Activate the role of banks in economic development

تفعيل دور البنوك في التنمية الاقتصادية

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الملخص:

تعد البنوك العامة والخاصة من أهم مصادر تمويل المشاريع الاقتصادية، لأنها تقدم الأموال الضرورية لبدأ المشاريع الاقتصادية أو الاستمرار فيها ومن تم تحقيق التنمية الاقتصادية. ويهدف هذا البحث إلى ابراز الآليات القانونية التي تستخدمها السياسة الحكومية في الجزائر لتفعيل دور البنوك في التنمية الاقتصادية، من خلال التطرق إلى آلية تنويع صيغ التمويل البنكي وفقا للتشريع المصرفي الجزائري. وآلية التمويل البنكي في إطار هيئات الدعم الحكومي وفقا للمنهج الوصفي والتحليلي. وقد توصلنا في الختام إلى أن تفعيل دور البنوك في التنمية الاقتصادية يســتوجب مبدأ حرية البنوك في تنويع القروض المــقدمة للمشاريع الاقتــصادية حسب رغباتها . ويتطلب أيضا وجوب احترام معايير التمويل البنكي في إطار هيئات الدعم الحكومي المقتصر على البنوك العمومية لضمان أن أموال البنوك العامة تصرف بكفاءة وفعالية.

الكلمات المفتاحية: التمويل البنكي؛ التمويل البنكي المدعم حكوميا؛ فوائد منخفضة – الصيرفة الإسلامية – المؤسسات الاقتصادية الصغيرة والمتوسطة.

Abstract:

Public and private banks are among the most important sources of finance for economic projects, as they provide the necessary funds to start or continue economic projects and achieve economic development. This research aims to highlight the legal mechanisms used by government policy in Algeria to activate the role of banks in economic development by addressing the mechanism of diversification of bank financing formulas in accordance with Algerian banking legislation, together with the bank financing mechanism within the framework of government support agencies, according to the descriptive and analytical approach. In virtue of which, we concluded that activating the role of banks in economic development requires the principle of the freedom of banks to diversify loans to economic projects according to their wishes, and also requires that bank financing standards are respected in limited support government agencies to public banks so as to ensure that public bank funds are effectively and efficiently spent.

Keywords: Bank financing; Government-supported bank financing; Low benefits – Islamic Banking.-Small and medium economic enterprises.

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Introduction:

In light of the adoption by the Algerian legislator of the market economy system, based on the constitutionally guaranteed freedom of initiative, banks are playing an effective role in advancing economic development in pursuance with the provisions of Article 61 of the constitutional amendment of 2020 [1], as one of the most important sources of external financing resorted to by economic institutions for attainment purpose of their economic projects in light of insufficiency of their own resources to carry out their works, particularly if the owners of economic institutions are professionals or innovators and do not possess the necessary savings for the embodiment of their projects.

In fact, both public banks[2] and private banks[3]are interested in providing the economic activity with the monetary capital needed by economic institutions, all the way through providing a different variety of loans that go well with the various needs expressed in their exploitation or investment matters. In return, banks reap profits and benefits as a resource for their income as investors in financial activity, through mediation between deposit holders (savers) on the one hand, and users of these funds who are the applicants for bank financing on the other.

In this context, for creation purpose of new economic institutions or expansion of the volume of their economic activity, banks propose various forms of loans commensurate with the reality of economic development in Algeria, which needs on the one hand to diversify the economy outside of hydrocarbons, and on the other hand to provide financial support to professional, scientific and knowledge energies, in such a way to contribute to raising their economic capabilities in exploiting the natural resources available in our country. However, this Paper aims to shed light on the legal mechanisms to activate the role of banks in economic development and focus on the diversity of forms of bank financing as a mechanism to activate the role of banks in economic development in general, and bank financing within the framework of the government support bodies specialized in public banks, in particular. Moreover, the importance of research highlights the adoption of the Algerian policy of the principle of banks' freedom to provide various tools for financing economic projects according to their own wishes, even those based on an Islamic orientation to stimulate investment and those who have driven the economic growth, as a mechanism to activate the role of banks in economic development; nonetheless, the weak financial position of small and medium-sized economic projects, mainly emerging economic projects, may lead to a decline in the role of banks in financing them due to their weak financial position and inability to provide adequate guarantees to banks, which entails a decline in the number of economic projects and then hinders the economic development, since small, medium and emerging enterprises are considered a new development alternative, which should be financially helped, by granting them low-interest bank loans, so that they constantly develop and push the wheel of economic development.

In the light of the facts set out above, we bring to mind the following problem:

What are the mechanisms of bank financing for economic projects to activate the role of banks in economic development in light of the requirements of the bank's profitability and the weak financial position of economic projects**?**

This problem raises more than a few questions based on several hypotheses.

Additionally, the Algerian State policy seeks to apply special mechanisms to activate the role of banks in economic development as an important source of financing for economic projects that are unable to provide the necessary funds to launch or expand their own activity, but does bank financing concern all economic projects, regardless of the size of their investments and desires to embody the effectiveness of public banks and private banks alike?. What are the types of bank financing formulas in light of achieving bank profitability? What are the criteria for applying the financing mechanism within the framework of the government support bodies in light of the weak financial position of economic projects?

In reality, to answer such problem and questions, the descriptive and analytical approach was adopted, through collecting and analyzing information pertaining to bank financing by identifying related concepts on the one hand, as well as the exploration of the provisions of legal texts, in particular the amended and completed order 03-11 pertaining to currency and loan[4], together with the legal texts related to the criteria for granting a bank loan within the framework of the government support bodies, on the other hand. In virtue of which, we divided the study into two chapters:

- The First Chapter: Diversification of bank financing formulas to activate economic development.

