Financing of Businesses and Households in Algeria: The Management of Institution-Customer Relationship

Souhil GUEMMAZ [1]

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ABSTRACT

This paper aims to highlight the interactions between the different financing methods existing in Algeria, namely: bank credit, leasing, and equity investments, as well as credit guarantee funds. In addition, it examines the use of these financing methods with the businesses and households' segments. An interaction to be verified on this paper to have a whole idea of the relationship between the financing methods and the customer segments existing in the market. The approach used consists of creating and examining sharing maps related to these activities. The construction of these maps is based on the participation of a financing institution in Algeria in another institution whose nature of activity is similar. which can be competitive, with potential conflicts of interest between the parties involved. According to this study, financial institutions in Algeria collaborate with two categories of clients, namely businesses and households. The collaboration between these entities explains both the substitution and complementarity between the different forms of financing studied in this paper. In an equation comprising four variables: banks and the other financing institutions studied, businesses, and households. A significant weight of the financing methods currently existing in Algeria is reserved for businesses. Whose financing needs are varied and complex, and the choice of the financing method depends essentially on the requirement of the company. Unlike households, whose credits are simple.

KEYWORDS: *Algeria, financing, market segmentation*

JEL CLASSIFICATION: *G21, G23, G24, M31*

1. INTRODUCTION

The foundation of a country's economy is based on two fundamental sectors: the real sector and the monetary sector. The real sector includes economic activities centered on manufacturing and services. Conversely, the monetary sector is closely linked to the banking sector (Fayyad, 2023). Non-bank financial institutions are one of the important sectors of every economy. They provide certain types of banking services, but do not hold a banking license, which mainly carries out financing activities (Akter et al., 2018), and therefore cannot accept deposits. However, they compete with and complement traditional banking institutions by providing alternative financial services (Rateiwa & Aziakpono, 2017).

Access to finance is considered one of the main problems for small businesses (Prohorovs & Beizitere, 2015). As financing is considered the lifeblood of economic activities, Small and Medium-sized Enterprises SMEs can only survive, grow, and prosper in the market if they receive financial support (Batrancea et al., 2022).

The banking sector plays a vital role in the economic stability of any country, it is the nerve that keeps the economy running (Naili & Lahrichi, 2022). Banks are the most visible financial

[1] Setif 1 University-Ferhat ABBAS, Laboratory for evaluation of Algerian capital markets and their development prospects in the era of globalization, Algeria, souhil.guemmaz@univ-setif.dz, Corresponding author.

intermediaries in the economy. Their importance comes from the position and role in the economic and financial system of each national economy (Mirković et al., 2022). Banking is a very familiar term to people; it is becoming more popular day by day, with excellent prospects. Since the invention of the banking system around 8000 BC, the activities, operating systems, rules and regulations, and product lines of banks have been updated (Gazi et al., 2022).

Islamic banking is the fastest growing segment of the global financial sector (Ur Rehman et al., 2022). Islamic banking can be considered as a progressive extension of the Islamic economy, particularly in the financial field; it appeared to reconcile economic practices with ethical and Sharia-compliant principles (Fayyad, 2023). The banking sector also has a dimension of social risk, involving the interaction of banks with their employees and customers, as well as the social perception of their business activities (Neitzert & Petras, 2022).

The 2008 financial crisis caused huge losses all over the world. Since then, banks and financial institutions have continued to pay attention to credit risk prediction (Lu et al., 2022). Banks operate in a highly regulated environment, characterised by particular corporate governance mechanisms and information opacity (Naili & Lahrichi, 2022). Bank assets and liabilities are interdependent. Risky assets and excessive withdrawals of funds trigger several bank runs (Huong Vuong et al., 2023). Large banks are better positioned to devote adequate resources to loan analysis and evaluation, which prevents them from providing loans to low-quality borrowers (Naili & Lahrichi, 2022). Bank liabilities arise from customer deposits, bonds issued, central bank debts, and interbank debts (Huong Vuong et al., 2023).

