Financial Inclusion in Algeria and Arab countries: A Comparative study

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Abstract:

The current study aimed to provide a brief overview of financial inclusion in Algeria and Arab countries, by discussing the major indicators of financial inclusion and dropped on SMEs of Algeria and Arab countries, and equally emphasising on financing side with all its components in attaining the financial inclusion on these enterprises. In pursuit of this goal, we employed a case study approach to examine the accessibility of financial resources for SMEs in Algeria, compared to a selected number of Arab nations.

The study concludes, by outlining some complex and interconnected factors on which SMEs, that an intensification of efforts by Algerian officials and policymakers is required to ensure that SMEs have access to the necessary funding and financial support. Therefore, such efforts will by implication encourage the financial inclusion of SMEs to be part of overall policy strategies as well as achieving Algeria's financial sector development plans**.**

Keywords: Financial inclusion, Access to finance, Algeria, Arab countries, SMEs.

I- Introduction:

The significance of small and medium-sized enterprises for economic and social development has been imposed by the mutations and economic advancements resulting from the phenomenon of globalization and economic interconnection, which led investors and business actors to rethink their financial interventions, namely in the field of investment, where they favour certain trends towards the small and medium enterprises as they are characterized by the ability to adapt quickly with economic changes, rather than the heavy economic structures that have often been troubled by the recurrent economic crises in today world (Mazeri, A. Saadouni, M, 2019).

Algeria faces diverse socio-economic challenges. Its economy needs to be more extended, private companies need to be strengthened, and non-hydrocarbon exports require to be expanded. The Algerian government has set itself the visible goal of reforming its economic policy to improve the preconditions for sustainable and effective growth (BMZ, 2023).

Financial inclusion as a concept and as a mechanism has increasingly moved to the top of the policy agenda priorities in many developing countries, reflected in several G20 declarations (most recently in 2016 in Hangzhou), as well as the establishment of financial inclusion units in central banks and Ministries of Finance and specific financial inclusion sections. One important aspect of formulating policy goals, however, is the ability to measure progress in achieving these goals.

In a similar vein, an essential aspect of setting policy objectives is the capacity to quantify and track advancements towards the objectives of financial inclusion.

Over the past decade, palpable progress has been made in quantifying financial inclusion across the globe (Thorsten, B., 2016). As a developing country, Algeria has focused on SMEs to seek to achieve economic development, however, it faces a set of challenges as other countries do, and these challenges were present and recurrent in accessing financing and achieving financial sufficiency for its continuity. Therefore, the measure of financial inclusion will allow us to know the gap resulting from the lack of financial inclusion. As more evidence becomes available on what dimensions and aspects of financial inclusion are important for individual welfare and firm growth.

In this particular context, the current study aims to closely investigate the potential of SMEs in accessing financing opportunities and resources and to dissect the factual level of financial inclusion in local enterprises compared with fellow Arab countries.

To accomplish this pertinent purpose, we will rely on a plethora of statistical tools and indicators related to the Algerian context and that of some Arab countries.

1. The theoretical framework of the study:

Financial inclusion is a complex and multifaced concept as many researchers have elaborated distinct definitions according to their point of view and particular approach of this concept. However, there are common key elements that constitute the essence of this concept.

1.1. Definition of financial inclusion:

- According to Kunt, A, D. Klapper, L. Singe, D (2017), "Financial inclusion refers to the fact that adults have access to and can effectively use a set of suitable financial services".
- Yoshino, N. Morgan, P, (2016) stated that "Financial inclusion broadly points out to the degree of access of households and firms, especially financially lacking households and small and medium-sized enterprises (SMEs), to financial services".
- Financial inclusion is defined by the Committee of Financial Inclusion under the chairmanship of Dr C. Rangarajan as “the process of ensuring access to financial services and timely and appropriate credit when needed by vulnerable groups such as the weaker sections and low-income groups at an affordable cost by mainstream financial institutions players” (Singh, R. Roy. S, 2015).
- The Global Alliance for Financial Inclusion (AFI) defined financial inclusion as: “An urge to access and use all segments of society, including marginalized groups and people with low and low incomes, for financial services and products that suit their needs, so that they are provided fairly and transparently.”

Financial inclusion has continually captured the interest of both scholars and policymakers across developing and developed countries. As a strategy, it consists of a systematic process aimed at eliminating obstacles to ensure timely access to affordable financial services like credit, deposits, payments, and insurance for economically disadvantaged individuals or groups (Conroy J, 2005). Countries with low levels of income inequality reflect low levels of banking exclusion and vice versa, though the percentage varies from country to country and from region to region. Financial inclusion is beneficial to the economy as the financial resources become available in a transparent manner for multiple uses and higher financial returns but this area calls for extensive research (Sharma, R, R, 2020).

Within the general context of inclusive development, Zulkhibri, M. Ghazal, R., (2017) indicated clearly that financial inclusion is an important means to deal with poverty and inequalities and to address sustainable development goals (SDGs). In this specific context, financial inclusion is understood as a structural process that ”ensures the ease of access, availability and usage of formal financial services” (Zulkhibri, M. Ghazal, R, 2017, p. 38).

1.2. The importance of financial inclusion :

Financial inclusion is a tool to attain sustainable development goals (SDGs), which makes it an essential component of expected economic development, through empowering individuals and business actors and granting them access to useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit and insurance - delivered responsibly and sustainably (Benhlima, F. El-Mehdi, B, 2022). In addition, one of the essential features of financial inclusion is the possibility and flexibility to reduce poverty and sectorial inequality by assisting people to invest in their future, regularize their consumption, and manage factual financial risks. Adults around the world and in all income groups use an array of different financial services. However, many low-income adults equally rely on informal financial services (Collins, D., J. et al, 2009).

On the other hand, it has been indicated in multiple empirical research papers that financial inclusion aimed at making the financial system more widely accessible contributes to sustainable economic growth. Many people are unaware of the ins and outs of such complex financial issues, for example, pensions, which expose them to the potential risk of making wrong decisions, hypothetically undermining both their financial resilience and endurance. This is why central banks and other financial authorities and bodies are committed to promoting financial accessibility and knowledge through financial inclusion (Doeveren, M.V., 2017). A great deal of literature on the subject indicates that the importance of financial inclusion is more significant when it supports the financial system itself, which is considered an important condition for faster and more sustainable equitable growth.

Enhancing financial inclusion for SMEs stands out as a pivotal challenge in fostering economic diversification, growth, and job generation. International observations suggest numerous strategies to bolster SMEs' access to financing, as highlighted in the following ways (Kabakova, O. Plaksenkov, E, 2018):

- Economic fundamentals and financial sector characteristics, including macroeconomic stability, reduction in the size of the public sector (to prevent hindrance to SMEs' credit access), and the soundness of the financial sector.
- Institutional factors, such as strong governance and financial regulatory and supervisory capabilities, availability of credit information, a conducive business environment, including modern security and insolvency frameworks, and legal systems that allow respect for property rights and the execution of contracts.