- The Second Chapter: Bank financing within the scope of government support to activate economic development.

1-Diversification of bank financing formulas to activate economic development:

Bank financing refers to the cash supply provided by the banking system directly to an economic institution in various economic sectors. Besides, bank loans are the main source of financing for all economic activities, and the main engine of economic development in Algeria. In addition, loans are taken as a direct mechanism for financing economic projects in several formats reflecting the keenness of the Algerian legislator to make financial policy more efficient when financing economic activity to achieve economic development. In this respect, both public and private banks suggest various forms of loans, some of which are traditional loans based on a creditor and debtor basis, and result in usurious interests on the debtor (borrower), which are classified according to the purpose of exploitation loans or investment loans (first section); whilst some others are modern loans (Islamic banking), being based on the principle of “reward for risk”, and do not arrange usury-based interest on loans, which are alike in line with the wishes of some economic borrowing institutions, that would like to lift the legitimate embarrassment thereon to obtain non-usurious loans (second section), as enlightened hereunder.

1.1-Traditional loans contributing to the achievement of economic development.

In fact, it is meant by traditional loans those loans that are common and applied by various banks on a regular basis, on the basis of which traditional usurious financing[5]is carried out. However, these loans are classified into exploitation loans related to the operation and optimal utilization of the productive capacity of economic enterprises, so as to ensure their survival and continuation in the national economic fabric; together with investment loans related to either the establishment of a new economic enterprise or the expansion of the productive capacity of economic enterprises operating in the market, along with renewing their investments that have been consumed in order to preserve the productive capacity of their own.

In addition, investment loans do meet the needs of economic development to move from an economic situation to another new and better economic situation, being considered one of the effective factors to increase the volume of forms in the country, particularly since investment loans classified into medium-term loans and long-term loans allow the stability of the borrower's financial position for a reasonable period in which this borrower invests legitimately with all comfort, compared with exploitation loans which have a short term not exceeding 12 months and are mainly intended to confront the lack of cash liquidity of the economic institution.

In fact of latter, we cannot rely solely on investment loans to achieve economic development, as the first priority is to preserve economic institutions operating in the market and with remarkable experience, being facing temporary financial difficulties, principally in light of intense competition with foreign institutions, the fact which necessitates ensuring their survival in the national fabric. Moreover, this will only be achieved if exploitation loans are granted to them to cover their temporary financial deficit, so as to prevent them from ceasing the payment along with the dire consequences thereof, the most difficult of which is the month of its bankruptcy and departure from the market. In this case, there is no field for the effectiveness of investment loans in the event that the components of the economic fabric disappear.

As consequence, exploitation loans granted by banks play an effective role in the continuity of economic institutions, seeing that they are reliable in order to boost their economic capabilities in exploiting available natural resources to achieve economic development.

In light of the foregoing, we address the most important exploitation loans that really contribute to ensuring the continuation of economic institutions as the most important engine of economic development, and then we deal with the supports of expansion of the economic institutions' size, namely investment loans that attain a qualitative leap for economic institutions, and then contribute to economic development, as hereinafter underlined.

A/Exploitation loans contributing to economic development:

Indeed, exploitation loans are characterized by their short eligibility, as they stand for those funds obtained by economic institutions and projects, and are committed to provide repayment thereof within a maximum period of one year, which in fact take many forms. However, we will focus on the forms of exploitation loans that really contribute to ensuring the continuation of economic institutions in the market, and being soon after able to increase the size of their investment to actually contribute to economic development. Conceivably, the most prominent of which are:-

A/1-General exploitationloans

General exploitation loans are loans directed to the financing of current assets in general[6]. The most important exploitation loans contributing to the preservation of economic institutions and ensuring their continuation to achieve economic development are listed hereunder:

-**Overdraft**: It stands for a bank loan provided to a customer for longer periods of time than the fund's facilities[7] (a few weeks to several months), which is alike embodied in the bank placing of a specific amount in the form of advance on the debtor's account. Nonetheless,this loan is intended to cover the shortage of the borrower's treasury caused by insufficient working capital, which is considered amongst the real financing of the activity carried out by the borrower, which contributes to maintaining its position in the market. Likewise, it alike achieves reconciliation of banks' requirements for making a profit due to the bank's request for a special guarantee that averts risks a propos the period of freezing banks' funds in the overdraft loan on the one hand, and meeting the needs of the economic institution (loan applicant) in the face of financial position turmoil, on the other hand.

-**Seasonal loan**: It stands for a loan used to meet the treasury needs resulting from the customer's seasonal activity; hence, the bank finances part of the costs resulting from this activity in order to cover the time difference between the time of its incomes and the time of its costs.

Nevertheless, both the overdraft loan and the seasonal loan are necessary mechanisms to face the temporary financial difficulties experienced by the economic institution, and require the intervention of banks to prevent the encumbrance of its financial position, and its serious effects on the national economy. In a consequence, such loans are considered one of the solutions to face the obstacles of economic development by maintaining the survival of economic institutions operating in the market, by means of ensuring the stability of their financial position.

A/2-Special exploitation loans:

Special exploitation loans are considered to be loans directed to finance a specific asset among the assets of an economic enterprise, specifically:

-**Advance payments on goods**: It stands for a loan intended to finance a certain asset, represented by the customer's goods, whereat the economic institution receives financial advance from the bank in exchange for mortgaging its goods in its warehouses until repayment of the loan. Nonetheless, should the goods be placed at a certain entity (usually public warehouses), the institution shall obtain a document called the "Warrant"[8], which is stipulated by the Algerian legislator in the provisions of Article 543 of the Algerian Commercial Law, as it includes both a receipt and a bond to pledge the goods. However, if the institution wants to request a loan from the bank to guarantee the mortgage of these goods, it certifies the Warrant in its favour, and undertakes to make repayment of the loan at the eligibility date recorded in the bond. Nevertheless, the customer receives financial advance to guarantee the goods in order to solve the cash liquidity problem that temporarily threatens its financial position until it gets over this turbulent business situation.

