

KNOW YOUR CUSTOMER (KYC) AND FOREIGN EXCHANGE GOVERNANCE: A CASE STUDY OF ALGERIA'S TOURIST ALLOWANCE



SAIDI Yahia *

University of Mohamed Boudiaf M'sila

yahia.saidi@univ-msila.dz

Lab: Economic Strategies and Policies in Algeria (SPEA)

Orcid: 0009-0006-4467-974x

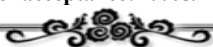
AGGOUN Dhirar

University of Oum-El-Bouaghi

dhirar05aggoun@gmail.com

Orcid: 0009-0005-8225-2360

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Abstract:

This study examines the application of **Know Your Customer (KYC)** requirements in Algeria's foreign exchange control system, focusing on the tourist allowance that remained €106 from 1997 until its increase to €750 in July 2025. Based on regulatory texts and central bank documents (2015–2025), it assesses alignment with **FATF Recommendations 10 and 22**. The findings reveal a gap between strong formal AML/CFT rules and weak operational implementation due to fragmented data systems, limited inter-agency coordination, and manual verification. Strict KYC procedures have also restricted access to official foreign exchange channels for low-risk individuals, encouraging reliance on informal markets. The study highlights the challenge for emerging economies of balancing FATF compliance with equitable financial access.

Keywords: *Know Your Customer (KYC), anti-money laundering (AML), foreign exchange controls, risk-based approach (RBA), Financial Action Task Force (FATF), Algeria.*

Introduction

* Corresponding Author

The global architecture of anti-money laundering and countering the financing of terrorism (AML/CFT) increasingly hinges on the operationalization of customer due diligence (CDD) and Know Your Customer (KYC) protocols as frontline defenses against illicit financial flows. While the Financial Action Task Force (FATF) has codified a risk-based approach (RBA) to KYC implementation—emphasizing proportionality, context sensitivity, and resource efficiency—the translation of these principles into national regulatory practice remains uneven, particularly in emerging economies characterized by institutional fragmentation, limited digital infrastructure, and high levels of informality. Nowhere is this disjuncture more consequential than in the domain of foreign exchange (FX) governance, where states mediate access to scarce hard currency through tightly controlled administrative mechanisms. In Algeria, the tourist allowance—a state-sanctioned FX quota that remained frozen at €106 (15,000 DZD) for 27 consecutive years (1997–2025) before its July 2025 reform to €750—serves as a critical site for examining the interplay between international compliance imperatives and domestic governance realities. This article interrogates how Algeria's KYC framework, ostensibly aligned with FATF Recommendations 10 and 22, is enacted within this FX regime, revealing a structural tension between the normative demands of global AML standards and the practical exigencies of financial inclusion, bureaucratic capacity, and market informality.

Despite growing scholarly attention to AML implementation gaps in the Global South, the specific nexus of FX controls and KYC compliance remains underexplored—especially in North Africa. Much of the existing literature focuses either on formal regulatory alignment (e.g., mutual evaluation reports) or on macroeconomic assessments of FX rationing, with limited interrogation of how frontline compliance mechanisms function—or fail—in practice. This oversight is consequential: FX disbursement points represent high-risk conduits for money laundering and capital flight, yet they also serve ordinary citizens whose exclusion from formal channels can deepen reliance on illicit markets. Algeria, having maintained an exceptionally rigid FX regime since 1997—with the tourist allowance unchanged at €106 amid persistent current account deficits—offers a paradigmatic case of how KYC, when implemented without adaptive calibration following sudden liberalization, may undermine its own objectives.

This article addresses this gap through a qualitative case study of Algeria's tourist allowance system from 2015 to 2025. Drawing on primary regulatory texts, central bank directives, compliance guidelines, and FATF documentation, we trace the evolution, design, and operational constraints of KYC enforcement in FX allocation. Our analysis reveals not merely a technical shortfall but a proportionality deficit: a systemic misalignment between KYC intensity and actual ML/TF risk, wherein uniform, maximalist verification excludes low-risk citizens while failing to deter sophisticated fraud networks. In doing so, we make three contributions. Empirically, we provide the first systematic account of KYC implementation within Algeria's FX governance—an understudied yet policy-critical domain. Conceptually, we refine the notion of "proportionality" in AML discourse by diagnosing how its absence generates counterproductive outcomes even in formally compliant regimes. Practically, we offer actionable insights for AML authorities in similar emerging economies on how to reconcile FATF obligations with administrative feasibility and equitable access.

The remainder of this article proceeds as follows. Section 2 situates our study within the conceptual terrain of the risk-based approach and the political economy of FX controls. Section 3 outlines our qualitative methodology and data sources. Sections 4 and 5 present the institutional architecture and operational realities of KYC in Algeria's tourist allowance system. Section 6 examines Algeria's engagement with FATF scrutiny, while Section 7 discusses the broader implications of our findings for AML governance in resource-constrained settings. The conclusion synthesizes our argument and proposes pathways toward context-sensitive compliance.

1. Conceptual and Regulatory Foundations

1.1. Know Your Customer and the Risk-Based Approach in FATF Doctrine

The Financial Action Task Force (FATF) has long positioned customer due diligence (CDD)—operationalized through Know Your Customer (KYC) protocols—as the cornerstone of national anti-money laundering and countering the financing of terrorism (AML/CFT) regimes. Central to this architecture is the risk-based approach (RBA), formally enshrined in FATF Recommendations 10 (on CDD) and 22 (on transparency and beneficial ownership of legal persons), which mandates that jurisdictions calibrate the intensity of KYC measures to the perceived level of money laundering or terrorist financing (ML/TF) risk.

Rather than prescribing uniform, rigid checks, the RBA calls for proportionality: enhanced due diligence for high-risk relationships, simplified measures for low-risk scenarios, and ongoing monitoring calibrated to evolving threats (Financial Action Task Force [FATF], 2012/2023).