1.3. The indicators of measuring Financial Inclusion:

Over the last decade, pivotal progress has been achieved in measuring financial inclusion across the globe. At the same time, being able to measure financial inclusion has allowed us to gauge the real and contextual progress due to financial innovation and policy interventions. Analytically speaking, more evidence becomes available on what dimensions and aspects of financial inclusion are important for individual welfare and firm growth (Thorsten, B., 2016, p. 02). According to the World Bank report, utilizing financial inclusion indicators serves as a valuable tool for establishing national financial inclusion objectives and tracking advancements towards these goals. With dependable performance metrics and survey methodologies, policymakers can effectively (World Bank, 2015):

- Diagnose the state of financial inclusion
- Agree on targets
- Identify barriers
- Craft policies and
- Monitor and measure policy impact
-

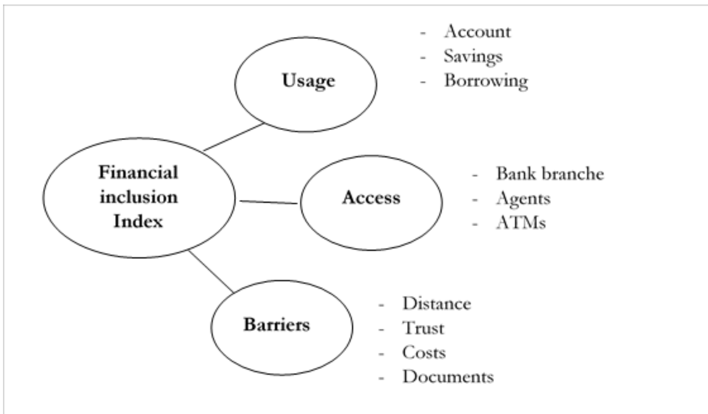
Table (1): Indicators for measuring financial inclusion

Indicator	Category	Measuring indicator
Usage	For adults Older than 15 years old	Adults having an account – Number of accounts – Adults with credit in formal institutions – Adults with insurance – Digital financial transactions – Adults using digital payments – Payment using a mobile phone or the Internet – Payments using a bank card – Paying with the account – Propensity to save
	For institutions Formal banking institutions	Companies with a loan or possibility of credit outstanding in regulated institutions - Digital payments to and from companies
Access	Physical Service Points Service Points	Royal Credit Card - Service Points Project - Compatibility of Service Points
Quality	Financial knowledge and the ability to control it	Financial knowledge -Financial behavior
	Market Conduct and Consumer Protection	Disclosure Requirements -Dispute Resolution
	Barriers to use	Credit barriers

Source : (Benhlima, F. El-Mehdi, B, 2022, p. 304)

Cámara, N. Tuesta, D (2017) indicated that there are three dimensions of financial inclusion.

Figure (1): Multidimensional Financial Inclusion Index



Source : (Cámara, N. Tuesta, D, 2017)

The main typology of indicators to consider when measuring financial inclusion is as put by the World Bank (World Bank, 2015):

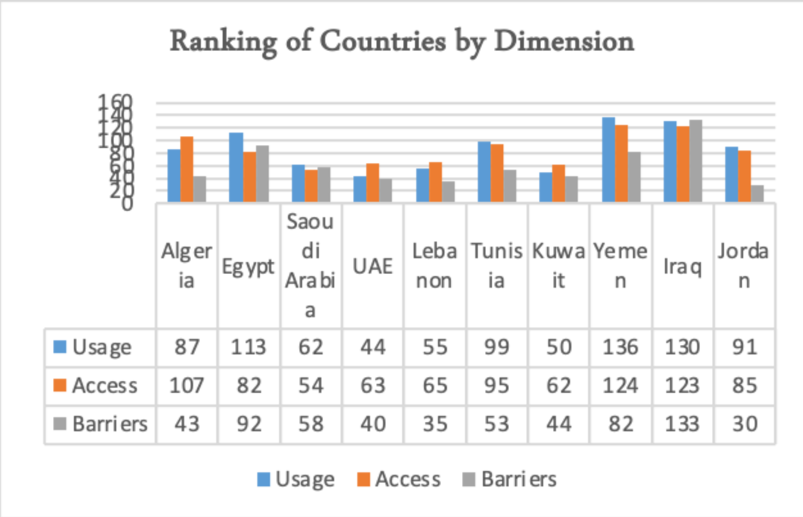
Access indicators gauge the extent of financial service outreach, encompassing factors like the presence of bank branches or point-of-sale (POS) devices in rural regions. Additionally, they encompass customer-facing barriers, such as cost constraints or information accessibility, that hinder access to financial institutions.

Usage indicators analyze the patterns of financial service utilization by clients, considering aspects like the frequency and duration of using financial products or services. Metrics could include average savings balances, transaction volumes per account, or the number of electronic payments made.

Quality measures evaluate the alignment of financial products and services with client's needs, assessing the diversity of available options and the level of customer awareness and comprehension of these financial offerings.

A fourth indicator examines the impact of financial inclusion on households and businesses, exploring outcomes such as firm-level performance or investments in human capital.

Figure (2): Rnaking of countries by dimension



	Algeria	Egypt	Saoudi Arabia	UAE	Lebanon	Tunisia	Kuwait	Yemen	Iraq	Jordan
Usage	87	113	62	44	55	99	50	136	130	91
Access	107	82	54	63	65	95	62	124	123	85
Barriers	43	92	58	40	35	53	44	82	133	30

Source : Developed by researcher based on (Cámara, N. Tuesta, D, 2017)

The first column of Figure 02 shows the ranking position of countries according to their scores in the dimension of the usage of the financial inclusion index which includes (Accounts, Savings, and Borrowing), the second column shows the ranking position of countries according to their scores in the dimension of Access which mean (Bank Branche, Agents, ATMs), the last column shows the ranking position of countries according to their scores in the dimension of barriers (Distance, Trust, Cost, Documents). We also note that Lebanon, the United Arab Emirates and Kuwait outperform and exhibit one of the best performances in the table of ranking scores compared to other countries, which indicates that they have the most inclusive financial systems in comparison with the other Arab countries.

2. An Overall overview of SMEs in Algeria and Arab countries:

After its independence in 1962, Algeria inherited a devastated economy, low infrastructures of education and training, as well as the spread of illiteracy and poverty. This led to a backward socio-cultural situation. Henceforth, the emergence of SMEs in Algeria traces back to the late 1980s, occasioned by the economic downturn resulting from oil price slashes. This period saw the enactment of the 1988 law, which liberalized financial advantages (such as external financing, tax benefits, and land), prompted an upsurge in investment volumes, and created new chambers of commerce aimed at fostering the growth of the private sector (Nouri. N, 2017, p. 03).

The population of SMEs in Algeria has three essential components: SMEs of the private sector, SMEs of the public sector and craftsmen. From the 2000s on, the number of

SMEs increased considerably, that is, more than ten years after the adoption of the new law of investment and the establishment of institutions which care about helping and supporting SMEs. Thus, on another side, due to the social and economic stability that Algeria began to recover in the early 2000s and the increase in oil prices, which represents the first economic income in the country.

