

Access to finance for SMEs: an analysis in Algeria
تمويل المؤسسات الصغيرة والمتوسطة: دراسة تحليلية في الجزائر

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Date of receipt: 01/02/2021 Date of revision: 30/03/2021 Date of acceptance: 06/06/2021

Abstract

ملخص

The aim of this study is to demonstrate the difficulties faced by SMEs in Algeria in accessing bank finance compared to those in developing countries. To illustrate the role of bank loans in financing Algerian SMEs a descriptive analysis method was used to describe the data declared by National Statistics Office; this data are obtained by distributing questionnaires; the survey shows that out of a total of 934,250 economic entities, nearly 660,000 completed the questions were in the questionnaire.

Access to financing sources is an important factor in making investment decisions for the SMEs private sector in Algeria, this importance is negatively correlated to the size of the enterprise. We conclude that SMEs in Algeria have difficulties getting financing, this is due to the fact that SMEs' owners give considerable importance to the accessibility of financial resources when making investment decisions..

Keywords : Small and medium-sized enterprises, Bank loans, Financing SMEs, Algeria, economic role of SMEs.

هذه الدراسة تهدف الى تسليط الضوء على الصعوبات التي تواجهها الم ص م في الجزائر للحصول على التمويل البنكي مقارنة بالدول المتقدمة، لتحقيق هدف الدراسة تم الاعتماد على منهجية التحليل الوصفي لتحليل البيانات الصادرة عن الديوان الوطني للإحصاء والتي تم الحصول عليها من خلال توزيع استمارات على 934,250 مؤسسة اقتصادية حيث تم من خلالها استرجاع 660,000 استمارة.

اظهرت هذه الدراسة ان الحصول على التمويل يمثل عامل مهم في اتخاذ قرارات الاستثمار في الم ص م في الجزائر ، هذه الاهمية مرتبطة عكسيا بحجم المؤسسة. مما جعلنا نستنتج ان الم ص م في الجزائر تجد صعوبة في الحصول على التمويل.

الكلمات المفتاحية: المؤسسات الصغيرة والمتوسطة، القروض البنكية، تمويل الم ص م الجزائرية، الدور الاقتصادي للم ص م .

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1. INTRODUCTION

This paper conducts an in-depth analysis to the ability of small and medium enterprises (SMEs) in Algeria to obtain financing from external sources, with reference in the first part of the study to its role in economic development. Many literatures, find that smaller enterprises may be more flexible in adapting to an economic downturn (Varum, 2013). That's why SMEs account for a considerable majority of industrial units and contribute to the major proportion of employment, output and exports in most developing as well as developed countries (Kumar, 2013).

In recent years, public authorities have paid particular attention to small and medium-sized enterprises (SMEs). Most governments are implementing a variety of programs for SMEs to facilitate their difficulties in areas such as finance, technology and innovation, management and exports.

According to the World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world (Bank, 2020). Consecutively to improve the entrepreneurship of SMEs many countries implemented various policies.

However, because of their size, small businesses face persistent difficulties in overcoming difficult economic conditions or accessing strategic resources. Access to finance is an essential prerequisite for the development and creation of SMEs. In many countries, this field presents persistent obstacles which have often given increase to interventions by public authorities (OCDE, 2018).

In Algeria, like other countries around the world SMEs are the backbone of the economic growth. In 2017 there were 1,060,289 small and medium-sized enterprises. For the same year private sector SMEs represents 99.98% of all SMEs. In addition, in the same year SMEs in Algeria were responsible for more than 2.6 million of all jobs. They also account for the majority of new job creation (Mines, 2018).

In practice, SMEs are often targeted by public policies and are at the center of the concerns of authorities in Algeria who are looking for solutions to meet the challenges posed by globalization.

Based on the above, the purpose of this study is to answer the following question: Like other countries in the world, **do Algerian SMEs face specific financing problems in particular to obtain external debt?**

To answer the problem of the study, the following hypothesis was tested: Despite an impressive economic position, Algerian SMEs encounter certain difficulties in accessing constant financial resources, which can obstruct their position. Remote from the financial markets, their access to bank loans also remains problematic.

2. An overview of the contribution of SMEs in the economic and social development

SMEs are viewed as the fundamental actors on economic development in several nations. They represent about 90% of businesses and more than 50% of employment worldwide .Formal and informal SMEs contribute more than 40% national income (GDP) in emerging economies(Bank, 2020).

Several countries are facing the challengers of low growth and weak investment. They also face growing dissatisfaction among the society with the current situations of affairs. Against these conditions, there is a need to create the states that provide sufficient assistance to enable SMEs to gain more business support.