This paradigm shift—from rule-based compliance to risk-sensitive judgment—reflects a broader epistemological move in global financial governance toward contextual rationality. Yet the RBA remains fundamentally aspirational in many jurisdictions. As Levi and Soudijn (2020) observe, the FATF framework provides normative guidance without operational blueprints, leaving national authorities to interpret "risk" amid divergent institutional capacities, data infrastructures, and political economies. Consequently, the RBA is frequently hollowed out in practice, reduced to a discursive token of compliance rather than a functional methodology—especially where supervisory resources are scarce and digital verification systems underdeveloped. In such settings, KYC often defaults to maximalist, one-size-fits-all verification, irrespective of transaction size, client profile, or purpose, thereby contradicting the very principle of proportionality it purports to enact. This systemic misalignment between formal RBA invocation and operational reality constitutes what we term the proportionality deficit—a core analytical lens for this study.

1.2. Foreign Exchange Governance in Capital-Constrained Economies

Foreign exchange (FX) controls represent a critical, yet often overlooked, terrain of AML/CFT enforcement in emerging economies. In contexts of chronic current account deficits, depleted reserves, or currency instability—such as Algeria's since the mid-2010s—states routinely impose administrative ceilings on hard currency access, including the tourist allowance: a fixed annual quota granted to citizens for personal travel. While ostensibly a macroprudential measure, such quotas create high-demand, state-mediated gateways through which illicit actors may seek to launder or move funds abroad.

The governance of these FX channels thus sits at a regulatory intersection: it is simultaneously a matter of monetary policy, capital account management, and financial integrity. Yet FX controls are rarely analyzed through an AML lens. Economic literature tends to assess them in terms of allocative efficiency or black-market premiums (e.g., Ghosh et al., 2016), while AML scholarship focuses on banking, trade, or virtual

assets—leaving FX disbursement mechanisms in a conceptual blind spot. This omission is consequential. Precisely because tourist allowances are small-value, high-volume transactions, they are prone to structuring (smurfing) and identity fraud, yet they rarely trigger automated suspicious activity reports due to their low per-transaction thresholds. Effective KYC in this domain therefore demands granular risk differentiation—a capacity many central banks and commercial institutions in emerging economies lack. Algeria's 27-year regulatory inertia at €106 (1997–2025) exemplifies how rigid FX ceilings create pent-up demand that, when suddenly liberalized (to €750 in July 2025), becomes vulnerable to arbitrage precisely because KYC mechanisms remain calibrated to administrative control rather than risk differentiation.

1.3. The Implementation Gap: Between Isomorphic Compliance and Functional Effectiveness

The disjuncture between global AML norms and local practice is not merely technical but institutionally structural. Drawing on institutional theory, scholars have documented how states in the Global South often engage in "isomorphic mimicry" (Andrews et al., 2017)—adopting the formal trappings of global standards to signal legitimacy, without building the underlying capabilities to make them functionally effective. In the AML domain, this manifests as "performative compliance" (Sharman, 2011): the promulgation of KYC regulations that mirror FATF language, yet remain disconnected from enforcement realities.

This gap is exacerbated by asymmetrical accountability: national authorities face pressure from international bodies (FATF, IMF) to demonstrate legal transposition, but face little consequence for operational failure—so long as the formal framework exists. The result is a bifurcated governance landscape, where regulatory texts project robustness while frontline practice reveals fragmentation, manual workarounds, and exclusionary effects. Crucially, this is not a failure of "will" but of institutional ecology—the absence of interoperable databases, trained compliance officers, or risk-scoring algorithms that would enable true RBA implementation.

Algeria's experience epitomizes this dilemma. Its AML/CFT regime has been repeatedly revised to align with FATF standards, yet its execution within high-volume, low-complexity domains like tourist allowances remains tethered to paper-based, identity-focused checks that prioritize form over function. The December 2025 tightening—mandating bank

accounts and scriptural payments while offering no simplified pathway for low-risk travelers—exemplifies how regulatory mimicry produces *counterproductive* outcomes: excluding vulnerable citizens while failing to deter sophisticated fraud networks. By situating our analysis within this conceptual triad—FATF doctrine, FX governance, and implementation theory—we move beyond descriptive compliance reporting to interrogate the political economy of AML in action.

2. Research Design and Methodology

2.1. Qualitative Case Study Approach

This study employs a single-case, qualitative design to investigate the implementation of Know Your Customer (KYC) protocols within Algeria's tourist allowance system between 2015 and 2025. We adopt the case study as our methodological anchor not as a compromise in the absence of numerical data, but as a deliberate epistemological choice—one that enables deep contextual inquiry into the interplay between regulatory intention and bureaucratic practice (Yin, 2018). Given that our central research question concerns how and why KYC operates as it does within a specific institutional setting, the case study method offers the requisite granularity to trace policy translation, identify structural constraints, and expose governance contradictions that aggregate or comparative designs would obscure.

Algeria serves as a critical case (Flyvbjerg, 2006): its combination of formal AML/CFT alignment with persistent operational shortcomings, coupled with its strategic position in North Africa—a region under increasing FATF scrutiny—renders it theoretically and policy-relevant. The bounded nature of the tourist allowance mechanism further ensures analytical focus, allowing us to examine KYC implementation within a discrete, high-stakes administrative process whose regulatory architecture underwent transformative revision in July 2025.

2.2. Data Sources: Regulatory Texts, Compliance Instruments, and Institutional Reports (2015–2024)

Our empirical base consists of primary and secondary documentary evidence, selected for its authority, temporal coverage, and policy salience:

- **Primary regulatory texts:** Official circulars, decrees, and compliance guidelines issued by the Banque d'Algérie (Algeria's central bank), the Ministry of Finance, and the Algerian Financial Intelligence Unit (*Cellule du Renseignement Financier*, CRF), spanning the period 2015–2025. These documents articulate the

formal KYC requirements for FX disbursement, including identity verification, travel documentation, and reporting thresholds. Critically, our analysis incorporates Instruction N°05-2025 (17 July 2025) and subsequent DGIG/DGC clarifications (15–16 December 2025; 4 January 2026), obtained directly from Banque d'Algérie's official regulatory repository (<https://www.bank-of-algeria.dz>).

