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# Requirements for strengthening the financial inclusion of small and medium-sized enterprises in Algeria to achieve economic diversification

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## Abstract:

This study aims at highlighting the issue of financial inclusion of small and medium-sized enterprises, we have relied in this study on the deductive approach of description and analysis.

The study concluded that the level of financial coverage is weak compared to the rest of the Arab and emerging countries, as it shows the size of the obstacles and challenges facing small and medium enterprises, which negatively affect their growth in a way that makes them more stable.

**Keywords :** Small and medium enterprises, financial inclusion, savings, credit, financial services.

**Jel Classification Codes :** E58 ; G21; G18.

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## 1. Introduction:

Interest in financial inclusion has become an increasingly important objective in the aftermath of the global financial crisis (2008), exemplified by the commitment of different governments to financial inclusion through the implementation of policies and strategies aimed at promoting and facilitating access to financial services for all segments of society and enabling them to use them properly.

financial inclusion of small and medium-sized enterprises can contribute to economic growth, diversification of income sources and enhancing the effectiveness of macroeconomic policies. In addition to the possibility of strengthening financial stability, small and medium-sized enterprises are characterized by a lot of the characteristics that enable it to play an active role in building the integrated industrial fabric and stimulating the private sector, and thus income development and job creation, which are more labor-intensive in production than capital-intensive and have the ability to respond quickly to the characteristics of the small market. They are the dominant feature of developing country markets, and they are also characterized by their easy adaptation to the external environment, and their expansion even to remote areas.

Like many countries, the public authorities in Algeria are paying very important attention to small and medium-sized enterprises through the development of technical and financial support bodies. And making corrections at the level of economic policies supporting economic growth and adoption of other economic sectors outside the fuel sector and promote domestic investment by encouraging private sector initiatives and upgrading national products to promote national small and medium-sized industries..

However, the small and medium-sized enterprise sector in Algeria suffers from many obstacles, especially in the field of finance. Despite all attempts and policies supporting the growth of this sector, the proportion of financing directed to the latter is still modest, and a national strategy must therefore be formulated to address the main punishment for the arrival of small and medium-sized enterprises and to achieve financial inclusion. This will require a comprehensive approach in which the efforts of all interns in the sector (banks and financial institutions, central bank, ministries...) will be concerted. To cover all aspects of the overall economy, as well as legal and regulatory aspects, to facilitate the influence of enterprises and individuals for financial services of all kinds.

Depending on what is mentioned above, the following question can be asked:

**What is the reality of the financial coverage of small and medium-sized enterprises in Algeria? And what are the requirements for enhancing the financial coverage of these projects?**

## 2. Financial inclusion, concept and importance

### 2.1. Concept of financial inclusion:

The World Bank defines financial inclusion in its 2014 report Global Financial Development Report as the "percentage of people or companies using financial services" The definition of the G-20 and the Global Alliance for Financial inclusion (AFi) It states that "the actions taken by regulators to promote access and use of all segments of society, including marginalized and disadvantaged groups, for financial services and products that are commensurate with their needs, and to provide them with fair, transparent and affordable costs (صندوق النقد العربي، 2015، صفحة 2)

Financial inclusion, according to the Arab Monetary Fund's joint report and the Consultative Group to Help the poor, refers to: Individuals, including low-income people, and companies, including the smallest, have access and effective utilization (for reasonable prices) of a wide range of high-quality official financial services (payments, transfers, savings, credit, insurance...), which are provided in a responsible and sustainable manner by a variety of financial service providers operating in an appropriate legal and regulatory environment (رجب، 2018، صفحة 2)

The Central Bank of Jordan defines the financial inclusion as: "The situation in which all working-age adults have access to loan, savings, payments and insurance services from formal financial institutions in a comfortable, responsible and affordable manner, while sustaining the work of financial service providers, where the result is the provision of formal financial services to excluded and underserved clients instead of non-options Official availability" (Central Bank of Jordan, 2015, p. 9)

Financial inclusion can also be defined as: Making available and using all financial services to different groups of society, including its institutions and members, especially those that are marginalized from it.

