

The Problem of Financing Local Development Programmes in Algeria

Melouka Beghaoui

Dr Moulay Tahar University, Saïda (Algeria)

Email: beghaouicfsaida20@gmail.com

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Abstract

Local development, as a joint undertaking involving community and government efforts, depends on local financing, which reflects the extent to which local government can make decisions independently of the central administration. This independence allows local authorities to discharge their assigned responsibilities and finance projects that serve their residents using their own financial resources. These resources need to be strengthened, particularly because local authorities receive only a small share of tax revenues, even though taxation is a major source of local finance. Greater access to such resources would enable them to make decisions with less dependence on the central government. This study aims to highlight the main challenges facing local financing in Algeria and the principal local financial reforms intended to address those challenges.

Keywords: Local development; financial autonomy; local financing; decentralisation.

Introduction

Community development, or local development, is a human-centred process or movement aimed at improving conditions in rural and urban areas through the combined efforts of residents, voluntary organisations and government. These actors work together to identify community needs and problems, agree on their priorities and implement projects selected according to their importance and the resources available.

Like other countries seeking to develop local communities, Algeria has introduced reforms to the organisation of local authorities and strengthened their role in development programmes across social, economic and financial fields. These measures seek to advance local development throughout the national territory and achieve balanced and sustainable development.

La problemática de la financiación de los programas de desarrollo local en Argelia

Melouka Beghaoui

Universidad Dr. Moulay Tahar de Saïda, Argelia

Correo electrónico: beghaouicfsaida20@gmail.com

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Resumen

El desarrollo local, entendido como una iniciativa conjunta que articula los esfuerzos de la comunidad y de los poderes públicos, depende de la financiación local, que refleja el grado de autonomía de las administraciones locales para tomar decisiones respecto de la Administración central. Esta autonomía permite a las entidades locales cumplir las competencias que tienen atribuidas y financiar, con recursos propios, proyectos destinados a atender las necesidades de sus habitantes. Es necesario fortalecer estos recursos, especialmente porque las entidades locales reciben una proporción reducida de los ingresos tributarios, pese a que la tributación constituye una de las principales fuentes de financiación local. Un mayor acceso a dichos recursos les permitiría tomar decisiones con menor dependencia del Gobierno central. Este estudio tiene como objetivo destacar los principales desafíos que afronta la financiación local en Argelia y las principales reformas de las finanzas locales orientadas a superarlos.

Palabras clave: desarrollo local; autonomía financiera; financiación local; descentralización.

Yet implementing these programmes requires local financial allocations that are independent of central financing. Local authorities therefore seek to generate wealth and achieve self-financing. This raises the following research question: What are the main obstacles to local financing in Algeria, and how can they be overcome?

To address this question, the study examines the following two issues:

1. The nature of local financing and local development
2. Obstacles to local financing and prospects for reform

On the basis of the main research question and its subsidiary questions, the study assumes that shortcomings in Algeria's development process stem from the lack of financial-resource autonomy among local authorities, which is essential to community development. It further assumes that resolving the local financial crisis depends on an overall approach within a comprehensive programme to modernise and reform administrative organisation and management.

1. The Nature of Local Financing and Local Development

Local public finance is particularly important as an instrument for achieving local development and improving services delivered to residents. Financial autonomy is therefore essential for exercising local responsibilities and managing local affairs, and ultimately contributes to development.

1.1. The Concept of Local Financing

Local authorities rely on financial resources embodied in municipal and wilaya budgets. These consist of revenues and expenditures used to manage projects and programmes aimed at comprehensive development for local residents.

Local financing can be defined as all available resources that can be mobilised from various sources to finance development within local administrative units, in a manner that maximises the rate of development over time and strengthens the local authority's independence from central government in achieving the desired local development.¹

Local resources must meet certain conditions, including the following:²

- Local origin of the resource: the tax base or source of the resource should lie within the territory of the local unit receiving its proceeds and should, as far as possible, be distinct from the bases of central government revenue.
- Autonomy of the resource: local bodies should have some independence in setting rates, where permitted, and in assessing and collecting revenues so that they can reconcile financial requirements with available resources.
- Ease of administration: resources should be straightforward to assess and collect, with manageable collection costs, among other considerations.

In general, local government financing resources fall into two major categories: internally generated local resources and external local resources.