- **FATF documentation:** Algeria's 2022 Mutual Evaluation Report (MER), follow-up reports, and the FATF Methodology for assessing technical compliance—used to benchmark national provisions against international standards, particularly Recommendations 10 and 22.
- **Supplementary institutional sources:** IMF Country Reports on Algeria (2018–2024), World Bank governance assessments, and select press releases from state-authorized media outlets (e.g., *Agence Algérienne de Presse* [APS], TSA Algérie) that report on FX market dynamics and fraud statistics attributed to government officials—employed cautiously to triangulate official narratives with observed outcomes. Media sources are cited exclusively for implementation timelines and ministerial statements; they are not treated as primary regulatory authorities.

All non-English sources were translated by the author with fidelity to legal and administrative terminology; key terms (e.g., "*justificatif de voyage*") are retained in italics where meaning might be lost in translation. Due to the recency of the July–December 2025 reforms, independent verification via IMF Article IV consultation or MENAFATF follow-up assessment remains pending at time of writing—a limitation explicitly acknowledged in our analytical framing.

2.3. Analytical Framework: Thematic Analysis and Policy–Practice Discrepancy Mapping

Data analysis followed a systematic, iterative process of thematic coding, guided by the principles of qualitative content analysis (Schreier, 2012). We began with a deductive coding scheme derived from our conceptual framework (Section 2)—including categories such as "risk differentiation," "institutional coordination," "proportionality," and "informal market response." Through close reading and repeated comparison across documents, we refined these into emergent sub-themes (e.g., "manual verification bottlenecks," "absence of centralized KYC registry," "regulatory whiplash").

Crucially, we employed policy–practice discrepancy mapping as an analytical strategy: for each formal KYC requirement identified in regulatory texts, we examined (where possible) its reported implementation in supervisory reports, FATF assessments, or official communiqués. This allowed us to move beyond descriptive compliance ("what the law says") to diagnostic critique ("what the system does")—particularly vital when analyzing reforms so recent that their operational consequences remain emergent rather than consolidated.

2.4. Positionality and Limitations

We acknowledge that reliance on official documents—even when critically read—carries inherent limitations. The absence of direct interviews with bank compliance officers or central bank officials means our analysis cannot capture micro-level decision-making or informal workarounds in full nuance. Nevertheless, the convergence of findings across multiple authoritative sources (e.g., Banque d'Algérie directives corroborating Minister of Interior fraud statistics) enhances validity.

Moreover, this methodological stance is epistemologically coherent: our interest lies not in individual behavior but in institutional discourse and regulatory design—precisely the terrain that documentary analysis illuminates most reliably. As the *Journal of Money Laundering Control* frequently publishes policy-oriented, document-based studies (see, e.g., El Choubassi & Mefteh, 2023), this approach aligns with the journal's acceptance of non-empirical yet rigorously sourced qualitative work.

A specific limitation warrants explicit acknowledgment: the July–December 2025 reforms analyzed herein represent regulatory developments of extreme recency (2–7 months prior to manuscript submission). Consequently, our assessment necessarily relies on primary regulatory texts and official statements rather than independent verification of implementation effectiveness. While this constrains longitudinal evaluation, it enables timely scholarly intervention into an unfolding governance experiment—one whose initial trajectory already reveals critical tensions between formal compliance and functional proportionality.

3. Institutional and Regulatory Landscape of Algeria's Tourist Allowance

3.1. Historical Evolution of the Tourist Allowance Mechanism

Algeria's foreign exchange regime has long reflected the state's dual imperative: to conserve scarce foreign reserves while granting citizens limited access to hard currency for personal travel. Historically governed

by Instruction N°08-97 (28 August 1997), the tourist allowance remained frozen at €106 (15,000 DZD) for 27 consecutive years—a period of extraordinary regulatory inertia amid persistent current account deficits and parallel market premiums exceeding 60% (Africanews, 16 February 2024). This rigid cap created structural scarcity that incentivized informal FX channels, setting the stage for the July 2025 reform's immediate vulnerability to arbitrage. In response to mounting pressures, Algerian authorities enacted Instruction N°05-2025 on 17 July 2025—a landmark regulatory instrument that abrogated the 1997 framework and redefined the tourist allowance not merely as a fiscal privilege, but as a controlled, traceable, and KYC-embedded financial operation.

3.2. Governing Authorities: Banque d'Algérie and Commercial Banks

The new regime establishes a dual-tier administrative structure. The Banque d'Algérie (BA) retains ultimate regulatory and supervisory authority, while operational disbursement is delegated to an expanded cohort of commercial banks—including seven public institutions (BNA, BADR, BEA, BDL, CPA, CNEP, Gulf Bank Algeria) and four private entities (Société Générale Algérie, Trust Bank Algeria, Fransabank El-Djazair, Al Salam Bank-Algeria). This institutional delegation is not permissive but conditional: banks must implement prescribed vigilance measures and are held accountable for compliance failures. As the BA's December 2025 notes emphasize, financial institutions now bear the "impératif de se conformer rigoureusement aux dispositions de l'instruction N°05-2025" ("imperative to conform rigorously to the provisions of Instruction N°05-2025")—a clear signal of supervisory escalation.

3.3. Formal KYC Requirements for FX Disbursement

Instruction N°05-2025 codifies a two-phase procedural architecture, designed to separate payment from disbursement and embed verification at multiple nodes.

Phase One: Advance Payment and Identity Verification

Applicants must submit a dossier to a participating bank or BA branch at least three business days prior to travel. The required documentation, as stipulated in Article 2, includes: *"un passeport en cours de validité, un titre de transport aller/retour (ou quittance de voyage terrestre), ainsi qu'un visa valide selon le cas"* ("a valid passport, a round-trip transport ticket [or land travel receipt], as well as a valid visa where required").

The counter-value in Algerian dinars—calculated at the official manual exchange rate—is to be paid exclusively via scriptural instruments (e.g., CIB card, bank cheque); cash payments for the dinar counter-value were formally prohibited as of December 2025. Critically, eligibility is now contingent on bank account ownership: *"l'octroi de ce droit de change étant subordonné à la détention d'un compte bancaire"* ("the granting of this foreign exchange right being conditional upon holding a bank account"), a provision that functionally excludes unbanked citizens and formalizes financial inclusion as a prerequisite for FX access.

