THE ROLE OF BANK LOANS IN FINANCING SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) UNDER ALGERIAN LEGISLATION

RAMZI BOURZAM[1], HAMZA BOUKHAROUBA[2]

[1]Lecturer Class B, Faculty of Law and Political Science, University of Mohamed Lamine Debaghine Setif 2, Member of the Laboratory for Applications of Modern Technology to Law (Algeria).

[2]Professor of Higher Education, University of Msila (Algeria).

The Author's E-mail: r.bourzam@univ-setif2.dz[1], Hamza.boukharouba@univ-msila.dz[2]

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Abstract: *Small and medium-sized enterprises (SMEs) play a vital and important role in the economic development process, which has led the Algerian state to attach great importance to this sector. However, despite all the efforts made by the government to support these institutions, they still rely heavily on bank loans for their financing. These loans effectively contribute to the establishment of these institutions, as well as to the expansion and development of their projects, through various types of loans directed to them. However, obtaining these loans faces a number of obstacles and difficulties, the most important of which are the lack of guarantees, the risks associated with the lending process and the banks' reliance on traditional methods in the lending process, which the government is still working to gradually reduce.*

Keywords: *bank loans, small enterprises, financing, lending risks.*

INTRODUCTION:

In light of the transformations and changes witnessed in the global economic arena, large corporations have come to play a vital and important role in stimulating the international economy. However, we have recently observed an increased interest in small and medium-sized enterprises (SMEs), as they are considered a central axis in the economic development process. These enterprises are characterized by several advantages, such as their low capital requirements and their ability to adapt quickly to changes in the markets. They also provide job opportunities for the unemployed and contribute to improving the performance of large corporations. Therefore, both developing and developed countries have sought to provide an economic environment that strengthens these institutions by encouraging their establishment and supporting them to face the challenges posed by economic globalization and competition.

Regarding Algeria, like other countries, the government has sought to support the SME sector, given the vital role this sector plays in expanding the base of the national economy, especially after the failure of public institutions under the socialist system due to the collapse of oil prices and the deterioration of foreign currency reserves. This situation prompted the Algerian government at that time to reconsider its economic policy, adopt a market economy system, and abandon the socialist system. Efforts were focused on developing a new plan to revive the national economy by establishing a legal system that supports and strengthens the SME sector, where Law No. 18-01, which includes the guiding law for the promotion of small and medium-sized enterprises, was issued[1]. This law was repealed by Law No. 17-02 dated January 10, 2017, which includes the guiding law for the development of small and medium-sized enterprises[2]. This law aims to support and promote SMEs through the establishment and creation of specialized bodies to finance and accompany these institutions in all their stages in order to develop them.

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[1]- Law No. 01-18 dated December 12, 2001, including the guiding law for small and medium enterprises, Official Gazette, No. 77, issued on December 15, 2001 (repealed).

[2]- Law No. 17-02 dated January 10, 2017, including the guiding law for the development of small and medium enterprises, Official Gazette, No. 02, issued on January 11, 2017.

Despite the advantages and characteristics adopted by SMEs, this sector remains fragile and is exposed to many problems that hinder its development, the most important of which is the problem of financing, due to the lack of financing formulas available to SMEs, as well as the multiple obstacles encountered in the process of obtaining the necessary financing to start their activity. Financing is a fundamental problem linked to the prosperity or bankruptcy of the company. For this reason, these institutions often turn to banks in order to secure the funds necessary for their activities.

Loans are considered to be the main mechanisms and traditional financing formulas relied on by SMEs, both during their creation and during their activity, when they face various financial difficulties, and loans are also used to develop the activity of institutions that do not suffer from financial difficulties.

With this premise in mind, the aim of our study is to shed light on the different types of loans aimed at financing SMEs and to determine their importance in the creation and financing of this type of institution, as well as to examine the different obstacles that prevent the acquisition of bank loans and to try to provide the necessary solutions to them.

Accordingly, and in order to encompass the various aspects of the subject of the study, we decided to start from a main problem that revolves around the extent to which loans contribute to the financing of small and medium-sized enterprises in Algeria?

In order to answer this question, the subject of the study has been divided into two sections. The first section deals with: the nature of bank loans, and the second with: the types of loans granted to SMEs and the procedures for granting them.

