

**Loan Guarantee Fund as a Financial Support Mechanism for  
SME Rehabilitation Programs: Joint Financial Guarantee  
“FGAR / EDPME”**

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**Abstract:**

Small and medium enterprises are considered one of the main pillars of the national economy, this is what gave them priority attention and providing frameworks and mechanisms to support them, whether with accompanying or financial support, and among these mechanisms we find a loan guarantee fund for small and medium enterprises, which is a haven for many institutions whose capital is large and facing the problem of financing, and therefore this research paper aims to introduce more to this fund and highlight the most important achievements made by it until the year 2019, and more focus in the method of joint financial guarantee for loans in the framework of cooperation with the European Union EDPME

**Key words:** financial support, loan guarantee fund, joint financial guarantee, small and medium enterprises, EDPME.

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## 1. INTRODUCTION

Algeria, like the rest of the world, is interested in the emerging and sector of small and medium enterprises, as it is considered the effective nerve in advancing economic development, but these institutions find themselves in front of the financing problem, which is one of the most important obstacles facing them and prevents their survival and continuation in front of competition, and therefore Algeria has taken an interest in this sector in providing multiple support and accompanying mechanisms, each of which has its own characteristics in line with the requirements and needs of small and medium enterprises, and among these mechanisms we find a loan guarantee fund that is the focus of our research topic, which is concerned with granting guarantees to the bank to allow small and medium enterprises to obtain loans, and in coordination with various investment support bodies and SMEs rehabilitation programs in Algeria, the Loan Guarantee Fund, in coordination with the European Union Program for the Development of Small and Medium Enterprises, from providing a distinct offer represented the "FGAR / EDPME" joint financial guarantee is intended for organizations that have benefited from rehabilitation programs.

**The problem of research:** The Loan Guarantee Fund is one of the important mechanisms that small and medium enterprises resort to in order to obtain a guarantee for loans obtained from banks, especially since they are estimated at large amounts. From this standpoint, the research paper attempts to address the following main question: How does the Loan Guarantee Fund contribute to providing financial support to small and medium enterprises? What are the terms and mechanisms for FGAR / EDPME joint financial guarantee for SMEs?

**Research objective:** The research paper aims to know how the loan guarantee fund works for small and medium enterprises as a mechanism for financial support that the state has developed to protect the institutions concerned from the risk of bankruptcy and loss, especially in light of the free economy, in addition to trying to

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evaluate the work of the fund from its inception until 2019, in terms of the number of beneficiaries that are still standing. The focus is on the cooperative framework of the European Union, which supports the fund in its work through the EDPME program, by introducing the program and its conditions and presenting the most important results reached compared to the goals that were underlined.

### **2. The first axis: The Euro-Mediterranean program for the development of small and medium enterprises (EDPME):**

This program is considered an economic tool for the European Union, with the aim of establishing a free trade area between the members of the European Union and between the Mediterranean countries, to implement the Euro-Mediterranean Partnership and its activities and grant bilateral MEDA assistance to Algeria, Tunisia, Morocco, Egypt, Jordan, Syria, Lebanon and Palestine.(Salima, 2017, p. 27)

The European Union MEDA Program has created a device to provide financial assistance to small and medium enterprises by granting the necessary guarantees to obtain bank loans, as this device works to re-guarantee the loans guaranteed by the loan guarantee fund for small and medium enterprises and provide financial and technical assistance to contribute to the implementation of government support programs for the small and medium enterprises sector.

This program came in the framework of the Euro-Algerian Partnership that came into effect in the period from September 2002 and extended until 2007, and aims to raise the competitiveness of SMEs, and therefore it is a program funded by the European Union and the Ministry of Small and Medium Industries and Traditional Industries with a budget of 62.90 million Euros for a period of 5 years. The European Union contribution amounts to 57 million Euros. The Algerian state contributes to 3.40 million Euros, while 2.5 million Euros is the share of the institutions involved in and benefiting from the program (paying 20% of the cost Aesthetic rehabilitation activities).(AHMED, 2007.)

**2.1 Program activities:** To reach the achievement of the expected results, the program has made the same move within the following three axes:

➤ **Direct support to small and medium enterprises:** It is through:

- Comprehensive diagnosis for institutions followed by rehabilitation processes.
- Formulating financing plans for obtaining bank loans.
- Training and training operations directed primarily to owners and managers of institutions.