-**Advance payments on public transactions**: The institution responsible for completing and implementing the public transaction needs huge funds that are not immediately available to the same, thus they turned to the bank to obtain these funds in order to finance the completion of public works for the benefit of public authorities, thereby strengthening its financial position that allows it to invest in the future, due to the high profits achieved by carrying out the public works entrusted thereto, and expanding, in so doing, its activities and thus contributing to economic development. As for the advance payments on goods, they remain limited in temporarily covering the treasury deficit of the economic institution.

-Commercial discount: It is included in the framework of short-term loans, whereat the bank grants cash liquidity to the beneficiary or the holder of the commercial bond prior to the eligibility date thereof. Such a discount is considered a loan, because the bank is waiting for the eligibility date in order to proceed to the collection thereof. In virtue of which, its goal has shown to be solving the problem of cash liquidity of the economic enterprise immediately.

-Loan bycommitment

A loan by commitment or signature by guarantee means every signature provided by the bank to its customer (signature applicant) to guarantee the payment, which is not embodied in giving real money to the customer, but gives the bank its trust only to enable the signature applicant to obtain funds from third parties. However, in case the customer (signature applicant) is unable to fulfil its obligations, the bank is compelled to disburse money to third parties according to the guarantee it gave to its customer. In virtue of which, the bank’s commitment to sign in favour of its customer includes the following:-

- **Reserve guarantee**: It is the bank’s undertaking to guarantee the eligibility of commercial bonds[9] (commercial papers) in favour of the signatory, as the bank’s guarantee in favour of the drawer or one of the two endorsers or even the drawee accepting and signing on the letter of acceptance.

- **Bank guarantee**: It stands for a written commitment by the bank under which it undertakes to pay the value of the debt owed by its customer in case of inability to fulfil its obligations, which commitment determines the duration of the guarantee and its amount. Besides, the customer benefits from the guarantee provided by the bank in its relationship with the Customs and Tax Administration, and in the case of the execution of public transactions by the customer of the bank.

B-Investment loans contributing to economic development:

Exploitation operations differ from investment operations in essential points in terms of the nature of their subjects and their duration; therefore, operations to finance investment activities require other mechanisms to be financed by banks, corresponding to the characteristics of investment activity that extends to long periods[10], the purpose of which is to obtain means of production, equipment, real estate, raw materials, industrial and commercial buildings.... Etc.

In fact, the investment loan represents the actual embodiment of the meaning of the material link to the growth of the economy, as such loans allow access to actual and real production, which increases the volume of investments necessary to double the production capacity of economic enterprises on the one hand, and on the other hand allow the creation of new domestic economic institutions capable of keeping pace with the developed economies of the country, in order to increase national income and thus achieve economic development. Further, investment loans are associated with long periods compared to exploitation loans, as these loans are classified according to the loan term into medium-term loans and long-term loans, as follows:-

B/1 -Medium-term loans

These are loans granted by the bank to finance investments of enterprises of various sizes, either Small, Medium and Large, for an average period of 02 to 07 years, i.e. financing investments that do not exceed the age of 07 years, in respect such as granting loans for the purchase of machinery, equipment and means of transport to renovate their assets, in such a way to commensurate with the quantitative and qualitative development in products, and national and foreign competition has been faced in light of the adoption by the Algerian legislator of the market economy system.

More to the point, the bank is counting on the borrower institution to make profits from this investment as a basic guarantee to facilitate the process of providing repayment of the medium-term loan, whilst the borrower institution is counting on making repayment of large returns in the future to repay the loan value, together with allocating the rest for increasing purpose of the size of its investment to raise its production capacities and gain a greater share in the market.

B/2-Long-term loans

Banks grant long-term loans to economic institutions, in order to cover the exorbitant amounts for the purchase of real estate, buildings, land or equipment necessary for their borrowing that they are unable to provide on their own. Besides, this type of investment is most often over 07 years and may reach up to 20 years. Subsequently, this process requires in-depth studies of the project to reduce the risks arising from this investment and the success of economic projects financed through investment loans. Furthermore, such loans are considered an effective engine to promote economic growth, represent a diversification of the economy outside of hydrocarbons, and stand for a necessary mechanism to overcome the obstacles to economic development in Algeria and accordingly reach a certain growth rate to catch up with the developed countries.

B/3-Rental credit (rental loan)

It is a financing method introduced by the Algerian legislator under the amendment of the provisions of Article 68 of the Ordinance No.03-11 pertaining to Currency and Loan. Above and beyond, it preserves the idea of a loan (creditor and debtor), but it has introduced a change in the nature of the financing relationship between the bank (loaner) and the borrower (economic institution). More to the point, the rental loan is based on the bank placing machines, equipment or any physical assets in the possession of a used institution (customer) for rent with the possibility of assignment at the end of the contract period, whereat the loan repayment is made in instalments, agreed upon, called the rental price. More and more, rental credit is recording a rapid expansion as investors are getting use thereof. In this respect, the leased institution (customer) is not required to spend the total amount on an investment in the purchase of equipment on one occasion, but makes disbursement thereof in instalments to the bank, seeing the ownership of the equipment remains during the contract period for the leased institution (bank) whilst the leased institution benefits from the right of use only. In virtue of which, at the end of the payment period for the leased assets (machinery and equipment), the leased enterprise has three options, namely:-

- Application for renewal of the contract without changing the ownership of this asset;
- Final purchase of this asset at residual value, in accordance with the contract with the transfer of ownership of the asset (equipment) and the right of use to the leased enterprise (customer);
- Refrain from buying the asset or renewing the contract, thus returning the asset to the leasing institution (bank).

