

The Conceptual Framework of the Financial System in Algeria in Light of Leading International Experiences in Financial Inclusion and Sustainable Finance

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Abstract:

The study aimed to define the conceptual framework of the financial system and analyze the term financial inclusion, given its significant importance in addressing the Algerian economic reality and shedding light on the nature of sustainable finance, which aims to promote the transition to a green economy and address the phenomenon of climate change.

The study's findings indicate that the Algerian financial system needs further modernization of its legislative and regulatory structure to align with international standards. Financial inclusion in Algeria remains at an average level, calling for the development of more comprehensive strategies targeting vulnerable groups and microfinance institutions. Sustainable finance represents a promising tool for redirecting resources toward vital sectors such as renewable energy and start-ups, thereby enhancing economic diversification and reducing its dependence on hydrocarbons.

Key Words: *Financial System; Financial Inclusion; Sustainable Finance; Investment; Sustainable Development.*

JEL Classification : *G1 ; Q01 ; Q5 ; O16 ; E22.*

1. Introduction:

The financial system is the cornerstone of any economy, playing a key role in mobilizing financial resources and directing them toward investment and development. In recent decades, the world has witnessed remarkable progress in financial policy orientations, particularly in the areas of financial inclusion, which aims to ensure access to formal financial services for all segments of society, and sustainable finance, which balances economic returns with preserving social and environmental dimensions. In this context, pioneering international experiences—such as those of India, Kenya, and some European countries—have emerged, enabling financial and institutional reforms to enhance financial inclusion and link finance to the Sustainable Development Goals.

Pioneering international experiences—such as those of some Asian, African, and European countries—have demonstrated tangible success in this area, through the development of innovative financial policies and mechanisms that have enhanced inclusiveness and linked financing to sustainable development goals. However, financial systems in some countries still face multiple challenges that prevent them from achieving similar levels of development, calling for a reconsideration of the conceptual framework and an assessment of its adaptability to these global trends.

Based on the above, the research problem can be crystallized in the following main question: How can Algeria's financial system evolve in light of pioneering international experiences in financial inclusion and sustainable finance? What mechanisms can be used to leverage these experiences in a manner consistent with the specificities of the Algerian economy?

1.1. Research hypotheses:

- Enhancing financial inclusion in Algeria leads to higher financial inclusion rates and more balanced economic growth.
- Adopting sustainable financing mechanisms contributes to supporting the transition to a diversified economy and reducing dependence on traditional resources.
- Drawing on successful international experiences contributes to formulating innovative financial policies, provided they are adapted to the specificities of the national economy.

Updating the conceptual framework of the Algerian financial system is a prerequisite for achieving compliance with global standards and practices in the field of financial inclusion and sustainable finance.

1.2. The importance of the study:

- Contributes to clarifying the theoretical foundations related to financial inclusion and sustainable finance and linking them to the Algerian reality.
- It provides a scientific contribution to researchers and those interested in economic studies on the challenges and prospects for developing the financial system.
- It enables researchers to learn about the policies adopted in Algeria to promote financial inclusion.

1.3. Research objectives:

Through this research, we will try to achieve the following objectives:

- Defining the conceptual framework of the financial system.
- Study the concept and mechanisms of financial inclusion and sustainable financing..

- Identifying the reality of financial inclusion in Algeria.

2. The axis And: The conceptual framework of the financial system

2.1. The emergence and development of the global financial system

The global financial system is the framework that brings together legal institutions, regulatory bodies, and formal and informal economic actors, which collectively contribute to regulating cross-border capital flows, whether for investment purposes or to finance international trade. This system emerged in the late nineteenth century, influenced by the first wave of economic globalization. It was characterized by the emergence of central banks and the establishment of multilateral treaties and intergovernmental organizations aimed at improving transparency and increasing the efficiency of global financial markets. Developments in transportation and communication during that period also helped boost the volume of international trade and investment to an unprecedented level.

However, the outbreak of World War I led to a sharp contraction in international trade and turmoil in exchange markets due to a decline in financial liquidity. This prompted many countries to adopt protectionist financial policies and shut down their economies, with trade virtually halted by 1933. This contraction contributed to the deepening effects of the Great Depression. Trade activity only gradually recovered after the signing of reciprocal trade agreements aimed at reducing tariffs across various countries. In the post-World War II period, international efforts focused on establishing a global monetary system based on fixed and controlled exchange rates, which laid a new foundation for international financial stability.

However, the 1970s witnessed significant volatility due to the collapse of the Bretton Woods system and successive currency devaluations, leading most countries to float their currencies. In subsequent decades, particularly the 1980s and 1990s, the global economy became increasingly financially integrated as a result of capital account liberalization and the removal of restrictions on the movement of funds. This made many regions, such as Asia, Latin America, and Europe, vulnerable to recurring financial crises, the effects of which quickly spread to other markets. The most prominent example of this was the global financial crisis that began in the United States in 2007, which quickly transformed into a major economic crisis that affected most of the world's economies. This was followed by the sovereign debt crisis in the euro zone in 2009 after Greece defaulted on its financial obligations.