SECTION 1: THE NATURE OF BANK LOANS

Loans are considered the primary resource that banks resort to in order to generate income, enabling them to utilize their funds and achieve their objectives of making a profit through the interest they receive from the borrowing customer on the one hand, and on the other hand, the loan provides institutions with a great benefit by financing their facilities and economic projects.

Accordingly, we will divide this section into two subsections: In the first subsection, we will discuss the definition of a bank loan, and in the second subsection, we will review the importance of bank loans for small and medium-sized enterprises.

Subsection 1: Definition of a Bank Loan

Legislations and jurisprudential opinions regarding the definition of a loan have differed, depending on the angle from which each jurist views the loan. Some define it from a legal perspective, and some define it from an economic perspective. In order to provide a comprehensive and sufficient definition of a bank loan, it is necessary to address the legislative definition of a loan (Branch One) and then address the jurisprudential definition (Branch Two).

Branch One: Legislative (legal) definition:

With reference to the Algerian legislator, the loan is defined in article 450 of the Civil Code[1], under the name of consumer loan, as “a contract by which the lender undertakes to transfer to the borrower the ownership of a sum of money or any other thing, on condition that the borrower returns to him, at the end of the loan, its equivalent in kind, amount and quality”.

According to this article, a loan is a contract in which the lender grants a sum of money or something else, provided that the borrower returns it to the lender at the end of the specified and agreed period. Accordingly, the consumer loan is an ordinary loan intended primarily for natural persons and is not included in the loans intended for small and medium-sized enterprises due to the absence of the profit element and interest in it.

[1]- Order No.: 75-58 dated September 26, 1975, including the Civil Code, amended and supplemented by Law 05-10 dated July 20, 2005, Official Gazette, No. 44, dated July 26, 2005.

Considering that the specific restricts the general, it is necessary to look for the definition of a bank loan in the texts specific to banks, which is included in the Monetary and Banking Law No. 23-09[1], in Article 70 thereof, which states: "A credit operation, within the meaning of this law, is any act for consideration by which a person places or promises to place funds at the disposal of another person, or undertakes to sign on behalf of the other person, such as a guarantee or an endorsement".

Discounting operations and leasing operations with a right to purchase option, in particular leasing credit operations, are considered to be credit operations...".

Accordingly, it is clear that Article 70 of the Monetary and Banking Law is broader and more comprehensive than Article 450 of the Civil Code in defining bank credit, since it even includes bank credit operations such as guarantees and endorsements.

Branch Two: Jurisprudential Definition

Jurisprudential opinions differ in defining a bank loan from one jurist to another, depending on the angle from which each jurist views it. Some define it according to economic foundations, and some define it according to legal foundations and principles. Accordingly, we will review some of the definitions raised regarding the bank loan.

One of the writers defined the loan as "trust between the two parties, the lender and the borrower, and includes the provision of funds in exchange for a promise to repay with a specific interest, taking into account the period and the risks. Therefore, every loan includes two elements: trust and the time gap. It is not considered a loan if the time gap is not available.[2]"

Someone else defined it as "an expression used to define monetary and in-kind exchanges that take place in exchange for a promise to repay within deadlines specified in advance, where the assignor becomes a creditor and the beneficiary of the assignment becomes a debtor.[3]"

Dr. Ali Jamal al-Din Awad believes that the loan is "a tool of credit and trust between the bank and the client in terms of the relationships that arise between the bank and its client, in which the bank undertakes to perform certain obligations that increase the client's credit in the face of others on the one hand, and the bank relies on the client's ability to fulfill its obligations in fulfillment of what the bank may incur when implementing its obligation.[4]"

This last definition is considered the broadest and most comprehensive of the previous definitions, and it is the most consistent with the definition contained in the text of Article 70 of the aforementioned Monetary and Banking Law.

Subsection 2: The importance of bank credit

Bank credit is considered an economic activity of great importance, given its significant impact on the national economy. It is one of the main means of meeting the financing needs of various sectors of economic activity and contributes significantly to strengthening economic activity and its development. Through the provision of credit, banks can play a key role in supporting economic activity and achieving prosperity for the societies they serve, and by providing employment opportunities and reducing unemployment, bank credit can contribute to improving living standards in general.

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[1]- Law No.: 23-09 dated July 21, 2023, including the Monetary and Banking Law, Official Gazette, No. 43, dated July 27, 2023.

[2]- Taher Latrach, Banking Techniques. 4th ed., Office of University Publications, Algeria, 2005, p. 55.