The development path of financial markets is directly linked to the development of the banking sector (Mirković et al., 2022). Banks do not need to be very liquid if they have good relationships with financial institutions that can finance them when they face a lack of liquidity (Huong Vuong et al., 2023). The tendency for companies to borrow from capital markets rather than banks has been particularly strong in the United States, while in Europe the most popular external financial resources are bank loans, bank overdrafts, trade credits, while other resources such as securities, venture capital, and other funds are rarely used (Rupeika-Apoga, 2014). An important element of SME financing lies not only in traditional bank loans, but also in the use of leasing and factoring as financing instruments (Prohorovs & Beizitere, 2015).

In Algeria, financing can be directed towards two segments, namely: businesses and households, a currently diversified market, having witnessed several stages of development. Before 1990, the Algerian financing market was represented by public banks. After the opening of the market, several players received their approvals to carry out financing. From 1995, several legal texts saw the light of day; the legislator set the conditions for authorisation of companies practicing factoring in 1995, but no company is approved. Leasing was launched in 1996, investment credit guarantee activity from 2002, private equity from 2006 and Islamic banking in 2018.

Compared to these financing methods existing on the financing market in Algeria, both business and household segments are affected. The objective of this paper is to highlight the shareholder relations between financing institutions in Algeria, with the aim of explaining the orientation of financing institutions behind these cross-shareholdings. This can help to map out the financing landscape in Algeria, whether by banks or financial institutions, with a view to optimising and rationalising future partnerships.

According to the consultation of previous studies, the research gap is existing, since the other studies either analysed the financing institutions separately, or other shareholder relations between financial institutions were treated such as the case of banks and insurance companies, or the object of the research was the analysis of financing methods and not the shareholder relationship between the entities granting these envelopes.

2. LITERATURE REVIEW

Afrifa et al. (2023) analysed the relationship between trade credit (TC) and short-term bank credit (BC) for public and private companies in the United Kingdom. The complementary use of TC and BC by private companies suggests that these two sources of short-term financing are more important for private companies. Private companies have limited access to other sources of external financing. Adding to this, businesses not only use TC to report their creditworthiness to the bank, but they also use it to report their creditworthiness to commercial suppliers. This shows the importance of TC and BC for private companies and companies facing financial constraints. This means that businesses that are more financially constrained can use their access to TC to signal their credit quality to banks or use their access to BC to signal their credit quality to commercial suppliers.

Based on the analysis and comparison of the respective data of all companies in Latvia in 2013 and 2014, Prohorovs and Beizitere (2015) established that bank loans, leasing, and factoring in 2014 constituted approximately 89% financing of MEs from formal external sources. In 2014, bank loans represented approximately 67.5% of microenterprise financing from external formal sources.

Rupeika-Apoga (2014) highlighted the importance of alternative external financing resources for small developing countries such as the Baltics, and the need to support the design and evaluation of policy measures and monitor the implications of financial reforms on SME access to financing.

Huong Vuong et al. (2023) examined the effect of bank liquidity creation on the risk-taking behaviours of banks in Vietnam. While providing a list of implications for bank managers and policy makers in managing credit risks and improving the stability of the Vietnamese banking system.

Santos et al. (2024) assessed the impact of eight sources of financing on business innovation and growth. The methodological approach is based on a three-step procedure. The first two steps rely on propensity score matching (PSM) and estimate the impact of funding on innovation. The third step takes the form of a regression estimation, considering the impact of innovation financing as an explanatory variable for business growth. The results showed that not all external financing sources have the same effect, with equity financing having a greater impact on revenue growth than other sources. The obvious elements of complementarity between the different sources of financing that policies promoting their combined use could amplify their collective impact on innovation and growth. This policy direction encouraged businesses to leverage the potential synergies of various financing instruments, optimising their overall growth trajectory.

Private Equity is a method of financing that does not impose a guarantee (Beztouh, 2021). Private equity financing can be defined as: Investments negotiated in equity or quasi-equity, with a defined maximum duration, involving specific risks, hoping for high profitability, and carried out on behalf of qualified investors (Tari & Redda, 2017). Private equity is therefore a method of equity financing for unlisted enterprises that have strong growth potential. In addition to financing, the investor provides advice and support for the proper management of these (Abadi & Mairif, 2016).

Private equity firms primarily follow the trade-off theory, which recognises that debt is generally cheaper than equity but, at the same time, increases financial distress and the risk of bankruptcy, adding to this, that age of the business negatively affects the use of debt, as older family businesses run by descendants display increased levels of fear of losing control and wealth (Schickinger et al., 2022).