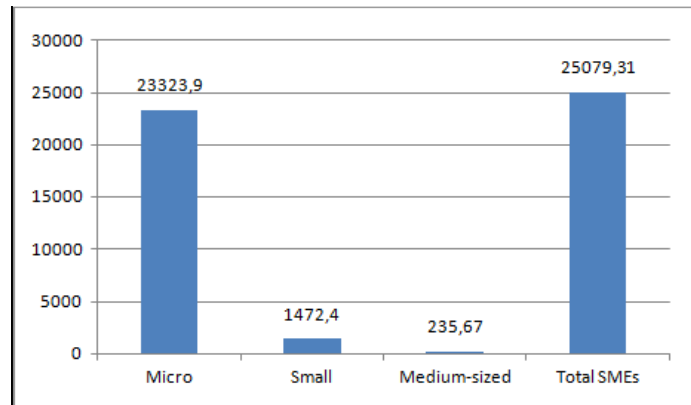
2.1.The economic role of SMEs in Europe

In Europe, the main three factors determining whether an enterprise is SME are: staff headcount, turnover and balance sheet total. According to EU recommendation 2003/361 The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million(Commission des Communautés européennes, 2003).

In the European Union today, SMEs are a very important part of the economy, as they represent around 99% of all enterprises(George Papadopoulos, 2018), as to be approximately 25.1 million SMEs in 2018, with the most majority of these enterprises micro-sized firms which only employed fewer than 9 persons. While the small –sized firms with between

10 and 49 employees represent 1.47 million enterprises and around 236 thousand were medium-sized firms that had 50 to 249 employers.

Fig.1. Number of small and medium-sized enterprises (SMEs) in the European Union in 2018, by size (in 1000s)



Source: Based on the statistics published by Daniel Clark. (2019, 11).
 Number of small and medium-sized enterprises (SMEs) in the European Union in 2018, by size.

Figure 1 shows that micro-sized enterprises account for roughly 93% of SMEs within the EU, small enterprises accounting for 6% and medium-sized enterprises accounting for 1%.

In the European Union approximately 66% of the workforces are in SMEs, during 2018 SMEs in the European Union employed over 97 million people. So one third (1/3) of all jobs are provided by large enterprises.

As shown in the next table 1, total employment is split up roughly equally between micro-sized enterprises which employed approximately 43 million people, and about 54 million employees in the small and medium-sized enterprises, which means 44% and 56% of the total workforces in SMEs respectively.

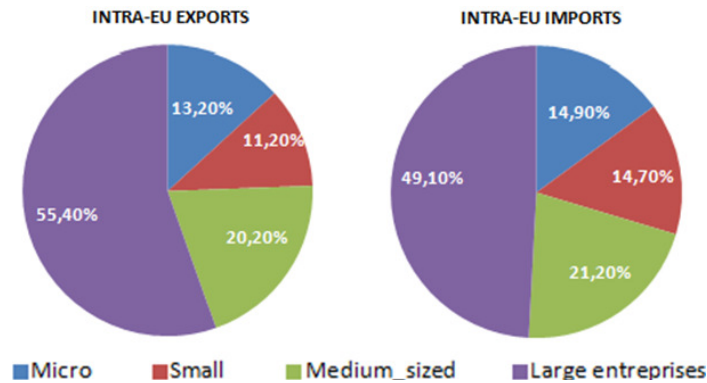
Table 1. Number of persons employed by small and medium-sized enterprises (SMEs) in the European Union in 2018 (in million people)

| Micro | Small | Medium-sized | Total SMEs |
|-------|-------|--------------|------------|
| 43,35 | 29,54 | 24,67 | 97,74 |

Source: Based on the statistics published by Daniel Clark. (2019, 11). Number of persons employed by small and medium-sized enterprises (SMEs) in the European Union in 2018

In addition to their contribution to creating jobs and economic growth in EU, as shown before, SMEs also substantially contribute to trade within the EU. Majority of companies trading goods within the EU are SMEs.

Fig.2. Intra-EU trade in goods by enterprise size class, 2015 (% based on value -2015)



Source: Based on the statistics published by Eurostat. (2017, November 21). SMEs in the European Union generate half of the intra-EU trade in goods

Figure 2 shows that SMEs are responsible around 50% the value of the intra-EU trade in goods. In detail, they account for 51% of intra-EU imports and 45% of intra-EU exports.

2.2. The economic role of SMEs in the United States

In the U.S, the Small Business Administration (SBA) is responsible for creating a list of standards and characteristics that define whether a business entity is small and, thus, eligible for Government programs and preferences reserved for small business concerns. Businesses are classified according to their ownership structure, number of employees, earnings, and industry, generally under the North American Industry Classification System (NAICS). What should be noted is that these criteria are not specifically targeted for SMEs, because they are mainly related to small-sized enterprises.

The US definition of an SME varies according to industry and type of business, with the number employees in a medium enterprise ranging up to 1,500 but usually capping out at 500, in a small enterprise, 250; and a micro enterprise, 6.(Hayes, 2013). For example, if a company is part of the manufacturing industry, it can be classified as an SME if it has a maximum of 500 employees, but a company involved in the wholesale trade can only have 100.

Contrasts additionally exist among the segments of an industry. For instance, in the mining business, enterprises that mine for nickel can have up to 1,500 employees; however a silver mining enterprise can only have a maximum of 250 employees in order to be viewed as a SME.

