

## From territorial governance to the governance of public enterprises in Algeria. APE Sonatrach .

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### Abstract.

The study focused on the importance and necessity of the governance of natural resources management in Algeria (oil and gas), which determines the nature of the rental economy of hydrocarbons, which contributes to the largest proportion of the national income represented by the revenues of the Sonatrach enterprise, and by attempting to move from the concept of regional or local governance .The governance of public institutions, such as Sonatrach (central decision), and based on the statistics of the Natural Resources Governance Index (2013-2017), shows that Algeria is still ranked in the implementation of regional or institutional governance provisions. Such as the fuel supplier by rationalizing Sonatrach's investments on profitable investments and channeling their revenues towards sustainable local development .

**Keywords:** Governance, Public Enterprise, Sonatrach, Natural Resources (Fuels).

**Jel Classification Codes:** M1.

### Résumé.

L'étude a porté sur l'importance et la nécessité de la gouvernance des ressources naturelles en Algérie (pétrole et gaz), qui détermine la nature de l'économie rentière des hydrocarbures, qui contribue à la plus grande partie du revenu national, représenté par les revenus de Sonatrach, et en tentant de sortir du concept de la gouvernance locale a La gouvernance des entreprises publiques, comme Sonatrach (décision centrale), basée sur les statistiques de l'Indice de gouvernance des ressources naturelles (2013-2017), montre que L'Algérie est toujours classée dans la mise en œuvre des dispositions de gouvernance locale et institutionnelle. Comme le fournisseur du carburant en rationalisant les investissements de Sonatrach sur des investissements rentables et en canalisant leurs revenus vers un développement local durable.

**Mots-clés:** Gouvernance, entreprise publique, Sonatrach, ressources naturelles (carburants).

**Codes de classification Jel:** M1.

## 1. Introduction.

Algeria, like other oil countries, has a vital need for dual economic and political diversification to manage and manage their natural resources (oil and gas) in order to improve its growth prospects. Economic diversification can be based on an impetus of the State, through the new industrial policy based on an international opening, which alone can improve the competitiveness of Algerian public companies and the quality of their products. Currently, the financial means exist but it is not sure that this opportunity can be renewed in the future. It is therefore essential that the country take this turn in the best conditions. (*Ainas. Y, Ouarem. N, & Souam, S., 2012, 21*).

A clear statement is needed to qualify Algeria today common country annuitant increasingly dependent on hydrocarbons and struggling to sell it. This is very damaging because basically it is not a major hydrocarbon producer. Reserves/Production ratios are relatively low compared to the

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major oil countries (18 years for oil and 56 years for gas). What are the risks and opportunities associated with the surge in hydrocarbon prices for Algeria? On the opportunities side, investment in infrastructure essential to improving the living environment (health, education, housing, transport, electricity) and business (East-West highway, telecommunications, poles of excellence, etc) has been widely developed in recent years. (*Bouhou, K. 2009*).

The development of a dynamic of territorial economic valorization animates the strategic visions of the local decision-makers. Citizens, universities, companies, and associations have a sustained approach to

the design and implementation of innovative action plans, including socio-economic transition. (*Gylfason, 2010, 41*).

Governance thus implies today a new organization of power and a new way of governing the national economic society. In short, governance refers here to what could be described as a new paradigm of public management. This new governance is characterized by the transition from "guardianship to contract, from centralization to decentralization, from the redistributive state to the regulatory state, from public service management to management in accordance with market principles, Public "guidance" to the cooperation of public actors and private actors». (*Merrien, F.X, 1998*).

Territorial governance, this system-territory leads to the need to set up structures of complex partnership between actors, structures that will also have to federate around a territorial project. This implies a shift in the perception and practices of competition towards situations that create solidarity, exchanges, agreements, and the development of joint projects within a geographical but also organizational context. Partnership on a territorial basis. And *Sonatrach* At the international level, the *Sonatrach* Group has set up a system to reorganize these activities by bringing together subsidiary companies abroad around an international holding company (SIHC) set up in July 1999, which operates in different countries. And after mismanagement within the Algerian public enterprise, and the financial and administrative scandals, especially in the national society "*Sonatrach*" What is considered a rentier economy in Algeria through the national income up to 97 %. And After the failure and inability of public management of sovereign natural resources (oil and gas) by the Algerian State and supervisors to "*Sonatrach*" to improve economic performance and sustainable development. All this has called for the need to look for the effectiveness of the system of territorial governance at the level of the natural resources in Algeria and its relation with the rationalization of the decision-making process.

•**The problem of study.**

Economic research can target the analysis of visions and institutional approaches to territorial development and governance by highlighting the practices deployed and the difficulties encountered. And the quality of services to the citizens as well as the attractiveness of a territory. How can actors promote a close relationship that ensures high value-added governance? Given the diversity of actors and expectations, what are the most propitious choices for a territory? How to avoid fragmenting reality in the face of the multiplication of the levels of the local government will then have to satisfy a certain number of conditions to respect and develop the assets developed by the territory. (*Leloup, F., Moyart, L. & Pecqueur, B. 2005*).

The issue of territorial or local governance is linked in one way or another to those of public policies and natural resources (oil and gas). While it is clear that the availability of resources should, within a medium-term horizon, be the frontier of opportunities for sound public economic strategies

and policies (with or without domestic or foreign borrowing), territorial and public) may or may not provide conditions favorable to policies at the territorial level. The literature on this subject has shown that, because of the high ambitions attached to them and the administrative procedures and modalities of their implementation, national public economic policies have rarely reached the expected level of performance for to cover the costs incurred in compliance with the principle of sustainable development.