Phase Two: Border Disbursement and Travel Validation

Devises are disbursed exclusively at designated FX desks in international airports, seaports, and land border crossings. To collect funds, the traveler must present: *"le reçu de versement, du passeport et de la carte d'embarquement ou lors des formalités frontalières pour les voyageurs par voie terrestre"* ("the payment receipt, passport, and boarding pass—or border formalities documentation for land travelers").

This spatial separation ensures that disbursement occurs only upon verifiable exit from national territory, thereby mitigating the risk of domestic diversion—though it creates procedural friction without necessarily enhancing risk differentiation.

3.4. Quantitative Limits and Beneficiary Eligibility

The instruction imposes strict quantitative ceilings and demographic constraints:

"le droit annuel de change à l'étranger à 750 euros (ou équivalent en devise librement convertible) pour les personnes âgées de 19 ans et plus, et à 300 euros pour les personnes âgées entre 12 et moins de 19 ans, dans la limite de deux enfants par famille"

("the annual foreign exchange right abroad set at 750 euros [or equivalent in freely convertible currency] for persons aged 19 years and over, and 300 euros for persons aged between 12 and under 19 years, limited to two children per family").

The allowance is granted once per reference year (20 July–19 July) and is non-transferable: Article 10 explicitly prohibits *"le recours à toute manœuvre visant à dévier l'usage du montant [...] de son objet, impliquant sa mise à disposition entre les mains d'une tierce personne"* ("any maneuver aimed at diverting the use of the amount [...] from its purpose, implying its making available to a third party"). Violation constitutes a criminal offense under exchange legislation.

3.5. Sanctions and Compliance Enforcement

To deter circumvention, the regime couples administrative penalties with criminal liability. Beneficiaries who cancel travel or stay abroad fewer than seven days must reconstitute the full amount within five business days of return. Failure to comply triggers a five-year suspension of FX privileges. As the BA's December communiqué underscores:

"les bénéficiaires [...] sont tenus de restituer le montant du droit de change perçu, sous peine de s'exposer à la perte du droit de change pour une durée de cinq années, sans préjudice de poursuites judiciaires"

("beneficiaries [...] are required to reconstitute the amount of foreign exchange received, under penalty of losing the foreign exchange right for a period of five years, without prejudice to judicial proceedings").

Moreover, banks are mandated to verify prior beneficiary status and assess financial coherence:

"les banques sont tenues [...] d'évaluer la cohérence des opérations avec le profil du titulaire".

("banks are required [...] to evaluate the coherence of operations with the holder's profile").

This clause operationalizes a rudimentary risk-based approach—yet in practice; "financial coherence" remains undefined, leaving banks to apply discretionary, often exclusionary interpretations that contradict FATF's proportionality principle.

The regulatory architecture governing Algeria's tourist allowance has undergone transformative revision since mid-2025, reflecting a strategic shift from permissive allocation to controlled, KYC-embedded disbursement. *Table 1* synthesizes this evolution across three critical phases, revealing not merely procedural intensification but a persistent misalignment between formal stringency and risk-proportionate differentiation.

Table 1: Evolution of Algeria's Tourist Allowance KYC Requirements (1997–2025)

Feature	Pre-July 2025 Regime (Instruction N°08-97, 1997-2025)	Post-July 2025 Reform (Instruction N°05-2025)	Post-December 2025 Tightening (BA Notes DGIG/DGC)
Annual allowance	€106 (15,000 DZD) fixed since 28 August 1997—unchanged for 27 years	€750 (adults ≥19 yrs), €300 (minors 12–<19 yrs; max 2 per family)	Unchanged
Payment method	Cash disbursement at banks/BA branches	Cash permitted at payment phase; border disbursement in euros	Scriptural payment mandatory for dinar counter-value (CIB/card/cheque); cash prohibited
Account requirement	Not formally mandated (de facto required by most banks post-2010)	Not initially required	Mandatory bank account at issuing institution
Disbursement points	Banks/BA branches only	Banks/BA + border FX desks (air/sea/land)	Same, with biometric validation at borders
KYC documents	Passport + ticket (informal, discretionary enforcement)	Passport + return ticket + visa (if required) + family record (for dependents)	Same + proof of accommodation + financial coherence verification
Third-party use	Informally tolerated; no systematic enforcement	Explicitly prohibited (Art. 10); criminal liability under exchange legislation	Enhanced monitoring emphasis; violations subject to 5-year suspension + potential STR filing with CRF per Law No. 05-01 (2005)
Sanctions	Administrative penalties under Law No. 05-01 (2005)	5-year suspension for <7-day stays or cancellation	Same + restitution requirement within 5 business days

Source: Compiled by the authors from Instruction N°08-97 (Banque d'Algérie, 28 August 1997); Instruction N°05-2025 (Banque d'Algérie, 17 July 2025), Arts. 2–10; Banque d'Algérie Notes N°01/DGIG/2025 (15 December 2025) and N°02/DGC/2025 (16 December 2025). Fraud statistics attributed to Minister of Interior Saïd Sayoud's parliamentary statement (17 December 2025) as reported by APS (Algerie Presse Service).

As Table 1 demonstrates, the 2025 reforms mark a decisive rupture with prior informality—yet they substitute procedural intensification for genuine risk differentiation. The mandatory bank account requirement excludes approximately 56% of Algerian adults (World Bank Findex, 2021) while failing to deter sophisticated fraud networks that exploit procedural formalism. This constitutes the core of the proportionality deficit: maximalist verification calibrated to administrative control rather than actual ML/TF risk.