Any country's involvement in the global financial system, adopting an open economy and globalizing its capital, has repercussions on its balance of payments. It may also make it more vulnerable to fluctuations resulting from political or legal conditions, or even changes in educational and regulatory policies. A wide range of actors participate in this system: from consumers and multinational corporations to governments and international organizations, the latter of which act as regulators and supervisors of trade, economic development, and crisis management. In addition, independent research centers and associations analyze financial data and issue reports and public policies that inform the international debate on economic issues.

Although this system contributes to a degree of stability at the macro level, governments are required to reconcile their national or regional priorities with the demands of the global economy. Some countries resort to traditional monetary tools to stimulate growth, while others adopt broader expansionary policies. Emerging markets face special challenges, as they must formulate precise and sustainable macroeconomic policies that take into account market

sensitivity and prevent capital flight to stronger economies. The risk of new financial crises remains present in the future due to ongoing disagreements over banking sector regulation and the difficulty of reaching a comprehensive international consensus on this matter (Rania, 2020, pp. 33-48)

2.2. Definition of the financial system:

The financial system is the framework that includes the various institutions, mechanisms, and laws that enable the mobilization and channeling of financial resources between economic units experiencing a financing deficit and those with a surplus. This system is essentially composed of three main pillars:

Infrastructure: This includes legal rules, accounting systems, payment and settlement mechanisms, and other regulatory foundations.

Financial institutions: such as banks, investment companies, and stock brokerage firms.

Financial markets: which include stock exchanges and the financial instruments traded therein, such as bonds, stocks, and derivatives.

The financial system can thus be viewed as an integrated set of laws, institutions, markets, and technologies that regulate the movement of financial assets within the economy. It is also a fundamental means of transferring resources from surplus sectors to sectors in need of financing, serving the goals of economic growth and development. Its role may transcend national borders to take on a regional or international dimension when it comes to financial transactions between residents and non-residents. (BenDaas, 2019, p. 04)

The financial system is a system of diverse institutions and intermediaries that facilitate savings and investment. It is not limited to banks, brokers, and insurance companies, but also includes legal rules regulating contracts and transactions, dispute resolution mechanisms, and legislation that limits fraud and manipulation with the aim of promoting financial reform.

The financial system represents a network of institutions and markets that enable the transfer of funds from those with financial surpluses to those in need, whether investors or borrowers, through multiple tools and mechanisms that enable the trading and acquisition of various financial assets and products.

It is an integrated structure consisting of several components that work together to perform specific functions, the most important of which is transferring financial resources from economic units with a surplus to units experiencing a deficit, thus ensuring the continuity of the economic cycle.

It is defined as a framework that brings together financial institutions, clients, and regulatory mechanisms aimed at meeting financing needs and utilizing surpluses, while distributing risks

in a balanced manner. On the one hand, we find financiers (individuals, companies, public bodies), and on the other hand, financing seekers (individuals, companies, public sector), in addition to monetary authorities such as the central bank and regulatory bodies that oversee the smooth running of the financial market. (RASAA & BOUHARKAT, 2024, p. 04)

2.3. Components and elements of the financial system:

The financial system consists of several basic components, the most important of which are investors, markets, and financial instruments. These investors constitute the core of this

system, both domestically and internationally, and include investors, borrowers, and other entities engaged in financial activities.

1. Investors: Individuals or institutions, public and private, as well as governments and international and regional organizations, who have financial surpluses and wish to allocate them to profit-generating activities.

An investor can invest their money in financial instruments such as stocks and bonds, or in other forms of income-generating activities. At the individual (micro) level, this is a financial investment, but it does not necessarily represent real investment in the macroeconomy, as it is often limited to the transfer of ownership of financial assets between parties. Real investment, on the other hand, involves allocating funds to purchase productive assets, such as new equipment, machinery, and buildings, which increases or maintains society's productive capacity through replacement and renewal processes.

A. Borrowers: Individuals, public and private institutions, governments, and international and regional organizations and bodies. These borrowers operate within the international financial system, obtaining loans from global financial markets, issuing bonds for sale therein, or borrowing directly from banking institutions, international organizations, or various governments. Funds are obtained from various sources for the purpose of investing them in physical investments and establishing new factories and projects.

Financial resources within the international financial system flow in two directions: first, capital flows from savers to lenders, and second, returns and profits flows from lenders to savers.

B. Participants: Financial system players, called intermediaries or brokers, operate in the markets either for others or for their own account. These include banking institutions, savings and loan institutions, finance companies, money market mutual funds, and contractual institutions such as insurance companies and social security funds, as well as investment banks, international and regional organizations, multinational corporations, and even individuals. Their primary role is to invest their financial surpluses in international markets to generate profits and returns. At the same time, they can resort to these markets to borrow or issue international bonds.

