
Government support mechanisms and their role in financing small and emerging enterprises in Algeria

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Abstract:

Interest in small enterprises is increasing in the economies of countries, due to the role they have become and the strategic position they occupy in light of regional and international transformations, and the problem of financing small enterprises, along with the problem of growth, is one of the most important difficulties they face, so the most important aspect of financing is this aspect in which it is noted that the verses and financing formulas available to small and medium enterprises are inadequate, which calls for the need to work on introducing new formulas for financing, as well as Benefiting from the experiences of developed countries in this field, in addition to taking care and working to upgrade the alternatives available locally and that suffer from deficiencies and incompatibility with the distinctive financing needs of this type of institutions, and highlighting alternatives through which future prospects can be foreseen to advance the field of financing small and medium enterprises in the world in general and Algeria in particular.

Keywords: Small Enterprises, Finance, Capital, Musharaka, Mudaraba.

Introduction:

Small enterprises play an important role in advancing the economic development of each country, but despite this important for small and medium enterprises, they face many obstacles and difficulties, and on top of these obstacles comes the problem of financing, as these institutions need different sources of funding during their life cycle and the stages they go through, and therefore the issue of developing these institutions and the issue of financing them comes at the forefront of the first On this basis, this research paper addressed the various forms and methods of new financing and the development of traditional ones for small enterprises, in addition to addressing the various financing sources that suit the nature, size, and characteristics of these small enterprises.

To learn more about financing in general, and financing small enterprises in particular, we have formulated the following problem:

What are the most important government support mechanisms and structures established to finance SMEs in Algeria?

To answer the problem raised above, we have based this paper on three main elements:

- 1 – The concept and importance of financing
- 2- Internal and external sources of financing small enterprises.

3- Structures established for the financing of small and medium-sized enterprises in Algeria

1 - The concept and importance of financing:

Function financing is one of the most important functions of financial institutions as it provides people with financial disabilities loans to untie their distress, and thus increase the movement of economic activity the institution in charge of the project must carry out a financial study of the project to estimate the number of needs and how to obtain it, and there are many definitions of financing, including:

- Finance is defined as "the search for appropriate methods of obtaining funds to choose and divide those methods and obtain the best combination of them in a way that suits the quantity and quality of the needs of the institution."⁽¹⁾
- It is also defined as "a set of decisions on how to obtain the funds necessary to finance the investments of the institution and determine the optimal financing mix from borrowed funding sources and owned funds to cover the institution's investments"⁽²⁾.

From these two definitions, we conclude the following:

- Financing is for cash, not goods and services.
- That the financing should be in the required amounts, no more and no less.
- The primary purpose of funding is the development of private or public projects.
- Provide funding on time, i.e. in times of need.

1.1- The importance of funding: where we find:

A- For the institution: Funding is considered circulatory in the institution, where funds must be pumped accurately into the various channels to achieve the operational and strategic objectives set by the institution. The institution needs different sources of funding during the different stages of production that it goes through, and this is what we will clarify in the following points:⁽³⁾

- **stage of financing the investment process:** This stage comes after obtaining cash capital, where it is spent for the formation of fixed capital represented in buildings, machinery, equipment, and other durable goods, in addition to the formation of working capital represented in raw materials, spare parts and various materials in stores.
- **Production Financing Stage:** This stage is represented in the exploitation of funds allocated to direct expenditures that are mainly related to the operation of production capacity, and at this stage, the various elements of production are mixed and mixed, where fixed capital is mixed with working capital in addition to what this stage needs from the workforce and this is to produce goods and services. During this stage, a quantity of raw materials is consumed and workers' wages are paid, in addition to paying various expenses. Other current, whether variable or fixed, must be covered by providing the necessary liquidity.

- **Marketing and sales financing stage:** This stage often begins immediately after the completion of the production process and the preparation of goods for sale, where the marketing process goes through different stages of packing, transporting, storing, and then distributing goods, and these stages do not take place until after the institution bears large expenses that are paid from its liquidity Cash. Also, sometimes sales take place before the end of the production process, intending to obtain cash liquidity for the production unit to help it continue the production process. After the end of the marketing process and the disposal of production, the sold materials are converted back into cash obtained by the institution to continue its production operations again. From this, it is clear to us that financing is of great importance in moving the wheel of production in its various stages, where the institution needs capital to cover its various expenses, whether a fixed and variable investment, exploitation or production stage, and finally the marketing or sale stage. ⁽⁴⁾

B- For the economy as a whole: Each country in the world has an economic and development policy that it follows or works to achieve to achieve the welfare of its members, and this development policy requires setting its outlines represented in planning development projects according to the needs and capabilities of the country.