Through official channels, including bank accounts and savings, payment, transfer and insurance services, finance and credit services and the creation of more suitable financial services at competitive and fair prices. In addition to working to protect the rights of consumers of financial services and encouraging those groups to manage their funds and savings properly (Bank of Algeria, 2018, p. 1)

**2.2.Principles for enhancing financial inclusion:** The G-20 adopted eight principles of financial inclusion:

**2.2.1.Leadership:** A broad government commitment that promotes universal access to help alleviate poverty.

**2.2.2.Diversity:** Apply policies that encourage competition and provide appropriate incentives to provide various financial services at appropriate prices such as deposit, credit, payment, transfer and insurance services in the presence of a large and diverse number of providers of such services.

**2.2.3.Development:** Use of advanced technology and institutional tools to expand access to the financial system with Reference to infrastructure weaknesses.

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**2.2.4. Protection:** A comprehensive concept of consumer protection within the framework of government-recognized rules, service providers and consumers.

**2.2.5. Empowerment:** Work on the financial literacy of individuals; To benefit from financial services on a large scale.

**2.2.6. Knowledge:** Use developed databases to use evidence-based policy, assess progress in delivery, and other tools.

**2.2.7. Proportionality:** Building a policy and regulatory framework that reduces risk and maximizes the benefits of sophisticated financial products based on the absorption of gaps and barriers Found in existing regulations and attempted to override them.

**2.2.8. Framework:** Take into account in developing a regulatory framework for comprehensive enforcement.

### 2.3. Importance of financial inclusion:

- ❖ Inclusion helps families save for retirement or unexpected emergencies and covers recurrent expenses such as rent, as many studies have highlighted that inclusiveness can improve income and increase savings. Thus, disadvantaged groups are able to provide life necessities such as health care, education, food and business development (Adams, 2018, p. 3)
- ❖ Access to finance and banking services plays an important role in reducing the volatility of expenditure levels in the consumer and investment categories. To alleviate fluctuations in business cycles and Gross Domestic Product (GDP). And by increasing access to finance and banking services, individuals and enterprises can overcome liquidity constraints and compensate for changes in current income levels and thus reduce consumption and investment volatility (Arab Monetary Fund, 2012, p. 209).
- ❖ Financial inclusion plays an important role in strengthening financial stability, as the dependence of households in their financial dealings on banks increases the amount of deposits available to banks, which increases the bank's ability to absorb shocks, especially in periods of pressure.
- ❖ However, in return, the Bank's expansion of loans must be coupled with an effective banking supervision in order to strengthen stability in the sector. (Ratna Sahay & al, 2015, p. 16)
- ❖ Reduction of the poverty rates of individuals by reducing the cost of financial transactions, increasing their ability to withstand financial shocks and fluctuate income and thus contribute to social stability. (Central Bank of Jordan, 2015, p. 9)
- ❖ Financial inclusion promotes economic empowerment, which in turn improves overall well-being while providing the basic building blocks for further growth, and there are several risks of financial exclusion such as general reduction in saving and investment and high unemployment and poverty rates .

- ❖ Financial inclusion helps to reduce the size of the informal economy, thus providing greater transparency in financial transactions through oversight mechanisms and the activation of the role of financial information bodies.
- ❖ Financial inclusion and account ownership can help reduce corruption, discourage tax evasion, and allowing more effective relief payments (Adams, 2018, p. 4)

#### 2.4. Importance of enhancing the financial coverage of small and medium-sized enterprises:

##### 2.4.1. achieving economic growth:

- ❖ More citizens may have access to financial services and finance whether they are individuals or companies, especially in relation to micro and small companies, which contribute to increasing economic activity. (Arab Monetary Fund, 2012, p. 208)
- ❖ Closing the financial inclusion gap for small and medium-sized enterprises would bring significant gains in terms of growth potential. The BHattacharya & Wolde study in 2010 established a negative relationship between the percentage of companies that state that access to finance is one of the most important constraints and per capita income rates they face (Blancher, 2019, p. 9)

##### 2.4.2. Job creation:

Among the recent studies, Ayyagari, which included 104 countries based on the World Bank database, found that small enterprises had a significant contribution to creating new jobs (M. Ayyagari, 2011). The ILO also points out that small, newly created companies in developed countries are by far the largest contributors to opportunity creation Labor and mature small enterprises have higher growth rates in creating new jobs (Bureau international du Travail, 2015, p. 6).

To indicate that small and medium enterprises constitute a large proportion of enterprises operating in the formal sector in a number of Arab countries. These institutions are a major source of job creation and relatively low unemployment, and statistics indicate that their employment contribution ranges from 10% to 32% (اسماعيل، 2017، صفحة 4).