1.1.1. Internally Generated Local Resources: These comprise several subcategories that local systems use to finance development from their own resources. Their diversity and scale vary from country to country according to financial capacities and economic arrangements. The most important include:

- Local taxes: compulsory financial contributions paid by individuals to the state or a local public body, without any direct personal benefit in return, as a contribution to public costs and burdens.³
- Local fees: payments made by beneficiaries to the state in exchange for a specific service. A local fee is collected by the public entity representing the local unit in return for a service that directly benefits the payer, even where that service also serves the public interest. Examples include slaughterhouse fees, waste-collection fees and charges for certain public facilities.⁴
- Proceeds from the operation and investment of public facilities: these include rent from dwellings, commercial premises and land held by local authorities, proceeds from the disposal of such property and income from public services provided to residents.⁵
- Popular participation through voluntary efforts: from the standpoint of the participatory approach (partnership), this idea is associated with thinkers such as John Locke, who linked the legitimacy of authority to the legitimacy of public opinion formed by citizens, and Jean-Jacques Rousseau, whose social-contract concept advocated interactive participation as a means of social change and collective management of public affairs.⁶

The participatory approach is a central pillar of local development. Local citizens play an active role in formulating public policies and monitoring their implementation through programmes across different fields that benefit the community as a whole.

1.1.2. External Local Resources: Because their internal financial resources are insufficient, local authorities seek external financing to cover the deficits experienced by most municipalities. These sources include:

- Proceeds from local property: income from letting dwellings, selling crops, rights over public frontages, selling goods and providing services.⁷
- Government grants: financial amounts contributed from the state's general budget to local development expenditure and the expenses of local councils, enabling them to perform certain statutory functions. These grants supplement local authorities' financial resources and reduce disparities between them, bringing local needs into closer alignment with the level of goods and services supplied. They include state support, particularly Municipal Development Plans and Decentralised Sectoral Plans.⁸
- Municipal Development Plans: short-term action programmes adopted by the competent authorities pursuant to Decree No. 09 of August 1973. They are intended to establish administrative decentralisation by meeting residents' basic needs and supporting the economic base. Such plans cover commercial and agricultural facilities, basic infrastructure and implementation facilities.⁹

- Decentralised Sectoral Development Programme: a nationally oriented plan encompassing investments by the wilaya and the public institutions under its supervision. It is carried out in the name of the wali (governor); its preparation involves technical studies conducted by the executive body. The plan sets out programmes and resources for the medium term to secure the wilaya's economic and cultural development.¹⁰
- Donations and gifts: resources received by local councils through contributions made directly or indirectly by citizens to finance their projects. They may also arise from a legacy left by a deceased citizen without heirs or from a gift made by an expatriate, subject to the approval of the central authorities.¹¹

1.2. The Concept of Local Development

The concept of local development occupied an important place in political and economic discourse during the final two decades of the previous millennium. It was seen as an alternative to centrally planned development. Several schools of thought contributed to its emergence, offering complementary approaches to the different dimensions of the concept.

1.2.1. Definition of Local Development

Local development means distributing the state's development effort from the national level to regions, districts, cities, municipalities, rural areas, settlements and local communities in a way that allows citizens to participate more directly in governance.

It also includes every action and activity directed, first and foremost, towards the population of a specific area. Local communities are therefore the natural focus of development activities. Comprehensive development can be achieved through horizontal development involving the entire population and all parts of the national territory. The state, for example, sets the objectives and directions for each sector, while implementation moves from the local towards the national level.¹²

The United Nations has defined it as "the processes by which the efforts of the people themselves are united with those of governmental authorities to improve the economic, social and cultural conditions of communities, to integrate these communities into the life of the nation and to enable them to contribute fully to national progress."¹³

Local development requires several conditions, as follows:

1.2.1. Financial conditions: Finance is a crucial element of the development process. Local administration's success in achieving local development depends on the availability of financial resources. As financing sources expand, local authorities become more capable of exercising their duties without relying on financial assistance from central government.¹⁴

2.2.1. Human conditions: Human resources are the most important element in production. People think, plan the best use of available resources, manage financing for projects, implement and monitor those projects, and review them. Human resources must therefore be motivated and involved in decision-making.¹⁵

3.2.1. Organisational conditions: These concern the administrative system under which functions are distributed between central administration and independent decentralised local bodies with legal personality, while remaining subject to some central supervision.¹⁶

1.3. The Relationship Between Local Financing and Local Development

Financing local authorities presents a major challenge to both the state, in providing central financing, and local authorities, in securing their own funding. This reflects the state's financial position and the inability of local authorities to generate sufficient self-financing to insulate themselves from recurrent changes in a national economy marked by instability because of its dependence on a single resource and the absence of economic diversification.¹⁷

Local development therefore depends on the availability of financial allocations and the effective use of existing resources, especially tax revenues. Although these resources are often described as inadequate, failures in local development cannot always be attributed to a shortage of local tax revenue: existing receipts may be sufficient to contribute to planned development. Success also depends on sound management and optimal use of available tax resources, while elected bodies must discharge their responsibilities seriously and effectively.