At the end of 2022, the overall population of SMEs stands at 1,359,803 entities, 56% of which consist of legal persons, including 223 Economic Public Enterprises (EPE). The rest is consisting of natural persons (43.89%), of which 23.83% are craft activities (MIPP, 2023).

Table (2) : The over all population of SMEs in the end of 2022

Types of SMEs	Number of SMEs	Share (%)
1. Private SMEs		
Moral persons	762 769	56,09
Physical persons	596 811	43,89
of which Professions	272 726	20,06
of which Crafts activities	324 085	23,83
Total 1	1 359 580	99,98
2. Public SMEs		
Moral persons	223	0,02
Total 2	223	0,02
Total	1 359 803	100,00

Source : (MIPP, 2023, p. 06)

In 2019, Algeria boasted a perceptible count of nearly 1.2 million Small and Medium-sized Enterprises (SMEs). Micro-enterprises, constituting the largest share, numbered around 1.16 million, employing a maximum of nine individuals. Conversely, the statistics outlined approximately 31,000 small enterprises, employing 10 to 49 personnel, and less than 5,000 medium-sized enterprises, which housed 50 to 249 employees (Statistica, 2020).

As for the latest formal report from the Algerian Ministry of Industry and Pharmaceutical Production (MIPP), the collective count of SMEs stands at 1,359,803, with a striking 99.98% comprising small enterprises, each with a workforce not exceeding 49 employees. Moreover, the dominant sector is the service industry, encompassing various professional services, as illustrated in the following table.

Table (3): The overall population of SMEs at the end of 2022

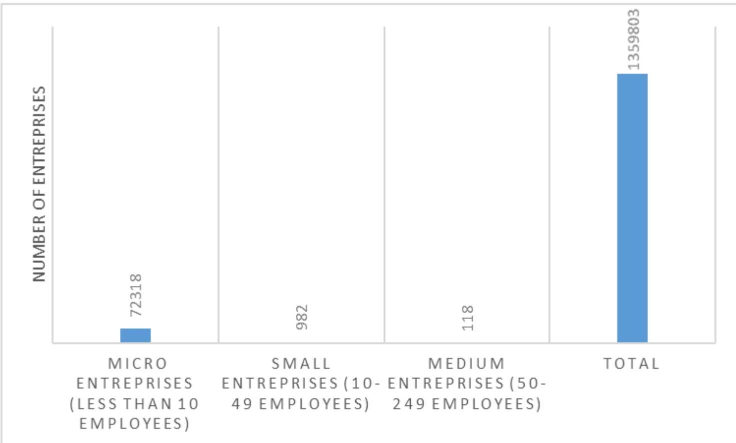
Activity sector	At the end of 2021	Year 2022				At the end of 2022
		1-9 employées	10-49 employées	50-250 employees	Total of SMEs 1-250 employees	
Agriculture	8010	377	17	0	394	8404
Hydrocarbons, Energy,	3243	107	17	4	128	3371

Mining and related services						
BTPH	199331	4722	365	34	5121	204452
Manufacturing industries	109991	5833	143	25	6001	115992
Services including liberal professions	662185	40799	440	75	41314	703499
Crafts	303605	20480			20480	324085
Total	1286365	72318	982	138	73438	1359803
%		98,47	1,34	0,19	100	

Source : (MIPP, 2023, p. 07)

Through the table above we find that 98,47% of entreprises are the entreprises which the number of their employees does not exceed 9 employees, which mean the most enterprises are micro entreprises as shown in the following figure, and the dominant sector is Services including liberal professions.

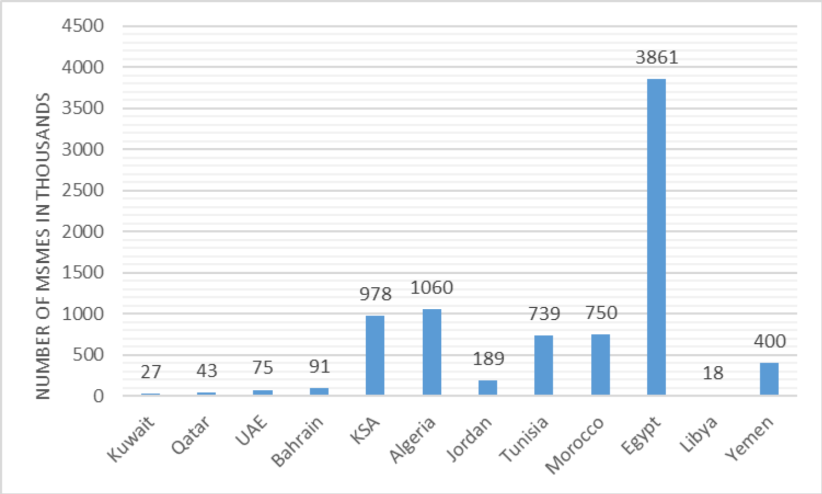
Figure (3) : Number of SMEs in Algeria on 2023



Source : (MIPP, 2023, p. 07)

In reality, the SME sector can play an important role in avoiding economic challenges. In particular, SMEs are a major source of new job creation in emerging and developing countries, accounting for some 45 per cent of new jobs. SMEs' contribution to GDP in Arab economies ranges between 4 and 40 per cent, reflecting both the potential for a larger role for SMEs in some countries as well as their already significant role in others. It is estimated that micro, small and medium enterprises (MSMEs) account for 80–90 per cent of businesses in the MENA region and around 97 per cent in the Arab World, with density (enterprise per 1,000 people) more heavily weighted towards micro-enterprises. For example, the density of MSMEs in Egypt 3861 thousand followed by Algeria 1060 thousand MSMEs (IMF, 2019, p. 06).

Figure (4): Total number of MSMEs by region and country



Source : (UNDP, 2021, p. 22)

Assuredly, Small and Medium-sized Enterprises (SMEs) serve as vital contributing elements to economic growth by enhancing value and extending economic structures. Their impact relies significantly on two primary factors: a conducive business environment and liberated access to financial resources. Addressing the challenges around expanding financial access for SMEs in Algeria has become a key focal point. In recent years, Algeria has demonstrated a heightened interest in this area by implementing specific strategies and programs aimed at facilitating improved access to finance for these enterprises. (Touat. O, Ameziane, M, 2021). In such context, the Algerian government has proposed multiple programs to promote and support the SMEs in Algeria, thus it is considered as one of the first Arab countries which has reliable mechanisms to support and encourage these sorts of economic actors.

3. The financial situation of SMEs in Algeria:

International studies indicate that about 70% of Small and medium-sized enterprises in emerging markets have no access to finance, especially in Africa, Asia, Latin America and the Arab countries. That means, the financing gap for micro, Small and medium-sized enterprises operating in the formal sector in developing countries is estimated at $5.2 trillion, as the levels of demand for financing by these enterprises are estimated at $8.9 trillion, while the current levels of supply of financing represent $3.7 trillion. (That is, the current gap is 1.4 times the current funding levels). The gap rises to about $8.1 trillion if the financing needs of micro, Small and medium-sized enterprises in the informal sector in developing countries are taken into consideration (Heba, A. M., et al, 2019). A report by the

World Bank (2023), emphasizes that access to finance is a key barrier to SME growth, as it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries (World Bank, 2023). In this context, the G20/OECD High-level Principles on SME Financing call for strengthening SME access to credit, while also supporting the diversification of their financing sources (OECD, 2017, p. 16).