2. Markets: Financial markets, whether local or international, constitute the framework within which capital is transferred between lenders and financing seekers with the aim of maximizing investment returns. These markets are divided into several categories based on the nature of the instruments traded:

A. Capital Markets:

Long-term financing instruments, such as stocks and bonds, are traded through them. Their importance lies in supporting capital investment and providing financing for projects that require a long period of time before they yield returns. These markets, often referred to as "stock exchanges," are a space for trading corporate capital or certain commodities, such as metals and agricultural crops.

A.1. Capital markets are divided into two parts:

- Primary Market (Issue Market): Where securities are offered for the first time through subscription, whether stocks when companies are established or when capital is raised, or bonds when long-term loans are needed. Subscription may be limited to founders or open to the public.
- Secondary Market (Trading Market): This is where securities previously issued in the primary market are bought and sold. Investors exchange securities among themselves, and the proceeds-

whether profit or loss-are returned to the holders. This market may be organized, such as a formal stock exchange, or unorganized, where trading takes place over-the-counter through banks or brokers.

A.2. Money markets:

Money markets are spaces where short-term funds are invested, with maturities of instruments not exceeding one year. These markets allow borrowers to obtain quick loans and offer investors the opportunity to invest their funds in highly liquid financial assets, ensuring a degree of security.

The stock exchange plays a fundamental role in the economic cycle. Its most important tasks can be summarized as follows:

1. Encouraging savings and directing them towards investment in securities to serve the national economy.
2. Contributing to financing development projects by issuing government securities.
3. Enhancing internal and external credit and facilitating the movement of funds between different groups.
4. Improving the efficiency of allocating financial resources to high-yield sectors.

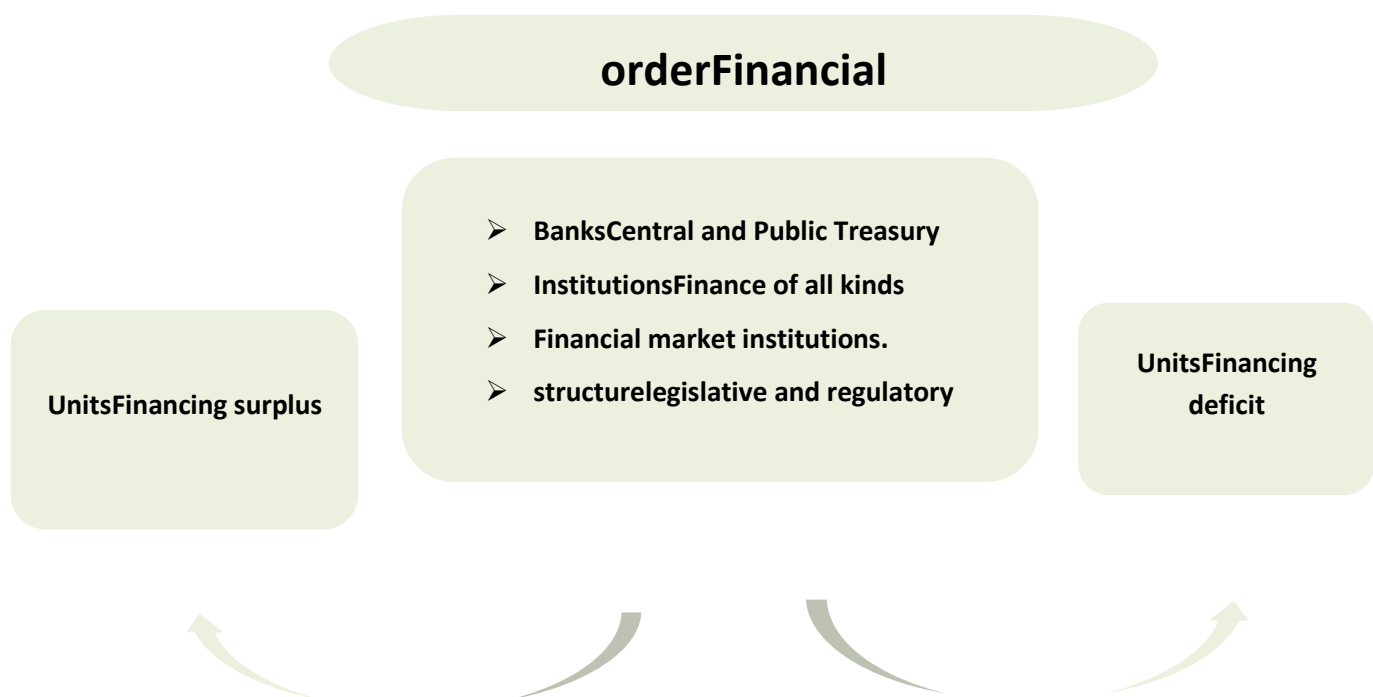
Institutions active in financial markets are divided into two categories: the first operates within the money market, and the second operates in the capital market.