Venture capital is a subset of private equity (Frimpong et al., 2022). Venture capital is defined as equity or equity-linked investments in young, privately held companies, where the investor is a financial intermediary who is typically active as a director, an advisor, or even a manager of the firm (Prado & Bauer, 2022). Venture capital companies are essentially bridges between investors and startups (Wang et al., 2023). Corporate venture capital is described as minority equity investment of large companies in rather new and non-public start-ups, for which they bring expertise to obtain a specific strategic advantage and guarantee financial performance (Haslanger et al., 2022).

Startups are a major source of innovation and technological development and, therefore, key drivers of economic growth (Banal-Estañol et al., 2023). The specificities of venture capital are: the support of revolutionary technologies; high risk; and strategic investments (Sergi & Popkova, 2022). Corporate venture capital has become an important means for large enterprises to appropriate knowledge, achieve symbiotic innovation, and explore external resources (Meng et al., 2023). It has become very influential in financing entrepreneurial companies (Shuwaikh & Dubocage, 2022), which pursue technology-based growth (Dushnitsky & Yu, 2022). There are three categories of factors responsible for venture capital firm decisions: internal factors (e.g., quality of management or valuation), external factors (e.g., market size and competitors), and difficulty of execution (e.g., business model or product) (Niculaescu et al., 2023).

As venture capital was born in the United States (Wang et al., 2023), after the Second World War (Himrane & Salhi, 2019), its development and scale are much larger and more advanced than in China (Wang et al., 2023), the second largest venture capital market in the world (Dushnitsky & Yu, 2022). The venture capital industry in Europe began its activities in the early 1980s with the creation of venture capital companies. The venture capital market in Europe started in the United Kingdom and Ireland, followed by continental Europe with the active participation of national banks (Frimpong et al., 2022).

However, the venture capital industry in Europe spread widely in the 1990s. South east Asian countries except Japan were late but rapidly growing entrants to the venture capital industry (Motavaseli et al., 2018). This method of financing is an alternative to bank financing, including the case of insufficient guarantees, of any type, real, personal, and financial.

In the context of identifying systematic factors that influence venture capital performance in emerging technologies, Wang et al. (2023) applied quantitative analysis to data from 61 venture capitalists in China. The model passed the test of goodness-of-fit indices and revealed that information acquisition, venture capital executives, and venture capital strategies have a positive impact on venture capital performance, and that venture capital strategies played a partial mediating role.

Himrane and Salhi (2019), have studied one of the sources of financing complementary to bank financing in Algeria, namely, venture capital. And the result of their diagnosis shows the existence of several constraints to the development of this mode of financing in Algeria. These problems are essentially due to the lack of financial culture specific to private equity and to the existing economic environment.

Factoring is inspired by the factoring institution originating from the United Kingdom and the American legal systems, which are based on the common law legal system (Muslim, 2022). Very often around the world, leasing and factoring activities are perceived as complementary and carried out by the same entities (Sekak, 2021). Factoring activities actually have a broad scope, covering four legal relationships at once, namely financing, purchase of receivables,, transfer of receivables and management of receivables factoring is the transfer of receivables. Financial services of a receivable transfer company sells or transfers rights to its trade receivables to a factoring company, which then acts as the most important principle, not as an intermediary company that seeks to sell for another company on behalf of the entrepreneur (Muslim, 2022).

Leasing is defined as a contract by which one of the parties, the lessee. Undertakes to pay the other party, the lessor; a series of periodic payments in exchange for the use of a specific asset. These payments exceed the total purchase price of the asset, subject of the contract, and generally extend to cover the greater part of the economic life of the acquired asset (Zaida, 2020). The legal title to the leased asset remains with the lessor for the duration of the contract, and the tenant only obtains the right to use the asset (Kaposty et al., 2022).

Leasing as a method of financing was born in the United States in the 1950s since the first firm specialising in this field was born in San Francisco in 1952. Then this practice had its first successes in Anglo-Saxon countries before spreading through all Western economies. It has therefore become a method of financing investments that competes with traditional bank credit because it is more profitable than it on all levels (Filali, 2006). Leasing currently constitutes a key source of business finance, providing an alternative to more traditional financing instruments, such as equity or bank loans (Kaposty et al., 2022).