SMEs play an important role in the U.S economy. They outnumber large firms considerably. In 2018 more than 32.2 million Small businesses were counted, which represent 99.9% of the United States business(SBA, 2018).

These companies are vastly important to the United States economy, both in terms of creating jobs and exportations. According to SBA in its 2018 Small Business Profile of the United States, the SBA's Office of Advocacy reported:

- Small companies created for 1.9 million net new jobs in 2015.
- Firms employing fewer than 20 employees experienced the largest gains, adding 1.1 million net jobs.
- The smallest gains were in firms employing 100 to 499 employees, which added 387,874 net new jobs.
- United States small businesses employed 58.9 million people, or 47.5% of the private workforce, in 2015.
- Firms with fewer than 100 employees have the largest share of small business employment.

The same is true concerning their contribution to the United States international trade, where a total of 294,834 companies exported goods from the United States in 2015. Of these, 287,835, or 97.6%, were small firms; they generated 32.9% of the United States \$1.3 trillion in total exports.

3. An overview of financing SMEs around the world

SMEs are not able to obtain bank loans like the large firms; instead, they depend on internal funds, or cash from friends and family, to launch and initially run their business.

The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending (Bank, 2020).

The finance gap volume representing financial needs of MSMEs over the world varies considerably region to region. In particular East Asia and Pacific have the highest proportion of the finance gap which can counts for the largest share 46% of the total global finance gap and is followed by Latin America and the Caribbean 23% and Europe and Central Asia 15%. (Bank, 2020).

3. 1. Assessment of the SME access to finance situation in EU member states

The European Union member states account more than 25 million SMEs; they represent over 99% of businesses in the EU. They employ two out of every three employees, create 85% of all new jobs and generate about three-fifth of the EU value-add (OECD, 2019b).

Financing gaps differ widely across EU member states. Although SMEs' access to bank finance largely recovered after the financial crisis, market failures and structural challenges remain, including information asymmetries, high transaction costs in servicing SMEs, and lack of financial skills/ knowledge among small business owners (Union, 2019).

Most of SME financing in EU is provided through bank loans are very well availability differs widely across member states; however major gaps still exist especially for start-ups and smaller companies who lack proper collateral.

Alternatives to bank finance are developing, especially in some member states. Among those, venture capital seems to be maturing in many countries, crowd funding is still in its developing phase, while some other traditional tools like factoring and leasing are widely used in many

countries. On other hand, bond issuance, access to debt funds and IPOs are less a relevant option for SMEs in most of EU member states(Union, 2019).

Challenges still exist for SMEs accessing different sources of finance. Banks are constrained by the low interest-rate policy, regulatory burden and, in some countries, the size of non-performing loans.

Alternative sources of finance also present challenges; the small size of EU venture capital funds is a hurdle for institutional investors, while crowd funding markets face regulatory issues, such as fragmentation between national regimes.

Member states are putting in place various initiatives in the field, by using all the leverages in their hands: fiscal policies, regulation, public financing programs, soft measures aimed at improving SMEs' financial awareness (Union, 2019).

3. 2. SMEs' access to finance in OECD

SMEs are key players on the way to a more inclusive and sustainable growth, greater economic resilience and greater social cohesion. In fact, in OECD countries, SMEs account for around 60% of jobs, between 50% and 60% of value add, and are the main drivers of productivity in any regions and cities(OECD, 2019a).

After the decline in 2016, growth in new loans to SMEs returned to modestly positive in 2017, at median value 0.4% after having stood at -4.8%. Loans to SMEs have shown positive growth since 2010 and continued to increase in 2017, but less noticeably than 2016. Overall, demand of financing has not changed, which has slowed loan growth(OECD, 2019a).

SMEs dependence on bank loans has increased in the majority of OECD countries. The median value of annual growth in due SMEs loans was 1.7% in 2017 after increasing by almost 3% in 2015 and 2.6% in 2016.

The share of loans to SMEs varies considerably from country to country. The median value of SME loans as a proportion of total business loans gives an idea of overall trends. It first fell from 41.9% in 2007 to a low point of 37.8% in 2012, perhaps a sign of greater difficulty in accessing bank credit for SMEs than for large companies during this period.

The loan duration data of loans due to SMEs in OECD countries show a marked extension of maturities in the bank portfolio over the past decades.

Short term loans (loans with an initial maturity period of less than one year) such as overdrafts and lines of credit, are generally used as working capital, while long term loans are more often used for investment purposes(OECD, 2019a).

Credit conditions for SMEs based on data relating to the cost of bank credit. Showed that the cost of bank credit varies considerably between countries, it ranges from 1.5% in France to 33.5% in Brazil. The average interest rate charged to SMEs declined in 2016 for the majority countries, SMEs interest rates already decreased significantly between 2011 and 2013, and have continued to decline since, with only few exceptions, which shows the improvement in credit conditions for SMEs.

The difference in rates between loans to SMEs and loans to large companies provides additional insight into the credit conditions to SMEs. In general, SMEs are charged higher interest rates than large companies because of their riskier profile. The decrease in the credit spread generally indicates an improvement in the credit conditions of SMEs while an increase in the spread is a sign of a tightening of the landing conditions.

