organizational, and technical tools under a comprehensive strategy. In this regard, it is necessary to adjust the laws and enact new clear and exact ones that leave no gaps for the criminals. Besides, it is necessary to update the fiscal administration by developing the digital infrastructure, adopting advanced cyber systems that monitor and treat the declarations, and fostering the control mechanisms. Moreover, the fiscal awareness raising is a good preventive tool that increases the fiscal compliance and decreases the criminal practices. Furthermore, consolidating coordination between the different control entities allows exchanging information and cooperation. More importantly, training the fiscal employees fosters their ability to detect any modern practices of tax evasion, mainly under the increase of complicated economic transactions. In sum, the efficiency of tax evasion is directly linked to the coordination of these tools under a fair transparent fiscal policy.

3. The efficiency of SAP system in limiting tax evasion and increasing the fiscal revenues:

The following table shows the fiscal revenues and their components before and after the application of SAP system in one of the Algerian tax collection agencies:

Year	The fiscal revenues before the application of SAP system (DZD)	The fiscal revenues after the application of SAP system (DZD)
2016	3.315.890.754.54	/
2017	3.355.629.321.54	/
2021	/	4.109.376.118.60
2022	/	4.703.639.906.06

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The table shows a slight increase of 39.738.567 DZD in the fiscal revenues between 2016 and 2017. However, there is no index of a radical change in the administrative or control systems before the adoption of SAP system. Besides, we witness a giant leap in the fiscal revenues after applying SAP in 2021, as the revenues did not exceed 04 billion DZD, and, then, increased to more than 04.7 billion DZD, marking an increase of 59426378746 DZD.

Conclusion

The theoretical and practical analyses in this study on the financial corruption in the Algerian economic environment show a set of results and recommendations that help better understand the phenomenon and direct the efforts to fight it.

Results:

- The financial corruption is one of the main challenges that hinder the economic development in Algeria, as it negatively affects the stability of the public institutions and deepens the trust gap between the citizens and the government.
- The anti-corruption mechanisms in Algeria face weakness in implementation due to the structural obstacles and the negative practices inside the administrative system.
- The fiscal administration is one of the most sectors affected by corruption, as it witnesses low revenues and high tax evasion cases.
- Fostering the good governance and transparency in the public institutions, mainly in the taxes sector, is paramount for fighting corruption and achieving a sustainable economic development.

Recommendations:

- It is necessary to support the independence of the control entities and equip them with the necessary resources to achieve an efficient control on the performance of the governmental institutions, including the taxes administration.
- The public officials, mainly in the taxes sector, should be encouraged to pursue professional training on fighting corruption and fostering integrity.
- The local governments must adopt a comprehensive anti-corruption strategy, with a focus on improving the disclosure and transparency in managing the public funds.

- It is necessary to improve cooperation between the different control entities to promote the good governance frames and develop electronic systems that help limit the corrupt practices inside the governmental institutions.
- Combating corruption is a shared responsibility that needs a strong political will and the cooperation of different social actors to achieve the sustainable development and improve the state services.

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