Small and Medium-sized Enterprises (SMEs) in developing countries face a restricting set of finance sources, categorized into informal and formal channels. Informal financing sources encompass personal savings, contributions from acquaintances, business associates, and unregistered money lenders. On the other hand, formal finance relies on internal mechanisms such as enterprise profits, reserve funds, and augmenting capital through contributions from founders (ADBI, 2019). In Algeria as a case in point, access to finance is one of the most noticeable obstacles that face both small and medium operating enterprises. According to the Bank of Algeria's report (2015), the loans granted to SMEs in 2014, addressed mainly the private sector, with a value estimated at 3.1217 trillion Algerian dinars – an equivalent to 48% of the total volume of loans granted during the year 2014. Despite this did not change much when it comes to the problem of financing SMEs in Algeria, however, there are still public institutions that receive the largest share of financing and credit from banks, although the volume of the SMEs is the sector that devours the biggest portion of the investment in Algeria (Dris. Y, Benmouiza. A, Bennour. R, 2022, p. 704). These funds should help ease one of the most binding constraints on small businesses in Algeria.

In the World Bank's "Doing Business 2018" report, Algeria's rank dropped to 177th out of 190 countries for credit accessibility, declining from its 2017 rank and standing. This positioned Algeria second-lowest across all categories, notably below its overall rank of 166th (SMEX, 2022). Despite being a recurring challenge for Algerian SMEs, self-financing remains the primary source of funding. This is largely due to limited state subsidies for investment, thereby constraining the support available for the establishment and growth of economic SMEs in Algeria (Maiza. M.A, et al, 2021).

The situation associated with access to finance for small and medium-sized enterprises (SMEs) across Arab world countries shows a persistent pattern of limited access to financial services. This trend extends to numerous small, medium, and micro-enterprises in these regions, highlighting a widespread lack of access to smooth finance and banking services. It is interesting to know that when comparing access levels among the Arab nations, Algeria's small and medium-sized enterprises exhibit the lowest level of financial inclusion compared to these countries (Touat. O, Ameziane, M, 2021).

4. Sources of financing SMEs in Algeria and the Arab countries:

When it comes to the accessibility of sources of finance, the SME Policy Index 2014 noted that credit guarantee schemes were sponsored by public institutions, state banks and international donors, and no private market existed for these vehicles. This interim assessment found no reforms in this area. The main players are still the public actors, the Credit Guarantee Fund for SMEs (FGAR) and the Fund of Guarantees for Credit Investment (CGGI) (OECD, EU, ETF, 2018).

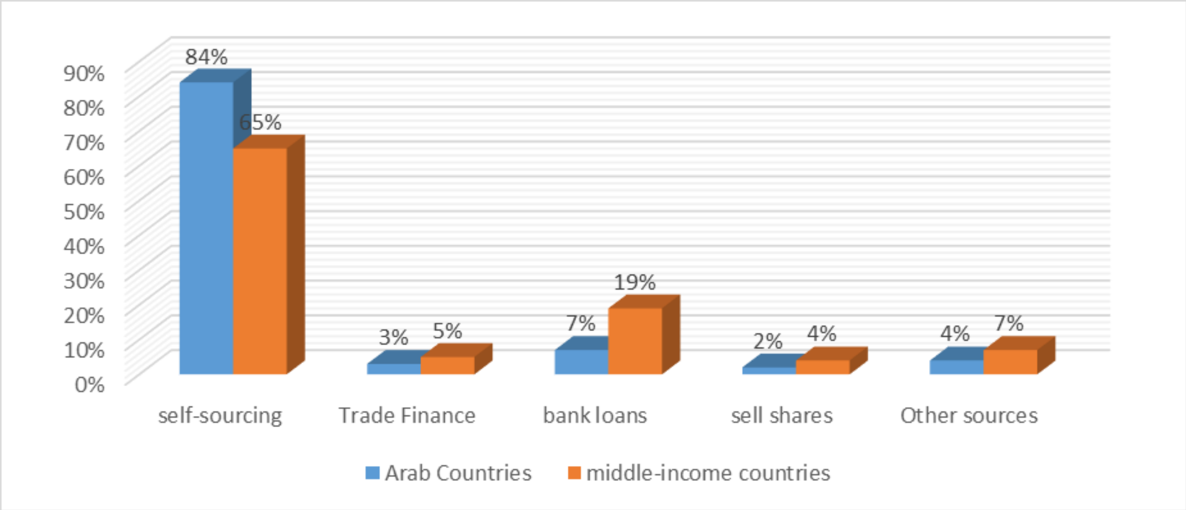
The issue of the lack of loans to VSEs/SMEs is at the centre of many debates and controversies between economic decision-makers and economists (Lalali. R, 2020). Despite this, SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. 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 (World Bank, 2023).

In a study conducted by Lalali (2020), challenges in accessing business loans in Algeria are attributed to complex factors. One major issue is due to inherent uncertainty, compounded by deficiencies in the strategies employed by banks. In addition, the prevailing problem is the inadequate information framework within these companies. VSE/SMEs often struggle to furnish comprehensive and detailed information to their bankers, leading to a climate of mistrust between the companies and financial institutions. This is likely to develop a climate of mistrust between companies and their bankers, and that is what partially explains the dependence of SMEs in Algeria on self-financing. In this vein, the Algerian government provided microfinance and microcredit to sustain the creation of small enterprises and start-ups. Three government schemes support very small start-ups, a non-governmental organization, and a network of cooperative finance companies deliver microfinance services, For instance (Touiza, Zakat Fund, ...etc). In addition, the government has set up three schemes operated through government agencies to back up small business start-ups. The National Agency for Youth Employment (ANSEJ, now: ANADE), The National Unemployment Benefit Fund (CNAC), National Agency for Micro-Credit Management Micro Enterprise Creation Support (ANGEM) (Belhadi. O, Boukkaz. N, 2021).

In Arab countries like Algeria, many Institutions represent a primary source to finance these enterprises. These countries depend, in providing financing to these enterprises, on various types of financing institutions, including Banking institutions, microfinance institutions, micro-credit associations, leasing companies, in addition to investment companies.

The SMEs in Algeria and in other Arab countries both are facing the challenge of access to finance. Self-financing is considered one of the most important sources of financing for Small and medium-sized enterprises. As about 79% of these enterprises in the Middle East and North Africa region (which includes mainly Arab countries in addition to some other countries) do not have access to financing (Tahraoui. K, 2022). The share of self-financing sources reaches 85% of financing sources for medium-sized and small enterprises in the Arab region, compared to 65% as an average for the group of middle-income countries in the world, and the remaining 15% is distributed among 7% bank loans (19% for middle-income countries in the world), 3% trade finance, 2% stock market capitalization, and 4% other financing sources (Touat. O, Ameziane, M, 2021).