In addition, Islamic banks provide Ijarah Muntahiyah bittamlik services whose function is similar to leasing contracts (Fayyad, 2023). Leasing is a concept that is gradually becoming an important research topic in the international literature and has stimulated the economic and financial environment with its advantages and new perspectives (Mitu et al., 2014). Compared to bank credits, leasing is more expensive, but it is agreed without the requirement of a guarantee. It is the situation of the enterprise which therefore imposes the choice of this mode.

Chang et al. (2022) found that banks in China's leasing market, the second largest in the world, use their affiliated leasing companies to extend credit to their customers to circumvent the government's targeted credit tightening policy. Banks use these bank-affiliated institutions to play a strategic role in banking relationships. In addition, the ownership of the lessor also matters for the financing choice of the lessee. Bensaad (2014) aimed to present the leasing product and its practice in Algeria. Which suffers from a panoply of order, legal, tax, accounting, regulatory, and practical difficulties, which has opened the door to a series of proposals related in particular to the product, place, process, promotion, and price.

Leasing has also been analysed as a method of financing SMEs in Algeria by Zaida (2020). This study concluded that the problem of financing, is one of the most important obstacles that hinder SMEs in Algeria. The credits necessary for financing require large guarantees and the possibilities of access are almost impossible; leasing has therefore come as an alternative and complementary financing solution to bank credit, but it is not considered as an ideal solution for all SMEs. Especially for those who suffer from financial difficulties.

The main obstacles faced by SMEs in accessing bank loans include the lack of sufficient collateral and the high risk that SMEs face from lending institutions (Waniak-Michalak et al., 2022). In any credit guarantee scheme, the basic lending relationship between the borrower and the bank is extended through a third party, the guarantor. While the financing, remains with the bank. Thus, the lending relationship between the borrower and the bank becomes a triangular relationship in which the guarantor assumes some of the risk that would otherwise fall to the bank (Nitsch & Kramer, 2010).

CGS are among the most successful, easily replicable and market-friendly interventions to facilitate and expand access to finance for excluded borrowers, with successes in Japan, Malaysia, and the Republic of Korea (Kim et al., 2021). To this end, the objective of a credit guarantee fund is to promote the development of SMEs by facilitating their access to financing, through the alleviation of the risk borne by a credit institution, when the latter finances a project for an SME. The guarantee fund bears part of the risk associated with a credit transaction, it allows the banker to reduce the final financial loss, that he will have to bear in the event of default by the debtor (Azzaoui, 2016). For the bank, this system is very favourable, since it is used in the case of fragility or insufficiency of the guarantees offered.

The description of the experience of Algeria in terms of guarantee mechanisms dedicated to SMEs, while exposing a comparison between the CGCI (*Caisse de Garantie des Crédits d'investissements*) in Algeria, and the SOTUGAR (*Société Tunisienne de Garantie)* in Tunisia, by Azzaoui, K (2016), showed that this mechanism in Algeria remains insufficient since Algerian SMEs still suffer from the problem of access to financing. While proposing the relaxation of the guarantee application procedure and its implementation. Presenting credit guarantee schemes CGS as an effective policy intervention tool to facilitate the flow of funds to the SMEs sector by sharing the risks associated with SMEs lending, by Kim et al. (2021). This contribution has provided principles that should be taken into account when setting up and operationalising a CGS, with four elements: legal and regulatory set-up, corporate governance, risk management, and components of CGS revenue.

Waniak Michalak et al. (2022) evaluated some elements of the economic models of CGS implemented in 20 European Union countries in the financial framework between 2007 and 2013. A contribution to economic policy theory in the area of state aid to SMEs and public finances.

Guemmaz (2023) analysed the overlap in shareholding between banks and insurance companies in Algeria, based on an inventory of cases in which one financial institution is a shareholder of another. The study showed that the behaviour of banks and insurance companies in terms of capital participation is mainly linked to the legal measures introduced in Algeria after the opening. As well as the economic interest of complementarity.

The Algerian context is very specific in terms of the composition of the financing market whether for the business or household segment, and this complexity lies more in the business segment, several financing methods existing on the market with several obviously intervening, shareholding relationships between these institutions, for example, the bank can grant leasing and intervene in the capital of leasing companies, a significant research gap that makes this paper different from those covered in previous studies.