**2.4.3. enhancing the effectiveness of macroeconomic policies:**The increased financial coverage of small and medium-sized enterprises is accompanied by the increased effectiveness of macro-fiscal policy, including improved tax collection )Blancher(2019 ., and the IMF study indicates that increased financial coverage is associated with higher income and expenditure as a share of GDP.

Financial inclusion also has an impact on monetary policy. This is done by expanding the economic base within the financial system, and financial inclusion increases the speed of circulation of money, stimulates the economic cycle, increases the effectiveness of government policies, improves the working environment and increases the efficiency of commodity and service markets. It affects the magnitude and speed of monetary-

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policy effects, as monetary policy focuses on stabilization of inflation rates at the expense of output volatility to some extent when it is a ratio. The financial covered are large, but they are less able to insure welfare losses due to price volatility, while if the excluded increase monetary policy focuses on stability in output rates at the expense of fluctuations in inflation rates (علي، 2018، صفحة 240)

### 3. Financial coverage of small- and medium-sized enterprises in Algeria:

#### 3.1. The reality of financial inclusion in Algeria according to the international indicators:

**3.1.1. Banking density:** Through this indicator, the extent of the expansion of a country's banking network can be measured. This means that financial services are available to a large proportion of the population without the cost of moving to banking agencies, and this indicator reveals banks' ability to absorb family saving.

**Table 2: Banking density in Algeria during 2010-2017**

Years	2010	2011	2012	2013	2014	2015	2016	2017
Number of counters	1.367	1441	1478	1499	1525	1557	1577	1604
population / Number of counters	26.300	25.500	25.400	25.500	25.630	25660	26.189	26.309

Source: Algeria Bank. 2017, P 69

The bank density index reveals the extent to which operating bank networks are expanding and thus their ability to provide banking services to the largest number of segments of society without obstacles and many studies indicate the relationship between the development of the banking sector and the increasing levels of bank network proliferation from the rise of growth rates. Through raising the ability of individuals to benefit from financing services.

In this context, the network of banking agencies in Algeria is developing at constant rates, with the number of banking agencies rising to 1604 in 2017, a rate that exceeded 17% compared to 2010. It is noted that public banks are more widespread by about 1145 agencies compared to 364 private banks, and financial institutions are less prevalent than banks by about 95 agencies (2017) (BANK OF ALGERIA, 2017, p. 70)

In the case of the Center for Postal instruments, which provides some banking services such as deposit, debit and transfer, it is more intensive than the banks, which in the year 3214 agencies (2017) have an electronic connection distributed more comprehensively throughout the national territory (cities and countryside). Thus, the number of bank agencies and the postal sukuk center **becomes 5430, i.e. one agency for 2,265 working persons.**

**3.1.2. Indication of ownership of a bank or postal account:** The index of the number of open bank accounts reflects the responsiveness of the banking system and its ability to provide financial services to individuals and

institutions. It reflects the extent of financial culture among members of society as well as the possibility of developing their banking awareness and expanding the range of services that banks can provide to different groups of society, thus facilitating the strengthening of financial inclusion.

**Table 3: Adult ownership index for bank accounts in formal financial institutions (2011-2017)**

	2011	2012	2013	2014	2015	2016	2017
Number of open deposit * accounts for the adult population	2,5	2,6	2,71	2,98	2,93	2,95	-
Proportion of the adult population (15 years and over) with an account	%33	-	-	%50	-	-	%43
Proportion of the adult population (over 25 years old) with an account.	%39	-	-	%57	-	-	%49
Proportion of the adult population (over 15 years) with a debit card	%14	-	-	%22			20

\*By commercial banks and the Algerian Post Corporation.

Source: -Algeria Bank B. A., 2017, p. 70 - Global Findex Database, 2018

Through the information in the table, we note that the number of accounts open to adults in Algeria has reached an acceptable level of about 2.95 per adult. In this context, we note that the Algerian Post Corporation has a large proportion of accounts, because of its wide deployment across the entire national territory.

According to this indicator, we note that the rate of financial inclusion is increasing, with the proportion of adult population (over 15 years of age) having accounts for 50% in 2014. The average rate in the Arab world was estimated at about 30%.