Local financing is reflected in the revenues of local authority budgets, which are converted into expenditure on development programmes serving the public interest. These programmes take the form of plans, including Municipal Development Plans funded through municipal budgets and centralised or decentralised sectoral programmes implemented at wilaya level.

2. Obstacles to Local Financing and Prospects for Reform

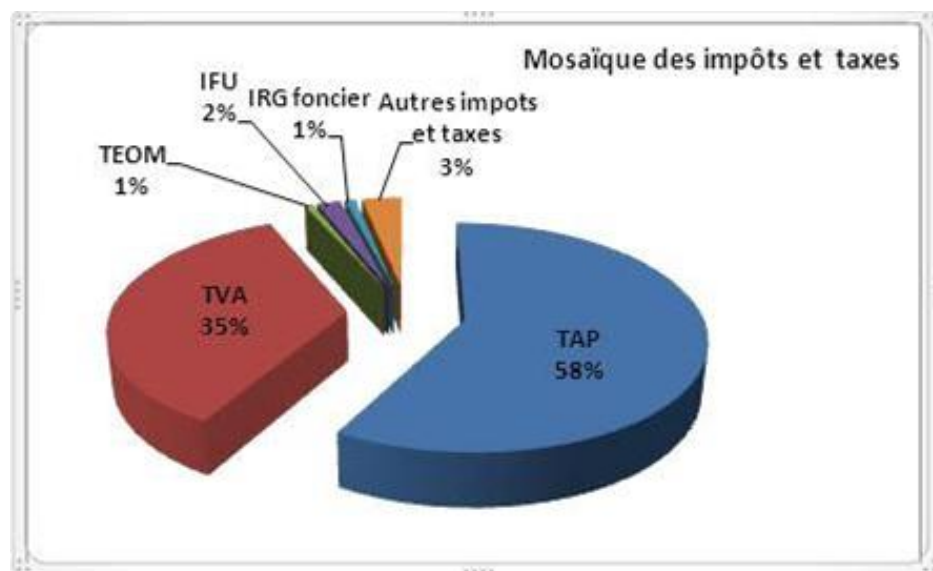
As noted above, finance is indispensable to local development. Sufficient resources allow local bodies to fulfil their duties, provide services to residents and exercise their responsibilities adequately using their own resources rather than requesting assistance from central government.

2.1. Problems of Local Financing

Financing territorial authorities is among their greatest challenges. Their own revenues are weak relative to annual expenditures because of limited local taxation and the absence of local investment. Consequently, most depend almost entirely on state grants to cover expenses. Local financing faces several obstacles:

- Weak local taxation and state dominance: Local authorities collect taxes pursuant to legislation and the principle that no tax may be imposed without a law, but receive only small shares of taxes and fees compared with the state, with which they divide the proceeds, under Finance Law No. 84/17, particularly Article 79.¹⁸ These shares are not commensurate with the functions and services entrusted to local administration. State control over major tax bases and the centralised structure of taxation weaken the local fiscal apparatus, discourage local authorities from developing their own resources and perpetuate dependence on state grants. The ageing tax system is also increasingly unable to meet new local economic-development requirements.

Figure 1. Composition of Taxes and Duties



Source: Ministry of the Interior, official website: <http://www.interieur.gov.dz/>

Figure labels in the source image: TAP (58%); TVA/VAT (35%); TCDM (1%); IFU (2%); land income tax (1%); other taxes and duties (3%).

- Accumulated municipal debt: The Ministry of the Interior and Local Authorities recently reported that 417 of Algeria's 1,541 municipalities were entirely unable to manage their financial affairs from their own resources. Their financial deficit was estimated at more than 300 billion, while the number of financially distressed municipalities had declined from 1,138 in previous years, easing the burden on the public treasury. The latest statistics cited put municipal debts at more than 2,200 billion centimes. For many municipalities, accumulated debt and repayment instalments place such a burden on their budgets that their ability to operate is almost paralysed.¹⁹
- Growing demand for local expenditure: Algeria has experienced uneven population growth accompanied by increased expenditure. Rising cultural and social awareness among Algerians has also been associated with greater demand for goods and services.