Figure (5): Financing Source in Arab Countries and Middle East Countries



Source : (Touat. O, Ameziane, M, 2021)

As for the mechanisms available for financing SMEs through the financial markets, the lack of a developed and effective stock exchange in Algeria deprived SMEs of important sources of financing. Also, the limited solvency and guarantees available to these enterprises are among the obstacles that limit their ability to issue bonds and shares and obtain financing even in Arab countries where stock markets are flourishing. However, as part of their efforts to enable SMEs to access the capital markets, several Arab countries have launched alternative or parallel platforms to the main capital market with more flexible terms targeting SMEs. Among the prominent models in this field are the experiences of Egypt, Saudi Arabia, Tunisia and Bahrain (Heba, A. M., et al, 2019).

Table (4): Sources of financing and guaranteeing Credit for SMEs in Algeria compared to some Arab countries

Country	Financing institutions	Credit guarantee institutions
Algeria	- commercial banks - The National Agency for Youth Support and Employment ANSEJ. - -National Agency for Microcredit Management ANGEM. - The National Unemployment Insurance Fund (CNAC)	Small and medium-sized enterprises Credit Guarantee Fund (FGAR). Small Credit Joint Guarantee Fund. Investment Loan Guarantee Fund (CGCI) Joint Risk Guarantee Fund / Loans for Young Entrepreneurs
Saudi Arabia	- commercial banks - Industrial Development Fund	Kafala Program
Morocco	- commercial banks	Central Guarantee Fund Vinia Contracting Finance Company
Kuwait	- commercial banks	The National Fund for Small and medium-sized enterprises Development
Sudan	- commercial banks	Microfinance Guarantee Agency "Tayseer"
Qatar	- commercial banks - Qatar Development Bank	"Al Dhamin" initiative

Source : (Touat. O, Ameziane, M, 2021)

The fact that most Algerian companies are small family-held companies, with no developed governance structures, says a lot about the current and general organization of SMEs in the country and on the financing issue. The Algerian economy is far from a sophisticated structure with advanced financial mechanisms that permit quick expansion or create entrepreneurial effervescence. Small enterprises have very specific needs and are prone to be victims of the disturbance of the environment. They have a bigger difficulty in contracting loan for expansion because of their lack of collateral, especially in a country where government banks have a very strict view toward loans and collaterals which reduces the financing options (Si Mohand. M, et al, 2021).

5. Financing indicators of SMEs in Algeria and Arab countries :

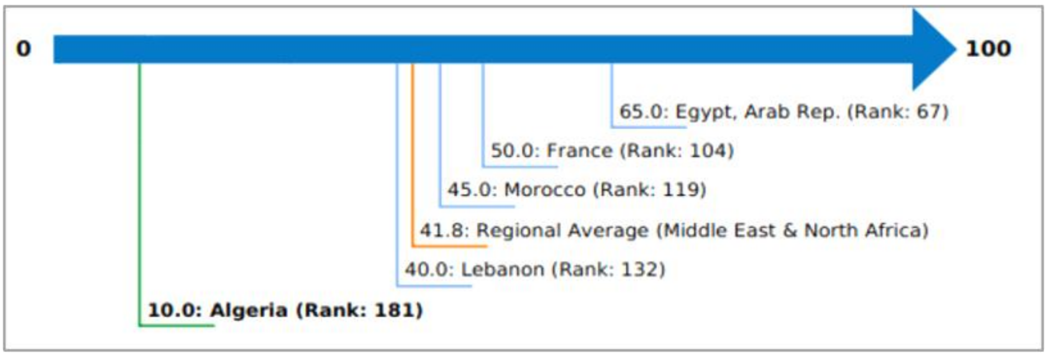
Financing indicators are considered as measures and procedures being taken in the country to facilitate to access the financing of SMEs. Some of the indicators that will be mentioned in this part concern Algeria compared with several Arab countries.

4.1 Getting Credit indicator:

Doing Business (2020) report about obtaining bank credit in Algeria and Arab countries reveals the existence of difficulties in getting such credit in some Arab countries (Doing Business, 2020). Such difficulty is due to poor financial infrastructure, lack of transparency and weak credit facilities at banks, which can measure the creditworthiness of institutions (Melikaoui. M, 2019). On the other hand, there are some countries such as Egypt and Morocco which achieved advanced scores, respectively Egypt (67) and Morocco (119). The ranking of economies on the ease of getting credit is determined by sorting their scores for getting credit. These scores are the sum of the scores for the strength of the legal rights index and the depth of credit information index (Doing Business, 2020).

When it comes to Algeria, it ranks last in the world (181), this is because of the weakness of the banking system in Algeria, its delay, its failure to keep pace with economic developments and its failure to meet the financing needs of small and medium-sized enterprises, also this due to weakness of legal rights index and the depth of credit information index (Doing business, 2020).

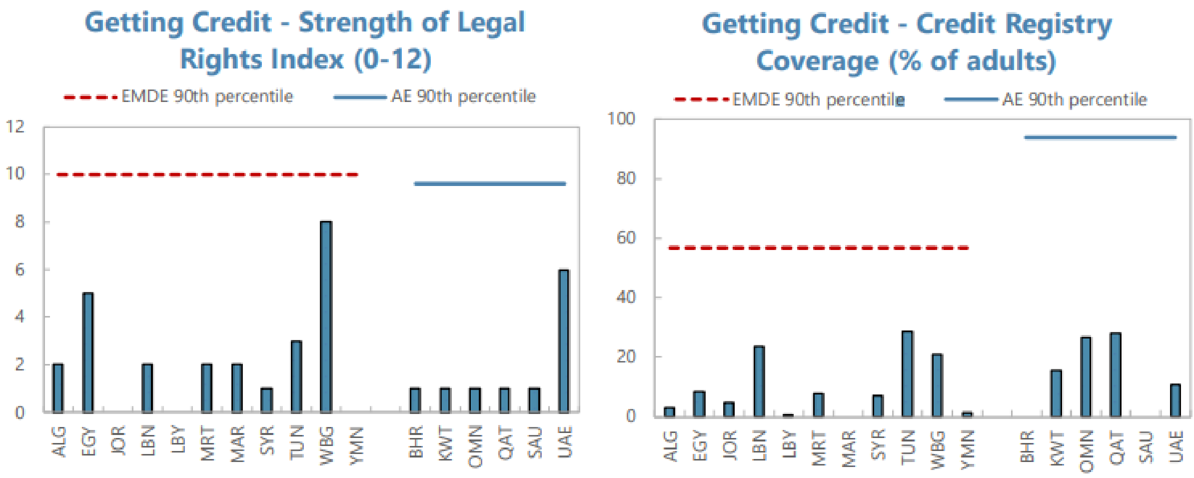
Figure (6): Getting credit Scores in Algeria and some Arab countries



Source : (Doing Business, 2020)

Despite some progress made in some areas, the Arab World still lags behind other regions in terms of credit information and legal rights to facilitate access to finance. Although, The existence of credit registries is almost universal across the Arab World; however, credit bureaus, which cater to the information requirements of commercial lenders, are less prevalent.