[3]- Abdelkader Islam Othman, Bank Loans as a Tool for Financing Economic Enterprises and Real Estate: Algeria as a Model, Wafa Legal Library, Algeria, 2017, p. 9. Also: Ben Halima Ammour Monnaie et régularisation monétairem Edition Dahlab, Algiers, 1997, p. 53.

[4]- Ali Jamal El-Din Awad, Banking Credits and Their Guarantees, Dar Al-Nahda Al-Arabiya, Egypt, 1991, p. 8.

Accordingly, we will discuss the importance of lending to the bank in the first branch, and then the importance of lending to small and medium-sized enterprises in the second branch.

Branch One: The Importance of Loans to Banks

Bank loans are the primary resource on which the bank relies to make its profits through the interest associated with the loans, as it is a financial institution whose goal is to make a profit. The loan is also one of the most important operations on which the bank relies to attract customers, since the credit it grants to customers increases the number of deposits, which are the main source for granting loans[1].

Branch Two: The Importance of Loans for Small and Medium-Sized Enterprises

Small and medium-sized enterprises are in constant need of financing to support their growth and expansion. This importance can be highlighted as follows:

Loans contribute to embodying ideas, projects, and innovations on the ground, especially if the owner of the idea and the institution to be established does not have the necessary liquidity for that.

Loans contribute to restoring the financial balance of small and medium-sized enterprises when they face difficulties or financial distress, thereby avoiding their bankruptcy and cessation of activity.

It contributes to achieving the objectives of the institution, developing it, expanding its activity, and enabling it to obtain the necessary machinery, equipment, and real estate for that[2].

Loans can be a source of financing necessary for innovation, research, and development, especially in institutions that need to invest in research and innovate new products and services that keep them leading in this field.

SECTION 2: TYPES OF LOANS DIRECTED TO SMALL AND MEDIUM ENTERPRISES AND PROCEDURES FOR GRANTING THEM:

The loans directed to small and medium enterprises differ according to the amount that the latter needs for financing and its duration, and the procedures for granting loans also differ from one bank to another. Based on this, we will divide this section into two subsections, the first subsection is devoted to studying the various loans directed to small and medium enterprises, while the second subsection is devoted to studying the procedures for granting loans to small and medium enterprises.

Subsection 1: Bank Loans Directed to Small and Medium Enterprises

It was previously stated that the process of granting loans and determining their type is closely related to the financial needs of the enterprise, and whether the financial difficulties faced by the enterprise are temporary or long-term investments. Based on this, these loans are divided into two main types: loans directed to finance operating activities (Branch One), and loans directed to finance investment activities (Branch Two).

Branch One: Loans Directed to Finance Operating Activities

Operating activities include all operations carried out by institutions in the short term, which usually do not exceed a period of 12 months, and which aim to finance the spending process during the operating cycle[3], such as purchasing raw materials, paying wages, and providing the necessary liquidity for the enterprise's activity to run. These loans are usually linked to the enterprise's own cash movements, as this fund fluctuates between

[1]- Abdel Hamid Abdel-Muttalib, Comprehensive Banks: Operations and Management, The Arab University House, Egypt, 2000, pp. 104-105.

[2]- Loukadir Maliha, The Role of Banks in Financing Small and Medium Enterprises in Algeria, Complementary memorandum for the requirements of obtaining a Master's degree, specialization: National Development Law, Faculty of Law and Political Science, Mouloud Mammeri University of Tizi Ouzou, Algeria, 2011-2012, p. 81.

[3]- Loukadir Maliha, Previous Reference, p. 81.

collection and payment depending on the enterprise's activity and its ability to collect its debts from others. These loans can generally be classified into two main categories: general loans and special loans[1].

These loans are in turn divided into multiple types, the most important of which we mention, which are suitable for the nature of small and medium enterprises as follows:

First - Cash Facilities:

These are loans that are usually granted to alleviate temporary or very short-term liquidity difficulties faced by the small or medium enterprise, and such loans are usually resorted to in specific periods that may not exceed the end of the month, for example, and usually do not exceed a few days, such as paying workers' wages, settling suppliers' payments, and paying taxes[2].