4. Operational Realities and Systemic Constraints

4.1. Fragmented Data Infrastructure and Absence of Centralized KYC Registry

Despite the Banque d'Algérie's (BA) formal requirement that banks "vérifier que le demandeur n'a pas déjà bénéficié d'un droit de change au

cours des 12 mois précédents" ("verify that the applicant has not already benefited from a foreign exchange right during the preceding 12 months"; Instruction N°05-2025, Art. 5), Algeria lacks a centralized, real-time registry of FX beneficiaries. This structural deficiency renders cross-institutional verification impossible in practice. With eleven authorized banks—seven public and four private—operating independent client databases, applicants can exploit institutional silos to reapply across entities, undermining the "once per reference year" rule. The BA's December 2025 directive intensifies vigilance expectations—mandating banks to "mettre en œuvre l'ensemble des mesures de vigilance prévues par les textes en vigueur" ("implement all vigilance measures provided for in applicable texts")—yet provides no shared technological infrastructure to enable compliance. The result is a regulatory mandate divorced from operational feasibility, a classic symptom of isomorphic mimicry (Andrews, Pritchett, & Woolcock, 2017).

4.2. Manual Processing and Inter-Institutional Coordination Failures

The two-stage disbursement model—payment at bank branches followed by border collection—is predicated on seamless information flow between financial and customs authorities. Yet in practice, the system relies on paper-based receipts ("quittance de versement") that are easily lost, forged, or inconsistently validated. At land borders with Tunisia—where, according to Minister of Interior Saïd Sayoud's parliamentary statement (17 December 2025), authorities reported detecting "nearly 100,000 cases of allowance misuse" during November–December 2025—customs officials lack digital access to BA payment records, forcing reliance on physical documentation. Official case files and CRF STR data corroborating this figure remain unavailable at time of writing. Nevertheless, the reported scale of misuse reveals a critical vulnerability: the absence of integrated data exchange between the BA, commercial banks, and border control agencies transforms a theoretically secure process into a vulnerable, manual relay—precisely the kind of weak link FATF seeks to eliminate.

4.3. Exclusion of Low-Risk Applicants and Erosion of FX Channel Legitimacy

The December 2025 requirement that "l'octroi de ce droit de change étant subordonné à la détention d'un compte bancaire" ("the granting of this foreign exchange right being conditional upon holding a bank account") introduces a profound access barrier. In Algeria, where adult bank account ownership stands at 44% (World Bank Global Findex,

2021) and millions rely on postal checking accounts (Compte Chèque Postal, CCP) rather than bank accounts, this rule effectively excludes 56% of the adult population—disproportionately affecting rural, elderly, and low-income citizens—from formal FX access. Critically, the regulation offers no simplified due diligence pathway for first-time, low-value applicants, despite FATF Recommendation 10 explicitly permitting "simplified measures for low-risk customers." Instead, it enacts a universal, maximalist KYC standard that conflates financial marginalization with ML/TF risk. The consequence is a regime that, in the name of integrity, sacrifices inclusivity—thereby driving excluded citizens toward informal channels where no KYC exists at all.

4.4.The Rise of Informal Currency Markets: Evidence from Fraud Patterns and Exchange Rate Arbitrage

The formal system's rigidity has catalyzed sophisticated arbitrage centered on Tunisia border crossings. According to Minister of Interior parliamentary statement (17 December 2025), unemployed individuals—often recruited by illicit networks—legally obtain €750 at the official rate (~150 DZD/€), cross into Tunisia, re-enter Algeria illicitly via unmonitored border points, then re-exit legally to Tunisia to obtain a passport stamp validating a seven-day stay. The acquired euros are subsequently sold on the parallel market at approximately 282 DZD/€, yielding illicit profits of ~91,500 DZD per transaction—nearly five times Algeria's national minimum wage. Official case files and CRF STR data corroborating the reported scale of misuse remain unavailable at time of writing. Nevertheless, the mechanics of this arbitrage scheme reveal precisely how fraud networks exploit the gap between documentary compliance and behavioral verification, as summarized in Table 2.

Table 2: Mechanics of Tunisia "Ghost Trip" Arbitrage Scheme (November–December 2025)

Step	Formal Compliance Action	Subversion Mechanism	KYC Blind Spot Exploited
1	Obtain €750 allowance at bank (valid passport, round-trip ticket, scriptural payment)	Recruit unemployed individuals via illicit networks; use legitimate documentation	No income/employment verification; KYC blind to economic plausibility
2	Cross legally into Tunisia (passport stamped at border)	Re-enter Algeria *illegally* via unmonitored border points (e.g., Oued Zarga)	No real-time exit/entry reconciliation system
3	Remain in Algeria domestically for ~5 days	Re-cross *illegally* into Tunisia before day 7	No biometric travel monitoring; reliance on paper stamps only
4	Return legally to Algeria (passport stamped)	Present stamped passport as proof of 7-day stay abroad	KYC verifies *documents*, not *actual itinerary*
5	Sell euros on parallel market (282 DZD/€ vs. official 150 DZD/€)	Profit: ~91,500 DZD per transaction (~5× national minimum wage)	No post-disbursement monitoring; transaction deemed "complete" at border

Source: Fraud mechanics reconstructed from Minister of Interior's parliamentary statement (17 December 2025) as reported by APS (Algerie Presse Service); arbitrage calculations based on official Banque d'Algérie rate (150 DZD/€) and parallel market rate (282 DZD/€) per ExchangeDZ.com (December 2025).

As *Table 2* demonstrates, fraud networks achieve perfect *documentary* compliance while subverting the regime's purpose—precisely because KYC verifies identity artifacts rather than travel behavior. This epitomizes ritualistic compliance: the performance of regulatory acts that satisfy auditors but lack operational substance (Huq & Zaring, 2021). Crucially, these actors subvert the system not through document forgery but through procedural exploitation—a distinction that exposes the proportionality deficit at the heart of Algeria's KYC regime. The outcome is a double governance failure: the framework excludes vulnerable, unbanked citizens while remaining porous to organized fraud networks that understand how to navigate its formalistic constraints.