2.2. Mechanisms for Improving and Reforming Local Taxation

To find solutions to the financial problems facing Algeria's territorial authorities, particularly deficits that have contributed to a development crisis at both local and national levels, the central authorities have introduced several arrangements and mechanisms. These respond to citizens' growing demands for local development, reduced disparities between municipalities and wilayas, and improved living conditions.

2.2.1. Government Support for Local Development Programmes

Decentralisation policy entails the assumption of new economic functions at local level within a renewed financial and accounting framework. In managing local affairs, the state has supported various social sectors that enable young people to assume responsibility, fulfil their civic duties and exercise their constitutional rights. The following are important sectors receiving financing:

- Employment policy: The state has devoted attention to graduates of universities and other educational institutions, particularly in response to high unemployment among young people. It has therefore intervened by establishing employment-support bodies to help reduce unemployment.

Table 02. Employment Agencies and Programmes Used to Combat Unemployment

Youth vocational integration agencies	Youth National Social Development Agency (ADS)	Employment Unemployment Insurance	Support Fund (FAEJ) (CNAC)
Labour-intensive works	public-benefit	National Agency for Youth Employment Support (ANSEJ) Pre-employment contracts (CPE)	
		National Investment Development Agency (ANDI)	
		National Agency for Microcredit Management (ANGEM)	
		National Employment Agency (ANEM)	
		Zakat Fund experience	

Source: Hussein Briati and Nabila Msiliti, “The Problem of Unemployment and Employment Mechanisms in Algeria”, *Journal of Marketing Studies and Business Administration*, vol. 2, no. 1 (2018), p. 156.

- Health policy: The health sector has experienced uneven developments owing to demographic and epidemiological changes and social demands on public authorities. The healthcare system has been shaped more by the availability of financial resources than by a genuine health policy. The Algerian government has consequently faced pressure for structural changes to enable the sector to meet different health challenges.

Table 01. Development of Healthcare Coverage Expenditure in Algeria (2014–2017)

/	2017	2016	2015	2014
Medical personnel	93322	98551	100572	105
General practitioners	69076	73431	74937	78838
Dental surgeons	13168	13645	13747	14263
Pharmacists	11078	11475	11888	12337

Source: National Office of Statistics (Algeria)

Bulletins 2015/45, 2016/46, 2017/47 and 2018/48, p. 25.

Referring to Algeria's finance laws for 2014, 2015, 2016 and 2017, the study observes an increase in the pace of expenditure growth associated with a rise in healthcare personnel, including medical staff, general practitioners, dental surgeons and pharmacists.

- **Housing policy:** During 2005–2014, the authorities sought a major advance in housing policy to address the housing crisis and improve Algerians' living conditions. Two five-year plans respectively envisaged one million dwellings in the first period and two million units in the second, supported by an appropriate legislative framework and a set of objectives intended to achieve effective housing policy and provide housing meeting international standards. Substantial funding was required across the wilayas.

Table 03. Housing Schemes in the Period 2010–2014

Housing programme	Number of housing units	Rate / percentage
Public rental housing	500.000	25%
Housing intended to eliminate substandard housing	300.000	15%
Rural housing	700.000	35%
Promotional housing	500.000	25%
Rural dwellings	384.620	37.17%

Source: Osama Khouja, "Reforming Public Housing Policy as a Mechanism for Managing the Housing Crisis in Algeria, 2005–2014", *Al-Naqid Journal of Political Studies*, vol. 4, no. 1 (2020), p. 178.

2.2.2. Programmes Supporting Economic Reforms

These programmes respond to particular conditions and aim to address and overcome them. The most important programmes are as follows:²⁰

A. **Economic Recovery Support Programme (2001–2004):** This programme sought to reduce poverty, create jobs, achieve regional balance and revive development across the national territory. It helped stabilise the national economy and renew economic growth, which peaked at 7% in 2003. Accompanying achievements benefited residents in healthcare, water resources, rural development and other sectors.

The programme was prepared and launched in 2001 for 2001–2004. It aimed to revive public investment through an initial financial allocation of DZD 525 billion, including DZD 114 billion for local development through decentralised sectoral programmes and Municipal Development Plans. Its emphasis was on stimulating and supporting local development, enhancing the territorial environment and achieving regional balance.

B. **Complementary Growth Support Programme (2005–2009):** This programme aimed to consolidate earlier achievements and create conditions for sustained growth and social well-being through considerable resources. It also sought to improve living standards by expanding national infrastructure, particularly transport networks, public works, irrigation, agriculture and rural development.