B. Financial instruments:

The nature of the instruments used varies depending on the type of market. In money markets, short-term instruments such as treasury bills, negotiable certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper, and excess reserve requirements are traded. In contrast, capital markets focus on long-term instruments such as stock issuances by industrial and commercial companies, bonds issued by companies or governments in their local markets, and mortgages.

Stocks represent ownership of a portion of a company's capital and are sometimes known as "shares," giving their holders the right to benefit from the company's profits and value growth over time. Despite providing high returns over the long term, they remain more vulnerable to price fluctuations than other instruments. Bonds, on the other hand, are a form of loan provided by investors to institutions or governments in exchange for fixed interest payments, in addition to the original value being recovered at the end of the bond's term, which can extend for many years, sometimes up to thirty years. Bonds are typically subject to ratings related to their quality and the possibility of repaying their value. (BenSheikh, 2008-2009, pp. 22-25)

Figure N° (01): Components of the financial system.



Source: (Ben Sheikh, 2008-2009, pp. 22-25).

3.2. Basic functions of the financial system:

The financial system seeks to provide the basic functions and tasks. Next:

➤ Accumulate savings:

The financial system is a primary channel for mobilizing the savings of individuals and institutions, directing a portion of current consumption toward investment. Within this framework, savers can invest their surplus funds by lending them to borrowers in exchange for returns, which may be in the form of interest or capital gains. To ensure the success of this function, the financial system provides attractive incentives, whether through favorable interest rates or by offering guarantees related to the securities offered. It also provides effective settlement and payment mechanisms, using currencies, checks, and various payment methods. With recent technological developments, new payment instruments such as electronic money and digital checks have emerged, enhancing the flexibility and efficiency of the financial system.

➤ Collect and analyze financial information:

The financial system plays a significant role in collecting and analyzing financial data, which helps reduce the costs that would otherwise be borne by both borrowers and lenders if they were to undertake this task alone. This reliance is placed on financial analysis experts, whose costs are spread across a large number of transactions, making them relatively low. This analytical role helps provide accurate and reliable information, enabling various parties to make their investment and financing decisions with greater certainty and effectiveness.

➤ Facilitating financial risk management:

Financial intermediation contributes to reducing risk through the principle of diversification and sharing. It distributes deposited funds intended for lending among several different economic projects, taking into account return criteria, liquidity, and the level of risk associated with each

project. This distribution ensures that the impact of a single project's failure on a single investor is minimized and reduces the overall cost of risk compared to a situation where the Investor bears the loss alone. Intermediary institutions also possess the ability to select the most profitable and least risky investments, enabling investors to diversify their investment portfolios and enhance their ability to cope with financial fluctuations.

➤ **Exercising control over funded companies:**

When economic institutions obtain the financing they need, they become subject to oversight by intermediary lenders. This oversight aims to monitor performance and ensure that the institution's management is aligned with the interests of financiers or depositors. This function is particularly important in developing economies, where markets often suffer from inefficiency and a lack of transparency, leading to the problem of "information asymmetry." In such cases, borrowing institutions may conceal true information about their activities, exposing financiers' funds to the risk of being lost or invested in areas they do not desire. (Ousghair, 2019, pp. 7-8)

3.3. Previous studies:

1- Bouchenine Leila's study (2020) entitled *Measuring the Stability of the Algerian Financial System Using a Proposed Aggregate Index for the Period (2003-2017)*:

The study aimed to measure the stability of the Algerian financial system over the period (2003-2017) by constructing a proposed aggregate index comprising a set of variables that reflect the various dimensions of financial stability. The aggregate index includes eighteen sub-variables that fall under.

The methodology of constructing composite indicators was applied using the Statistical Package for the Social Sciences (SPSS) program. The results of the aggregate index reflected the development of the stability of the Algerian financial system, as it was able to capture the periods of stress experienced by the Algerian financial system. The index showed an improvement in the stability of the Algerian financial system since 2008. The results of the aggregate index also showed the instability of the Algerian financial system during the period (2003-2007), which is the period that witnessed the private banking crisis.

2- A study by Sanusawi Saleh (2023) entitled "Requirements for Enhancing Financial Inclusion as a Support for the Stability of the Algerian Financial System for the Period (2010-2021)":

This research paper aims to demonstrate the role of financial inclusion in supporting the stability of the Algerian financial system. It reviews and analyzes all indicators of financial inclusion and financial stability in Algeria, and identifies the Bank of Algeria's most important approaches to supporting financial system stability by enhancing financial inclusion.

The study concluded that The Bank of Algeria must take effective measures to improve financial services and their accessibility. To all members of society, which would contribute to activating the role of financial mediation, access to formal financial services, and enhancing competition between financial institutions, which supports the stability of the Algerian financial system..

3.4. The second axis: Financial inclusion

3.4.1. The concept of financial inclusion:

There are many definitions of financial inclusion, including those issued by international organizations and bodies, arranged chronologically.