The median value of the interest rate spread between loans charged to large enterprises and to SMEs, narrowed from 1.33% in 2015 to 0.88% in 2016, which indicate again a loosening of credit conditions by banks toward SMEs.

Overall, the interest rate spread remained positive for all countries, with large companies consistently being offered credit at lower interest rate than SMEs, with the exception of China, while in the other OCED countries in 2016 the interest rate spread was ranged from 0.09% in Poland to 12.70% in Brazil, but in China was registered a negative interest rate spread -0.12% which means, in China the SMEs are charged lower interest rates than the large companies.

4. The economic contribution of SMEs in Algeria

4.1.The definition of SMEs in Algeria

The first attempt to define SMEs in Algeria was in 2001 under the directive law 01-18, according to this directive law in its fourth article; SME is defined as a productive enterprise, which meets the following conditions:

- The number of employees ranges between 1 to 250 people.
- Its annual turnover doesn't exceed 2 billion dinars.

–And/or an annual balance sheet total not exceeding 500 million dinars.

–Meet the criteria for independence.

The latest attempt to define SME in Algeria was in 2017 under the directive law 17-02. In 2017 the directive law of 2001 was supported by a directive law for enterprises development, and one of the main objectives of this law according to its first article is to define the SME by creating a list of characteristics identify whether a business entity is small and medium-sized(official journals, 2017).

Table 2. Definition of the SMEs according to the 2017 Directive Law

| | Number of workers | Annual turnover (million DA) | Annual balance sheet (million DA) | Legal form |
|--------|-------------------|------------------------------|-----------------------------------|-----------------------|
| Micro | 1 - 9 | Under 40 | Not exceed 20 | Autonomous enterprise |
| Small | 10 - 49 | Not exceed 400 | Not exceed 200 | |
| Medium | 50 - 250 | 400 - 4000 | 200 - 1000 | |

Source: Government, G. S. (2017). Directive Law No. 17-02. Official journals, p 5

As shown in the table 2, we note that the directive development law of the SMEs has classified these enterprises into the three following categories:

–Micro-sized enterprises, are enterprises that employ from one 1 to 9 workers, they achieve an annual turnover less than 40 million dinars, and /or their total annual balance sheet doesn't exceed 20 million dinars.

–Small-sized enterprises are enterprises that employ from 10 to 49 permanent workers, their annual turnover and annual balance sheet don't exceed 400 million dinars, and 200 million dinars respectively.

Medium-sized enterprises employ more than 49 and don't exceed 250 employees, the annual turnover ranging between 400 million to 4 billion dinars, and their annual balance sheet ranges from 200 million dinars to one 1 billion dinars maximum.

4.2.The number of SMEs in Algeria

According to the statistics related to the SMEs sector in Algeria, in 2017 it accounted 1,060,289 small and medium-sized enterprises(Mines, 2018). The majority of these businesses are private sector with 1,060,025

companies, a percentage of 99.98%, the rest 264 enterprises belong to the public sector.

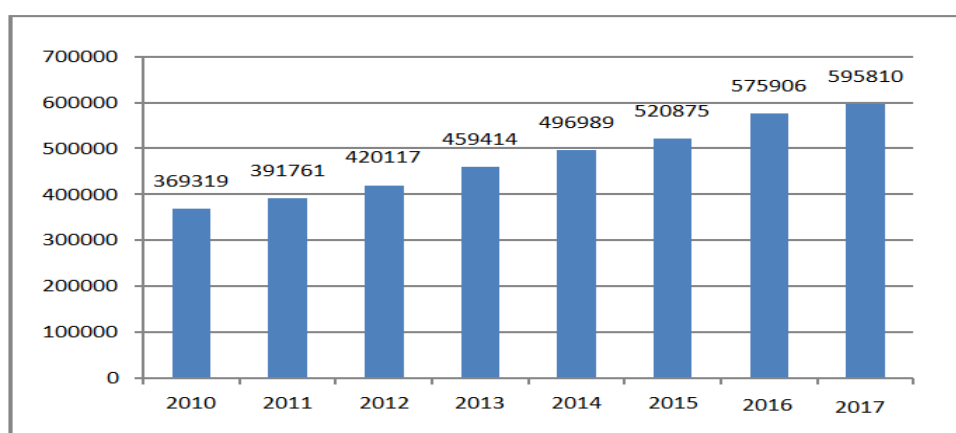
These businesses are divided as following:

–596,074 of the whole SMEs accounted for in 2017 were a legal person entity.

–464,215 are natural person; among them 52.5% are craftsmanship and 47.5% free professions.

The evolution of the SMEs population between the first half of 2017 and the first half of 2018 is 3.10% across all legal sectors, representing a total net increase of 32,881 SMEs. For private SMEs legal entities, this change is 5.39%. The chart in the figure (3) shows the number of businesses in Algeria since 2010.

Fig.3. The number of private SMEs with legal personality in Algeria since 2010



Source: Based on the statistics published by the minister of industry and mines (2018).