Second - Overdraft:

An overdraft is defined as "a cash financing facility but for a longer period, which may reach several months, in which the bank charges interest to the customer during the period in which he withdraws, and this period is called the overdraft period and may reach up to a year.[3]"

Accordingly, this loan is made by the customer withdrawing from the account an amount exceeding the amount in the account, so that he becomes indebted within the limits of the withdrawn amount for a period that may reach a year in order to finance the current activities of the institution, which distinguishes it from the cash facilities explained above, in which the period does not exceed a month[4].

When the institution is in a strong financial position and enjoys a strong and trust-based relationship with the bank, the bank may resort to applying this policy. In some cases, the bank can open a credit for the institution, and this credit is known as "Ligne de crédit," which allows the institution to borrow whenever needed without the need to take new borrowing procedures each time[5].

Third - Seasonal Loan:

The seasonal loan or campaign loan is a special type of bank loan that may extend to more than 9 months, granted to institutions that carry out their activity seasonally, whether in production or sale. This loan is used to cover the costs incurred by the institution during a specific period of time, usually during the production and sale of its products, for example, the production and sale of school supplies or agricultural crops is an example of this type of operation[6].

Fourth - Advances on Goods:

This loan is granted to finance a stock of goods and commodities with the use of inventory as collateral for the lender and is a common financing tool, where the borrower receives the loan to finance the purchase of

[1]- Shaaban Faraj, Banking Operations and Risk Management, Publication directed to Master's students, specialization: Money and Finance, Faculty of Economic, Commercial and Management Sciences, University of Bouira, 2013-2014, p. 35.

[2]- Hayat Najjar and Malika Ghaib, "The Role of Commercial Banks in Financing Small and Medium Enterprises in Algeria," National Forum on: Commercial Banks and Economic Development, University of May 8, 1945, Guelma, December 7 and 8, 2004, p. 163. Also: Taher Latrach, Previous Reference. p. 58.

[3]- Shaaban Faraj, Previous Reference, p. 36.

[4]- Imran Abdel-Hakim, "Banks' Strategy in Financing Small and Medium Enterprises: A Case Study of Public Banks in the State of M'Sila," Complementary memorandum for obtaining a Master's degree in Commercial Sciences, specialization: Strategy, Mohamed Boudiaf University, M'Sila 2007-2008, p. 74. See also: Taher Latrach, Previous Reference, p. 58.

[5]- Hosni Ali Kharioush, Abdel-Moati Reda Rashid, Mahfouz Ahmed Joudeh, Investment and Financing Between Theory and Application, Dar Zahran, Amman, Jordan, 1999, p. 133.

[6]- Hayat Najjar and Malika Ghaib, Previous. Referencem p. 58.

inventory, and provides the inventory itself as collateral for the loan[1]. During this process, the bank must verify the existence of the goods, their nature, specifications, and that they are storable and non-perishable[2].

Branch Two: Loans Directed to Finance Investment Activities

These loans are usually provided to finance investment activities in the long term and are used to acquire means of production and equipment or to purchase real estate. Therefore, they represent current spending from which a greater return is expected in the future, and these loans are repaid in the long term[3].

These loans are divided into two types according to their duration: medium-term loans (First) and long-term loans (Second).

First - Medium-Term Loans:

These loans usually range in duration between 3 and 5 years, and sometimes extend to 7 years. They are usually used to finance the purchase of equipment, machinery, and other means of equipping and production. When institutions obtain these loans, they are obligated to repay both the loan amount and the interest due on a specified agreed-upon date[4].

These loans are divided into two types:

1- Mobilizable Loans:

This type of loan allows banks to recover the loans they have provided to institutions by rediscounting these loans with another financial institution or with the central bank without waiting for their maturity date. Thus, the lending bank avoids freezing its funds and falling into a liquidity shortage crisis that may affect its ability to meet customer needs and financial obligations[5].

2- **Non-Mobilizable Loans:**

This type of loan, unlike mobilizable loans, does not allow the bank to rediscount this loan with another institution or with the central bank, and it is forced to wait for the maturity and repayment date of the loan. Here, the bank's funds are frozen, and a liquidity crisis appears, which requires the bank in this case to study the loans well and program them in a timely manner in a way that does not threaten its financial solvency[6].

Second - Long-Term Loans:

Institutions resort to this type of loan to finance long-term investments such as the purchase of real estate such as land and industrial, commercial, and administrative buildings, which are characterized by high costs. This loan is usually repaid in installments over the investment period, which often ranges from 7 to 20 years[7].