*In light of these events and brief explanations on the subject, we come to ask the research problem. How to achieve good management of Algeria's natural resources through the transition from territorial governance to the governance of public enterprises?*

## **2.Governance and institutional policies for territorial development.**

The text proposes to explore the notion of governance applied to territorial dynamics. The first step is to show that the notion of territory considered as an active entity constitutes a radical change in the approach of space in the process of sustainable development. For a territorial vision of governance. Also, some authors adopt a practical vision of governance, emphasizing that the reality of government is undergoing major changes that mark a profound break with the past.

### **2.1. Governance, which dynamic concept?**

*Jean-Christophe Mathias* denounces the abandonment of the term "government" in favor of "governance" by explaining that this is a break in the decision-making power of the state guarantor of popular sovereignty, replaced by a participatory democracy having - in its view - no really political attribute. For this independent researcher. (*Jean-Christophe M, 2009*).

The government's shift to governance demonstrates that we have gone from a civilization of popular sovereignty embodied in the republican law, which guarantees the general interest, to a pragmatist, particularist and utilitarian society, guarantor of singular economic interests, in which the notion of the common good no longer has a real place. (*Letter from the Law and Justice Research Mission No. 33, Freedom of Information, p. 2*).

The analytical framework of governance is a methodology designed to understand situations of "governance" when collective processes determine solutions to problems of a public nature and produce social norms or institutions.

The notion of governance is part of a fairly wide-ranging problem of efficiency and effectiveness of public action, and concerns the relationship between authority and power. The notion of governance rests in fact on three theoretical foundations or postulates. (*Belmihoub, M.C., 2003*).

✓The first concerns the existence of a crisis of governability, that is to say, the loss of centrality of the State body and the least efficiency and effectiveness of public action;

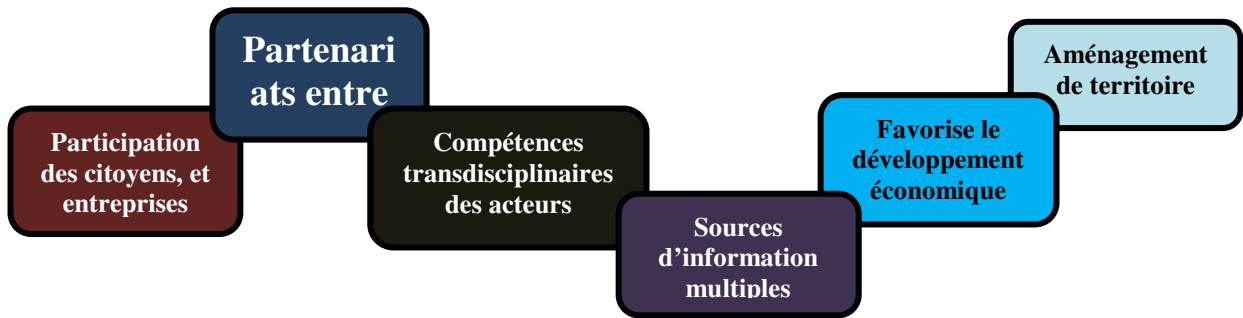
✓The second shows that this crisis reflects the exhaustion of traditional forms of public action and the disillusionment of public opinion;

✓The third and final postulate concerns the emergence of a new form of governance that is better adapted to the context.

### **2.2. Definition of concepts.**

Territorial governance can be defined and its relationship with certain terms related to research is illustrated by the following forms.

Figure (1): Territorial governance and Enterprise Development Mechanisms.

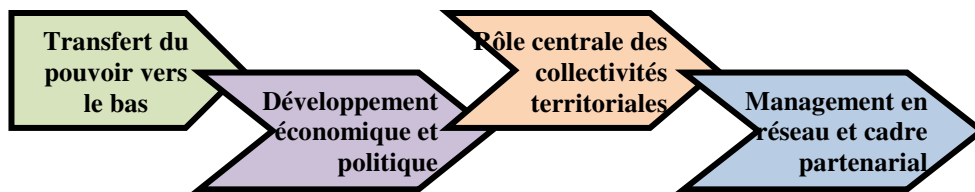


Source: Bounazef. D, (2012), **Rôle de la gouvernance territoriale dans le système de prévention des risques majeurs et de gestion des catastrophes en Algérie (Role of Territorial Governance in the Major Hazard Prevention and Disaster Management System in Algeria).**

National Seminar on Climate Vulnerability and Prevention of Major Hazards, EHEC-Algiers, House of Culture Rachid MIMOUNI - Boumerdès - 23rd and 24th of May 2012, p.10.

Gouvernance territoriale ou locale consiste en un ensemble d'institutions, de mécanismes et de processus qui permettent aux citoyens et aux entreprises économiques d'exprimer leurs intérêts et leurs besoins, de régler leurs différends et d'exercer leurs droits et obligations à l'échelon local.

Figure (2): Territorial governance and management power.



Source: Bounazef. D, (2012), op.cit, p.11.

Territorial or local governance aims to transfer power to local economic actors in order to achieve economic and political development that is led by leaders themselves and focuses on reducing mismanagement of natural resources such as oil and gas. This concept involves the vertical transfer of responsibilities and resources from central government to local governments, as well as the development of horizontal networks between these communities and non-state actors. ( *Bounazef. D, 2012, 9-10* )

### 2.2.1. The main types of governance.

There are two main types of governance: corporate governance for the private sector and politico-economic governance for political and administrative thinking. In economic governance, one speaks of territorial or local governance according to the scales of governance discussed. In particular, governance concerns: (*Ostrom E., 1990*):

- ✓ Public or collective or collaborative management of common goods (natural resources);
- ✓ The government, public institutions such as the WTO, the UN, the European Union, the states, local authorities, the OECD etc ... for moralizing exchanges, respecting citizens' rights, the environment and of natural resources;
- ✓ Management of joint-stock companies, when shareholders should not be mere capital providers;
- ✓ The management of social agencies for the respect of contributors and beneficiaries;
- ✓ Associations' organizations (NGOs, communities) for the respect of the members.