4.3. SMEs and employment creation in Algeria

SMEs in Algeria were responsible for more than 2.6 million of all jobs in 2017. They also account for the majority of new job creation. The private sector contributes more to providing jobs compared to the public sector, where we account 99.09% of the whole employees in private SMEs, while workers in public businesses represent only 0.91%.(Mines, 2018)

The overall workforce of SMEs, at the end of the first half of 2018, is 2,690,246 employees, of which only 22,073 are from public SMEs. Note

that the overall employees of SMEs increased by 3.39% between the 1st half of 2017 and the 1st half of 2018.

However, the importance of employment for the private sector remains low compared to the public sector. The proportion of businesses with employees demonstrate that private SMEs employ an average of about 3 workers per unit, instead of the public SMEs where the number of employers as a proportion of all businesses is about 89 workers per unit.

4.4. SMEs in Algeria by size

Micro-sized enterprises have 0-9 employees. There were 1,035,891 micro enterprises in Algeria in 2017, accounting for 97.7% of all SMEs. Although the vast majority of businesses in Algeria employ fewer than 10 people, this sort of business only accounts a considerable percentage of employment (Mines, 2018).

There are 21,202 small businesses, with more than 9 employees and less than 50, accounting for 2% of businesses, however the medium sized enterprises there are just 3,196, accounting for 0.3%.

Through the forgoing, we note that the majority of SMEs in Algeria are micro-sized businesses that employ less than 10 workers. This proportion of the number of businesses is due to the growth in self-employment. While we find that the businesses that provide more opportunities for employment, which are small and medium-sized enterprises, only represent 2.3%.

This indicates that the capacity of SMEs in Algeria to create new jobs opportunities is due to their considerable number.

4.5. SMEs in Algeria by region

In Algeria in 2017 there were 26 SMEs per 1,000 residents, which is less than the international average of 45 businesses per 1,000 residents.

In the capital Algiers there were 67,839 SMEs (legal person) which represent a proportion of 23 businesses per 1,000 residents. In the North, highlands and the south there were 438,260 and 136,899 and 53,060 SMEs (legal person) respectively. That means over two third of SMEs in Algeria are in the North of the country.

In terms of density, according to the latest statistics from the ONS on demography (41.3 million inhabitants on January 1, 2017) the national

average of SMEs is around 26 SMEs (all statuses combined) per 1,000 inhabitants. This national ratio decreases to 15 per 1,000 inhabitants for private SMEs of the "legal person" type and presents a significant difference from one region to another of the country:

- 17 private SMEs for 1,000 residents in the North of the country,
- 11 private SMEs per 1000 residents in the highlands region.
- 13 private SMEs per 1000 residents in the South region.

We conclude that SMEs are concentrated in coastal wilayas, which are characterized by great population density and developed industrial zones compared to the other regions. In addition the North zone in Algeria is very close to the ports, which allows the businesses to reduce transportation costs.

4.6. SMEs in Algeria by industry

Public SMEs represent a minimal divide in the overall population of SMEs. Their number was 262 SMEs in the first half of 2018 against 264 in the first half of 2017, a decrease of 0.74%. This drop is mainly due to the restructuring of certain Public Sector Merchant portfolios. Their workforce increased from 23,679 in 2016 to 22,073 employees in the first half of 2018.

Public SMEs operate in all sectors of the national economy; we find the Agriculture sector with 36.64% of businesses, followed by the Industry sector 28.64% then the Services sector 24.81%.

The total number of private SMEs at the end of the first half of 2018 is 1,092,908. They are concentrated in the service sector (transport in particular), the craft industry and the building and public works sector (construction in particular).

- 6,877 private SMEs in the agriculture sector, or 0.629%.
- 2,936 private SMEs in the Hydrocarbons, Energy, Mines and related services sector, or 0.269%.
- 182,477 private SMEs in the building and public works sector, or 16.696%.
- 97,728 private SMEs in the Manufacturing industries sector, or 8.942%.
- 338,201 private SMEs in the services and liberal professions sector, or 51.367%.

–241,494 private SMEs in the arts and crafts sector, or 22.096%.

Through these statistics we note that more than 89% of private SMEs are in the services, liberal professions and construction sectors, while in the strategic sectors as agriculture and manufacturing industries, their numbers represent about 9%.

4.7. SMEs in Algeria birth and death

The number of private SMEs created during the first half of 2018 is 31,884 SMEs. 17,426 new SMEs (legal persons) while there were 14,458 new SMEs created (natural persons) during the same period.

At the end of the first half of 2018, reactivations affected 4,870 private SMEs (legal persons) and also 3,057 private SMEs (natural persons).

There were 3,421 SMEs of the legal person type having been deaths during the 1st half of 2018. This number is visibly increasing compared to the 2,051 cases registered at the end of the 1st half of 2017. Between the first half of 2017 and the first half of 2018, a change in death was observed in all sectors, except the Hydrocarbons, Energy, Mines and related services sector, which marked a stagnation in the number of SMEs compared to the first half of 2017.