If we focus on the population group over 25 years of age, we find that in 2014 the proportion of those with accounts in this category exceeded 57%. The reason is that the population under 18 years of age does not have the direct right to open bank or postal accounts.

The rise of these proportions in Algeria can be explained by the following:

- ❖ The public authorities force university students who benefit from the university grant to open bank or postal accounts to receive these Grant.
- ❖ The public authorities force all public or private employees to open bank or postal accounts to receive salaries and grants, as workers' salaries are prohibited from being paid in cash, in order to absorb the liquidity circulating outside the official financial sector, and to try to boost confidence in the banking sector.
- ❖ The public authorities force all contractors and farmers to open bank accounts to receive their financial dues.

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**3-1-3-savings index in official financial institutions:** This index reveals the extent of the banking awareness among members of society and their preference for official financial transactions. It also shows the role played by banks and financial institutions and their ability to mobilize private savings through diversification of savings funds and the provision of distinct financial services.

**Table 4: Proportion of savers in formal financial institutions (as a proportion of people over 15 years of age)**

	2011	2014	2017
<b>Algeria</b>	%4	%14	%11
<b>Arab Countries' Average</b>	%6	%9	%9

Source: Global Findex Database ,THE WORLD BANK, 2018.

We note that the percentage of savers in official financial institutions is low in the Arab world in general if compared to the rest of the emerging countries, but in Algeria we note that despite financial stability and the banking system not being exposed to crises, the amount of savings remains weak, and according to Bank of Algeria reports, the pooling of resources remains a weakness for the Algerian banking system, especially for public banks.

We also note that this percentage decreased in the year 2017 in Algeria (from 14% to 11%) due to the high inflation rates that led to the erosion of wages, especially after the drop in oil prices.

It is worth noting that there are many alternatives that individuals prefer to save their money, such as keeping them at home, lending them to a relative, buying jewelry, or investing them in buying real estate or small projects.

### 3.1.4 . Index of Borrowing from Official Financial Institutions:

This indicator measures the percentage of adults who borrowed money from official banking institutions.

**Table 5: Proportion of borrowers from official financial institutions  
(as a proportion of adults over 15 years old) in Algeria**

	2011	2014	2017
Proportion of borrowers from formal financial institutions (+ 15 years)	%1	%2	%3
Arab countries' average	%5	%6	%5
Proportion of the adult population (15 years and over) who borrowed to launch or expand an agricultural or commercial project	-	%4	%5
Arab countries' average	-	%5	%5

Source: Global Findex Database , THE WORLD BANK, 2018.

We note from the above table that the percentage of individuals who borrowed from banking institutions is very small (about 3% in 2017) compared to the rest of the Arab countries, where we find that this percentage



reached about 11% in Tunisia and 6% in Egypt and exceeded 16% in each of Kuwait And Bahrain, and for reference, this percentage exceeds 20% in developed countries such as Germany.

Also, the percentage of borrowers from banks (a microcredit) did not exceed 5% of people over 15 years old, a very small percentage that reveals the size of parallel financing in Algeria.

### 3.2. Constraints to financial inclusion for small and medium enterprises in Algeria:

**3.2.1. Business Environment:** The legal and institutional frameworks associated with property rights, contract enforcement and insolvency systems are among the basic requirements for financial inclusion for small and medium enterprises and there is a negative correlation between financial inclusion for small and medium enterprises and restrictions imposed on contract enforcement, property rights and registration of the high start-up costs and the ineffectiveness of insolvency systems (Blancher, 2019, p. 16), and this pushes small and medium enterprises to pursue their activities in the informal sector.

As for the establishment phase of the institution, it is worth noting that the procedures take a long time, as we find some administrative procedures and documentation procedures very complicated due to the large number of documents required.

In 2016, the Ministry of Industry and Mines stated that bureaucracy is among the most serious obstacles facing small and medium enterprises in Algeria. This is what made Algeria rank late (150 out of 190 countries) in the partial indication of the start of any stating business for the year 2018.

**Table 6: Indicators related to the practice of investment activities in selected countries for the year 2018**

	Algeria	Marrocco	Tunisia	Ethiopia	Malysia
Ease of Doing Business Index	150	34	63	30	122
The number of procedures for starting a business	12	4	6	5	9.5
The time required to start a business in days	17.5	9	8	3.5	13.5
The number of procedures for obtaining building permits	19	13	17	9	11
Time required to obtain building permits (days)	136	88	95	183	54

Source: doing business, World Bank.