1.2:Modern loans (Islamic banking) contributing to economic development

Within the framework of Islamic banking, the system of financing economic projects is based on a modern logic and a trend completely opposed to traditional loans, whereat it is based on profit and loss sharing, replacing the loan relationship with the participation relationship and the interest relationship with the profit relationship[11].

Additionally, loans play, within the framework of Islamic banking, an effective role in advancing economic development in Muslim societies that avoid dealing with usurious interests. Further, Islamic banking offers convenient financing formats, mainly in light of the weak ability of traditional banks to mobilize savings due to the Islamic ideological orientation of the Algerian society members, who do not prefer to deposit in traditional banks due to the interest rate.

In light of the foregoing, the Algerian legislator provided for provisions regulating Islamic banking through the issuance of the Regulation No.18-02 dated 04th November 2018, containing the rules of practicing the banking operations pertaining to participatory banking[12], which was abrogated by the Regulation No.20-02 issued on the 15th of March 2020 specifying the banking operations related to Islamic banking[13]and the rules of its practice by banks and financial institutions.

Furthermore, the Instruction No.20-03 issued on the 02nd of April 2020 defines the products pertaining to Islamic banking and specifies the procedures and technical characteristics for implementation thereof by banks and financial institutions.

In this context, we are interested in Islamic financing of economic projects throughout loans that enable the economic institution to cover its financing needs, in accordance with the principle of “reward for risk” and not dealing with interest. Moreover, banks licensed in Islamic banking use most of the well-known financing and investment formulas in Islamic economic jurisprudence, namely *Mudarabah* (speculation), participation, *Murabaha* (resale for profits), leasing, *Istiṣnā’* (manufacturing of goods), peace and good loan... Etc.

More to the point, the Algerian legislator, in pursuance with the Instruction 20-03 issued on the 02nd of April 2020, has collected almost all the conventional financing products in the field of Islamic banking mentioned above, but the financing formulas that allow achieving economic development, in our view, are embodied in financing formulas based on participation in the return on investment or built on the basis of granting a term to make repayment of the loan without interest. As a consequence, the forms of Islamic financing that have actually achieved economic development can be summarized as follows:-

A/Islamic financing in the form of participation

Indeed, Islamic financing in the participation form is based on the co-assumption of risks (losses) with the sharing of returns. Besides, the participation form is built on the basis of replacing the indebtedness relationship between the creditor (bank) and the debtor (borrower) with another relationship based on "reward for risk"[14]. Therefore, the participatory financing are divided into two types:-

A/1-The first type: It is a fixed participation based on the bank's contribution to financing part of the capital of a particular economic project. As a result, the bank is considered a co-owner of this project, which leads to the right of management thereof, seeing that each party has a fixed share in the project agreed until the end of the project period.

A/2-The second type: It stands for the decreasing participation or ending with ownership, which refers to the entity that withdraws from the project, which is the bank, whose participation decreases whenever it recovers part of its provided capital. As for the term participation ending with ownership, it refers to the partner's entity that will acquire ownership.In pursuance with Articles 14 to 18 of the Instruction No.20-03 issued on the 23rd April 2020, participation[15] is embodied in a contract between an economic institution and a bank aimed at participating in the capital of this economic institution in order to make a profit. Further, the contribution shall be in kind or in cash for each partner, as it shall be agreed in advance on the distribution of profits and losses between the parties at a specified percentage, not at random.

More to the point, participation depends on the principle of dividing profits and losses, and does not depend on the beneficiary's (borrower) ability to make repayment, whereat both the bank and the economic institution achieve a certain joint investment project, based on studying its expected results in the future on the basis of making a profit and avoiding the risk of loss, as both are working on the success of the joint investment project, which necessarily entails achieving a qualitative leap for the project, due to the experience of both, mainly the bank and those who pushed the wheel of economic development.

B/-Financing with the form of speculation

In fact, Articles 19 to 23 of the Instruction issued by the Bank of Algeria No.20-03 on the 02nd of April 2020, defined the *Mudarabah* (speculation) contract in the Algerian banking system[16], which is recapitulated as a contract under which the bank called the money loaner (employer) provides the necessary capital to the contractor (speculator), which provides its work on a project in order to make a profit, whereat the bank's contribution can be cash, in kind or both but at a specific value. Moreover, the management of funds is entirely up to the contractor (speculator), who bears responsibility for managing this project, and in turn, the bank is prohibited from carrying out management, but it has the right to exert control so as to keep its funds in the project. Likewise, the bank has alike the right to require an appropriate financial guarantee to cover the risks of non-payment by the contractor of the loan value.

In this context, the value of the guarantee, its nature and the work provided by the speculator (contractor) must be determined, and the profits are distributed in accordance with the terms of the contract after recovering by the bank of the capital and deducting the burdens. Nonetheless, the bank bears the possible losses, but the negligence, excess, fraud or violation of the contractor providing the work to the terms of the *Mudarabah* (speculation) contract causes the same to support losses that may be partial or total.

Additionally, Article 23 of the Instruction No.20-03 issued on the 02nd of April 2020 provides for financing forms with speculation that are of two forms:-

B/1-Absolute *Mudarabah* (speculation): This form consists in granting the bank a mandate to the contractor (speculator) to manage the *Mudarabah* (speculation) operations unconditionally, who shall have the freedom to choose the aimed investments to be achieved, but it always remains compelled to take care of the interests of both parties to attain the goal of *Mudarabah* (speculation).