➤ **Helping financial institutions and organizations that provide direct support to small and medium enterprises:** This is done through:

- Assisting financial institutions in developing targeted financing methods for SMEs.
- Establishing a loan guarantee fund that would assist institutions in financing their investment plans.

➤ **Helping public and private institutions and organizations that provide direct support to small and medium enterprises:**

This is through strengthening and supporting professional and employer associations.

## **2.2 Industrial sectors concerned with the program:**

The program is interested in the private industrial sector, as well as in the services sector directly related to the industrial sector and the most important sectors concerned: (Mounir, 2006, p. 876) building materials; food industries, electricity and electronic industries; chemical industries; the textile and clothing industry; the leather and shoe industry; the wood and furniture industries.

## **2.3 Institutions eligible for the European Union MEDA program guarantees:** (Information provided by the Loan Guarantee Fund )

- Small and medium enterprises in the industrial sector, and services directly related to the industry, which has at least 3 years of activity.

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- Small and medium enterprises that have benefited from rehabilitation programs through the MEDA program or the program of the Ministry of Small and Medium Enterprises, or the program of rehabilitation for the Ministry of Industry.

### **2.4 Guarantee amount:**

(<https://www.fgar.dz/portal/fr/content/modalit%C3%A9s-de-la-couverture-0>)

- It covers 80% of the total bank loan specified for the corporation, without exceeding 50 million dinars.
- The amount of coverage can in some cases reach 150 million dinars.
- The maximum term is 07 years for regular investment loans and 10 years for loans by lease

The beneficiary shall pay a premium to the fund, to be determined as follows:

- 0.60% per annum of the remaining loan amount for investment loans.
- 0.30% per annum for operating loans.

### **3. the loan guarantee fund for small and medium enterprises**

Due to the weak ability of the small and medium-sized negotiating institutions in front of banks and financial institutions, as they do not have the ability to obtain bank loans due to their lack of adequate guarantees required by banks as a result of high investment risks in this type of institution, in addition to the fact that most banks are commercial banks, which required government agencies to try to provide investment loans by directing the establishment of a loan guarantee fund for small and medium enterprises.

#### **3.1 The Fund's Establishment:**

The Loan Guarantee Fund for Small and Medium Enterprises was established by Executive Decree No. 02-373 of November 11, 2002, related to the implementation of the directive for Small and Medium Enterprises (SME) law incorporating the basic law of the loan guarantee fund for Small and Medium Enterprises. Its activities officially began on March 14, 2004.

It is considered a public institution under the tutelage of the Ministry of Small and Medium Enterprises, and this fund has a moral personality and financial independence, and aims to secure the necessary loans for investments directed to Small and Medium Enterprises. (Executive Decree No. 02-373, 2005, p. 32) A financial cover was allocated at the disposal of the loan guarantee fund for small and medium enterprises, at a value of 1 billion dinars.

A partnership agreement has also been signed with the following banks: AGB - SOFINANCE - BDL - NATEXIS BANK - BEA - BADR - BNA - SOCIETE GENERALE - CNMA

### **3.2 Fund's tasks:**

The most important of them can be summarized in the following points: (Information provided by the Loan Guarantee Fund )

- Interfering with granting guarantees to small and medium-sized enterprises that implement investments.
- Running the resources at his disposal in accordance with the legislation and regulations in force.
- Acknowledging the eligibility of the projects and the guarantees granted.
- Ensure the follow-up of the disputed collection processes.
- Ensuring the follow-up of programs guaranteed by international organizations for the benefit of small and medium enterprises.
- Guarantee of technical advice and assistance for the benefit of small and medium enterprises benefiting from the fund guarantee.
- Carrying out every partnership project with the institutions that are active in the framework of promoting small and medium enterprises.
- Ensuring that risks are followed by granting the fund's guarantee and submitting guarantee certificates related to all financing forms.

### **3.3 The guarantee granted by the Fund:**

The Loan Guarantee Fund for Small and Medium Enterprises provides guarantees for projects that make investments related to: Establishing new institutions; identifying production equipment; expanding existing ones; taking contributions in other institutions.

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### ➤ **Qualified Institutions:**

All Algerian small and medium productive enterprises are eligible to benefit from the fund's guarantees and priority is given to institutions that offer projects that meet one of these criteria: (<https://www.fgar.dz>)

- Institutions that contribute to production or provide services that are not present in Algeria.
- Institutions that give significant added value to manufactured products.
- Institutions that contribute to reducing imports or increasing exports.
- Projects that allow the use of raw materials found in Algeria.
- Projects that need little funding compared to the number of jobs that will be created.
- Projects that employ a qualified workforce or allow the development of modern technology.