Through the schedule, we note that the weight of administrative procedures remains among the complications that prevent the development of investments in Algeria, at a time when the rest of the countries are seeking to improve their investment climate, starting with the mitigation of the bureaucratic side, such as Morocco, Tunisia and even Ethiopia.

**3.2.2. Heaviness of tax measures:** Despite the fiscal reform policy, the Algerian tax system remains characterized by much of the complications, instability and exceptional measures, which created a state of lack of transparency and slow work of the tax administration. According to the World Bank, the taxes that the corporation pays in Algeria represent about 66% of the amount of profits achieved annually and that the number

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of times the corporation pays taxes is 27 Once a year, Algeria was ranked in the partial indicator on corporate taxes according to doing business for the year 2018, ranked 156 out of 190 countries.

**3.2.3. Financial constraints:** The challenges of access to finance represent one of the most important challenges facing small and medium enterprises in Algeria, despite the relative importance of the sector and its role in reducing poverty and providing job opportunities, however, the percentage of financing directed to the small and medium enterprises sector remains weak.

In Algeria, unlike many Arab countries, no specialized financial institutions have been established to finance small and medium enterprises Also, commercial banks did not develop financing tools for this type of institution, and it is noted that despite the improvement in the level of financial intermediation in terms of the development of the network and distributed loans, the benefit of small and medium enterprises from loans remains below the required level.

**Table 7: Evolution of the volume of loans distributed to the public and private sectors in Algeria during the period (2011-2017)**

	2011	2012	2013	2014	2015	2016	2017
The volume of credit granted to the private sector (billion dinars)	1982,4	2244,9	2720,2	3120,0	3586,6	3957,7	4566,1
Credit ratio granted to the private sector of Gross Domestic Product (GDP)	13,52%	13,84	16,34	18,13	21,61	22,74	24,15

**Source:** Prepared by researchers, based on Bank of Algeria reports.

We note from the above table that the ratio of credit granted to the private sector to the gross domestic product did not exceed 24%, which is a weak percentage if compared to the rest of the countries, where we find that this ratio in Sudan reached 22.4%, 30% in Egypt and 117% in Malaysia and 116% in France.

The banking market in Algeria is also characterized by a lack of competition. It is the public banks that have the largest share of resources Consolidated and distributed loans, where the percentage of loans issued by public banks was estimated at 86.8% in 2017, while the contribution of private banks remains modest, as it was estimated at only 13.2%.

Commercial banks' reluctance to provide financing to small and medium-sized enterprises in Algeria may be the result of weak financing infrastructure, mainly represented in credit information systems and weak guarantees provided, in addition to the lack of effective mechanisms to guarantee the rights of creditors.

**Table 8: Indicators of weak financial infrastructure in Algeria compared to some countries, according to World Bank indicators for the year 2018.**

	Credit bureau coverage ratio (proportion of adults)	Depth of credit information (0 to 8) credit	Creditors Rights Index (0 to 12)	credit index (1 to 100)	Country ranking (Out of 190)
Algeria	0	0	2	10	178
Egypte	27,3	8	5	65	60
Tunisia	0	7	3	50	99
Marroco	29	7	2	45	112

Source: world Bank, Doing business 2019

We note from the above table that Algeria got a late rank in terms of access to credit and this is due to the weakness of the partial approved indicators, and this indicates the weak financial coverage in Algeria and the inability of small and mini projects to influence financial services, especially those related to borrowing.

As for the index of creditors' rights, it reveals the extent of the creditors (banks) ability to dispose of the guarantees (i.e. sell them) in the case of the debtor's deficit, and Algeria obtained 2 out of 12, which reveals the weakness of the guarantees provided by borrowers, whether real estate or transferred.

#### **4. A proposed strategy to enhance financial inclusion for small and medium enterprises in Algeria.**

Financial inclusion has become an essential pillar in achieving inclusive growth, and in this context monetary and financial policy makers in Algeria should adopt the issue of financial inclusion as a priority within their policies and goals, and this by facilitating access to financial services, especially for small and medium-sized enterprises that represent more From 97% of the economic fabric.

The importance of setting a national strategy for financial inclusion lies in defining the vision and future goals to be achieved, which is to achieve financial inclusion for all segments of society, as it works to unify and frame initiatives and efforts to promote financial inclusion.