B/2-Restricted *Mudarabah* (speculation): This picture consists in the bank imposing some restrictions on the activity of the contractor (speculator), in particular, determining the type of economic activity sector subject to speculation and the manners of investment thereof.

In light of which, *Mudarabah* (speculation) achieves, as a form of financing within the scope of Islamic banking, great and diverse opportunities for investment based on the efficiency and skills of the contractor (work provider), and not on the basis of financial solvency, which leads to encouraging the owners of crafts, experience and entrepreneurship to invest their creative abilities without bearing the burden of searching for funds to start their businesses and thus eliminating unemployment, which is one of the obstacles to economic development in Algeria.

C/-Financing with the form of leasing

Instruction No.20-03 issued on the 03rd of April 2020 incorporated the leasing form within the framework of Islamic financing under the provisions of Articles 24 to 35, whereat it specified the components of the leasing contract, the procedures for its validity and the issues related to its technical characteristics. In this context, Article 24 of the Instruction No.20-03 provides definition for the lease contract as a lease of a movable or immovable good, through which the bank called the Lessor puts at the disposal of the customer called the Lessee movable or immovable goods owned by the bank for a specific period in exchange for paying a rent specified in the contract. Besides, it is stipulated that the lease contract concerns goods that are not damaged due to the Lessee's use thereof, and the contract must alike explicitly stipulate the term and amount of rent, which is fixed or variable according to the terms of the contract[17].

As a consequence, banks can undertake do two types of leasing, mainly:-

C/1-Operational lease: It expresses an ordinary lease that does not lead to the ownership of the leased goods by the tenant-customer.

C/2-Leasing ends with ownership: Through which, the bank grants the customer the possibility of owning the leased goods upon expiration of the period agreed in the contract.

The lease agreement achieves the renewal of the means of production without burdening the tenant's capital, who is not required to spend the total amount of capital at once in the purchase of movable or immovable goods, but pays the rent, the fact of which results in the advantages of comfortably raising the production capacity, and leads to significant profits that contribute in the future to open the field for new investments, pushing the wheel of economic development, accordingly.

Consequently, the financing of economic projects within the framework of Islamic banking can be considered as an effective mechanism for activation purpose of the role of banks in achieving economic development within the framework of the principles of Islamic Sharia in the economic aspect thereof.

In light of the foregoing, the role of banks in the direct financing of economic projects is highlighted to us through granting various forms of traditional and modern loans – Islamic banking – to economic projects directly, without the intervention of another party to finance the same projects, whereat the bank shall be in direct relationship with applicants for financing their economic projects, as this has shown to be the basic mechanism for financing economic development. Nevertheless, the reality of Algerian society has dictated new conditions for us to invest in the creative and professional competence of young people that Algeria abounds with, as they are considering a new development alternative as per illustrated hereunder.

2-Bank financing within the scope of government support to activate economic development:

In fact, banks are working in the banking field to provide economic activity with the cash money needed by economic projects, which in return reap profits and benefits as a resource for their revenues, as a trader aiming to make a profit[18]. In this context, banks are keen to finance profitable economic projects that provide sufficient guarantees to repay the loan together with its interest. For such purpose, they adopt a policy that large, numerous and varied guarantees must be available, or the interest rate must be raised to cover the risks of non-payment of the loaned amounts and their consequences, the fact of which would negatively affect the distribution of loans to finance economic projects. In a consequence, this can happen because banks refuse to take the risk of granting unsecured loans or granting loans to emerging institutions, in particular those based on creative ideas, seeing that banks fear their failure and then being unable to pay the value of loans and interest, which leads to the loss by the bank of its money and funds of depositors.

Consequently, the intervention made by the Algerian legislator was necessary for activation purpose of the role of banks in economic development by involving them in tripartite financing forms, within the framework of financial support bodies, which devoted the State's keenness to push the wheel of economic development led by creative youth and small and medium-sized economic enterprises, so as to support the private sector and catch up with developed countries. Accordingly, public banks contribute to the financing of economic projects for certain groups that are, on the one hand, supposedly unable to self-finance their projects, and are unable to bear the interest of bank loans imposed on them, on the other hand. For this reason, public banks contribute as a third party to the financing of such economic projects, together with the financial contribution of each of the financial support bodies, in addition to the symbolic financial contribution of the economic project owner.

More to the point, public banks grant loans to create innovative projects easily without the hindrance of high benefits within the framework of financial support bodies, which were created by the Algerian government to strengthen the energies of young people with professional qualifications and special skills, whereat State-supported economic projects are financed by triangular financing forms. In this framework, the participation of public banks will be most important with a low-interest loan at a rate of 100%, in which the support body bears a large part of the benefits, so that the State balances between avoiding the loss of public banks, and helping economic projects, principally new or young ones, to face the interest rate of the bank loan, which burdens its treasury.

In the same context, economic projects benefit from postponing the repayment of loans to enable them to comfortably attain their investment, thus achieving the goal of economic development to which the Algerian State aspires, so as to keep pace with developed countries by relying on and investing in the intellectual and practical efforts of the youth of Algeria.

Accordingly, we list the most important bodies supporting economic projects, in which public banks are involved in financing economic projects, which in particular are the National Agency for Youth Support and Employment “A.N.S.E.J”[19] formerly, which is currently called the National Agency for the Support and Development of Entrepreneurship “A.N.A.D.E” currently[20], along with the National Unemployment Insurance Fund “CNAC” and the National Agency for Microloan Management “ANGEM”.