It is noted that banks usually do not grant such loans to small and medium-sized enterprises due to the long duration of the loan and its large amount unless serious guarantees are provided that cover the value of the loan as a formal mortgage.

In addition to the classic loans mentioned above, which are highly accepted by small and medium-sized enterprises, there is another loan that banks have created to finance institutions, which is the leasing loan or

[1] - Avance sur marchandises, https://www.mataf.net/fr/edu/glossaire/avance-sur-marchandises, accessed on 25/04/2024, 17:30 PM.

[2]- Loukadir Maliha, Previous Reference, p. 86.

[3]- Talaat Asaad Abdel Hamid, Effective Management of Comprehensive Bank Services, Al-Shaqri Library, Mansoura, Egypt, 1998, p. 131. Also, in the same context, see: Taher Latrach, previous Reference, p. 73.

[4]- Muhammad Salih Al-Hanawi, Fundamentals of Financial Management, University House, Alexandria, Egypt, 2001, p. 334.

[5]- Ayman Al-Shanti and Amer Shaqr, Introduction to Management and Financial Analysis, Dar Al-Bidaya for Publishing and Distribution, Amman, 2007, p. 58. Also: Taher Latrach, Same Reference, pp. 74-75.

[6]- Taher Latrach, Previous Reference, p. 75.

[7]- Loukadir Maliha, Previous Reference, p. 95.

leasing credit. The latter is when the bank places machinery, equipment, or any tangible assets at the disposal of the institution in exchange for obtaining rental installments agreed upon in advance, with the possibility of assigning these equipment and machinery at the end of the agreed-upon period or renewing the lease contract[1].

Subsection 2: Loan Granting Procedures and Their Problems for Small and Medium Enterprises

Considering that banks are financial institutions that aim to make a profit, and since the lending process poses a great risk to the bank, before carrying out the loan granting process or the enterprise financing process, several procedures must be passed and a set of conditions must be verified (Branch One). However, reality has proven that the process of lending and financing small and medium enterprises faces some obstacles and impediments that the government is working to address (Branch Two).

Branch One: Conditions and Procedures for Granting Loans to Small and Medium Enterprises

The procedures and conditions for granting loans differ from one banking institution to another. Therefore, we mention the most important of these procedures and conditions common to all banks as follows:

First - The Personality and Reputation of the Borrowing Institution:

After submitting the loan application, the bank must, in the first stage, verify the reputation of the institution and the extent of its ability to fulfill its obligations on their due dates. This process is known as the credit analysis process for the loan, and this can be achieved through the customer's habits and previous dealings with banks, and its financial position[2].

Second - The Loan Amount is Proportional to the Institution's Activity:

The bank must study the size of the institution's activity and the extent to which the required loan amount is compatible with this activity, because granting the institution a loan that exceeds the size of its activity will lead to the institution's inability to repay the loan. On the other hand, if it is granted an amount less than the size of its activity, it may find itself in a difficult financial position or may have to make additional borrowing requests. Therefore, estimating the appropriate loan amount requires careful study in line with the size and orientations of the institution's activity, in order to ensure the provision of sufficient funding to meet its needs without falling into financial problems[3].

Third - Studying the Purpose of the Loan:

The bank must also conduct a good study of the purpose of the financing required from the institution, and then direct the client towards the most appropriate type of financing for this purpose. The bank is considered here as a consultant to the institution, as it provides it with the correct guidance and advice based on its needs and the objectives of its project, which helps the institution to make the optimal decision regarding the type of financing that suits its objectives.

Fourth - The Capital of the Borrowing Institution:

Many banks impose a condition related to the existence of sufficient capital with the institution applying for the loan as collateral for the required loan, part of which is used as collateral in the event that the expected profits are not sufficient to repay the loan. This procedure contributes to reducing the risks to which the bank is exposed, as it allows it to guarantee the recovery of loans in the event that the borrower is unable to repay[4].