5.The financial and banking system in Algeria

5.1.The characteristics of the Algerian banking sector

In fact, there is one main characteristic for the Algerian banking system, is a developing sector. This development can be appreciated by the total number of banks and financial establishments installed in Algeria.

We can observe that in Algeria there are both establishments with a universal vocation, such as large network banks (all public banks and certain private banks, such as BNP Paribas and Société Générale Algeria) and establishments specialized in a certain type of products and therefore of customers (leasing establishment, the mortgage refinancing company)(KPMG, 2019).

In January 2, 2019, The Algerian banking system counted 20 approved commercial banks, among them public establishments such as Banque extérieure d'Algérie (BEA), Banque nationale d'Algérie (BNA), and private banks like Arab Banking Corporation-Algeria (ABC), Arab Bank PLC-Algeria. In addition of these banks there were 10 approved financial

institutions such as Arab Leasing Corporation and Ijar Leasing Algerie – SPA(Banques et Etablissements Financiers, 2020).

5. 2. The banking products and services

All local banks, public and private, offer the banking products which economic players can use to develop their activity. In addition to the various bank accounts (current account and currency accounts), and deposit services (term deposits, cash voucher), companies can benefit from two main types of credit(KPMG, 2019).

Operating credits finance the current activity of the company. They are adapted to their needs such as, overdraft, cash facility, and discount of commercial paper.

Investment loans finance the acquisition of equipments, their payment period ranges from medium or long term duration depending on the specificity of the project.

5. 3. The Algerian financial markets

An Algerian securities market was created by a legislative decree of 1993, amended and supplemented by law n°03-04 of February 17, 2003 relating to the stock exchange.

The Algiers Stock Exchange, whose operational entity is the Society of Stock Exchange Management, abbreviated by SGBV, was launched in 1999, the official listing of the transferable securities comprises an equity securities market as well as a debt securities market.

The market for equity securities consists of a main market for large enterprises where we count five companies are currently listed (SAIDAL Group, EGH EL AURASSI, ALLIANCE INSURANCE, NCA-Rouiba and BIOPHARM). And SMEs market reserved for small and medium-sized enterprises this market listed only one enterprises which is AOM Invest.

The market of debt and securities consists of a market of debt securities issued by corporations, government agencies (no companies are currently listed), and market for bloc OAT reserved for fungible treasury bonds issued by the Algerian treasury(Algiers Stock Exchange, 2020).

It's clear that the Algerian banking and financial system is a system that depends mainly on financial intermediation, where the financial institutions (especially commercial banks) lend out money at relatively high rates of interest while receiving money on deposit at relatively low rates of

interest. At the same time the Algiers Stock Exchange remains a marginal role in financing enterprises.

Accordingly, we can consider that the most important financial resources for the economic operators in Algeria are the bank loans in their classic forms, either in the form of operational loans, to finance current activity or investment loans to finance the acquisition of equipments and machinery.

6. The role of commercial banks in financing SMEs in Algeria

6.1. The characteristics of the bank loans in Algeria

According to the periodic statistics provided by the Bank of Algeria in its quarterly statistical bulletin, we note that the total amount of loans to the real sector of the economy in Algeria marked a sustainable increase since 2013. As shown in the table (3).

Table 3. Credit to the economy by maturity (Values in billions of dinars end of periods)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------|---------|---------|---------|---------|---------|---------|
| Short term credits | 1 423.4 | 1 608.7 | 1 710.6 | 1 914.2 | 2 298.0 | 2 687.1 |
| % | 28 | 25 | 24 | 25 | 26 | 27 |
| Medium and long term credits | 3 732.9 | 4 895.9 | 5 566.6 | 5 995.7 | 6 582.0 | 7 289.3 |
| % | 72 | 75 | 76 | 75 | 74 | 73 |
| Total credits | 5 156.3 | 6 504.6 | 7 277.2 | 7 909.9 | 8 880.0 | 9 976.3 |

Source: Based on statistics published by Bank of ALGERIA

These statistics confirms that bank loans are the main financing source of the enterprises. On the other hand, the increase of the total amount of the loans to the real sector of the economy during the studied period from 2013 to 2018 may indicate that the economic operators do not find much difficulty in obtaining loans from commercial banks, which is a positive indication of the enterprises' ability to obtain financing from the external resources.

The enhancement in accessing to the external financing resources conditions was believed to be contributed from the sustainability increase of

the total amount of bank loans. And what can be seen from the above table is that the largest part of the bank loans its payment period ranges from medium or long term duration, which means they are investment loans to finance the acquisition of equipments.

We note that the proportion of medium and long term bank loans to total amount, ranges from 72% to 76% during the studied period, while the bank loans used to finance the current activities of the companies represents only a quarter of the total amount of bank loans to the real sector of the economy in Algeria during the whole period.