3. METHODOLOGY

Based on the analysis of the Algerian financing market, we noted the existence of cross-shareholdings between these institutions, namely banks, leasing companies and private equity companies. In this context, there are other financial institutions which assist financing institutions indirectly in their financing processes, such as credit guarantee funds. These relationships allowed the establishment of participation maps aimed at analysing these activities, a link that varies between complementarity and substitution.

In this sequence of ideas, the analysis can also identify the choice and behaviour of the consumer in relation to these financing methods. This can therefore explain the reason why a financing institution participates in the capital of another institution, knowing that the activities can be competitive, with possible conflict of interest between the parties, a link of overlap and synergy in the same time. The method used in this paper is the establishment and analysis of participation maps between banks, leasing companies, and private equity companies.

Funding insights data were collected from official websites containing activity reports, these institutions are currently active on the Algerian market. The methodological framework related to this study is the descriptive-analytical style, whether on the side of the financing institutions or its customers. The cross-shareholdings mentioned in this paper mean, for example, the possible existence of a case where a bank is a shareholder in a leasing company, and this same leasing company is a shareholder in this bank. On the other hand, the participation maps are diagrams prepared by the researcher by consulting the composition of the capital of all the financing institutions operating on the Algerian market, to know if this institution is a shareholder in another or not.

4. RESULTS AND DISCUSSION

In addition to banks, which are the core of a country's financing system, within the framework of direct intermediation. The financing market in Algeria is made up of several players, namely: private equity market, leasing market, and activities complementary to financing ACF, such as guarantee funds and refinancing companies. A market characterised by cross-shareholding relationships that lie between complementarity and substitution.

4.1 Bank

The Algerian banking system is made up of twenty commercial banks approved by the central bank, these institutions are divided between seven public banks, nine foreign Banks, three branch of foreign Banks and a mixed Bank. Public banks in Algeria play a key role in terms of participation in the capital of banks, private equity institutions, as well as leasing institutions. In the following, we present the list of public banks approved in Algeria (Banque d'Algérie, 2024):

- *Banque extérieure d’Algérie* (BEA);
- *Banque nationale d’Algérie* (BNA);
- *Banque de l’agriculture et du développement rural* (BADR);
- *Banque de développement local* (BDL);
- *Crédit populaire d’Algérie* (CPA);

- *Caisse nationale d'épargne et de prévoyance* (CNEP Bank);
- *Banque nationale de l'habitat.*

Following the promulgation of the banking reform of 1990 in Algeria, the door to the economy was opened to foreign banks, as specified above, the list of these banks is as follows (Banque d'Algérie, 2024):

- Arab banking corporation Algerie (BANK ABC);
- *Natixis Algérie*;
- *Société générale Algérie;*
- *Bnp paribas el djazair*;
- Trust bank Algeria (TBA);
- Gulf bank Algeria (AGB);
- The housing bank for trade & finance-Algeria (HBTF - Algeria);
- Fransabank *el-Djazair*;
- Al salam bank - Algeria (ASBA).

There is only one case of shareholding between two banks in Algeria, it is the only mixed bank approved in Algeria, AL BARAKA BANK Algeria whose capital is divided between BADR and Al Baraka Banking Group (ABG), from el Bahrain (Albaraka, 2024). The remaining segment of banks operating in the Algerian banking market is Branch of foreign Banks, they are of the order of three banks, namely (Banque d'Algérie, 2024): Citibank N.A. Algeria, Arab Bank PLC Algeria et H.S.B.C. Algeria.

To ensure objectivity in our analysis, it should be noted that there are also other banks that do not appear on the site of banks approved in Algeria, such as: BAMIC, a mixed bank created by an international convention signed in 1988 between the Algerian and Libyan States, its capital was divided between Libyan foreign bank, and BEA, BNA, CPA and BADR for the Algerian side (BAMIC, 2024). Algerian Bank of Senegal and Algerian Union Bank, two Algerian banks inaugurated abroad in 2023, established respectively in Senegal and Mauritania. The capital of these two financial institutions is distributed between the Algerian public banks, namely BNA, CPA, BEA, and BADR (Algérie Presse Service, 2024).