### 2.2.2. Measuring governance.

Since the Rio World Summit, in many areas, there has been a desire to better assess and measure the quality of multilevel governance systems, multi-site governance ...), which requires the production of credible and comparable one country and from one administrative scale to another. For example:

✓The *World Bank Governance Indicators* (WGI) project developed by members of the World Bank and the World Bank Institute (WBI) publishes global and individual indicators for more than 200 countries on six dimensions of governance: voice and accountability, political stability and absence of violence, governance effectiveness, quality of regulation, rule of law, control of corruption.

To complement the WGIs, located at the macro-level and cross-country, the World Bank Institute has developed governance studies called World Bank Governance Surveys, scale micro and subnational levels, using information gathered from a given country to diagnose weaknesses in governance and suggest concrete approaches to combat corruption. (Daniel. K, Aart. K, &Massimo. M, 2005).

✓Local Agenda 21s and many communities are seeking to decline these indicators on their scale. Methods of this type have been tested by the World Bank for 6 dimensions of governance; for 199 countries and territories, and for four periods (1996, 1998, 2000 and 2002), based on 25 data sources from 18 entities, with margin of error calculation. This work was continued for 2004, 2006 and subsequent years.(Daniel. K, and other, op.cit).

✓The OECD recognizes that some of these indicators have been subject to "undue use", for example in the context of "*greenwashing*" communication operations.

### 2.3. From Territorial Governance to corporate Governance.

Governance is therefore not a configuration of strictly economic or strictly socio-political coordinations: it is a combination of these dimensions, characterized by a variable density of interactions between the three categories of actors».(Gilly & Perrat, 2003).

In all cases, the State remains an important interlocutor, regulating administrative levels and guaranteeing redistribution. It is not a question of making a genealogy of corporate governance or of presenting its different meanings, but of sticking to the definition of governance mobilized within the framework of the research plan studied. The development of the actions and the powers of the market economy in Algeria from the middle of the last two decades according to the modern definition of the notion of governance mobilized within the framework of the Algerian economic reforms correspond to that which aims to overcome the management failures of the Algerian government. Emphasis is placed on the forms of horizontal interactions between local economic actors with a view to the autonomy of natural resources in relation to the State. This approach is linked to the way the Algerian state operates: interpenetration of different levels of government managers and controllers, the presence of many non- state economic actors, and the absence of a sovereign government role. (Leloup, F., Moyart, L. & Pecqueur, B. 2005, Op.cit. ).

The concept of territorial governance makes it possible to include in the territorial decision-making processes the existence of these multiple actors and relations, the importance of networks, the emergence of conflicts and negotiations, development translated into objectives and actions Territorial governance responding to the emergence of new development spaces, built by and for the actors who appropriated them, the political and administrative space and the top-down politics no longer prevail, and electoral suffrage can no longer ensure the representativeness necessary to democracy. Thus, the principles of participatory democracy are naturally associated with the notions of territorial governance, to seek new channels of consultation, participation and legitimacy in order to bring about not only opinions but processes and decisions. (N. Bertrand, Y. Gorgeu, P. Moquay, 2001).

The resulting territorial governance rests on the multiplicity of actors, the definition of an identity space and the elaboration of common actions and productions. This particular form of governance underlies multiple proximity since it combines geographical proximity and organizational and institutional proximity of the actors. Territorial governance, also called local governance, is a system of governance at different levels and territorial levels in federal states and decentralized unitary states. It generally involves the parties responsible for the objectives, functions and management of the community, as well as for evaluation in the economic, social and environmental fields. (*Leloup, F, Moyart, L. & Pecqueur, B. 2005, Op.cit , 54*).

*Territorial ance is at the crossroads of two mutations, both of which are decisive in order to reconcile citizens with politics in order to meet the demands of an increasingly complex world in order to lead the transition towards sustainable societies. The first of these changes is that of corporate governance. The second is the territories. Training in territorial governance cannot, therefore, be limited to promoting management techniques inspired by the private sector. It must be based on an understanding of the two mutations, their consequences at the level of local and regional authorities, and lead to modes of operational approach, guides for action.*

#### **2.4. Good territorial governance.**

Good governance aims to make public action more effective, close to the public good and to the general interest, and therefore more legitimate. It is supposed to make societies more easily or harmoniously governable. It therefore also presupposes a system which does not over-exploit its resources and which is capable of resilience (the notion of sustainable development). It has been widely used by public policy theorists, political scientists and sociologists since the 1992 Earth Summit, which highlighted the urgent need for more sustainable development ...). It is therefore also a theory of social regulation, which to function must be declined at all levels of government. Thus, we talk about local governance, urban governance, territorial governance, European governance, and global governance: there is therefore not a single model of governance, but rather systems of governance. (**Pierre. J, 2000**).

#### **2.5. What are the links between territory, local economic development and corporate governance in Algeria?**

Governance involves a complex set of actors and institutions that do not all belong to the sphere of government, but reflects interdependence between the powers and institutions associated with collective action. Governance involves networks of autonomous actors and assumes that it is possible to act without returning to the power of the State. (**Stoker .G, 1998**).

The economist **Bernard Pecqueur**, a local development specialist, defines governance as "an institutional and organizational process of building a compatibility of the various modes of coordination between geographically close actors, with a view to resolving the unprecedented productive problems faced by the territories". One can cite the definition of the critical dictionary of the territory which synthesizes fairly well other attempts to enunciate this concept: "In its current use, this term is an Anglicism. It refers to a way of approaching the question of government which does not give priority to the art of governing and the techniques of conducting the action but to the relations between the leaders and the leaders, in particular civil society and the State. (Pecqueur .B., 2000).