Nonetheless, the role of public banks in the supporting program for the small and medium-sized enterprises’ financing is activated for acceleration purpose of economic development, based on the fact that public banks are considered a major participant in terms of granting a fixed loan, whatever the level of financing within varies within the framework of the government support bodies, which is a bank loan within 70% of the total cost of low-interest economic projects. Above and beyond, the bank loan is included in the triangular structure of financing economic projects in accordance with an agreement entered into between public banks and support bodies, in addition to the personal contribution of the project owner, together with the contribution of government support agencies by granting them a loan without interest for economic projects.

Therefore, we can classify the intervention of public banks to finance economic projects and activate their role in economic development, within the framework of three government support bodies, according to the total cost of economic projects within one million dinars (first section), and within 10 million dinars of the total cost of the project (second section), as follows:-

2.1-Financing of public banks within one million dinars within the framework of the “ANGEM” Agency

In reality, public banks play an effective role in their contribution to the financing of economic projects supported by the National Agency for Microloan Management “ANGEM”[21], whereat public banks contribute to the financing of economic projects whose cost does not exceed one million Algerian dinars from the total cost of the economic project, and the bank loan targets natural persons from the category of unemployed qualified people for a specific activity, and does not target moral persons. Nevertheless, this significantly means that the granting of a bank loan has been based on the personal consideration of the applicant of the micro-loan within the framework of "ANGEM", as this can be underlined through the eligibility criteria of the initiator and the eligibility criteria of the activity as follows:-

A -The eligibility of the initiator "Project Owner" :

1. He must be at least 18 years old and able to perform an activity;
2. He must have no income;
3. He must own a fixed residence;
4. He must have technical knowledge related to the planned activity;
5. He must not benefit from any support for the establishment of other businesses.

B-Criteria of the activity eligibility:

1. The productive activity of goods and/or services;
2. Small companies with a small capital[22].

In virtue of which, the inclusion of microloan in the range of banking services aims to support the private sector in light of Algeria's adoption of the market economy system, because the aim of the low-interest microloan is to move the initiative element by embodying a simple idea that needs a small amount, pertaining to the productive activity of goods and/or services or the establishment of small companies with small capital. Then, how many small projects have started and become economic projects that build the national economy and push the wheel of economic development?

In addition, the contribution of public bank will be made within the framework of the tripartite financing by the "ANGEM" Agency – public bank – contractor, with a loan estimated at 70% at reduced interest, with a repayment period of up to 08 years with the possibility of delaying interest for one (01) year and the bank loan for three (03) years. Moreover, the "ANGEM" Agency also provides an unpaid loan worth no more than 29% of the project cost. As for the personal contribution of the entrepreneur, it is simple within the limits of 01% of the project cost[23].

2.2-Financing of public banks within 10 million dinars of the total cost of the project

Indeed, public banks intervene to finance economic projects that do not exceed 10 million dinars of the total cost of the project supported by the government through two support bodies represented by the National Agency for the Support and Development of Entrepreneurship "A.N.A.D.E" and the National Unemployment Insurance Fund "CNAC", is as follows:-

A -The public bank loan within the framework of the National Agency for the Support and Development of Entrepreneurship "A.N.A.D.E"

In pursuance with the Executive Decree No.20-329, public banks grant for economic projects, supported by the National Agency for the Support and Development of Entrepreneurship "A.N.A.D.E", loans for natural persons only, and target two main categories, the unemployed people and students, and the non-unemployed category. Besides, within the framework of the tripartite financing, the public bank grants a fixed loan with the value of 70% of the total cost of the low-interest project, 100% of which the bank loan is repaid within 05 years, whilst the rest of the project financing is completed with the contribution of the agency that provides an interest-free loan that changes according to the target group and the personal contribution of the contractor, as follows:-

-The category of unemployed people and students: Whereat the agency contributes with 25% of the total cost of the project to be repaid within 05 years after repayment of the bank loan, regardless of the area in which the activity is performed, whilst the rest is a fixed personal contribution of the contractor evaluated to 05%.

-The category of non-unemployedpersons: The tripartite financing is provided by adopting the same terms of the bank loan estimated at 70% of the total cost of the project low interest 100%. Nonetheless, the percentage of interest-free loan granted by the “ANADE” Agency and the percentage of the personal contribution of a non-unemployed contractor change depending on the region where the project is being completed – for further details, vide the Table[24].

In order for a natural person, whether from the category of unemployed and students or from the category of non-unemployed persons, to benefit from a public bank loan within the framework of the National Agency for the Support and Development of Entrepreneurship “A.N.A.D.E”, personal and subjective conditions pertaining to the eligibility criteria of the initiator and the eligibility criteria of the activity are listed hereunder, as follows:-

A/1.The eligibility conditions of the initiator “Project Owner”:

- The applicants for tripartite financing must have the age of 19 years old to 40 years old;
- They must have professional qualifications that are appropriate for the project to be created.

A/2.Criteria of the activity eligibility:

The priority is given to financing industrial, transformational and innovative activities, in which the maximum investment amount is Ten million (10,000,000. 00) Algerian dinars.

In addition, the purpose of granting loans by public banks, within the framework of the “A.N.A.D.E” Agency, is to encourage all forms leading to the revitalization of the employment sector of unemployed and non-unemployed youth, and even students through industrial, transformational and innovative activities, as a priority for the purpose of advancing the wheel of economic development. Likewise, it alike aims to create self-employment for unemployed youth without waiting for work in the public or private sector.