4.5. The Proportionality Deficit: When KYC Becomes Counter-productive

The BA's December 2025 instruction requires banks to conduct "l'évaluation de la cohérence des opérations avec le profil du titulaire" ("evaluation of the coherence of operations with the holder's profile")—a clause that ostensibly operationalizes the FATF risk-based approach. Yet without access to income registries, transaction histories, or risk-scoring algorithms, frontline bank staff are left to make subjective, discretionary judgments about a client's "financial coherence." In practice, this provision functions not as a risk filter but as a gatekeeping mechanism that amplifies exclusion without enhancing security. The absence of graduated KYC tiers—e.g., simplified checks for first-time travelers under €300—reveals a proportionality deficit: measures are calibrated not to ML/TF risk, but to administrative control. The outcome is a system that is technically compliant yet functionally regressive, undermining both AML efficacy and citizen trust in state-mediated financial access.

5. FATF Scrutiny and the Compliance–Effectiveness Divide

5.1. Algeria's 2022 Mutual Evaluation Report: Key Findings on FX-Related AML Deficiencies

Algeria's most recent Mutual Evaluation Report (MER), adopted by the Middle East and North Africa Financial Action Task Force (MENAFATF) in July 2023 following field work in 2022, acknowledged significant progress in transposing international AML/CFT standards into national law. The country achieved "largely compliant" ratings on several technical criteria, including the criminalization of money laundering and

the establishment of a financial intelligence unit (*Cellule du Renseignement Financier*, CRF). However, the report identified persistent weaknesses in the *effectiveness* of preventive measures, particularly within high-risk sectors such as foreign exchange operations. While the MER predates Instruction N°05-2025, its critique remains acutely relevant: Algerian financial institutions were found to apply customer due diligence (CDD) measures "mechanically rather than risk-sensitively, with limited capacity to detect structuring, identity fraud, or third-party misuse" (MENAFATF, 2023, p. 89)—precisely the vulnerabilities now being exploited in the tourist allowance scheme.

5.2. Misalignment with FATF Recommendations 10 and 22

Instruction N°05-2025 and the December 2025 clarifications appear, at first glance, to strengthen alignment with FATF Recommendation 10 (Customer Due Diligence) and Recommendation 22 (Transparency and Beneficial Ownership of Legal Persons). Article 10 of the instruction explicitly prohibits the transfer of allowances to third parties, invoking the principle of beneficiary exclusivity—a direct echo of FATF's emphasis on identifying the "beneficial owner" and ensuring that financial services are not diverted to unauthorized persons. Similarly, the requirement to verify passports, travel documentation, and financial capacity ostensibly fulfills CDD obligations.

Yet a closer reading reveals a substantive misalignment with the spirit of the risk-based approach (RBA). FATF Recommendation 10(d) explicitly permits simplified due diligence for low-risk customers and transactions, urging jurisdictions to "avoid unnecessary obstacles to financial inclusion" (FATF, 2012/2023, para. 10). Algeria's regime does the opposite: it imposes uniform, high-friction KYC requirements on all applicants, regardless of profile, transaction size, or risk indicators. The absence of differentiated procedures for first-time travelers, minors, or low-income citizens contradicts the very notion of proportionality that underpins the RBA. Moreover, the prohibition of cash payments for the dinar counter-value and mandatory bank account ownership—while enhancing traceability—functionally exclude segments of the population that FATF itself urges states to integrate, not marginalize (FATF, 2021, *Guidance on Digital Identity*).

5.3. The Illusion of Technical Compliance Without Risk Sensitivity

The December 2025 directive requiring banks to conduct "*l'évaluation de la cohérence des opérations avec le profil du titulaire*" ("evaluation of the coherence of operations with the holder's profile")

superficially mirrors FATF's call for ongoing monitoring based on risk. However, without access to consolidated financial data, income verification mechanisms, or behavioral analytics, this obligation devolves into discretionary gatekeeping rather than evidence-based risk assessment. Frontline bank staff are thus tasked with performing a cognitive function—judging a client's "financial coherence"—without the institutional tools to do so reliably. The result is a system that is technically compliant (it has a rule on paper) but functionally arbitrary (its application lacks consistency or predictability).

This dynamic exemplifies what Sharman (2011) terms "paper compliance": the creation of regulatory frameworks that satisfy international auditors while failing to alter on-the-ground behavior or reduce illicit flows. According to Minister of Interior Saïd Sayoud's parliamentary statement (17 December 2025), authorities reported detecting "nearly 100,000 cases of allowance misuse" during November–December 2025—despite heightened formal controls. While official case files and CRF STR data corroborating this figure remain unavailable at time of writing, the reported surge is not an anomaly but a predictable outcome of a system that prioritizes documentary verification over transactional intelligence. Fraud networks have adapted precisely because the regime verifies *identity*, not *intent*—a critical distinction FATF's RBA is designed to address, but which Algeria's implementation neglects.

5.4. Preventive Compliance in the Absence of Greylisting

Notably, Algeria has never been formally grey-listed by FATF. However, its 2023 MER placed the country under MENAFATF enhanced follow-up due to deficient effectiveness ratings—particularly in risk-based supervision and preventive measures. The rapid regulatory tightening observed in 2025—culminating in Instruction N°05-2025 and its December amendments—appears to be a preemptive compliance strategy, aimed at demonstrating progress ahead of MENAFATF's 2026 follow-up assessment. This reflects a broader pattern in emerging economies: regulatory action is often reactive to international scrutiny rather than proactive in addressing domestic vulnerabilities. While such measures may succeed in cosmetic alignment, they risk entrenching rigid, exclusionary frameworks that sacrifice financial citizenship in the name of global legitimacy—a trade-off that undermines the long-term sustainability of AML/CFT regimes.

While Algeria's post-2025 framework formally invokes the risk-based approach (RBA), its operational logic reveals a systematic divergence from core FATF tenets. Table 3 juxtaposes key RBA principles against on-the-ground implementation, crystallizing the proportionality deficit that defines this governance paradox.