Figure (7): Getting Credit Indicators in Algeria and Arab countries



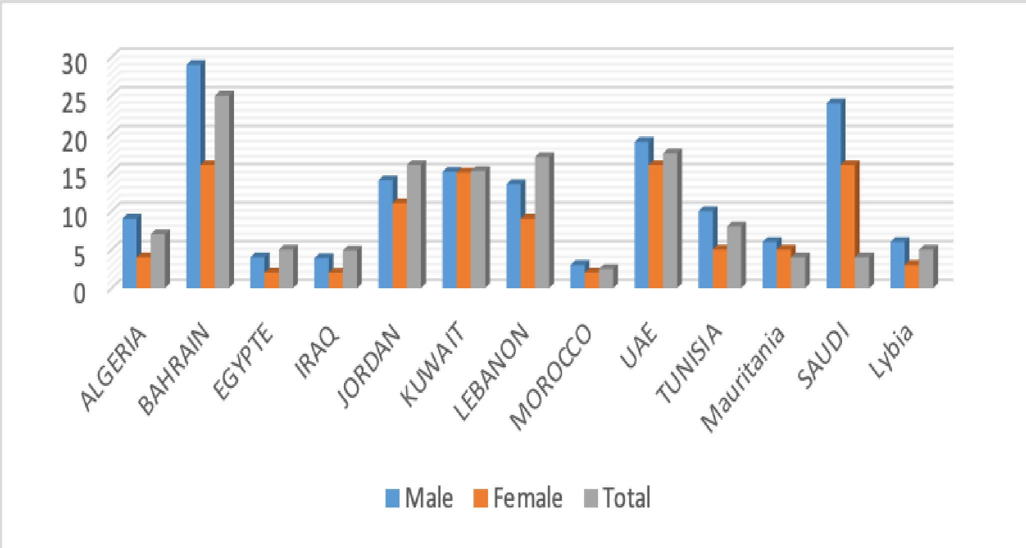
Source : (IMF, 2019, p. 09)

In addition, Several Arab economies have tailored some form of public CGS for SMEs, including Algeria, Djibouti, Jordan, Lebanon, Morocco, Qatar, Saudi Arabia, Tunisia and West Bank and Gaza. Also, some countries in the region have passed bankruptcy laws including Bahrain, Egypt, Jordan and Saudi Arabia (IMF, 2019, p. 08).

4.2 Borrowing to create a business indicator :

Evidence from areport fromThe League of Arab States (2019)suggests the number of individuals who have borrowing accounts in Arab countries to create a commercial project or expand an existing project concerning the total adult population in the Arab countries is nearly 5.5%, which is the same percentage recorded at the level of low-income countries (5.5%), While the percentage reaches higher levels in the group of middle-income countries (8%), as for the developed countries, the percentage reached 26.6%, and the percentage worldwide reached 11.2%. It should be noted that the percentage of adult males who have borrowing accounts to create a new business or expand an existing project has reached about 7.8%, compared to only 3.1% for females. In all geographical regions, this indicator tends to the male category at the expense of females, but with higher rates of financial inclusion of Small and medium-sized enterprises compared to the Arab countries, as is the case in developed countries, 29% for males compared to 24.2% for females, and middle-income countries (males 9.2% compared to 6.8% for females), and low-income countries, 6.2% for males compared to 4.9% for females

Figure (8): Percentage of the adult population with a borrowing account to create or expand an existing project to the total adult population at the level of the Arab countries



Source : (Touat. O, Ameziane, M, 2021, p. 09)

On other side, as we discussed above, Algeria provided a set of institutions and agencies that support and accompany SMEs. If the focus is on financing and the number of loans granted by these institutions, we note that: (Kramech, B. Hamouda, N, 2022)

- **Benefit of financing support from The National Unemployment Benefit Fund (CNAC) :**

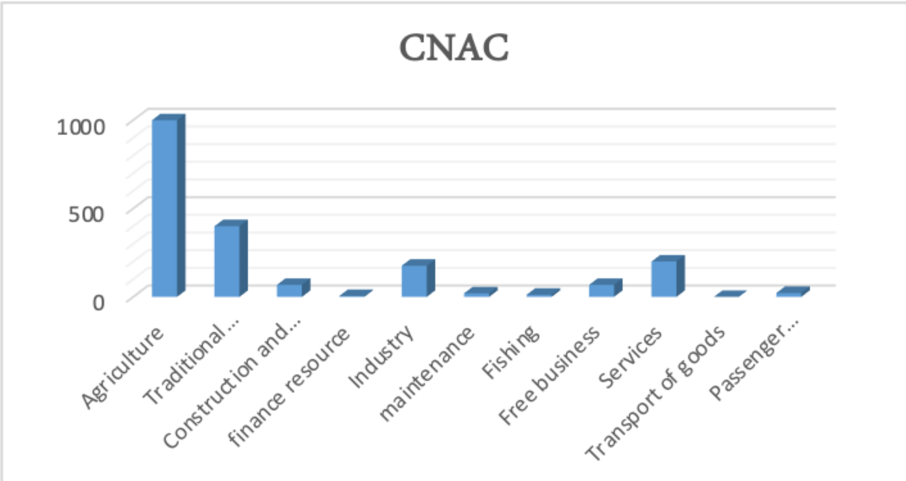


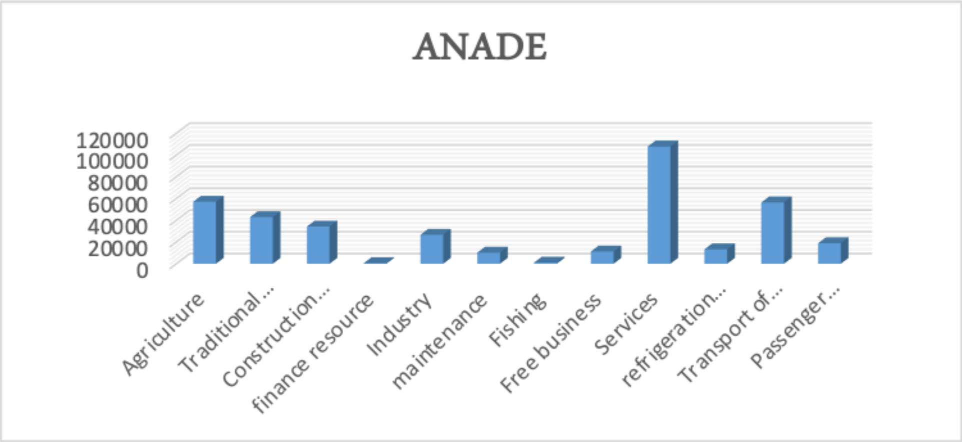
Figure (8): The number of SMEs financed by CNAC

Source: Developed by the researcher based on (Kramech, B. Hamouda, N, 2022)

The figure above shows the number of micro-enterprises funded by The National Unemployment Benefit Fund (CNAC) in the first semester of 2019