Definition by the Association of Arab Banks: Financial inclusion, or inclusive finance, is a concept that aims to provide affordable financial and banking products and services to the largest possible number of communities, institutions, and individuals, particularly low-income segments of society, in contrast to financial exclusion, which excludes these segments. Financial inclusion requires the ability of individuals and institutions to access and use financial services effectively and responsibly. Financial inclusion cannot be achieved without financial education, as informed consumers become more aware of the risks and benefits of financial products, as well as their rights and responsibilities.

It was defined by the OECD and the International Financial Education Network (IFEN). INIF is a process that enhances access to a wide range of formal and regulated financial services at affordable and appropriate prices, and increases the use of these services.

Services are provided to different segments of society through innovative approaches that combine financial awareness and education to promote financial well-being and social and economic inclusion. (ASHOURI & JANAD, 2023, p. 37)

3.4.2. A financial inclusion dimension:

Over the past decade, the concept of financial inclusion has evolved into three main dimensions:

➤ Access to financial services:

The ability to use financial services offered by digital institutions. This requires identifying access levels to identify potential barriers to using bank accounts. Indicators for measuring access to financial services include:

- Number of access points per 10,000 adults nationwide, classified by administrative unit type.
- Number of ATMs per 1,000 square kilometers.
- The degree of interconnection between service points.
- Percentage of the population living in administrative units with at least one access point out of the total population.

➤ Use of financial services:

Measuring the extent of banking service utilization requires collecting accurate data that demonstrates the level of regularity and frequency of use over a specific period. This dimension is expressed through a set of indicators, the most prominent of which are:

- The percentage of adults who have at least one account, whether a deposit or credit account.
- Number of payments made via smartphones.
- Total insurance contracts registered per 100 adults.
- Percentage of adults who receive domestic or international remittances or have a bank account.
- Percentage of small and medium-sized enterprises that have formal financial accounts or access to existing loans.

➤ Quality of financial services:

Evaluating the quality of financial services is a complex issue, especially with financial inclusion becoming a priority in developing countries' strategies. Ensuring access to services is no longer sufficient; rather, improving their level and quality is essential. Service quality is subject to multiple factors, including the cost of obtaining the service, the level of customer awareness, the effectiveness of compensation systems, consumer protection measures and financial guarantees, as well as intangible elements such as customer confidence in institutions.

The indicators for measuring this dimension include:

- How easy the service is to use and how well it meets the beneficiary's needs.
 - The ability to bear the associated costs.
 - Degree of transparency and availability of sufficient information.
 - The effectiveness of financial education and the level of protection provided to the consumer.
- (TALBI & SAAD-ALLAH, 2021, p. 5)

G20 Innovative Principles for Financial Inclusion:

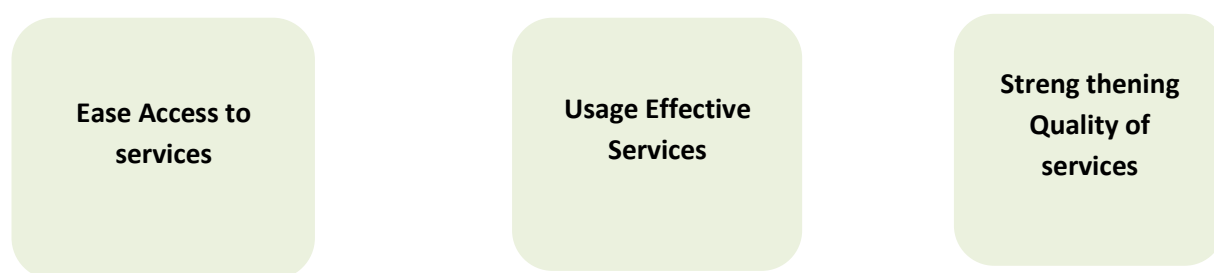
Leadership The need for government commitment to expanding the base of financial inclusion to reduce poverty.	Leadership
By adopting policies and methods to stimulate competition in the market to ensure the provision of financial services.	Diversity
Encouraging technical and institutional innovations to ensure access to financial services.	Innovation
Increase financial education and financial knowledge of customers	Empowerment
By creating a participatory institution with responsibilities, coordinating with various government agencies, and conducting adequate studies. To measure access to financial services.	Knowledge and cooperation
Finding comprehensive ways to protect financial consumers, based on clear government directives and effective participation from financial and risk service providers.	Protection
Balance between expansion of financial services and risks	Relativity

Source: (Ashouri, Junad, 2023, p. 39).

During the Los Cabos Summit in 2012, the G20 adopted a set of core financial inclusion indicators proposed by the Global Partnership for Financial Inclusion. These indicators focused on three main dimensions:

- Access to financial services.
- The degree of use of these services by individuals and institutions.
- The level of quality in providing and producing financial services.

Figure N° (02): Dimensions of financial inclusion.



Source: (A, Baha, 2022, p. 12).

Each of the three dimensions includes a set of indicators, which can be listed in the following table:

Table N° (02):Dimensions and indicators.