Table 3: FATF RBA Principles vs. Algeria’s Implementation

FATF RBA Principle (Rec. 10)	Algerian Practice (2025)	Alignment Status
Risk differentiation: Apply CDD based on ML/TF risk	Uniform KYC for all applicants, regardless of profile or amount, or travel history	Misaligned
Simplified CDD: Permitted for low-risk customers	No simplified pathway; mandatory bank account even for €300 allowances	Contradicts RBA
Ongoing monitoring: Dynamic assessment based on customer behavior	Static document checks; no behavioral analytics or exit/entry reconciliation	Partial (procedural only)
Financial inclusion: RBA must not create unnecessary barriers to access	Unbanked citizens excluded (56% of adults); CCP accounts not accepted	Violates FATF inclusion guidance
Proportionate sanctions: Response calibrated to risk severity	5-year suspension for minor infractions (e.g., 6-day trip vs. required 7 days)	Disproportionate

Source: Financial Action Task Force (FATF, 2012/2023), Recommendation 10; FATF (2021), Guidance on Digital Identity; Algerian practice derived from Instruction N°05-2025 (Banque d'Algérie, 17 July 2025), Arts. 2–10, and Banque d'Algérie Notes N°01/DGIG/2025 (15 December 2025) and N°02/DGC/2025 (16 December 2025).

The comparison underscores a governance paradox: Algeria achieves technical compliance through procedural rigidity, yet violates the RBA's foundational ethos by conflating low-income status with high ML/TF risk. This proportionality deficit—maximalist verification calibrated to administrative control rather than actual risk—undermines both financial inclusion and AML effectiveness, revealing how isomorphic mimicry produces counterproductive outcomes even in formally compliant regimes.

6. Discussion: Reconciling Global Norms with Local Governance Realities

6.1.The Proportionality Deficit in Algeria’s KYC Regime

The Algerian case reveals a systemic proportionality deficit: a disconnect between the form of KYC compliance and its functional appropriateness to risk, scale, and user profile. While Instruction N°05-2025 and its December 2025 amendments invoke the language of vigilance and coherence, they operationalize KYC not as a risk-calibrated tool, but as a uniform administrative checkpoint. The mandatory bank account requirement, the prohibition on cash payments for the dinar counter-value, and the rigid seven-day stay rule apply equally to a

salaried professional traveling to Paris and an unemployed youth attempting a modest trip to Tunis—despite their vastly different ML/TF risk profiles. This universalism contradicts the core tenet of the FATF risk-based approach (RBA), which explicitly permits simplified due diligence for low-risk, low-value transactions (Financial Action Task Force [FATF], 2012/2023, Recommendation 10(d)). By failing to tier its KYC obligations, Algeria transforms a protective measure into an exclusionary barrier, effectively conflating financial marginalization with illicit intent—a misdiagnosis that fuels the very informality it seeks to suppress.

6.2. KYC as Ritualistic Compliance Versus Functional Risk Mitigation

The intensification of formal controls—particularly the December 2025 directives mandating banks to "évaluer la cohérence des opérations avec le profil du titulaire" ("evaluate the coherence of operations with the holder's profile")—exemplifies what Huq and Zaring (2021) term "ritualistic compliance": the performance of regulatory acts that satisfy auditors but lack operational substance. In the absence of integrated financial data, income verification mechanisms, or behavioral analytics, this clause becomes a theatrical gesture rather than a risk-detection mechanism. Fraud networks, meanwhile, have adapted not by falsifying documents but by exploiting procedural formalism: they comply with all documentary requirements while subverting the regime's purpose through orchestrated "ghost trips" that manipulate border crossings to simulate legitimate travel. This demonstrates a fatal flaw in Algeria's approach: it verifies identity, not behavior. True risk-based monitoring requires dynamic assessment of transactional patterns—exit/entry reconciliation, itinerary consistency, post-travel expenditure—not static validation of paperwork. Until Algerian institutions gain access to interoperable databases linking bank transactions, border crossings, and travel documentation, KYC will remain a paper shield against adaptive threats.

6.3. Lessons from the MENA Region: Contrasting Tunisia and Egypt

Algeria's dilemma is not unique, but its regulatory response reflects a notably rigid administrative philosophy compared to regional peers navigating similar FX constraints. Tunisia, while maintaining a flat tourist allowance (~€1,000 annually), has reduced arbitrage incentives through procedural streamlining: expedited processing for frequent travelers and acceptance of diverse account types (including postal accounts), thereby lowering friction without abandoning oversight.

Egypt, following its 2016 currency float, shifted from rigid quota administration to market-mediated access: banks now disburse FX at market-determined rates with minimal pre-approval for amounts under \$10,000, while focusing supervisory resources on post-transaction monitoring of high-value flows. Both models remain imperfect—Tunisia still faces parallel market premiums, Egypt contends with volatility—but they share a critical insight Algeria neglects: prohibitive gatekeeping fuels arbitrage, while calibrated access reduces its profitability. Algeria's doubling down on pre-emptive restriction—mistaking bureaucratic friction for security—triggers a self-defeating cycle: tighter rules → higher arbitrage incentives → fraud detection → even tighter rules. A more effective strategy would emulate Egypt's rebalancing: liberalize low-value access while strengthening ex-post surveillance—a shift aligning with FATF's emphasis on effectiveness over procedural formalism.

6.4. Toward a Context-Responsive Risk-Based Approach in FX Governance

The Algerian experience underscores a broader imperative for emerging economies: AML/CFT frameworks must be embedded in local institutional ecologies, not imported as technical templates. A context-responsive RBA for FX governance would feature:

- **Tiered KYC pathways:** Simplified due diligence for first-time travelers requesting ≤€300 (passport + ticket only); enhanced verification reserved for repeat applicants within 90 days or requests >€500;
- **Inclusive onboarding:** Acceptance of postal checking accounts (*Compte Chèque Postal*, CCP) or national digital IDs (e.g., Algeria's *carte nationale d'identité biométrique*) for unbanked citizens, coupled with capped initial allowances (€200) to manage risk;
- **Dynamic monitoring infrastructure:** Integration of border control exit/entry records with bank transaction data to flag itinerary anomalies (e.g., passport stamped for exit but no corresponding re-entry record within 7 days);
- **Proportionate sanctions:** Graduated responses—administrative warnings for first-time minor infractions (e.g., 6-day trip), temporary suspensions (6 months) for repeat violations, and 5-year bans reserved for organized fraud networks.