Whatever the variety of projects, they need funding to grow and continue their lives, as funding is considered the ongoing blood of the project, and from here we can say that financing has an effective role in achieving the country's development policy through:

- Providing the necessary capital for the completion of projects that result in ⁽⁵⁾
 - Creating new jobs that eliminate unemployment.
 - Achieving the development of the country's economy.
 - Achieving the objectives set by the state.
 - Achieving the well-being of community members by improving their living conditions (providing housing, work... etc).

2- Internal and external sources of financing small enterprises.

2-1 - Internal sources: by internal financing of the institution, we mean the set of resources that the institution can obtain in a self-directed manner without resorting to the outside, i.e. their source is the result of the exploitation cycle of the institution, and it is mainly self-financing.

2.1.1 Definition of self-financing: Self-financing is defined as the possibility of the institution to finance itself through its activity, and this process does not take place until after obtaining the result of the session, this result is added to two important elements that are considered an internal resource of the institution, namely depreciation and provisions. What the institution can dispose of after the end of the cycle consists of the value of the undistributed net result, in addition to depreciation and provisions, so this value expresses the ability of the institution to finance itself.

2.2 External sources of financing: Micro-enterprises are often forced to resort to external sources of financing due to their weak self-financing capacity, as well as self-financing, in

general, is not enough to cover the financing needs of the institution, and for the latter to maintain a level of investments At acceptable limits, and beyond circumstantial liquidity crises, they resort to external sources to obtain funds, and these sources are as follows:

- Sources of short-term financing.
- Medium-term sources of funding.
- Long-term sources of funding.

2-3- Financing through informal funding channels:

2.3.1 Definition of informal financing: The term informal in economic thought refers to the practice of economic activity outside the framework of the law and the official rules of activity in the State, and it is not registered with the competent government agencies and there is no data available about it that can be included in the national accounts of the State. In other words, informal financing is financing that is carried out through channels that often operate outside the framework of the formal legal system in the country, and more precisely, "the informal market for financing is a market not regulated by law."⁽⁶⁾

2.3.2 Sources and methods of informal financing:⁽⁷⁾

Family and friends: It is considered the first source to which small entrepreneurs go to finance their projects, and this is by requesting a loan without interest or at low-interest family and friends, and in return, the borrower becomes committed to good reciprocity and provides the lender with non-financial services, and in another case, financing can be done from this source in a manner of participation in the return at an agreed rate.

Mortgage debtors: Mortgage debtors provide their financing services to those who own assets in kind, which can be traded in the market, so the applicants mortgage their assets in possession with lenders, and they obtain a short-term loan at a rate less than the value of the pledged assets, and if the borrower repays the loan within the specified period, the mortgaged asset is recovered, and once this period expires without payment, the creditor seizes the asset.

Moneylenders: It is a term given to a category of non-official financiers who provide loans at very high-interest rates and very short maturities, even if only for one day, and loans are provided by moneylenders on very difficult terms.

Savings and credit rotation associations: These associations are a common form of informal financing, which is a small group of individuals from whom a person is chosen to head the association, he periodically (usually a month), collects a certain amount from each member, then the total amount collected from all members is given alternately to each member, so the amounts paid by each member for the association receive it once, which provides him with an amount that can finance what he needs. Thus, lenders are the savers and interest-free.

Lending to merchants to their customers: It means in-kind financing of production from traders, provided that the producer is committed to selling his entire production to the merchant after the completion of the production process.

3- Structures established for the financing of small and medium-sized enterprises in Algeria:

The most important of which are the following:

3.1 - National Agency for the Support of Youth Employment "ENSEJ": The National Fund for the Support of Youth Employment was created by Executive Decree No. 96-295 of July 2, 1996, on support for youth employment, and in the same context the National Agency for the Support of Youth Employment was created, which manages the account of this fund.

The Agency was established in the form of a national body with legal personality and financial independence, working to establish micro-enterprises for the production of goods and services, whether the establishment of new micro-enterprises or the expansion of activity placed under the authority of the Prime Minister and the Minister in charge of Employment, Labor and Social Security and has regional branches and its most important tasks:

- ✓ Follow up on the investments made by the beneficiary youth, while ensuring that the terms of the signed terms of the terms of conditions have been respected.
- ✓ Establish continuous relations with banks and financial institutions within the framework of the financial structure of projects and the implementation of the financing plan.
- ✓ The allocations of the National Fund for the Support of Youth Employment shall be made by the secretariats,

3.2 The National Agency for the Promotion of Small and Medium Industries: The Agency was established under the tutelage of the Minister in charge of Small and Medium Industries, and is responsible for the promotion and development of small and medium-sized industries and assists them in liaison with the administration, institutions and dealers concerned, and is entrusted with several tasks, including:

- ✓ Carrying out studies to promote industrial interaction projects.
- ✓ Promoting cooperation within the framework of national and international industries by encouraging foreign investments
- ✓ Providing various assistance, especially in the field of technology and finance, to contractors with potential strength and global experience. ⁽⁸⁾