Indicators	Dimensions
Number of service access points Electronic influence accounts Service interconnectivity	Access to financial services
Adults with a bank account - Adults with a structured credit account - Adults with insurance policies - Number of non-cash payment transactions - Number of mobile payment transactions - Frequency of bank account use - Bank account holders - Transfers. Businesses with formal financial accounts - Businesses with existing loans or lines of credit from structured institutions.	Use of financial services
Financial literacy - Financial behavior - Transparency requirements - Dispute resolution - Costs of using financial services - Credit barriers.	Quality of financial services

Source: (A(Baha, 2022, p. 12).

3.4.3. The reality of financial inclusion in Algeria:

International indicators indicate that Algeria falls within the Middle East and North Africa region (excluding high-income countries). It is classified within the second group globally, which includes Lebanon, Jordan, Palestine, and the Maghreb countries (Morocco, Algeria, and Tunisia). This group is characterized by having average financial inclusion rates ranging between 24% and 62%.

Policies adopted in Algeria to promote financial inclusion:

The monetary authorities, represented by the Bank of Algeria, have worked to develop the regulatory framework for financial inclusion by preparing implementation instructions, one of which addresses the general and specific conditions associated with deposit account opening agreements, and the other simplifies procedures for obtaining financial services.

A set of additional measures have also been taken to support this trend, which can be summarized as follows:

A- Combating Money Laundering and Terrorist Financing:

Algeria has sought to improve its legislative and regulatory framework in this area, enabling it in February 2016 to withdraw from the Financial Action Task Force's general statement, which lists countries with strategic shortcomings in combating this phenomenon.

B- Financial inclusion field:

The banking sector in Algeria witnessed significant expansion in 2016, with the opening of 20 new branches, followed by the establishment of 35 additional branches in 2017. Despite this development, the public banking network still dominates the market, but the level of banking intermediation remains relatively limited and requires further incentives.

Regarding financing, loans to small and medium-sized enterprises and industries recorded a growth rate of 14.92% in 2015 and 10.97% in 2016. Loans granted to individuals also increased by 15.13% in 2015 and 15.36% in 2016. It is worth noting that most of these individual loans fall under the category of mortgaged loans. (MAROUF & RAHOU, 2023, p. 19)

3.4.4. Previous studies:

1- A study by Rafika Sabbagh and Samira Arzi, Financial Inclusion in Arab Countries: Reality and Prospects (2020):

The study aimed to know the level of financial inclusion in Arab countries, I concluded The Arab countries have worked to accelerate the wheel of financial inclusion and enhance its levels by applying it in their development strategies, due to its effective role in supporting economic growth, creating job opportunities, and achieving sustainable development goals. The study also concluded: Despite the efforts made, financial inclusion in Arab countries has not yet caught up with the level seen in the rest of the world. Despite the improvement in financial inclusion indicators in Arab countries in recent years, the Arab region remains among the lowest geographical groups in terms of financial inclusion levels.

2- A study by Talibi Samira and Saadallah Amal (2021) entitled "Ways to Enhance Financial Inclusion in Algeria":

This study aimed to highlight ways to enhance financial inclusion in Algeria and analyze the term financial inclusion because of its great importance in addressing the Algerian economic reality and its impact in reducing social disparities and achieving social justice. The study concluded that most indicators of financial inclusion show us weakness in individuals' use of financial services, in addition to the existence of a strong and integrated relationship between financial inclusion, financial stability, sustainable economic development, economic growth and financial efficiency, as well as developing the social conditions of low-income people by increasing their opportunities to obtain financial products such as loans and facilities. This is done by preparing an effective national strategy for financial inclusion and identifying the most important ways and mechanisms to enhance it in Algeria.

3- A study by Qassi Yasmina and Mazyan Tawfiq (2022) entitled “The Role and Importance of Financial Inclusion in Achieving Financial Stability and Sustainable Development.”

The study aimed to highlight the role and importance of financial inclusion in achieving financial stability and supporting opportunities for achieving sustainable development by addressing the concept of financial inclusion, its importance and objectives, and conducting an analytical study of financial inclusion indicators in Algeria and Arab countries. In addition, it analyzed and evaluated the reality of financial inclusion in Arab countries and Algeria, by taking into account financial indicators for achieving it, represented by the savings index, the borrowing index, and the account use index in official financial institutions.

The study provides a comprehensive picture of the reality and needs of enhancing financial inclusion in Arab countries, aiming to raise and improve financial inclusion indicators by enhancing access to financing and financial services in Arab countries.

4. The third axis: Sustainable financing

4.1. The concept of sustainable financing:

In economic literature, financing refers to providing the financial resources necessary to establish, rehabilitate, or expand a new project. This ensures the launch and continuity of economic activity and protects it from financial deficits. For a long time, governments in developing and Arab countries have been the primary actors in mobilizing and directing funds to projects.

However, the concept of finance has evolved in recent decades to be linked to the idea of sustainable development, which is based on the fair and balanced exploitation of natural resources, meeting the needs of the current generation without compromising the rights of future generations.