The Algerian Foreign Trade Bank SA (BACE, 2024), a Swiss bank, headquartered in Zurich, the shareholders in the capital of this bank are the BNA and the national investment fund (BACE, 2024). There are also international banking partnerships in a foreign bank in Algeria, including the example of the AGB (AGB, 2024). Based on the above, our study focused on banks operating and approved in Algeria only, whether on the national or foreign side.

4.2 Private equity

Private Equity has been exercised in Algeria by several players since the 1990s. Long devoid of a specific legal framework, private equity activity in Algeria is now governed by Law No. 06-11 of June 24, 2006 relating to the private equity company, supplemented by executive decree No.08-56 of February 11, 2008 relating to the conditions for exercising the activity of the private equity company (Abadi & Mairif, 2016). The exercise of the private equity activity in Algeria is subject to the acquisition of a prior authorisation issued by the Minister of Finance after consulting the commission for the organisation and supervision of stock market operations, and the Bank of Algeria (Himrane & Salhi, 2019).

The Algerian private equity market has eight companies, of which four equity links exist between them and the six Algerian public banks. The following figure illustrates this reasoning (Figure 1).

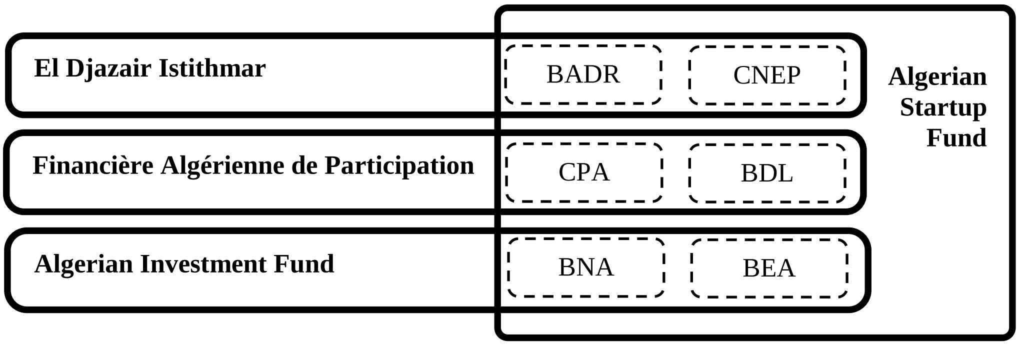

Figure 1. Participation map of private equity in Algeria

Source: Developed by the author on the basis of Eldjazair istithmar, 2021; Finalep, 2023; Ministere des finances, 2024; Algerian startup fund, 2024

Figure 1, shows a remarkable interest of all Algerian public banks in private equity companies, with the exception of foreign banks operating in Algeria, with a shareholding proportion of four of the origin of eight companies operating in this segment. The other companies are ICOSIA created in 2018 with public capital, SOFINANCE created in 2001 by public capital, ASICOM created in 2004 by mixed Algerian-Saudi capital, and the FNI *(Fonds National d'investissement)* created in 1963 with public capital. On this basis, it can be concluded that the Algerian private equity market is entirely public. This finding is explained by the involvement of Algerian public banks in supporting the investor, this mode is risky, which is why it is not a priority for foreign banks, generally seeking short-term financing with low risk and high return. This can be remedied by strengthening the capital of these institutions.

The literature on the implications of the origin of capital and the involvement of foreign banks in SMEs lending is inconclusive, with studies coming out both for and against (Padilla-Pérez & Fenton Ontañon, 2013). In this context, it should be noted that private banks grant more operating credits than investments because they refuse to bear any risk related to the asymmetry of information and the lack of guarantees; this is why it favors short-maturity credits requiring only a few guarantees and with a risk of nonrepayment almost zero (Benabdallah & Mokhtari, 2019).

4.3 Leasing

Leasing was introduced in Algeria in 1990 by Law No. 90-10 of April 14, 1990 relating to money and credit, but it was not until 1996 that legal, tax, and customs provisions have been taken to promote the creation of leasing companies (Bensaad, 2014). In this context, it should be emphasised that this market is structured around two segments, namely banks and financial institutions such as: Al Baraka, *BNP Paribas*, *Société Générale*, Al Salam Bank, Gulf Bank, *Cnep* BANK, Housing Bank for Trade & Finances and Trust Bank Algeria, for the banks side. *Société Nationale de Leasing*, Maghreb Leasing Algeria, Arab Leasing Corporation, Ijar Leasing Corporation, Sofinance and *El Djazaïr* Ijar and the *Société de refinancement hypothécaire* for the side of financial institutions (Ministere des Finances, 2024; Sekak, 2021). The following figure illustrates the participation map of leasing companies in Algeria (Figure 2).