The situation of economic and social governance in Algeria, captured on the basis of objective criteria (quantitative indicators), which allows to explain the perception of governance based, on the other hand, on subjective evaluations. The 2003 UNDP report warns at the outset that in this regard "the central message of the R.M.D.H. is that the effectiveness of good governance is the key to economic development. In this respect, Algeria is poorly classified, which is hardly surprising, even if one accepts the bias of the subjectivity that governs the evaluation method adopted by the World Bank.

This methodology is based on aggregated governance indicators based on a broad set of data from 13 specialized agencies closely monitoring different aspects of governance institutions in virtually

all of the 173 UN member countries. On the basis of the definition of territorial governance adopted, three essential aspects are defined:(*Kaufmann.D., Kraay.A., Zaido.P. Lobaton, 1999*):

- ✓The process of selecting, monitoring and replacing governments;
- ✓The Government's ability to formulate and effectively implement economic development policies and strategies;
- ✓The respect that the citizens and the State take to the institutions governing the economic and social interactions. Today Territorial governance in Algeria, It is no longer a question of government of local administrative units but of coordinated governance of the actors of a territory, as defined in local development.

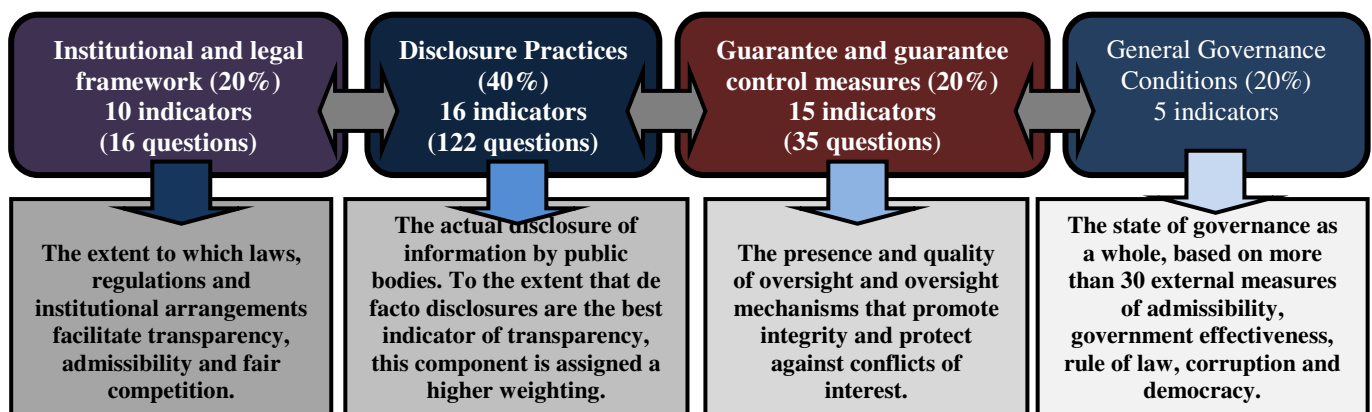
### 3. Methods and results.

#### 3.1.Components of the (local) natural resources governance index.

*The Resource Governance Index* (RGI) measures the quality of governance of the oil, gas and mining industries in 58 countries. These nations account for 85% of the world's oil production, 90% of the world's diamonds and 80% of the copper, generating trillions of dollars in annual profits. The future of these countries depends on their ability to manage their oil, gas and minerals.

The GIR notes and ranks countries on the basis of a detailed questionnaire completed by extractive industry researchers. The index measures the quality of four main components of governance: the institutional and legal framework, disclosure practices, quality assurance and control measures, and general governance conditions. It also includes information on three specific mechanisms often used to manage oil, gas and minerals - public enterprises, sovereign wealth funds and income transfers to local governments. (*Natural Resources Governance Index, 2013*).

**Figure (4): The four components of the Natural Resources Governance Index.**



**Source: Natural Resources Governance Index, (2013), Measuring Transparency and Eligibility for the Oil and Gas and Mining Industries, Seen the 24/02/2017**

Components include 24 indicators that assess the governance of three specific mechanisms in the majority of 58 countries: public enterprises (*10 indicators*), special resource funds (*8 indicators*) and the transfer of income from natural resources to local governments 6 indicators). These indicators are used to produce separate scores for these specific institutions and practices. Each of the 58 countries included in the Index produces hydrocarbons and / or minerals. For countries that produce both types of resources, the Index assesses governance for the type that generates the most revenue. We take into account oil and gas in 40 countries and minerals in the remaining 18 countries. For the three federal countries with decentralized governance of natural resources (US,

Canada, Australia), we evaluate one of the resource-producing regions. For India, the Index focuses on the federally managed gas sector.

The margins of error are an important point to take into account in any governance measurement exercise. We estimate the margins of error in the GIR based on the differences between indicators and components, all of which are objective witnesses of the "true", not apparent, quality of governance. On average, the implicit error margin for a country's score is +/- 13 points (90% confidence level). **Note on GIR indicators.**

### **3.2.Results of the GIR for Algeria.**

The GIR assesses four key components of resource governance in each country: the institutional and legal framework, disclosure practices, quality assurance and control measures, and general governance conditions. The Index (see Figure 1) assigns a rating to each country before dividing it into four performance levels.(*NRG I, 2013, op.cit*).

Algeria produced *2 million barrels of oil per day in 2015* and is the sixth largest exporter of natural gas in the world. Hydrocarbons have long been the foundation of Algeria's economy, accounting for *67%* of government revenues, *25%* of gross domestic product and *98%* of total exports in 2015.