In this context, the International Monetary Fund defines sustainable finance as financing that takes into account the principles of the environment, social responsibility and governance (ESG) is considered when developing business strategies and making investment decisions, encompassing issues such as climate change, pollution, labor practices, consumer privacy, and fair competition between companies. Although this trend emerged about three decades ago, interest in it has accelerated significantly in recent years.

The World Health Organization also “believes that sound financing is a set of financial options based on fairness and transparency, ensuring the provision of resources in a timely and reliable manner, while enhancing efficiency and financial self-sufficiency. (KADOUR & AZOUZ, 2021, p. 158)

4.2. Asustainable Finance Goal Scorer:

There are a set of goals that the sustainable financing system was established to achieve, including::

1. Stock markets and sustainable finance seek to achieve a set of fundamental objectives that enhance economic and social development, the most prominent of which are:

1. Developing national savings by encouraging investment in securities and directing them towards various economic sectors on an effective competitive basis.
2. Attracting foreign investment to contribute to accelerating sustainable development and reducing dependence on foreign loans.
3. Raising the level of savings and investment awareness among individuals and institutions, in addition to enhancing transparency and credibility of information related to the performance of listed companies and the overall economy.
4. Accelerating privatization processes and expanding the ownership base within the national economy, thus supporting broader participation in economic activity.
5. Financing sustainable development plans by enabling governments to mobilize financial resources through public borrowing, thus strengthening the self-financing base and accelerating economic growth rates.
6. Providing incentives to investors by ensuring fair securities prices and protecting all parties involved in the market.
7. Recycling funds and providing the necessary liquidity to the community, supporting long- and short-term value-added investments.
8. Enhancing production and employment levels by financing sustainable investment opportunities, leading to improved individual and national incomes, and thus achieving higher levels of social welfare.
9. Encouraging financial innovation by developing new products focused on renewable energy, energy efficiency, microfinance, women-oriented financing, and low-income housing, which enhances transparency and sustainability and supports the competitiveness of banks, especially in emerging markets. (Abdel-Nour, 2012, pp. 62-63)

4.3. The most important international standards regarding sustainable financing:

These are six principles issued by the United Nations Programmer, and ten principles issued by the International Finance Corporation.

First – Principles issued by the United Nations Programmer:

The United Nations Environment Programmer (UNEP) launched has established a framework for commercial banks aimed at building a more sustainable banking system. These principles have been adopted by 130 banking institutions from 49 countries. Among those who have signed them in the Arab region are Egyptian banks such as Banque Misr, Bank of Alexandria, Commercial International Bank, and Arab African International Bank. These principles are based on six main axes:

1. Alignment: Linking banks' strategies to the needs and goals of society in line with the Sustainable Development Goals, the Paris Climate Agreement, and all relevant national and regional commitments.
2. Impact and Goal Setting: Enhance the positive impact of banking activity on society and the environment, while reducing negative impacts, by setting clear goals and developing innovative financial products.
3. Customer Relationship: Dealing responsibly with customers and encouraging them to adopt activities that achieve sustainability and prosperity for current and future generations.
4. Stakeholders: Engage all relevant actors and build partnerships to achieve common societal goals.

5. Governance: Commitment to implementing best governance practices to ensure effective implementation of the principles.
6. Transparency and accountability: Periodically reviewing banks' activities and publishing reports on their compliance, disclosing the positive and negative impacts of their operations.

Second – Principles issued by the International Finance Corporation (IFC):

The International Finance Corporation (IFC) has established ten principles that form a framework for managing environmental and social risks that financial institutions should consider when financing projects. These principles aim to ensure responsible decisions based on clear criteria and can be summarized as follows:

1. Review and Classification: Determine the project category based on the degree of risk and potential environmental and social impacts.
2. Environmental and Social Assessment: Require the client to conduct a comprehensive study to assess the potential risks associated with the project.
3. Compliance: Ensuring that the project complies with applicable national laws and environmental and social regulations.
4. Environmental and Social Management Systems (ESMS): Developing an integrated system to manage environmental and social risks and address any that may arise during implementation.
5. Stakeholder Engagement: Continuous coordination with internal and external stakeholders to assess and manage risks.
6. Grievance Mechanism: Obligating the client to establish a system for handling complaints from parties affected by the project's impacts.
7. Independent review: Using independent experts to review management systems and stakeholder engagement processes.
8. Undertakings: The client's commitment to provide legal guarantees documenting full compliance with applicable laws and regulations.
9. Monitoring and reporting: Assigning independent consultants to monitor the environmental and social performance of the project after its financing and submit periodic reports.
10. Reporting and Transparency: Requiring the client to disclose the results of the environmental and social assessment and to disclose greenhouse gas emissions on an annual basis. (ZAWAD & ZAWAD, 2023, pp. 105-106)

The methodology of constructing composite indicators was applied using the Statistical Package for the Social Sciences (SPSS) program. The results of the aggregate index reflected the development of the stability of the Algerian financial system, as it was able to capture the periods of stress experienced by the Algerian financial system. The index showed an improvement in the stability of the Algerian financial system since 2008. The results of the aggregate index also showed the instability of the Algerian financial system during the period (2003-2007), which is the period that witnessed the private banking crisis.