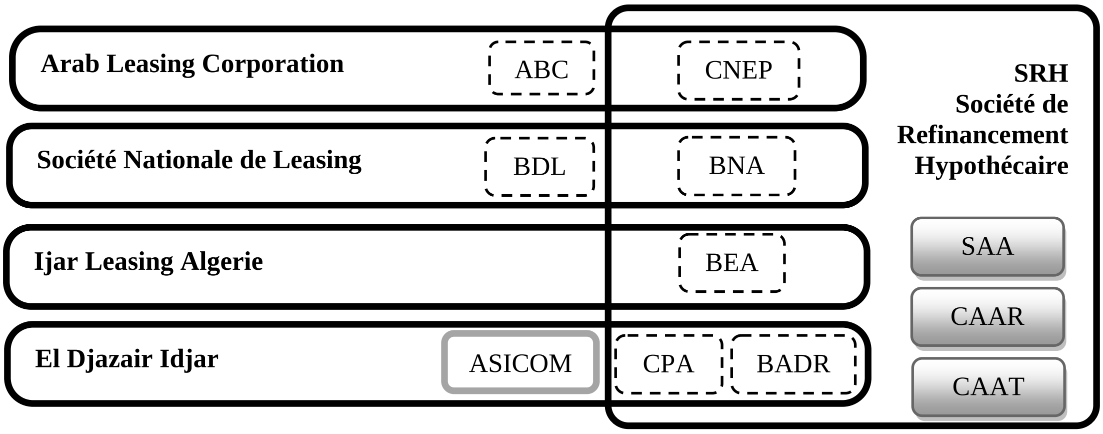

Figure 2. Participation map of leasing in Algeria
Source: Developed by the author on the basis of Arab leasing corporation, 2024; Société Nationale de Leasing, 2024; Ijar leasing Algérie, 2024; El Djazair Idjar, 2024; SRH, 2024

In the same context adopted in this article, and following the analysis of the composition of the leasing market in Algeria, according to Figure 2, we confirm that the participation of Algerian public banks is still present. With a specificity displayed by the intervention of a foreign bank, namely: ABC. The presence of private equity firms in the leasing market is illustrated by the participation of ASICOM. The proportion of institutional participation is five of the origin of seven companies, since SOFINANCE is a public financial institution approved by the Bank of Algeria in 2001, as previously specified. Also, Maghreb Leasing Algeria, created in 2006 following the initiative of *Tunisie* Leasing & Factoring (TLF) with the assistance of its reference shareholder AMEN Group (Maghreb leasing Algérie, 2024).

Another specificity that appears on the leasing market in Algeria, which is materialised by the presence of insurance companies, this is linked to the *Société de Refinancement Hypothécaire*, a financial institution approved by the Bank of Algeria, created in 1997 (SRH, 2024).

The role of this financial institution is diversified between the household segment for the real estate loan component, and the business segment with regard to leasing. An attractive market for banks given the high profitability of financing, but the study of the file is done on the basis of actual statements and not forecasts. But always with the absence of private contributions, the case of foreign banks in Algeria, which directly finance these files via their own networks of agencies.

In Algeria, an executive decree of October 25, 1995 sets the conditions for authorisation of companies practicing factoring and grants the Ministry of Finance, the authority to approve factoring companies. Since 1995, no implementing text for this decree has been published, and no company has been approved (SEKAK, 2021).

4.4. Activities complementary to financing ACF

There is a close relationship between banks and activities complementary to financing, not only because of the financing relationship, but also in the presence of capital contributions. The following figure illustrates the participation map of ACF in Algeria (Figure 3).