3.3 The National Agency for Investment Development (ANDI): The Agency was established by Presidential Decree No. 01-03 of August 20, 2001, on investment development and is a public institution of an administrative nature, enjoying legal personality and financial independence. ⁽⁹⁾ Established as a decentralized single window distributed across 48 states nationwide. The agency is authorized to carry out all the constituent procedures of enterprises and facilitate the implementation of investment projects, which may be in the form of the establishment of new enterprises, the expansion of production capacities, or the rehabilitation and restructuring of enterprises, and the investor within the framework of this agency benefits from the reduction of customs duties applicable to imported equipment, as well as from the

payment of value-added duties imposed on goods and services that are directly involved in the embodiment of investment. ⁽¹⁰⁾

Among its most important tasks:

- ✓ Facilitating the procedures for establishing institutions and completing projects through decentralized single-window services.
- ✓ Operates an investment support fund.
- ✓ Ensure the promotion, development, and follow-up of investments. ⁽¹¹⁾

3.4 The National Agency for Social Development (ADS): The National Agency for Social Development was established in June 1996, ⁽¹²⁾ and enjoys administrative and financial autonomy. Small enterprises, by granting microcredit to people who do not have sufficient means to create their jobs, and working to encourage local work and support small professions.

To give this agency a greater role in contributing to the creation of small enterprises, the National Agency for Microcredit (**ANGEM**) was created in January 2004.

3.5 The Loan Guarantee Fund for Small and Medium Enterprises (FGAR): It is a public institution with legal personality and financial independence that aims to guarantee investment loans directed to small and medium enterprises, and its most important tasks are:

- ✓ Intervention in the granting of guarantees to PLO institutions that make investments in the fields
- ✓ Establishment of institutions - renewal of equipment - expansion of the institution - taking contributions.
- ✓ Managing the supplier placed at his disposal and approving the eligibility of the projects and the required guarantees.

The guaranteed rate of the projects of the institutions S.W.M. has been increased from 25 million dinars to 50 million dinars by a decision of the Fund's Board of Directors. ⁽¹³⁾

3.6 National Agency for the Management of Microcredit: ANGEM: It is a special body with legal personality and financial independence and has local branches entrusted with several tasks, including:

- ✓ Managing the microcredit system following the legislation and regulation in force.
- ✓ Supports beneficiaries, provide them with advice, and accompanies them.
- ✓ Granting interest-free loans.
- ✓ Evaluate an ongoing relationship with banks and financial institutions within the framework of the financial structure of projects, the implementation of the financing plan, and the follow-up of the completion and exploitation of projects. ⁽¹⁴⁾

Financing through this agency achieves several advantages in the form of granting reduced and useless loans, with a minimum of 40.000 DZD, a maximum of 1000.000 DZD, and repayment periods ranging from one to five years.

3.7 The National Unemployment Insurance Fund (CNAC): The National Unemployment Insurance Fund was established in July 1994, and the Fund, in liaison with financial institutions and the National Fund for the Promotion of Employment, contributes to the development and creation of jobs for the benefit of the unemployed who are involved in it, through the partial financing of studies on non-typical forms of work and wages, the diagnosis

of employment areas and its reservoirs, and the provision of techno-economic studies of new projects.⁽¹⁵⁾

It was noted that the mission of this agency in the field of supporting the establishment of small enterprises was partial and not targeted, so new amendments came in January 2004, through which the concerned authorities worked to further promote this body concerning the establishment of enterprises for the benefit of unemployed entrepreneurs between 35 and 40 years old⁽¹⁶⁾.

The investor benefits from subsidies up to a maximum of 505 million dinars, as well as reductions in the interest rate applicable to loans granted by banks and financial institutions.

3.8 Institutional Nurseries: Executive Decree No. 03-78 of 25 February 2003 contains the Organic Law of Institutional Nurseries and defines its role. Institutional nurseries are defined as public institutions of an industrial and commercial nature, enjoying legal personality and financial independence, and are in one of the following forms⁽¹⁷⁾:

- ✓ **Incubation:** It is a support structure that takes care of project holders in the service sector.
- ✓ **Linkage workshop:** It is a support structure that takes care of entrepreneurs in the small industries and craft sectors.

Conclusion:

Through what has been presented in this research paper, it is clear that the sources of financing small enterprises, some of which are internal sources such as self-financing, and some of which are external, such as short, medium, and long-term financing, in addition to the various formulas developed to finance small and medium enterprises, where the Algerian state has harnessed many structures and mechanisms that support financing the owners of small and medium enterprises, not only that but some of them go beyond its support for this sector to monitor and follow up the activity of projects, Despite all of the above, micro-enterprises still face several financing problems related to the institution itself and others related to the source of funding.

Marginalization list:

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