The programme's financial allocation was estimated at DZD 9,000 billion, of which DZD 1,981 billion was allocated to wilayas and municipalities through decentralised sectoral programmes and Municipal Development Plans, equivalent to 22% of the total allocation.

C. Catch-up Programme: Led by the Ministry of the Interior and Local Authorities, this programme was approved at a meeting of walis and the government in June 2006. With a budget of DZD 60 billion, it adopted a neighbourhood-oriented approach to remedy certain social and economic disparities and meet urgent needs not addressed by earlier or ongoing development programmes.²¹

D. Five-Year Development Programme (2010–2014): This programme extended the Complementary Growth Support Programme (2005–2009) across development sectors, while placing greater emphasis on housing. It revised subsidies for home ownership and provided for 1.2 million housing units, alongside projects involving roads, transport, water, health, employment and other basic infrastructure directly affecting living conditions.

By supporting urban rental housing for low-income households and property development through rent-to-own and contributory arrangements, the programme was also intended to increase rural housing provision, given its significance for rural development and the national strategy for the High Plateaus and southern Algeria.

E. Five-Year Development Programme (2015–2019): This new five-year investment programme was valued at DZD 21,000 billion, equivalent in the text to USD 262.5 billion, and was intended to develop a competitive and diversified economy. Continuing earlier development and investment programmes, its preparation included national and local consultations to learn from previous experience, improve its impact on local and human development and promote a productive and competitive economy across sectors.

F. Southern Regions Development Programme: Development of southern regions is closely linked to protecting the environmental systems of their oases and deserts and conserving scarce resources. Like other areas, southern Algeria benefited from substantial investment under various development plans and special programmes. A dedicated fund for the development of southern regions reflected the state's intention to reduce social and economic disparities between territories, promote these regions and raise their local development rates, thereby fostering regional balance nationwide.²²

2.2.2. Proposals to Strengthen Local Authority Finances

The financing problems described above, and the persistent and substantial deficits they have produced, have left Algerian local authorities unable to fulfil their assigned functions and responsibilities. Measures should therefore be considered to eliminate or reduce these deficits by addressing shortcomings in local taxation and the local tax system:

- Reconsider certain fees and taxes, especially the 10% share of value-added tax assigned to local authorities under Algerian legislation. The article regards this share as unfair and advocates allocating a larger portion to municipalities as the bodies responsible for local development. It also proposes that the state transfer part of its tax and fee receipts to local authorities and distinguish the revenues assigned to them, thereby enabling fiscal autonomy.²³

- Rationalise local expenditure by directing spending towards priority concerns, controlling local outlays and using self-financing to enhance assets and productive investment. The text argues that reliance on state intervention to meet continually rising operating expenses is no longer viable and that municipalities must seek new projects and financing sources consistent with the government's economic approach.²⁴ Suggested measures include:

- Controlling local spending through expenditure rationalisation and reconsidering how responsibilities are distributed between central and local authorities.
- Adapting training programmes for heads of local councils to development requirements and local conditions, linking them to local public-service standards and putting them into practice.
- Strengthening mechanisms for citizen participation in proposing development programmes and monitoring their implementation.
- Consolidating municipalities. This should not be understood as depriving residents in remote areas of local development or elected representation. Rather, it would release significant funds previously spent on operating the financially distressed municipalities. Pooling those funds and the limited revenues of these municipalities with those of others would make it possible for a single entity to allocate resources across the areas concerned and finance capital expenditure, investment and local development.²⁵

The condition of many municipalities has compelled the government to reconsider the entire regulatory framework for local authorities, enabling them to meet the challenges of delivering public services and residents' daily needs. This requires regular service provision and sufficient financial resources to prepare local budgets and implement their programmes effectively.²⁶

3. Conclusion

Because resources are insufficient to meet the state's development objectives and do not match residents' growing needs, central authorities must provide financial assistance to cover the deficits faced by most municipalities. The following measures are required for the implementation of public policies directed towards local authorities:

- Ensure financial resources are available for development programmes serving people at local level. The importance of financing is linked to the diversification of municipalities' financing sources, as municipalities are the clearest expression of administrative decentralisation.
- Grant local authorities autonomy in the management of their affairs, particularly finances, by involving them in determining the appropriate tax base and allocating them a larger share of tax receipts.
- Give greater attention to human resources through training and professional development for both appointed and elected officials, as the human element is central to wealth creation.
- Involve the private sector in development to reinforce investment at local level.

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