Previous studies:

- 1. A study by Fatima Zahra Kadour and Ali Azouz (2021) entitled “Investing in Renewable Energy as a Tool to Promote Sustainable Financing,” presenting the Emirati experience with reference to the case of Algeria.:**

This study aims to shed light on the nature of sustainable finance, which aims to promote the transition towards a green economy, address the phenomenon of climate change, and contribute to the growth of environmental awareness and the integration of sustainability into the financial sector. We will attempt to highlight its most important strategies and mechanisms, as well as clarify the reality of investment in renewable energy and its importance in promoting sustainable finance using the analytical approach and background coverage of various statistical data issued in the reports of the International Energy Organization and the Renewable Energy and Energy Efficiency Guide in Arab Countries, and conducting the necessary analyses and interpretations. It was concluded that investment in renewable energy attracts a significant percentage of the uses of sustainable finance revenues and is considered the first way to achieve its goals. The UAE experience was also presented as a pioneering model in this field, and the possibility of benefiting from it in developing the Algerian experience, which has witnessed modest efforts so far.

- 2. A study by Bougagha Marwa (2021) entitled “The Role of Sustainable Finance in Promoting Financial Stability as a Mechanism for Achieving Sustainable Development”:**

The study aimed to clarify the role of sustainable finance in enhancing financial stability to achieve sustainable development. To this end, the descriptive-analytical approach was used to describe and analyze the most important elements that enhance this role, establish the basic concepts of sustainable finance and sustainability standards, and discuss these concepts within the framework of the risk management and shock absorption process.

The study concluded that sustainable finance has the potential to ensure financial stability through sustainability standards that clarify the fundamental principles of environmental, social, and governance (ESG) considerations. These standards can be used to strengthen oversight and disclosure of environmental and social risks, enabling supervisory authorities to mitigate and control them, thus ensuring sustainable economic production and intergenerational equity, thereby achieving a level of financial stability. This helps stabilize institutions' operations within markets, maintain their presence, and increase their competitiveness in the long term. Keywords: sustainable finance, financial stability, sustainable development.

5. Conclusion:

Through the research presented in this study on the conceptual framework of the financial system in Algeria, in light of pioneering international experiences in financial inclusion and sustainable finance, it becomes clear that the financial system represents

the fundamental pillar for achieving economic stability and supporting comprehensive growth. The study highlights that Algeria has made significant strides in the field of financial inclusion by modernizing some regulatory frameworks and enhancing banking services. However, the gap still exists compared to pioneering international experiences that have successfully integrated the requirements of financial inclusion with the goals of sustainable finance.

5.1. Study Results:

The research reached a set of basic results, the most important of which are:

- The Algerian financial system needs further modernization of its legislative and regulatory structure to bring it in line with international standards.
- Financial inclusion in Algeria remains at an average level, calling for more comprehensive strategies targeting vulnerable groups and microfinance institutions.
- Sustainable finance represents a promising tool for redirecting resources toward vital sectors such as renewable energy and start-ups, thereby enhancing economic diversification and reducing its dependence on hydrocarbons.
- Benefiting from leading international experiences (India, Kenya, and European countries) is possible, provided they are adapted to the specificities of the national economy.

5.2. Study suggestions:

- Developing an integrated national strategy for financial inclusion that includes plans to expand the base of digital financial and banking services.
- Promoting sustainable financing by stimulating investment in renewable energy and green projects, and linking this to an encouraging tax and financial framework.
- Developing the legal and regulatory framework to ensure financial consumer protection and transaction transparency.
- Activating financial education as a necessary mechanism to raise awareness among individuals and institutions about the importance of financial inclusion and the use of formal financial products.

5.3. Study recommendations:

- The Bank of Algeria and financial institutions must develop innovative mechanisms to increase financial inclusion, such as establishing mobile financial services and expanding bank branches in remote areas.
- Involving the private sector and civil society in supporting sustainable financing programmes to enhance community participation.
- Adopting the successful experiences of leading countries after adapting them to the Algerian economic and social environment.
- Intensifying cooperation with international organizations to exchange expertise and benefit from funding directed towards sustainable development.

5.4. Future prospects:

This research opens the way for deeper future studies that address:

- Measuring the impact of financial inclusion on financial stability and economic growth in Algeria.
- Studying the relationship between sustainable finance and the transition to a green economy.
- Evaluating the effectiveness of Algerian policies in keeping pace with digital transformations in the financial sector.
- An in-depth comparison between Algeria and other international experiences to identify best practices that can be transferred and adapted.
- Therefore, it can be said that developing the Algerian financial system in light of financial inclusion and sustainable financing is an indispensable strategic step to achieve comprehensive economic growth and social justice.

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