- **Benefit of financing support from ANADE (ANSEJ):**

Figure (9): The number of SMEs financed by ANADE

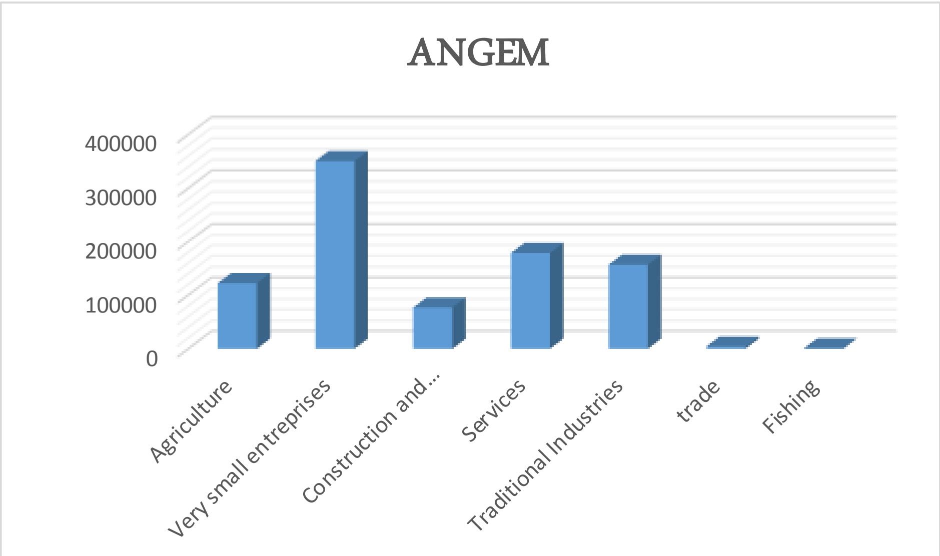


Source: Developed by the researcher based on (Kramech, B. Hamouda, N, 2022)

The figure above shows the number of micro-enterprises funded by National Agency for Support and Development of Entrepreneurship (ANADE) in the first semester of 2019:

- Benefit of financing support from ANGEM:

Figure (10): The Number of SMEs financed by ANGEM



Source: Developed by the researcher based on (Kramech, B. Hamouda, N, 2022)

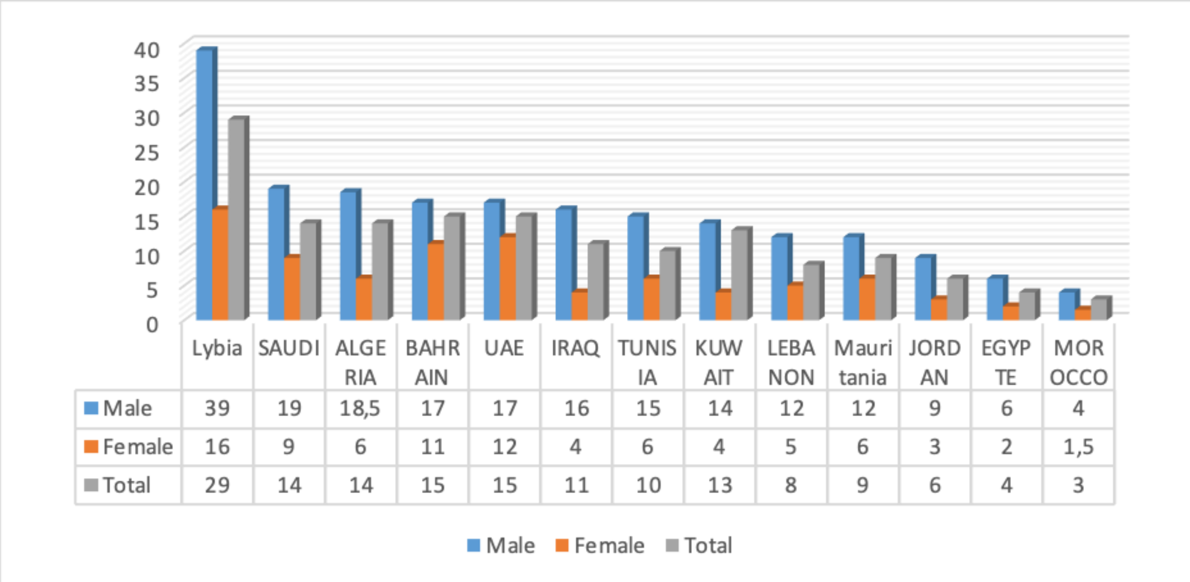
The following figure shows the number of micro-enterprises funded by the National Agency for Micro-Credit Management – Micro Enterprise Creation Support (ANGEM) in the first semester of 2019

According to the result of the study conducted by Kramech, B. Hamouda, N (2022), Support institutions have provided many financing opportunities to motivate young people to create their projects, about the number of financed projects, there are increase the number of projects financed by (CNAC, ANADE, ANGEM) in 2019 compared by 2018.

4.3 Savings indicator to create or expand a business

This indicator measures precisely the percentage of adults or young people who have deposit accounts to create or expand their projects.

Figure (11): Percentage of the adult population with a savings account indicator to create or



	Lybia	SAUDI	ALGERIA	BAHRAIN	UAE	IRAQ	TUNISIA	KUWAIT	LEBANON	Mauritania	JORDAN	EGYPTE	MOROCCO
Male	39	19	18,5	17	17	16	15	14	12	12	9	6	4
Female	16	9	6	11	12	4	6	4	5	6	3	2	1,5
Total	29	14	14	15	15	11	10	13	8	9	6	4	3

expand a business to the total adult population in the Arab countries

Source : (Touat. O, Ameziane, M, 2021)

In Arab countries, the number of people who have savings accounts necessary to create or expand their projects relative to the total adult population is about 7.4%, which is very much lower than the indicator registered at the global level estimated at 14%. At the level of each country separately, the highest percentage of adults who have deposit accounts to create or expand their projects in Libya was registered a percentage of 29%, followed by the UAE, Bahrain, Saudi Arabia and Algeria with a percentage of 16.8, 16.3, 16.1% and 16%, respectively, this is considered as important indicator in Algeria (Touat. O, Ameziane, M, 2021).

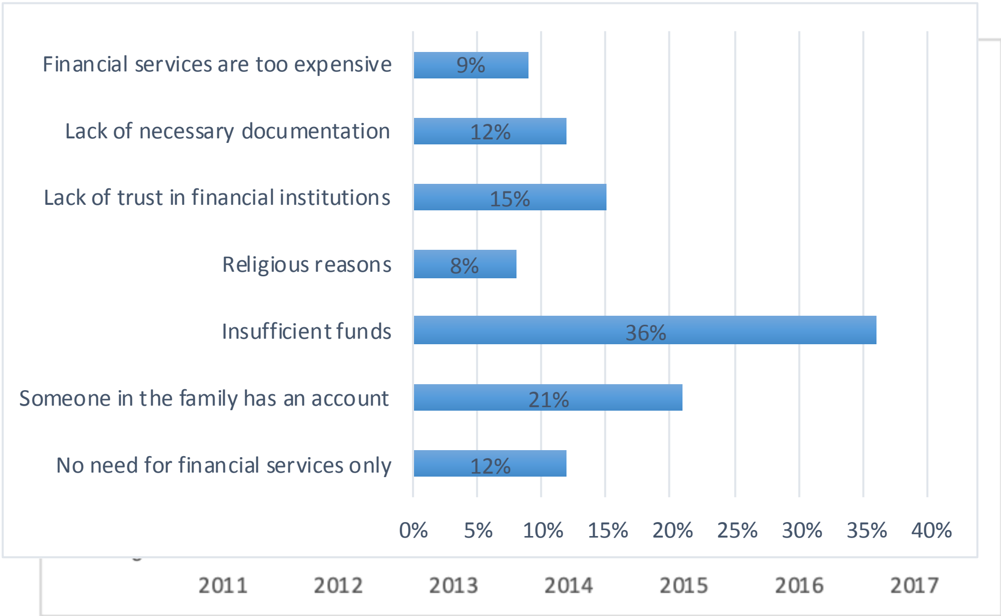
Figure (12): Deposit account per 1000 adults in Algeria