B-The public bank loan within the framework of the National Unemployment Insurance Fund “CNAC”

Unquestionably, banks contribute to the financing of economic projects supported by the National Unemployment Insurance Fund “CNAC”[25], through granting loans in the form of tripartite financing for the purpose of supporting the establishment and expansion of the activities of only natural persons who are unemployed. Additionally, the investments made in the field focus on the basis of a tripartite financing pattern in which the project owner, the public bank and the National Unemployment Insurance Fund “CNAC” contribute with an investment cost not exceeding Ten million (10,000,000. 00) Algerian dinars. In this framework, the project owner benefits from a bank loan estimated at 70% of the total cost of the project with low interest and 100% supported, an interest-free loan granted by the “ CNAC ” fund, and the personal contribution of the entrepreneur. In virtue of which, the total repayment period of the credits is up to 13 years, 08 years for the bank including 03 years deferred and 05 years for the advisory committee[26].

Above and beyond, for the purpose of benefiting from a natural person, personal and subjective conditions are required, pertaining to the eligibility criteria of the initiator and the criteria of the activity eligibility, as follows:-

B/1.Conditions related to the eligibility of the unemployed initiator

- He must have 30 to 50 years old[27], and holds the Algerian nationality;
- He must be registered in the services of the National Employment Agency “ANEM”;
- He exerts no paid function at the time of requesting the aid;
- He must have a professional qualification in connection with the planned activity.

B/2.Criteria of the activity eligibility

The activity criteria were not specified, not even the priority of the activity, which means that the public bank grants a loan for all types of activities within the framework of the National Unemployment Insurance Fund “CNAC”[28].

Besides, it has shown clear that the financing by the public bank in this context plays an effective role in eliminating unemployment and providing job positions capable of promoting activities in all fields so as to achieve economic development.

In the light of the facts set out above, we can realize that the policy of the government support bodies is aimed at natural persons without moral persons, and targets a category of a specific age category who possess a professional qualification or technical skill or both, in order to push them to create self-employment, and not to rely on waiting for an opportunity to work in the public or private sector. Hence, we have realized the activation of the role of public banks in playing the role of the main participant in the tripartite financing of projects supported by the above-mentioned support bodies, whereat the financial contribution of the public bank by granting a fixed loan estimated at 70% of the total cost of the project with low interest and 100% supported whatever the level of support. With regards to the rest of the funding, it will be provided by one of the support bodies and the personal contribution of the project owner. In addition, the tripartite financial structure of investment support is a joint project in which all efforts are combined to create new economic projects capable of achieving the economic development goals outside the field of hydrocarbons. In the same context, the principle of participation and integration between government agencies and public banks is devoted to the financing of enterprises, one of the most important components of economic development in Algeria, based on the strategy of ensuring that banks do not lose by bearing a large part of the benefits of bank loans on the one hand, and ensuring that financially weak economic projects, in particular small, medium and emerging, receive low-interest bank financing on the other hand, which entails the effective exploitation of the various energies available to members of society, together with directing their employment to the best, thereby achieving the qualitative leap from an existing economic situation to another better and enhanced economic situation.

Conclusion:

The economic policy in Algeria is keen to activate the role of banks in economic development through two important mechanisms, namely:

The mechanism of diversification of bank financing forms suitable for the wishes of economic projects, in terms of the type of activity to which the loan is directed, and in terms of the religious motivation of customers, thereby increasing the number of economic institutions in the private sector, which contributes to increasing national income and creating jobs. In virtue of which, the positive impact of activating the role of public and private banks

has been shown to push the wheel of economic development on the one hand.
In addition to the mechanism of bank financing within the framework of government support for economic projects, which highlights the government policy of Algeria, aimed at exceeding the role of banks in their ability to finance large economic projects capable of covering the risks of loans and interest attached thereto, due to the enormous profits earned by such economic projects, so as to push banks to play an effective development role to promote small and emerging enterprises under the Algerian State policy all the way through involving public banks mainly in granting loans to small, medium and even emerging economic projects, whereat the public bank grants a fixed loan estimated at 70% of the total cost of the project, with low interest benefits 100%, whatever the level of financial support bodies on the basis of the tripartite financing pattern, the bank – the supporting government financial body – the entrepreneur – initiator, in order to enable entrepreneurs of weak economic financial position to create their new enterprises based on technical skills and creative ideas for their success, rather than providing huge capital for the success thereof, on the other hand.

Accordingly, it has emerged through the research subject that the granting of a bank loan by public banks is limited to the personal consideration of the loan applicant as a natural person, due to the obligation of fulfilling personal subjective conditions, particularly those pertaining to the provision of a qualification related to the planned activity, the fact of which is due to the insistence of the Algerian legislator to facilitate the access of certain categories of low-interest bank loans, for the purpose of supporting the emergence of the private sector in light of the adoption of the market economy system by Algeria, and then moving the element of initiative and the independence of creative youth as a new development alternative, so as to achieve a qualitative leap in pushing the wheel of economic development.

In light of the facts set out above, we have decided to submit some proposals and recommendations, as per listed hereunder:

Research recommendations:

- The need to encourage private banks to actively engage in financing economic projects within the framework of the government support bodies, due to the small number of agreements interred into between public banks and financial support bodies for economic institutions, as they are within the limits of only 06 public banks, as far as I have discovered, namely: Popular Credit of Algeria “CPA”, Local Development Bank “BDL”, External Bank of Algeria “BEA”, National Bank of Algeria “BNA” and Bank of Agriculture and Rural Development “BADR”.
- The need for moral persons, in respect such as companies under liquidation, particularly troubled small companies, so as to benefit from financial support programs, and not to be limited to supporting natural persons, hence that the role of public banks can be done to save troubled companies from ceasing to pay and not to publish the bankruptcy thereof. In a consequence, the national economic fabric shall be preserved.
- Spreading the culture of entrepreneurship among young people so as to create self-employment that will relieve them of waiting for work in a government or private job, in particular for those holding higher degrees in higher education, in line with the State strategy to finance the holders of ideas as a new developmental alternative capable of turning their ideas into goods in light of the knowledge economy. Subsequent to which, the economic development shall be achieved in various fields.
- The obligation to implement strict and realistic criteria for qualifying and selecting economic projects benefiting from bank financing within the framework of the financial support bodies, for the purpose of ensuring that the funds granted to economic projects are effectively and efficiently spent.