Fifth - Guarantees Provided by the Institution:

When the institution is newly established, or when the bank faces unpredictable variables, it can resort to requesting guarantees from the borrowing institutions as a means of reducing the risks associated with the

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[1]- Taher Latrach, The Reference, itself, p. 76.
[2]- Miranda Zaghloul Rizk, Money and Banks. without a publishing house, Egypt, 2003, 173.
[3]- Muhammad Saeed Anwar Sultan, Bank Management, Dar Al-Jami'a Al-Jadeeda, Alexandria, Egypt, 2005, p. 417.
[4]- Same Reference, p. 417.

loan. Taking guarantees is considered an additional step that the bank resorts to as a complementary procedure to verify the safety of the loan. These guarantees may be in the form of a formal mortgage[1], or a possessory pledge, or personal guarantees such as a guarantee and endorsement, in addition to the institutional guarantees that small and medium-sized enterprises benefit from, such as the Loan Guarantee Fund FGAR[2], which aims to facilitate access to medium-term bank loans for the benefit of small and medium-sized enterprises that do not have the in-kind guarantees required by banks, and to involve banks in sharing the risks of financing small and medium-sized enterprises through the financial guarantees provided, which may cover 80 percent of the value of the bank loan[3].

Fifth - The Documents Required for Lending:

The documents required for the loan vary from one bank to another, but the most important common and required documents are: the loan application, a copy of the commercial register extract, a certificate of enrollment in the National Social Security Fund, a copy of the tax status, the lease agreement or the ownership contract, subscription to the insurance fund for hazards, the guarantees file, the technical file, the technical and economic studies of the project, the table of estimated income statement for the five years following the loan application, and the income statement for the years prior to the loan.

Branch Two: Obstacles and Difficulties Facing the Granting of Loans to Small and Medium Enterprises

Despite the major role that bank financing plays in establishing and developing small and large enterprises, the latter's access to loans faces a range of obstacles and difficulties, including:

First - Failure to Reform the Banking Sector in a Way That is Consistent with the Nature of Small and Medium Enterprises:

As Algerian banks still rely on classic methods and tools in assessing the risk of granting credit, despite the existence of modern methods and techniques in developed countries that have surpassed the methods used in Algeria, where the rest of the countries have moved towards a culture of capital market economics, not a debt-based economy[4].

Second - Banks' Reluctance to Deal with Small and Medium Enterprises:

Most banks avoid dealing with this type of enterprise due to the high degree of risk of loans granted to them, as statistics indicate that most of these enterprises were established with private funds due to the difficulty of obtaining bank loans. Banks' reluctance to finance this sector can be attributed to several reasons, the most important of which are the lack of transparency and credibility of the financial position data provided by these enterprises to banks, as well as the absence of financial management characterized by experience and competence, which exposes them to an imbalance in their financial equilibrium, and consequently increases the risks of lending to them from the banks' point of view[5].

1- Loukadir Maliha, Previous Reference, pp. 132-135.

2- The SME Loan Guarantee Fund was established by Executive Decree No. 02-373 dated 06 Ramadan 1423 corresponding to November 11, 2002, including the establishment of the SME Loan Guarantee Fund and the determination of its basic law, Official Gazette, No. 74, issued on 11/13/2002, amended and supplemented by Executive Decree No.: 17-193 dated 16 Ramadan 1438 corresponding to June 11, 2017, Official Gazette No. 36, issued on 06/14/2017.

3- Small and Medium Enterprises Loan Guarantee Fund, accessed on 04/25/2024 at 17:30, available at the following link: https://www.fgar.dz/portal/ar

4- Gueddi Abdelmadjid and Dadan Abdelwahab, "An Attempt to Evaluate the Programs and Policies of Financing Algerian Small and Medium Enterprises," International Forum on Financing Policies and Their Impact on Economies and Institutions: A Case Study of Algeria and Developing Countries, on: November 21 and 22, 2006, Faculty of Economic Sciences and Management and the Economic Sciences and Management Laboratory, University of Mohamed Khider Biskra, Algeria, p. 10.

5- El-Ghali Benbrahim and Mohamed Rochdi Soltani, "The Suitability of Lease Financing Ending with Ownership to Solve the Financing Problem for Small and Medium Enterprises," Journal of Financial, Banking Economics and Business Administration, No. 04, University of Biskra, Algeria, 2017, p. 39.

Third - Obstacles Related to Loan Granting Procedures and Conditions:

These obstacles and difficulties can be summarized as follows:[1]

The loan processing is characterized by bureaucracy and the absence of information banks that allow financial institutions and banks to quickly process loan files submitted to small and medium enterprises.

Relying on the condition of providing legal guarantees in granting bank loans and neglecting other objective criteria related to the seriousness and effectiveness of the institution, which leads to institutions refraining from applying for loans due to the weakness of the guarantees necessary to cover the loan.

The high interest rate that burdens small and medium enterprises and is not commensurate with their financial capabilities[2].