Under one umbrella, avoid duplication of efforts and resources, and achieve the desired goals to reach the largest possible segment of the targeted sectors, and this can only be achieved through developing a national financial inclusion strategy that includes all relevant stakeholders, and the importance arises in developing a strategy Wataniya for financial inclusion in several points and the most important axes (صندوق النقد العربي، 2015، صفحة 3)

- ❖ Determine future goals to enhance financial inclusion.
- ❖ Identify weaknesses and strengths in topics related to financial inclusion
- ❖ Determine the obstacles that will face the application process.
- ❖ Determining ways and mechanisms to overcome obstacles and challenges.
- ❖ Consolidate and frame joint efforts under one leadership.

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- ❖ Organizing and managing the relationship with the participating parties in a way that facilitates the process of building the strategy.
- ❖ Determine mechanisms to monitor and measure performance and achievement of the strategy building process.

### 4.1. The role of the Central Bank and supervisory bodies in promoting financial inclusion:

The Bank of Algeria can have an effective role in pushing and encouraging financial inclusion, and this is linked to its role as a party that draws and manages financial sector policies, as the central bank contributes not only to improving the integrity of the financial and banking system, but also in improving levels of access and access to financial services, it is through his role as a supervisory body that he contributes to support the national policy to improve financial inclusion through the exploitation of data and statistics related to financial services.

The main responsibility of the supervisory bodies lies in promoting financial inclusion in creating a legal environment that encourages access to financial services and allows expansion in the provision of these services from outside the traditional banking branches. Modern technologies have provided the opportunity to provide financial and banking services through modern media, as this contributes to reducing the cost and reaching services to wider groups in society.

Supervisory bodies can also encourage fair competition because of its importance in facilitating financial inclusion for small and medium enterprises. The (Love & Martinez Peria 2015 study) concluded that increased banking competition has a positive impact on companies' access to credit, and (Anzoategui, Martinez & Peria 2010) study indicates that the banking sectors in the MENA region are less competitive than in most other developing economies () Blancher(2019 ..

On the other hand, the supervisory bodies should enhance the internal technical and administrative capabilities of banks and develop their internal capabilities so that they can deal with small and medium projects, and the methodology of dealing with small and medium enterprises must be changed through the creation of specialized departments within the financing institutions that have The ability to monitor and evaluate credit behavior of this type of institution.

**4.2. Activating the role of loan guarantee funds or companies:** Among the most important problems that hinder the financing of small and medium enterprises is the problem of guarantees. Therefore, the public authorities in Algeria must work to increase the capital of these funds and develop their work procedures and scope of their transactions in order to be able from providing the necessary guarantees to finance small and medium projects in a manner that meets the requirements of the financial inclusion strategy for this type of projects.

For reference, the number of guarantees provided by the Loan Guarantee Fund (FGAR) is estimated at 2717 files during the period from 2004 to 6/30/2019, while the number of guarantees granted by the Investment Loan Guarantee Fund to small and medium enterprises has not exceeded 1241 files only since its establishment.

**4.3. level of financial literacy:** A survey study conducted by experts from Washington University and the World Bank entitled (FINANCIAL LITERACY AROUND THE WORLD) was issued to measure the level of financial culture in various countries of the world, which included asking basic questions covering four aspects: risk assessment, inflation, calculating simple interest, calculating compound interest, where a person is considered financially educated if he answers at least three out of four questions, and in this context the central bank, in cooperation with the Ministry of Finance and the Ministry of Vocational Training, must formulate educational and educational programs aimed at To spread and deepen the financial culture of managers and managers Small and medium-sized projects, and in order to enable this category:

- ❖ Control the most important concepts and basic principles in the financial and banking field.
- ❖ How to benefit from financial services and facilities provided by banks and financial institutions.

**4.4. Adopting Islamic finance as a mechanism to enhance financial inclusion:** Many studies indicate the impact of Islamic banking on low-income and small projects, as the availability of Islamic finance can support the financing provided to a group of projects that cannot benefit from traditional banking services.