Such measures would not weaken AML integrity but refocus it on genuine threats—structured arbitrage by organized networks—while preserving access for ordinary citizens. As the FATF itself acknowledges, "a risk-based approach should not [...] result in the automatic denial of financial services to categories of customers" (FATF, 2021, *Guidance on Financial Inclusion*, p. 12). Algeria's current regime does precisely this, mistaking exclusion for vigilance and thereby reproducing the informality it aims to eliminate.

7. Conclusion

7.1. Summary of Empirical and Conceptual Findings

This article has interrogated the implementation of Know Your Customer (KYC) protocols within Algeria's foreign exchange governance framework, focusing on the tourist allowance—a state-administered quota that remained frozen at €106 (15,000 DZD) for 27 consecutive years (1997–2025) before its July 2025 reform to €750 (or €300 for minors) and subsequent tightening in December of the same year. Drawing on primary regulatory texts and official enforcement reports, we have demonstrated that Algeria's regime, while formally aligned with FATF Recommendations 10 and 22, suffers from a profound **proportionality deficit**: the systematic misalignment between KYC intensity and actual ML/TF risk. KYC is applied uniformly across all applicants, irrespective of risk profile, transaction size, or socio-economic status, thereby conflating financial marginalization with illicit intent. The mandatory bank account requirement, the prohibition of cash payments for the dinar counter-value, and the rigid seven-day stay rule—though justified as anti-fraud measures—functionally exclude approximately 56% of unbanked adults (World Bank Global Findex, 2021) while failing to deter sophisticated fraud networks that exploit procedural formalism through orchestrated "ghost trips" to Tunisia. This double failure—excluding the vulnerable while failing to stop the sophisticated—constitutes the core governance paradox this article diagnoses.

7.2. Theoretical Implications for AML Implementation Studies

The Algerian case challenges the prevailing assumption that regulatory mimicry equates to effective governance. Instead, it exemplifies **misaligned compliance**: a regime that is technically robust yet functionally regressive. This dynamic reveals a critical limitation in current AML scholarship, which often privileges legal transposition over institutional embeddedness. Our analysis introduces the **proportionality**

deficit as a diagnostic lens for understanding how RBA failures manifest in capital-constrained economies: when states lack interoperable data infrastructures and risk-scoring capacities, they default to maximalist, uniform KYC that substitutes administrative control for genuine risk differentiation. In this context, KYC devolves into ritualistic compliance (Huq & Zaring, 2021)—a performative exercise that satisfies international auditors but erodes domestic legitimacy and fuels the parallel markets it aims to suppress. Future scholarship must therefore shift focus from *whether* states adopt FATF standards to *how* institutional ecologies mediate their operationalization—a move that centers political economy alongside legal form.

7.3. Limitations and Avenues for Future Research

This study acknowledges three limitations. First, the July–December 2025 reforms analyzed herein represent regulatory developments of extreme recency (2–7 months prior to manuscript submission); consequently, our assessment relies on primary regulatory texts and official statements rather than independent verification via IMF Article IV consultation or MENAFATF follow-up assessment. Second, our methodology relies exclusively on documentary analysis without field interviews with bank compliance officers or border officials; while this approach aligns with our focus on institutional discourse rather than micro-level behavior, it limits insight into informal workarounds and discretionary enforcement practices. Third, fraud statistics cited herein derive from Minister of Interior Saïd Sayoud's parliamentary statement (17 December 2025) rather than judicial case files or CRF STR data; while these figures signal regulatory concern, their precise magnitude remains unverified. Future research should address these gaps through longitudinal tracking of allowance utilization patterns, comparative analysis of FX governance across MENA jurisdictions, and ethnographic study of compliance officer decision-making under resource constraints.

7.4. Policy Recommendations for Algerian and Regional AML Authorities

To recalibrate its FX governance, Algeria should adopt a context-responsive RBA that distinguishes between low-risk travelers and high-risk actors. This entails:

- **Tiered KYC pathways:** Simplified due diligence (passport + ticket only) for first-time applicants requesting ≤€300; enhanced verification reserved for repeat applicants within 90 days or requests >€500;

- **Inclusive onboarding:** Acceptance of postal checking accounts (Compte Chèque Postal, CCP) or national digital IDs for unbanked citizens, coupled with capped initial allowances (€200) to manage risk;
- **Dynamic monitoring infrastructure:** Integration of border control exit/entry records with bank transaction data to flag itinerary anomalies (e.g., passport stamped for exit but no corresponding re-entry within 7 days), shifting emphasis from pre-emptive restriction to post-transaction intelligence;
- **Proportionate sanctions:** Graduated responses—administrative warnings for first-time minor infractions (e.g., 6-day trip), temporary suspensions (6 months) for repeat violations, and 5-year bans reserved for organized fraud networks.

These measures would not weaken AML integrity but refocus it on genuine threats, aligning Algeria's practice with FATF's own guidance that "a risk-based approach should not result in the automatic denial of financial services **to categories of customers**" (Financial Action Task Force [FATF], 2021, p. 12).

7.5. Final Reflection: Governance Excellence Beyond Regulatory Mimicry

Ultimately, Algeria's experience offers a cautionary yet instructive lesson for emerging economies navigating the global AML/CFT order: compliance without adaptation is self-defeating. The 27-year rigidity of the €106 allowance created structural scarcity that, when suddenly liberalized to €750 without risk-proportionate safeguards, triggered precisely the arbitrage the regime sought to prevent. This paradox reveals that the pursuit of financial integrity must not come at the cost of financial citizenship. True governance excellence lies not in the replication of international templates, but in their intelligent translation into locally grounded administrative ecologies—where proportionality, inclusion, and efficacy are not competing values, but interdependent pillars of sustainable compliance. As pressures for global harmonization intensify, the Algerian case reminds us that the most resilient AML regimes are not those that are most rigid, but those that are most adaptive—calibrating control to risk, not to bureaucratic convenience.

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