Table 4. Credit to the economy by sector (Values in billions of dinars end of periods)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------|---------|---------|---------|---------|---------|---------|
| Public sector | 2 434.0 | 3 382.3 | 3 688.2 | 3 952.2 | 4 311.3 | 4 943.6 |
| % | 47 | 52 | 51 | 50 | 49 | 50 |
| Private sector | 2 722.0 | 3 121.7 | 3 588.3 | 3 957.1 | 4 568.3 | 5 032.2 |
| % | 53 | 48 | 49 | 50 | 51 | 50 |
| Total | 5 156.3 | 6 504.6 | 7 277.2 | 7 909.9 | 8 880.0 | 9 976.3 |

Source: Based on statistics published by Bank of ALGERIA

Relying on the table (4) that shows statistics about the distribution of credits to the economic sectors since 2013, we can clearly notice that the proportion of credit to the economy is very close between the public and private sectors.

6. 2. The role of bank loans in financing Algerian industrial sector

According to the statistics published by the national statistics office in its quarterly survey on the situation an outlook in the industry which covered 514 enterprises and subsidiaries including 250 public companies and 264 private companies (ONS, 2016), more than 21% of heads public sector companies and over 53% of private ones mentioned that the situation of the cash and cash equivalent of their enterprises was in good standing.

However, the high charges, the lengthening of the time needed to collect debts and the repayment of loans continue to affect the situation of the cash and cash equivalent in the industrial enterprises.

More than 27% of the production potential of the public sector and more than 76% of the private sector used bank loans and the majority did not encounter difficulties to contract them (ONS, 2016).

Evolution by business sector, according to the opinion of the business leaders surveyed the activity of mines and quarries owned a good cash and cash equivalent, according to all respondents. In the steel, metal, mechanical, electrical and electronic industries sector the situation of the cash and cash equivalent is considered normal according to nearly half of the entrepreneurs surveyed. The slowdown in demand and high charges continues to negatively affect the cash situations. However, 26% of the production potential used bank loans and the majority did not encounter difficulties in contracting them (ONS, 2016).

In the building materials and industrial activity sector almost 84% of the business leaders surveyed they consider that the cash and cash equivalent situation of their enterprises were normal. However 81% used bank loans and the group did not find it difficult to contract them.

The position of the cash in the chemical industry sector is considered good by more than 54% of business leaders. However, the lengthening of debt collection time, high charges and price rigidity continue to have a negative impact on the cash position. Over 26% of respondents have resorted to bank loans and over 84% of them have found no difficulty in contracting.

According to the opinion of the heads of companies surveyed in the food industry, the position of cash and cash equivalent is considered good by nearly 64% of them. High charges and loan repayments continue to affect the business cash. More than 75% of the entrepreneurs surveyed have used bank loans and most have not encountered any difficulty contracting them.

In the textiles and leathers activity nearly 84% of the business leaders surveyed consider a normality position of their enterprises cash. However the lengthening of debt recovery time and the repayment of loans continue to influence the situation of cash and cash equivalent. More than 4% of textile manufacturers have used bank loans and the majority of them did not find it difficult to obtain them.

For the wood, cork and paper sector the situation of cash and cash equivalent in the enterprises surveyed is considered normal by more than

27% of leaders. Overly high charges and loan repayments continue to affect cash flow. Most of the entrepreneurs surveyed used bank loans and almost half found no difficulty in contacting them (ONS, 2016).

From the results mentioned above of the quarterly survey on the situation an outlook in the industry published by the national statistics office, in the field of statistics related to the industrial enterprises cash and cash equivalent position, we can notice that the majority of business leaders surveyed consider that they have a good and normal situation, but on the other hand there are some factors that negatively affect this position, for example loan repayment, the lengthening of account receivable recovery time and the imbalance between high costs and lack of flexibility of prices.

Regarding the utilization of bank loans for financing, the results of the survey were various between different sectors of activity, were we have noticed that some sectors used bank loans in a significant way such as in the building materials and industrial activity sector with 81% and the food industry with 75%. However in the other industrial sectors the using of bank loans ranges from 4% in the textiles and leathers activity to 26% in both sectors chemical industry and the steel, metal, mechanical, electrical and electronic industries sector.

For the difficulty of obtaining bank loans, all the entrepreneurs surveyed confirmed that they did not face any difficulties in obtaining financing from banks.

6. 3. Bank loans as an external financing source for the SMEs in Algeria

It's important to note that, due to the lack of relevant data in official statistics, there were limited studies focusing on financing enterprises in general and the role of bank loans in financing SMEs in particular in Algeria, and for this reason it may be very difficult to obtain valid conclusions from the limited data available. However, based on the results of the first economic statistics for the year 2011, published by the National Bureau of Statistics in July 2012, we also try to give our own point of view on the topic.

The economic census covered the entire national territory, and included all establishments operating in a fixed location during the reference period that extends over a period of 3 months, starting on May 08, 2011. The following activities were excluded from the field (ONS, 2012):

- Farms excepting those whose unites engaged in industrial activity;
- Temporary public Works sites;
- services (Police, Civil Protection..);
- Establishments of an associative nature whatever their activity (religious, sporting, political..);
- International organisations.

The economic census is a qualitative survey, initiated by the Minister of the interior and it was based on an information form containing questions relating to preoccupations and obstacles of entrepreneurs such as bureaucracy, access to bank loans, cash and cash equivalents problems and availability of skilled labor.