**Table (1): Results of the Algerian GIR.**

Algeria	2000	2005	2015
Populations (millions)	30.5	32.9	36.0
GDP (in constant 2011 \$ billion).	69.9	115.9	188.7
GDP per capita, PPP (constant international billion in 2005)	60.81	7.169	7.643
Revenue from oil and gas sales (as% of total government revenues)	...	76%	67%
Exports of the extractive sector (% of total exports)	99%	99%	98%

**Source: revenue from oil and gas sales as a percentage of total government revenues according to the Economist Intelligence Unit and the International Monetary Fund. All other data are from the World Bank.**

Algeria received a score of 38, a "failing" level that placed the country in 45th place in 58 countries. Very low scores on safeguards and quality control measures and general governance conditions and an "insufficient" level of disclosure practices explain this result. (*NRG I, 2013, op.cit*)

#### **3.2.1. Institutional and legal framework: (Rank: 37th out of 58, note: 57/100).**

Algeria received a "partial" score of 57, its best result on all the components. Substantial revenues derived from natural resources do not enter the coffers of the state and are not declared to the legislature. The Department of Energy and Mines (MEM) grant permits through direct negotiations without going through a competitive process. Environmental impact assessments are mandatory and information on the legal framework for active sector is available on-line, but Algeria has no freedom of information legislation, nor does it is attached to the Extractive Industries Transparency Initiative.

#### **3.2.2. Disclosure Practices: (Rank: 38th out of 58, score: 41/100).**

Algeria's "inadequate" rating of 41 comes from its limited disclosures about licensing, contracts, environmental assessments and resource revenues.

The Ministry of Finance publishes limited information on oil prices and the value of resource exports. Since 2005, MEM has published data on hydrocarbon reserves, production volumes,

exports, companies operating in the country and production data by company / block. It does not publish detailed information on income streams.

### 3.2.3. Guarantees and quality control measures: (Rank: 51e out of 58, score: 28/100).

The "failing" result of Algeria is explained by the great freedom of maneuver enjoyed by *Sonatrach*, its public company, regarding the granting of permits and by the absence of a process of challenging decisions to grant permits. A national audit agency analyzes oil revenue and reports it to the legislature; however, these reports are only available on request. MEM reports are only subject to internal audit. Government officials who perform supervisory functions are not required to disclose their financial interests in extractive activities.

### 3.2.4. General conditions of governance in Algeria: (Rank: 39th out of 58, score: 26/100).

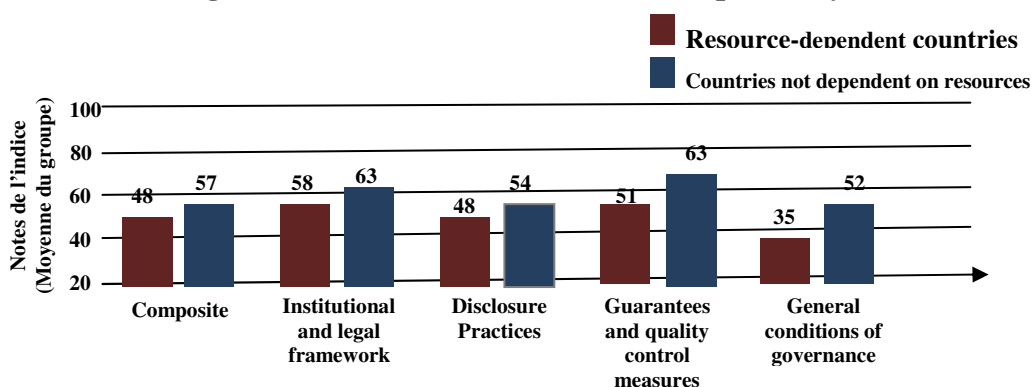
Algeria publishes only a negligible amount of information on the national budget process and is not at the best level on the rule of law. The level of democratic accountability is particularly low.

### 3.2.5. The Algerian public companies: (Rank: 22nd out of 45, note: 49/100) according to RGI.

*Sonatrach* belongs to the State and holds a majority share in all joint ventures with other companies in the field of energy. Its transparency and its governance system would need to be significantly improved. Its annual reports are available but contain deficiencies, such as insufficient reporting of quasi-fiscal activities. *Sonatrach's* audited financial statements do not comply with international accounting standards and are available only on request.

**3.3. The dependence of natural resources in the countries and the deficit of governance according to RGI.** Of the 58 countries included in the GIR (2013), 41 are classified as resource rich by the International Monetary Fund.

**Figure (5): Index scores for resource dependency.**



**Sources: Natural Resources Governance Index, (2013), op.cit, p.10.**

In each of these countries, oil, gas and / or minerals dominate the economy, accounting for at least 25% of Gross Domestic Product (GDP), exports or government revenues. Only five of the 41 countries (Norway, Mexico, Chile, Peru, and Trinidad and Tobago) have satisfactory natural resource governance standards (a composite score of 70 or more). Resource-rich countries receive an average score of 48 on the GIR, 9 points below the average of their 17 less resource-dependent counterparts (see Figure 2). A similar disparity is evident in each of the four components of the index. Among resource-rich countries, only Norway has a satisfactory rating for all components. Thirty-seven resource-rich countries have a less than satisfactory rating in at least two of the four components. Transparency is insufficient in the countries where it is most needed. Nine of the 15 failed countries (Algeria, Cameroon, Democratic Republic of the Congo (DRC), Equatorial Guinea, Iran, Libya, Qatar, Saudi Arabia and Turkmenistan) are among the most resource-dependent

countries in the world. In 2010, natural resource revenues in these countries reached more than \$ 530 billion, or about \$ 1,500 per capita; oil, gas and mining accounted for an average of 34% of GDP and an impressive 60% of total government revenues. A wealth of resources of this size affects all aspects of the economic and political life of these countries. Yet governments provide little or no information to the public about the sector on which their economic future depends. (IMF: the list of countries rich in natural resources. In the last published list 2012)

### **3.4. The legal and institutional framework for the hydrocarbons sector in Algeria.**

In the uncertain context of the hydrocarbon market, subject to complex determinations (geological, economic, political, geostrategic ...) with significant risk factors and sudden reversals, how has Algeria organized the legal framework and institutional framework in which this activity takes place?