CONCLUSION:

In conclusion, this research has shown that small and medium enterprises are one of the most important pillars of economic development in Algeria. These enterprises play a vital role in promoting economic growth, creating job opportunities, promoting innovation, and revitalizing the private sector, which has prompted the Algerian government to enact a diverse legal arsenal regulating this sector, in order to encourage the establishment of these small and medium enterprises on the one hand, and to support and develop existing and established enterprises.

Despite all the agencies and institutions that have been established and are working to support, finance, and promote small and medium enterprises, we have seen that the latter still suffers from the problem of financing, which is considered the main pillar on which these enterprises depend, whether when they are established or during the course of their activity. Among the financing formulas directed to these enterprises, we discussed in this study the financing of small and medium enterprises through bank loans to small and medium enterprises, as well as highlighting their role, importance, and types, reaching the obstacles and difficulties that prevent small and medium enterprises from benefiting from these loans.

Through everything that has been discussed in this study, we have reached a set of results, the most important of which are:

Despite the existence of several specialized institutions to support, encourage, and promote small and medium enterprises, the latter still relies heavily on bank financing and bank loans of various types.

Loans directed to small and medium enterprises are divided into loans for operating activities and investment loans.

Increased demand for loans, especially investment loans, and this will constitute a strength for the national economy

Before granting a loan, whatever its type, the bank conducts a comprehensive and in-depth study of the financial and economic situation of the institution, and based on this study, the financing process will be rejected or accepted.

The procedures for granting loans are characterized by bureaucracy and administrative complexities, which burden borrowers.

Banks consider the process of lending to small and medium enterprises to be risky due to the weakness of the financial management of these enterprises, so they refrain from financing them and prefer to finance commercial activities such as export and import at the expense of productive activities.

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[1]- Gueddi Abdelmadjid and Dadan Abdelwahab, Same Reference, p. 10.

[2]- Rabah Zarkani, "Dimensions and Trends of Financing Small and Medium Enterprises in Algeria," Doctoral thesis in Science, Faculty of Economic, Commercial and Management Sciences, University of Algiers 3, Algeria, p. 45.

The high interest rate on loans directed to small and medium enterprises burdens them, causes them financial difficulties, and makes them unable to repay these loans, and therefore unable to develop their activity.

Most banks require the provision of in-kind guarantees to obtain medium-term loans, which small and medium enterprises cannot achieve due to the weakness of the guarantees they have.

Based on all these results, we can offer some suggestions that can contribute to removing some of the obstacles, including:

Continuing to reform the banking sector and issuing special texts on the conditions for banks to finance small and medium enterprises that differ from those imposed on other large companies.

We see the need to establish specialized banks in financing this type of enterprise, which make loan granting decisions based on the seriousness of the management team and the seriousness of the project to be achieved, and not only on the basis of the guarantee criterion.

The procedures for the lending process must be facilitated and the required papers reduced to facilitate the financing process, and the trend towards digitizing the banking sector in general and digitizing loan granting in particular.

Reconsidering the nature of the guarantees required by commercial banks when granting credit to small and medium enterprises, and not requiring the provision of these guarantees at the beginning of the institution’s establishment.

Reviewing the interest rate imposed on loans directed to small and medium enterprises in a way that is commensurate with the nature of their activity and the value of their capital, especially at the beginning of the establishment of this type of enterprise.

LIST OF SOURCES AND REFERENCES

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[2] *Law No. 01-18 of December 12, 2001, including the Guiding Law for Small and Medium Enterprises, *Official Gazette*, No. 77, issued on December 15, 2001 (repealed).*

[3] *Law No. 17-02 of January 10, 2017, including the Guiding Law for the Development of Small and Medium Enterprises, *Official Gazette*, No. 02, issued on January 11, 2017.*

[4] *Law No. 23-09 of July 21, 2023, containing the Monetary and Banking Law, Official Gazette. No. 43, dated July 27, 2023.*

[5] *Executive Decree No. 02-373 of 06 Ramadan 1423, corresponding to November 11, 2002, including the establishment of the Loan Guarantee Fund for Small and Medium Enterprises and defining its statutes, Official Gazette. No. 74, issued on 11/13/2002.*

[6] *Executive Decree No. 17-193 of 16 Ramadan 1438, corresponding to June 11, 2017, Official Gazette No. 36, issued on 06/14/2017.*

Second - Books:

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