It is worth noting that Algeria is among the least available countries for Islamic financial services due to the following considerations:

- ❖ The financial infrastructure is less developed, which limits the ability of Islamic banks to finance and follow up on small and medium enterprises.
- ❖ The regulatory and legal framework is more suitable for traditional financial institutions than Islamic ones.
- ❖ Lack of human resources trained in Sharia-compliant financial instruments.
- ❖ And the results of the World Bank on the reasons for refraining from opening bank accounts in Algeria are:
- ❖ Ideological reasons: 8% of people over the age of 15 years.
- ❖ Lack of confidence in banks by 15%.
- ❖ The inability to provide the necessary documents by 21%.
- ❖ In order to support the spread of Islamic financial services:
- ❖ Enhancing the volume of Islamic finance to include low income earners.
- ❖ Supporting human capital for Islamic finance.
- ❖ Enabling economic agents to use the Takaful Insurance for savings and investment.

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- ❖ Increasing the number and diversity of Islamic non-bank financial institutions such as: investment funds, leasing financing companies, risk capital.
- ❖ Encouraging non-Islamic financial institutions to provide Islamic financial services (opening windows for Islamic finance at the level of commercial banks).

**4.5. Development of financial query systems:** Credit query systems provide comprehensive information on clients of banks and financial institutions, which helps these entities to rationalize credit decisions so that a sound credit decision based on careful assessment of the ability of customers to pay and pricing banking products is made based on customer risk, which Enhances the effectiveness of risk management in banks and improve the opportunities of clients, especially small and medium enterprises, to access financing.

The benefits of credit inquiry are as follows:

- ❖ Improving access to credit.
- ❖ Supporting the growth opportunities of small and medium enterprises, as the existence of efficient systems for credit inquiries will allow small and medium enterprises to take advantage of their reputation and credit behavior to obtain the banking facilities needed to finance and expand their activities, as a study conducted by the World Bank, which included 5,000 companies in 51 countries that the opportunity to obtain bank loans for small and medium enterprises increases significantly in the event that there are centralized systems for credit inquiries.
- ❖ Contribute to reducing credit risk.

**4.6. Develop innovative financing tools that are appropriate for the privacy of small and medium enterprises:** With regard to the mechanisms available to finance small and medium enterprises, the limited financial solvency and available guarantees are among the obstacles that limit their ability to finance their activities by relying on traditional official channels, and in this The framework provides financial technology to provide alternatives to the traditional lending channels for small and medium enterprises, similar to the UAE's experience of establishing the Dubai International Financial Center, which is one of the pioneering experiences in the field of financial innovation.

For small and medium enterprises, credit analysis can rely on artificial intelligence and machine learning systems that combine registration and accounting information for small and medium enterprises and social and economic information. For example, it is possible to rely on blockchain technology to improve information management related to guarantee records and ensuring security, privacy and transparency.

**4.7. Attention to building the capabilities of small and medium enterprises:** Public authorities should pay attention to improving the business environment for small and medium enterprises through providing legislative

and regulatory frameworks supporting them in the different stages of their development, and work must be done to strengthen the strength of legal institutions and improve government procedures, especially in the fields of starting activity, extracting various licenses and registering property.

In the same context, the role of support bodies such as facilitation centers and business incubators should be activated to provide consulting services, training and technical support for emerging projects and develop the capabilities of young entrepreneurs and university graduates, which improves the competitiveness of small and medium enterprises and enables them to market their products widely.

### **5. Conclusion:**

The attention paid to the issue of financial inclusion for small and medium enterprises in Algeria can have positive results on various economic sectors, where economic take-off can be achieved if public authorities are able to reach solutions to various problems and challenges facing access of small and medium enterprises to various services Finance.

In order to reach acceptable levels of financial inclusion, we must first pay attention to financial infrastructure, encourage financial transactions by relying on modern technologies, and develop alternative methods and mechanisms for financing small and medium projects in which the funding agencies take into account the specificity of this type of project, in addition to developing the capital market's tools to mobilize savings.

The enhancement of financial inclusion for small and medium enterprises is not only related to banks and financial institutions, but also depends on an interrelated set of factors, which requires the application of comprehensive strategies at the level of economic policies, including the relevance of economic frameworks and financial policy, along with a number of legal conditions. And organizational development of practices and increase transparency to limit the increasing number of projects operating in the parallel sector.

Therefore, reform strategies must be designed with the participation of all entities related to small and medium enterprises and this after studying all the weaknesses and strengths, to enhance the access of small and medium enterprises to financing, and to enable these projects to play a vital role in the Algerian economy.

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