Economic analyzes are not the only way to understand the situation of a rentier country. The analysis of the institutions set up often allows a better reading of the blockages. *Managing natural resource revenues* is crucial for development, through the trade-off between consumption and investment, between different types of investment, creation of sovereign wealth funds, transparency, accountability, and so on. In addition to the problems of corruption that such a policy can entail and the fact that they are less in the presence of democratic institutions, transparency and counter-powers, the legal management of the hydrocarbons sector can also be problematic. This section proposes an analysis of the evolution of the Algerian legal arsenal in this area. We show that successive redevelopments, at different historical stages, have different objectives (to recover sovereignty, increase production, attract FDI, and protect themselves from market fluctuations ...) but are also subject to internal and external constraints complex. Overall, there appears to be a lack of a long-term strategic vision for this sector, which is essential (NRGI, 2013, 10).

### **4.The fall in world oil prices since mid-2014 has led to a deterioration in macroeconomic balances in Algeria.**

In 2015, growth slowed down to **2.9% in 2014** as a result of the decline in the average oil price from **100\$ per barrel in 2014 to \$ 59 per barrel in 2015**. Because initially this was expected to be short-lived, the lack of fiscal consolidation led to a doubling of the budget deficit to **-15.9% of GDP in 2015** the current account deficit tripled to **-15.2% of GDP in 2015**. Exports of hydrocarbons account for 95% of total exports and about two-thirds of government revenue. Exports of hydrocarbons fell from a peak of **36% of GDP in 2011 to 19% of GDP in 2015**, while hydrocarbon revenues declined from a peak of **27.4% of GDP to 14% of GDP**. Due to large disbursements, the Oil Stabilization Fund saw its resources fall from **25.6% of GDP in 2014 to 16.2% of GDP**. International reserves remain high, at **28 months** of imports, but they are dwindling rapidly. In spite of a restrictive monetary policy, inflation reached **4.8%**, due in particular to the impact of depreciation in nominal **20%** dinar, which aimed to correct the external imbalance. The unemployment rate rose to double digits and was more pronounced among women and youth. (Ainas, Y., Ouarem, N. & Souam, S., 2012, 13-14).

**Table (2): The situation of the Main economic indicators in Algeria.**

Main Economic Indicators	2014	2015e	2016p	2017p
Real GDP growth (%)	<b>4.1</b>	<b>2.9</b>	<b>3.4</b>	<b>3.1</b>
Inflation rate (%)	<b>3.9</b>	<b>4.8</b>	<b>4.3</b>	<b>4.0</b>
Budget balance (% of GDP)	<b>-7.7</b>	<b>-15.9</b>	<b>-15.7</b>	<b>-12.6</b>
Current account balance (% of GDP)	<b>- 4.6</b>	<b>-15.2</b>	<b>-16.2</b>	<b>-14.4</b>

Source: THE WORLD BANK, Algeria: Monitoring Report on the Economic Situation (April 2016). On the site / <http://www.banquemondiale.org/fr/country/algeria/publication/economic-outlo>, seen the 21/05/2017 at 21h54.

The only significant document being the balance of payments, it would also be necessary to postpone to the outflow of foreign exchange services imports which between 2010/2015 of more than 10/12 billion \$ / year of services and 4/6 billion \$ / year of repatriations legal capital of foreign firms. However, hydrocarbon exports are in free fall with non-hydrocarbon exports less than \$ 2 billion. Moreover, the Regulatory Fund was exhausted at the end of 2016 and foreign exchange reserves rose from \$ 192 billion at the end of 2014 to \$ 112 billion at the end of 2016. To overcome the current situation, the new local and corporate governance, including that of *Sonatrach*, cannot be based on the bureaucratic diktat but implies an understanding of the functioning of society taking into account the morphology of society, economic anthropology in the effectiveness of organizations and that influences the public or private enterprise Institutions have a very important role on organizations and society. They are one of the determinants of long-term economic growth, the term "formal and informal rules governing human interactions and also the rules of the game".(Mebtoul. A, 2017)

**4.1. Budget for 2016 put the accent on the consolidation of public finances**, and assumes an average oil price of \$ 35 / bbl. It advocates a 9% decrease in spending (mainly investments) and a 4% increase in tax revenues based on a 36% increase in gasoline prices and an increase in electricity and gas taxes.

**4.2. Economic policy makers continue to face difficult trade-offs for the coming years.** The authorities have few choices, except to restore the balances of the budget and the external balance. However, growth is expected to remain low at 3.4%, driven by modest dynamism in the hydrocarbon industry, the launch of gas projects, and non-hydrocarbon sectors. Growth would benefit from a downward but still positive public expenditure and stagnation in hydrocarbon exports, especially if oil prices remained low or collapsed further, and if the global recovery remained timid. In 2017-2018, after some recovery in oil prices, growth will continue to be driven by public investment and continued substantial subsidies. Private investment will remain timid due to domestic uncertainties and regional security threats.

**4.3. The risks are oriented to the fall of the oil price in Algeria.** On the external front, these risks include a stronger than expected fall in energy prices and a resumption of slow growth among Algeria's trading partners in Europe and China. Domestically, the risks include widespread social discontent, budget cuts, high tax increases and high levels of unemployment among young people. Political will and national consensus to rationalize inefficient and generous subsidies are slowly emerging, but such reform requires better safety nets, a cash transfer system that serves those in need, and a well- Implementation. Despite these risks, the decline in oil prices represents an opportunity for a structural shift in the economy, from the predominance of oil and the public sector to more diversified growth, with a greater role for the private sector.(THE WORLD BANK, April 2016).