### ➤ **Non-qualified Institutions:** Institutions that cannot benefit from the Fund's guarantees are: (<https://www.fgar.dz>)

- Institutions that do not meet the definition of small and medium enterprises according to the directive law for small and medium enterprises.
- Institutions that have benefited from financial support from the state.
- Quoted institutions in the stock exchange, insurance companies and real estate agencies.
- The companies that are active in the field of trade only, in addition to the projects that cause a great pollution to the environment.
- Loans designed to refinance old loans.

### ➤ **Coverage Methods:**

The matter relates to guaranteeing the payment of part of the loss incurred by the bank in the case of non-payment of the loan, and the percentage of the guarantee ranges between 10-80% of the bank loan and is determined according to the cost of the loans and the degree of

risk, while the maximum amount of the guarantee equals 100 million DZD - the maximum guarantee period is 7 years, and the bank takes the project's hardware as collateral

(<https://www.fgar.dz/portal/fr/content/modalit%C3%A9s-de-la-couverture>)

#### **4.4 The proceeds of the loan guarantee fund:**

The establishment of the Loan Guarantee Fund contributed to improving financial intermediation between banks and institutions. Until the 30-06-2019 the following results were recorded: 2717 guarantee request files were received that allow the creation of 80,863 jobs with a total value of 290592040122 DZD and the amount of granted loans is estimated at 184184205391 DZD. However, among the 2717 required guarantees, only 1408 provided by the banks were granted, and this is according to the following table:

**Table 1:** General position of guarantees provided from 2004 to 30-06-2019

	<b>Guarantee offers</b>	<b>Guarantee certificates</b>
Number of guarantees granted	<b>2717</b>	<b>1408</b>
The total cost of the projects	<b>290592040122</b>	<b>98740626046</b>
The value of the desired loans	<b>184184205391</b>	<b>65615891957</b>
The value of guarantees granted	<b>84 972 646 715</b>	<b>35 297 652 416</b>
The number of jobs to be created	<b>80863</b>	<b>37257</b>

**Source:** bulletin d'information statistique de pme, Ministère du Développement industriel et de la Promotion de l'Investissement, novembre 2019, N° 35, p20

**Guarantee offers:** Initial agreement to grant financial guarantee.

**Guarantee certificates:** A final commitment from FGAR Offer guarantee is complementary to bank financing



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➤ **Distribution of guarantee files according to sectors of activity from April 2004 to June 2017:**

According to the sectors of activity, the industrial sector led by 970 projects, followed by the construction and public works sector with 526 projects, and this is shown in the following table:

**Table.2:** Distribution of guarantee files according to sectors of activity from April 2004 until June 2017

Activity sector	Number of projects	Number of jobs	The value of the guarantee	percentage
Industry	970	36 609	32 151 448 062	60
The construction and public works	526	15 999	10 993 691 363	21
Agriculture and fishing	24	845	882 180 868	1
Services	417	8 335	9 466 535 915	18
Total	1 937	61 788	53 493 856 208	100

**Source**<https://www.fgar.dz>

The SME Loan Guarantee Fund focused its guarantees on two main sectors are the industrial sector and the Construction and public works, Which represents 81% of the value of the guarantees presented, as the industrial sector acquired more than half of the guarantees at a rate of 60% with 970 projects, it is followed by the construction and public works sector with at a rate of 21% which represents 526 projects, then the services sector with 417 projects, Finally, we find the agriculture and fishing sector with 24 projects, which represents 1% of the total guarantees, Consequently, the SME loan guarantee fund is oriented towards the industrial sector. As a result, 61 788 jobs were created, as shown in the previous table.