Analysis of the survey shows that out of a total of 934,250 economic entities, nearly 660,000 completed the questions were in the information form, due to the large number of enterprises covered by this survey, this gives greater importance to its results.

The first question on the series of questions relating to the preoccupations and obstacles of entrepreneurs was. What were the main factors in the initial decision to invest? Six determinant factors have been listed, which are: creation times of the projects, the large number of the administrative files, the availability of the financial resources, the quality of infrastructure, energy availability (electricity, Gas...) and transport availability.

According to the topic of our study, we try to focus on the third factor, which is the availability of the financial resources. As the survey demonstrated that it represents an important factor in the decision to invest in more than half of the companies. In fact 59% of companies consider the availability of financial resources as an important factor in the initial decisions to invest, against almost a quarter of companies who believe the opposite(ONS, 2012).

It should be noted that the legal status of the company is sensitive to this question, because 59% of private companies consider the availability of financial resources to be important compared to 37% of public companies.

By business size, it is the micro enterprises that most consider the availability of financial resources as an important factor in their first

investment decision. Indeed, the share of these companies responding in the affirmative to this question is 58.8% against 54.4% for small businesses, 54% for medium-sized businesses and 50% for large businesses.

In general, more than half of companies, whatever their size, consider the availability of financial resources is important. This importance decreases relatively with the size of the company.

The survey showed that the most important sources of investment financing for the enterprises studied are the following three sources: Bank loans, Self-financing and the state subsidies.

The use by companies of bank loans is not a common practice. In fact, only 3.3% of companies announce bank loans as the main source of their financing. However, 22.1% of companies employing between 50 and 249 employees and 23.1% of more than 250 workers used bank loans.

Regarding the use of self-financing in the studied enterprises, the answer to this source of finance seems to be perfectly consistent with that relating to bank loans. In fact, 83.2% of companies in all sectors declare that they used self-financing to finance their investments.

Almost 5% of enterprises studied benefited from states subsidies in the field of investment financing. Among them 13.5% benefited from medium-sized enterprises (between 50 to 249 employees). Nearly 4% of companies surveyed benefited from assistance systems for setting up businesses, including:

- 65.7% benefited from the National Youth Employment Support Agency (ANSEJ).

- 22.3% of economic operators have benefited from the assistance of the National Investment Agency (ANDI). This system is very characteristic of investment aid for medium-sized private enterprises, since 83.2% of companies employing between 50 to 249 employees benefited from this aid.

- The National Agency of Micro Credit Management (ANGEM) system is used by 5.9% enterprises surveyed.

- The National unemployment insurance fund (CNAC) credit benefited 6.1% of enterprises studied, particularly for small businesses employing less than 10 employees.

7. Conclusion

Algeria like the other nations around the world is facing economics troubles due to the volatility of the oil barrel's price in the last ten years. For the same period the Algerian government had taken massive efforts to cover the social demand and the imbalance caused by the economic situation. It is in this economic context that SMEs grow, which face many difficulties related to the business climate in Algeria.

Through this paper, we conclude that not only SMEs are the engines of local growth and job creation, but they are also increasingly contributing to sustainable development and the provision of public services.

In Algeria many SMEs are businesses with low capital intensity, which gives them a great flexibility of operation and creating jobs, SMEs are well suited to the production of services, which does not require a significant contribution of capital. That's why we noticed there were 1,035,891 micro enterprises (employ fewer than 10 workers) in Algeria in 2017, accounting for 97.7% of all SMEs.

The importance of the role of SMEs in economic growth these days is no longer in doubt. In 2017 there were 1,060,289 small and medium-sized enterprises. For the same year private sector SMEs represents 99.98% of all SMEs.

In addition, SMEs in Algeria were responsible for more than 2.6 million of all jobs in 2017. They also account for the majority of new job creation. As its proximity to the ports and characterizing by great population density and developed industrial zones compared to the other regions we find that the Algerian SMEs are concentrated in coastal regions.

Through the results of the first national census, the following observations can be concluded:

– Access to financing sources is an important factor in making investment decisions for the SMEs private sector in Algeria, this importance is negatively correlated to the size of the enterprise.

– Bank loans are not the main source of financing for economic SMEs in Algeria.

– The most important source of financing for economic SMEs in Algeria is self-financing.

–The role of the states subsidies in the field of investment financing is very limited in financing the creation and development of economic SMEs in Algeria.

According to the above, we can assume, from our personal point of view, SMEs in Algeria have difficulties getting financing, this is due to the fact that SMEs' owners and managers give considerable importance to the accessibility of financial resources when making investment decisions and this importance increase with the enterprises' reduced size.

On the other hand, we note that the Algerian financial system is based on financial intermediation, since the commercial banks are the primary funders of economic activities. While the stock markets continues to play a marginal role in financing enterprises in general and in particular SMEs. On the other side, however we find that only 2% of SMEs are considered to be bank loans as the most essential source of financing, while only about 20% of SMEs, particularly medium-sized have obtained bank loans.

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