Source : (Benhlima, F. El-Mahdi, B, 2022)

From the figure above (12), we may perceive that the Number of deposit accounts per 1.000 adults: indicates that the total number of deposit accounts that are held by resident non-financial institutions (public and private) and households in commercial banks for every 1,000 adults, noted that concaved shape, indicating a raised followed by a decline, its top was on 2014 by 571.77 raising from 2011 by 11% from 514.30 and followed by a decline to 519.005 in 2017 by decreased estimated with 10%. This indicates a decline in the ownership of deposit accounts for individuals in Algeria (Benhlima, F. El-Mahdi, B, 2022, p. 308).

The reluctance to own deposit accounts is due to multiple reasons, which are summarized by the scholars Benhlima and El-Mahdi (B, 2022, p. 309) as follows:

Figure (13): Reasons for declines in accounts



Source : (Benhlima, F. El-Mahdi, B, 2022, p. 309)

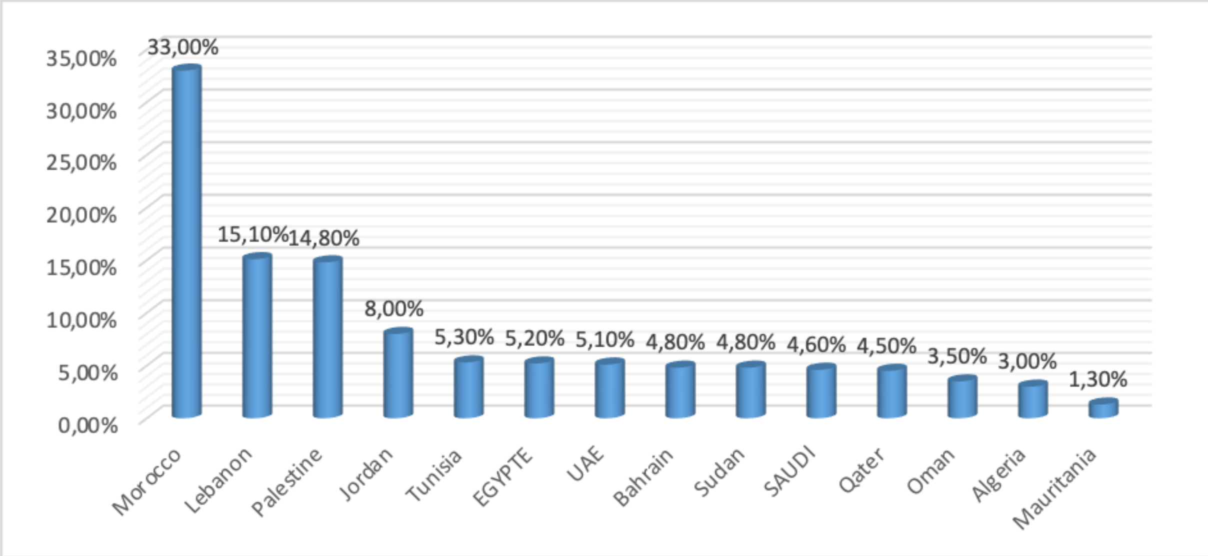
These possible reasons all contradict to a significant extent financial inclusion goals.

4.4 Bank Loans Ratio Indicator:

This indicator reflects the quality of financial services by assessing their alignment with individuals' needs. Statistics reveal disparities in the percentage of bank loans extended to SMEs compared to the overall bank loans in various countries. Available data indicates a spectrum, from as low as 1.3% of total bank loans in Mauritania to a substantial 33%—the highest recorded level of bank loans allocated to the sector—in Morocco. (Touat. O, Ameziane, M, 2021).

In Algeria, this ratio reflects a lower figure compared to other Arab countries and the average observed in other developing nations. In this context, loans extended to SMEs do not surpass 3% of the total loans granted. (Touat. O, Ameziane, M, 2021). This situation has been attributed to several factors, including the lack of competitiveness within the banking sector, significant disparities between lending and deposit rates, the predominant focus on traditional banking activities, and the notable concentration of these activities within a single customer segment. (Lalali. R, 2020, p. 09), and Bank branch networks which correlated with access to loans and deposit accounts (Pearce, D, p. 2011).

Figure (13): Percentage of credit granted by SMEs to the total facilities in several Arab countries



Source : (Touat. O, Ameziane, M, 2021, p. 10)

Conclusion :

To sum up, the key takeaway is it's crucial to recognize that financial inclusion visibly stands as a pivotal component of the Sustainable Development Goals (SDGs). Hence, understanding the efficacy and significance of various strategies in financial inclusion becomes paramount.

Through what has been discussed above, it is evident that Algeria is considered one of the countries that rely heavily on direct government intervention, especially in the context of small and medium enterprises, and within the framework of enhancing financial inclusion in Algeria, as has adopted mechanisms that support SMEs, such as CNAC, ANADE, ANGEM. Despite the existence of these supportive institutions and mechanisms, which forward financial loans from public banks to support SMEs in Algeria, it remains a pertinent challenge that SMEs face continually and which is represented in the lack of access to financing as we have shown previously.

Algeria's position lagging behind other Arab countries is a clear manifestation of this particular challenge. It is noteworthy to point out that there are perceptible differences in the levels of financing infrastructure development between Algeria and the other Arab countries, and this is apparent through the number of SMEs in Algeria and the Arab countries, as we find that the most of dominant institutions in the Algerian economy are very small enterprises or micro-enterprises, due to their inability to obtain financing and the risk in acquiring loans.

Henceforth, Algeria can benefit from the experiences of fellow Arab countries in achieving financial inclusion, providing the necessary infrastructure to provide financial services and ensuring reliable access to financing, knowing that the most outstanding experiences in this area belong to Egypt, Jordan, Kuwait, Morocco, Tunisia and the

Ultimately, this study recommends a plethora of elements that Algerian officials and policymakers should go through as follows:

- Encouraging and promoting the integration of SMEs into the formal sector.
- Monitoring agencies associated with sustaining and financing SMEs and guaranteeing their full access to financing opportunities.
- Providing an integrated and efficient banking system to stimulate and support SME dynamics and trends.
- Establishing specialized management in banks to finance MSMEs.

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