**5. The lack of transparency extends to Algerian public enterprises, special funds of resources and transfers of income to local authorities in Algeria.**

These data can facilitate applied research and policy analysis of the territorial governance deficit in the area of natural resources (see Annex 1), in particular to better understand why countries (and especially Algeria) are successful difficulties. This study can provide evidence on which to base future intervention policies at the global, territorial and country level. In 2013, the Algerian parliament approved the introduction of tax incentives to attract foreign companies and encourage them to undertake new businesses, especially in the offshore exploration of shale gas. To this end, Algeria opened a new set of oil and gas fields to international bidders in January 2014. The appeal launched by ALNAFT, the Algerian hydrocarbon licensing body, covered 33 concessions, but only five were awarded. This competitive bidding process (accompanied by the rules set out in the legislation) has led to good marks in the pre-bidding process; Otherwise, Algeria's licensing performance is insufficient' (Mebtoul .A, 2017, op.cit).

**Table (3): Governance of Algerian public enterprises (SOC), and natural resource funds and income transfers to local authorities in Algeria and some Arab countries.**

Indicator	Ranking (out of 45 countries)	Country	Public enterprises (SOC)	Note from SOC (out of 100)
Gouvernance des entreprises publiques (SOC)	12	Morocco	OCP	75
	22	Algeria	sonatrach	49
	24	Yemen	YOGC	44
	26	Saudi Arabia	ARAMCO	41
	27	Iraq	Ministry of oil	41
	30	Qatar	Qatar petroleum	37
	33	South-Sudan	Nile petroleum	31
	34	Egypt	EGPC	31
	39	Libya	Libyan national oil corporation	19
40	Iran	NIOC	15	
Indicator	Ranking(out of 23 countries)	country	funds	Note of funds (out of 100)
Governance of Natural Resources Funds	11	Iran	Oil Stabilization Fund	50
	17	Saudi Arabia	Public Investment Fund	19
	19	Kuwait	Kuwait Investment Authority	15
	20	Algeria	Revenue Regulation Fund	06
	21	Qatar	Investissement QatarAutorité	02
	23	Libya	Autorité d'investissement libyenne	00
Indicator	Ranking(out of 30 countries)	country	Note on transfers to local authorities (out of 100)	
Governance of income transfers to local governments	09	Iraq	79	
	14	Algeria	64	
	20	Saudi Arabia	50	
	27	Iran	17	
	29	Yemen	11	

**Source:** Developed by the Researcher, based on the Natural Resources Governance Index, (2013), *Measurement of Transparency and Eligibility of the Oil and Gas and Mining Industries*, On-site: [www.revenuwatc.org/rgi](http://www.revenuwatc.org/rgi).

**NRGI (2017)**<sup>2</sup> unveiled the 2017 resource governance index. The index includes new assessments of oil, gas and mining governance in 81 countries. It includes primary research on value realization and revenue management, and builds on existing research to paint an image of environments conducive to the governance of countries. *Evaluations take into account laws and practices related to licensing, taxation, SOEs, sovereign wealth funds, sub-national revenue sharing, national budgeting, local impacts of extraction and more.* (Algeria: Law and Practice Notes Law Practice...[www.revenuewatch.org/rgi](http://www.revenuewatch.org/rgi).)

### 5.1. Algerian state corporate governance *sonatrach* according to NRGI -2017.

The Algerian Sonatrach reports on finances but has low transparency linked to its relations with the government. Algeria's state-owned oil company, Sonatrach, scored 47 points out of 100. It ranks 39th out of 74 state-owned companies valued in the index, the 31st of the 52 oil sectors assessed and the sixth of the 16 companies in the MENA region. Sonatrach gets good grades in government transfer rules, financial reporting and transparency on production. Areas of improvement include commodity sales and reports on non-commercial activities.(NRGI 2017 Natural Resource Governance Institute review)

**Table (4): Sonatrach according to NRGI - 2017**

Name of the state enterprise	Level of State ownership	earnings(USD)	Score (/ 100)	Rank (/ 74 SHOs)	Rank (/ 52 oil & gaz SHOs)
<b>Sonatrach</b>	<b>100%</b>	<b>70 366 million (2014)</b>	<b>47</b>	<b>39</b>	<b>41</b>

Source: Natural Resource governance Institute. (2017) Resource Governance Index report, *On-site* [www.resourcegovernanceindex.org](http://www.resourcegovernanceindex.org).

Governance of sovereign wealth funds To the detriment of the performance sites of sovereign wealth funds, Algeria is weak in the index *NRGI (2017)*.

**Table (5): The Governance of Sovereign Wealth Funds in Algeria.**

Name of the Sovereign Heritage Fund	Value of assets under management (USD)	Score (/100)	Rank (/34)
<b>Revenue Regulation Fund</b>	<b>7 570 million (2015)</b>	21	28

Source: Natural Resource Institute. (2017), Algeria oil & gas. 06. On the site [www.resourcegovernanceindex.org/our-work/country/Algeria](http://www.resourcegovernanceindex.org/our-work/country/Algeria).