➤ **Distribution of guarantee files according by regions from April 2004 to June 2017:**

It can be summarized in the following table:

**Table .3:** Distribution of guarantee files by regions from April 2004 to June 2017

Region	Number of projects	percentage	The value of the guarantee	percentage
the East	<b>516</b>	<b>27</b>	<b>14 398 376 071</b>	<b>27</b>
the middle	<b>936</b>	<b>48</b>	<b>24 863 089 821</b>	<b>46</b>
the West	<b>368</b>	<b>19</b>	<b>11 381 501 335</b>	<b>21</b>
the South	<b>117</b>	<b>9</b>	<b>2 850 888 981</b>	<b>5</b>
Total	<b>1937</b>	<b>100</b>	<b>53 493 856 208 1</b>	<b>100</b>

Source <https://www.fgar.dz>

Through the table, we notice that the middle region got the largest percentage of 48%. An estimated 936 projects amounted to 24 863 089 821 DZD out from the total of 1 937 projects, The main reason is the concentration of investment projects in the region, The second percentage for the east region was 27%, an estimated 516 projects, at a value of **14 398 376 071** dinars, As for the West region, it ranked third with an estimated rate of 19%, meaning an estimated 368 projects, at a value of 11,381,530,335 DZD, As for the small percentage, it was 6% for the South region, meaning 117 projects, at a value of 2 850 888 981 DZD.

#### **4. Evaluation of the FGAR / MEDA guarantee mechanism program, the Loan Guarantee Fund / European Union Program.**

##### **4.1 The general status of the guarantees provided within the FGAR / MEDA mechanism, as of 30 June 2009**

within the work accomplished by the European program up to June 30, 2009, 138 files were received with a total cost of projects estimated at 20,441,076,246 DZD, that created 12 517 jobs, and the

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value of the guarantees granted was 5 098 330 515 DZD and this is shown in the following table:

**Table. 4:** General position of the guarantees presented within the FGAR / MEDA mechanism until June 30, 2009

Number of guarantees granted	<b>138</b>
The total cost of the projects	<b>20 441 706 246</b>
The value of the desired loans	<b>12 069 720 715</b>
The value of guarantees granted	<b>5 098 330 515</b>
The number of jobs to be created	<b>12 517</b>

**Source:** bulletin d'information statistique de pme , Ministère du Développement industriel et de la Promotion de l'Investissement, novembre 2009, N° 16, p40

### **4.2- Program Results:**

The MEDA 1 program has achieved a number of results from the beginning of 2002 until the end of December 31, 2007, in terms of the various targeted axes as follows:

- Concerning direct support to SMEs: 685 SMEs have applied to join the program, and 445 enterprises have already entered into qualification procedures, representing 65% of the total institutions wishing to enter the program, with 179 SMEs abandoning the program after carrying out the initial diagnostic process, at 26% of the total institutions involved, while the remaining 65 institutions, which constitute 9%, carried out the diagnostic process permanently and were limited to this stage, then they withdrew from the program. The

number of rehabilitation operations related to accepted institutions reached 1373 operations, 477 diagnoses, and 896 qualifications, (ANANI Sacia, 2015, p. 12) and the main reasons for the institutions that abandoned the process are due to: (NEZAI Azzeddine, 2016, p. 229) the owner of the institution hesitating to continue the process; qualification at the enterprise level; difficulty and impossibility of funding by the institution for the operation.

- Concerning financial institutions support: 191 operations were carried out in favor of five specialized financial institutions, 27 operations for small and medium enterprises in order to develop accounting and financial systems, and 144 operations in order to facilitate the institutions' access to funding sources.

- Concerning the supporting bodies: 187 operations were carried out to support the SME community, and ministries and government ministries and other support bodies such as the Ministry of Small and Medium Enterprises and the Algerian Chamber of Industry and Trade benefited. (ANANI Sacia, 2015, p. 12)

## **5. CONCLUSION**

Through this research paper, we have tried to present the results of the loan guarantee fund for small and medium enterprises, focusing on the mechanism of joint financial guarantee, between the fund and the European Union as a mechanism to support and financial support to the institutions concerned. We concluded that the fund is still from the beginning of its activities until the year 2019 providing assistance and is active within its stated objectives despite the presence of some shortcomings. In addition to that, the MEDA program in general provided many funds that helped the fund in providing the necessary guarantees for the functioning of small and medium enterprises and ensuring their survival. It can be noted that the results of the MEDA 1 program stopped at 2009 because there was a complementary program in the framework of cooperation also called MEDA 2 that supports the field of technology and communication.

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Based on the foregoing, we find that the concerned ministry devotes all the capabilities to support small and medium enterprises, but it does not rise to the desired goals for several factors that have been mentioned in the body of the research paper, where it is still very difficult to conduct an evaluation of the promotion programs, however, the experience has certainly had an impact on the level of small and medium enterprises. Public authorities should initiate new procedures to bring in more institutions for promotion and thus reach a certain degree of competitiveness that will enable them to deal with the establishment of a free trade area with the European Union.

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