citation

1- Vide Article 61 of the Law No.20-442 dated 30th December 2020, pertaining to the issuance of the constitutional amendment, the Official Gazette of the Algerian Republic, No. 82, 2020
2-Public banks are those banks that belong to the public sector, to which the State gave the ownership of the entire or majority of capital.
3-Private banks belonging to the private sector, whose capital is privately owned, appeared in Algeria after the issuance of the Law pertaining to currency and loan No.90-10 issued on the 14th of April 1990 pertaining to currency and loan, Official Gazette of the Algerian Republic, No.16 issued on 18th April 1990.
4-The Ordinance No. 03/11 pertaining to currency and loans issued on the 26th of August 2003, Official Gazette of the Republic of Algeria, Official Printing House No. 52, Fortieth year, Algeria, issued on 27th August 2003.

5-Mohammed Al Yafi. Law of currency and loan, printed lessons intended for first-year students Master of Economic Sciences. University ofDjilali Bounaama, Khemis Miliana, Faculty of Economic and Commercial Law and Management Sciences. 2020 – 2021. p.64.
6-Tahar Latrache. Banking techniques. University publications Office, third edition, p. 58.
7-Luc B-R. : "*Pratique de technique bancaire*" (Practice of banking technique), 25th edition Dunod, Paris, 2008.
8-Article 543Bis of the Ordinance No.75-59 issued on the 26th of September 1975, pertaining to the amended Commercial Law, and supplemented by Law No.05-02 issued on the 06th of February 2005, Official Gazette No.101, dated 19th December 1975.
9- Commercial bonds include the Warrant, the transport bond and the invoice transfer contract, all added to the Commercial Law by Legislative Decree No.93-08 dated 25th April 1993, Official Gazette No. 27, 1993.
10-Tahar Latrache. The same reference 73. p.58.
11- Ali SARI. Banking operations and corporate finance, a publication aimed at Master's students, specialized in Monetary and Banking Economics, Faculty of Economic and Commercial Law and Management Sciences. University of University of Mohamed-Chérif Messaadia – Souk Ahras. 2020-2021 p. 65.
12- The Regulation No.18-02 dated 04th November 2018, containing the rules of practicing the banking operations pertaining to participatory banking.
13- The Regulation No.20-02 issued on the 15th of March 2020 specifying the banking operations related to Islamic banking.
14- Ali SARI. Op. cit. p. 65.
15- Article 14 of the Instruction of the Bank of Algeria No.20-03 issued on the 23rd of April 2020, states that participation is a contract between a bank or a financial institution and one or several parties, as the purpose of participation in the capital of an institution, in a project or in commercial operations is to achieve profits.
16- Article 24 of the Instruction issued by the Bank of Algeria stipulates that leasing is a lease agreement by which the bank or financial institution, called the "Lessor", places at the disposal of the customer called the "Lessee", on the basis of rent, a movable or immovable good, owned by the bank or financial institution, for a specified period in exchange for payment of a rent specified in the contract.
17-Article 24 of the Instruction issued by the Bank of Algeria stipulates that leasing is a lease agreement by which the bank or financial institution, called the "lessor", places at the disposal of the customer called the "lessee", on the basis of rent, a movable or immovable

good, owned by the bank or financial institution, for a specified period in exchange for payment of a rent specified in the contract.

18- Article 83 of the Ordinance No. 03/11 pertaining to currency and loans issued on the 26th of August 2003, Official Gazette of the Republic of Algeria, Official Printing House No. 52, Fortieth year, Algeria, issued on 27th August 2003.

19-It stands for a public body of a specific nature, enjoying the legal personality and financial independence, under the supervision of the Ministry of Employment, the Executive Decree No.96/296 issued on the 08th of September 1996, which includes the establishment of the National Agency for Youth Support and Employment and the definition of its Incorporating Act, Official Gazette, No. 52 issued in 1996, p. 12.

20-Article 01 of the Executive Decree No.20-320 issued on the 22nd of November 2020 amending and supplementing the Executive Decree No.96-296 bearing the establishing the National Agency for Youth Support and Employment and the definition of its Incorporating Act, in addition to renaming the same, Official Gazette, No.70 issued on 22nd November 2022, p.08.

21- The National Agency for Microloan Management was established under the supervision of the Ministry of Solidarity, Family and Status of Women in January 2004 through the Executive Decree No.04-14 issued on the 22nd of January 2004 pertaining to the organization of the functions of National Agency for Microloan Management together with the definition of its Incorporating Act. However, its work was actually launched on the ground only in mid-2005, Official Gazette, No.06, issued in 2004, pp. 8-9.

22-www.and.dz,guide-de-creation-dentreprise-2022-arabe.pd. p.18-19.

23-https://www.angem.dz/

24-www.and.dz,guide-de-creation-dentreprise-2022-arabe.pd. p.15 – 17.

25-Created in pursuance with the Executive Decree No.94/188 issued on the 26th of Muharram 1415, corresponding to the 06th of July 1994, consisting of the Incorporating Act of the National Unemployment Insurance Fund, Official Gazette, No.44, p.6.

26-www.and.dz,guide-de-creation-dentreprise-2022-arabe.pd.p.17.

27-The support system ensures the creation and expansion of activities for unemployed entrepreneurs aged between thirty (30) and fifty (50) years. https://www.cnac.dz/site_cnac_new.

28-www.and.dz,guide-de-creation-dentreprise-2022-arabe.pd. p.20.