Algeria's main sovereign wealth fund, the Revenue Regulation Fund, marks 21 points out of 100. It ranks 28th out of 34 funds in the index, the seventh of the nine sovereign wealth funds in the MENA region and 22 of the 28 funds in the index, evaluation in the oil and gas sector. The Revenue Regulation Fund plays the best role in the execution of deposits and withdrawal rules, but it can improve its position by adopting and implementing investment rules and strengthening financial reporting by monitoring the legislative and audit bodies. ([www.resourcegovernanceindex.org](http://www.resourcegovernanceindex.org))

### 5.2. Democratizing the management of Sonatrach's rent.

In general, the management of *Sonatrach's* (oil and natural resources) income, which is the property of all the Algerian people, involves four actions:

<sup>2</sup> - The NRGI (2017) Natural Resource Governance Institute: resource and resource assessors 81 The composite index score consists of three components. Two measures the key features of the extractive sector - value creation and income management - and a third integrates the broader governance context - the enabling environment. These three global governance dimensions are composed of 14 sub-components, which include 54 issues calculated by grouping 133 questions and external

✓ *Firstly*, its democratic management and a cumulative calculation of 1990/2010 to determine the evolution of the revenues transiting by the Bank of Algeria and the share invested by **Sonatrach** (project-by-project costs of planned spending and expenditure realized for all sectors) and the evolution of oil taxation;

✓ *secondly*, the management of the distribution of the rent (98% of exports being hydrocarbons), that is to say the granting of credits also the cumulative amount structurally and sectorally over the last 20 years, involving the profound reform of the entire financial system and not technical or organizational replenishments, a reform often announced but always postponed;

✓ *thirdly* the management of foreign exchange reserves of about \$ 146 billion at the beginning of January 2010, the effect of the hydrocarbon rent, by specifying how much we have invested abroad for 20 years, specifying the nature, treasury bills or international banks, by whom, in which country and at what rate of interest, and finally;

✓ *fourthly*, the quantification of public spending through the rent of hydrocarbons and its impact on the rate of growth and the non-artificially inflated unemployment rate, but on the social, notably on the level of inflation and on the power to " purchase of the majority of the population by specifying the distribution of the national income between the different social strata. This refers in fact to the establishment of the rule of law and the urgency of renewed governance. As demonstrated throughout this operational analysis, **Sonatrach** is assimilating for the time being, because we must not be utopian and still for many years, asking the question of national security. This also raises the problem of the political will to initiate non-hydrocarbon production and export far from the current rentier logic which is based exclusively on imports, assuming a profound rearrangement of the logic of power. **NRGI (2017)**.

## **6. Discussion of results and propositions.**

The economic and management reforms of the Algerian State and its territorial governance and the good governance of natural resources according to the following recommendations. (*Mabetoul. A, 2010*).

✓ Understanding although the concept of territorial governance makes it possible to include in the process of territorial decision making, and the existence of local actors. And decentralization can develop citizen participation and promote economic development under certain conditions

✓ Reforming the Algerian state and modernizing the administration of public enterprises by strengthening the capacities of public administrations around their strategic functions, including the steering of public policies and the coordination of corporate governance. It also supports deconcentration processes so that departments are able to exercise their oversight, but especially their advisory role in decentralized communities. The State guarantees the maintenance of territorial cohesion, in particular through the policies of institutional economic reforms.

✓ Capacity building for the management of Algerian natural resources and the training of senior and middle management managers of partner administrations is a central condition for an efficient, integrated, transparent and accountable administration. The government is thus supporting projects to set up training and capacity building centers for managers. This support takes the form of assignments of value added projects.

✓ The work of government coordination and the accountability of economic actors in Algeria;

✓ Improved relations between administrations and users (information and communication technologies, e-government);

✓ The definition and implementation of transparency and disclosure of financial and accounting information at national level to stakeholders and economic operators (through oversight of legislative and audit bodies), including at the sector level Hydrocarbons (support for the creation of

networks of Governance of Information Systems and development of tools of strategic management training);

✓Results-based management and skills management of territorial governance, and the work of government coordination;

✓The improvement of strategic relations between public administrations and good governance practices (information and communication technologies, e-government...);

✓The need for the establishment of a training center for executives of Algerian strategic public management: This project takes the form of technical support to the Institute of leadership and governance of natural resources in Algeria;

✓Support decentralization processes in local governance, and strengthen the financial and human capacity of local communities;

✓Strengthening and streamlining common national land policies that are crucial to development and territorial governance.

✓Algeria will still depend on *Sonatrach's* recipes for many years. But the danger is that *Sonatrach* spends a growing fraction of its revenues (natural oil and gas resources) on its own investments without any real profitability in the medium term, to the detriment of other inductive sectors allowing to gradually freeing itself from the rentier dependency. Hence the importance of a serene and passionate national debate, to concretely realize both the economic and energy transition (energy mix).

***The conclusion suggests that Sonatrach is Algeria and that Algeria is Sonatrach, that is to say: the governance of the public enterprise Sonatrach = the governance of the Algerian economy.***

## **7. Conclusion.**

The analytical framework of territorial governance is a methodology designed to understand situations of "governance" when collective processes determine solutions to problems of a public nature and produce norms or local and social economic institutions.

From an economic point of view, it is difficult to find global coherence and a strategic vision for hydrocarbons in Algeria. Geo-strategic and political analyzes are necessary to understand the real stakes. It should be noted that the changes made were either carried out in a hurry for the most part, or anachronistic (the liberalization law of 2005). This has the effect of increasing juridico-institutional, organizational and managerial insecurity and ultimately hindering the attractiveness of the hydrocarbon sector for Algerian and foreign public enterprises qualifying. Finally, the tightening of the internal politico-economic sphere (rising demand for justice, social responsibility, transparency, democracy, pressing questions about the management of the revenue-raising fund for natural resources rents, ownership and sharing of the national rent, could explain such a blockage but also be the trigger for a negotiated overall economic solution.

The territorial governance process thus presents two complementary aspects, the mutual importance of which varies according to periods and situations. It feeds on these opposing tendencies, whose synthesis leads to the definition of paths of territorial development.

Finally, the Algerian State is the sole and omnipotent comptroller and regulator in the governmental logic, territorial governance is endowed with independent authorities, the State being no more than the last resort. Good local (territorial) governance of natural resources in Algeria is the surest way to end mismanagement, corruption and economic insecurity and support sustainable economic development and decision-making rationality to meet strategic objectives.

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