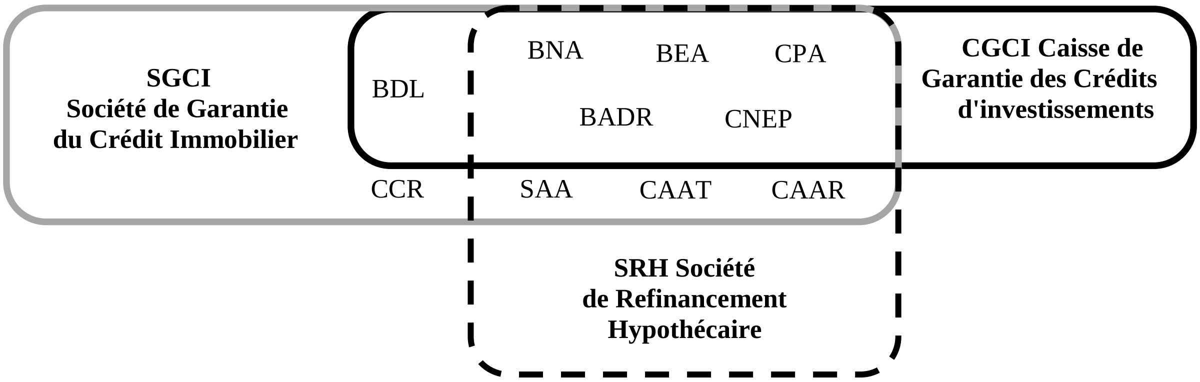

Figure 3. Participation map of ACF in Algeria
Source: Developed by the author on the basis of SGCI, 2024; CGCI, Présentation, 2024; SRH, 2024

The CGCI Is a company created on the initiative of the Public Authorities by Presidential Decree No.04 -134 of April 19, 2004 on the statutes of the fund to support the creation and development of the SMEs by facilitating its access to credit. It has an authorised share capital of 30 billion DZD, subscribed up to 20 billion DZD, held up to 60% by the Public Treasury and 40% by the Banks: BNA, BEA, CPA, BDL, BADR and CNEP Bank (CGCI, Présentation, 2024). This guarantee fund, grants financial guarantees to bank customers, in the case of the fragility of the real guarantees offered, such as mortgages on concessions. Notwithstanding the absence of participation of foreign banks in the capital of CGCI in Algeria, hedging agreements can be signed between them, like the one signed with *Société générale* Algeria on June 14, 2022 (CGCI, 2024). The credit institution and the guarantee fund each cover part of the risk associated with an SME financing operation. As such, both have an interest in properly assessing the economic and financial viability of the project and the enterprise to be financed, in order to estimate the probability of failure of the operation. The guarantee fund is therefore a support instrument for banks which allows credit institutions to reduce the risk associated with certain types of operations, but it does not replace the banker in his financing role (Azzaoui, 2016).

The proportion of institutional participation in the investment credit guarantee fund is one of the origins of two funds; the other fund, the FGAR (*Fonds de garantie des crédits à la PME*), is governed by the Algerian law with public capital.
SGCI is a joint stock company. It was created in 1997 to secure banks and financial institutions in their real estate loan activity. Its shareholders are: Public treasury, BNA, BEA, CPA, BDL, CNEP, BADR, CAAR, SAA, CAAT, CCR (SGCI, 2024). SGCI is the insurer of real estate credits, so the interest is common between the bank and the insurance company (Guemmaz, 2023).

The institutions supporting the financing of individuals in Algeria have an insurance character. This is why public insurance companies are shareholders in SGCI and SRH, setting up a real estate credit file is simple, and its financing envelope is minimal. Compared to loans intended for businesses, they are designed on a case-by-case basis. Therefore, insurance for this type of segment is provided directly by damage insurance companies for material risks. The intervention of investment credit guarantee funds is linked to the risk of insolvency.

5. CONCLUSIONS

From a historical point of view, financing in Algeria has gone through several stages, whether for banks and financial institutions, or for the financing methods offered by these institutions. Before the opening of the market in 1990, this function was monopolised by public banks, until the arrival of the law on money and credit, which opened the door to foreign and private banks to establish themselves in the Algerian banking sector. The legal texts followed to create the other modes of financing that are the subject of this paper.

We have presented on this paper the theoretical foundations of several financing methods, namely bank credit, private equity, factoring, leasing, and the credit guarantee fund. The bank is generally the partner of businesses and households; as for financing institutions, they only have businesses as partners, this has been verified on the results part of the paper. Including several participation cards between financing institutions in Algeria were analysed.

The banking sector in Algeria ensures the marketing of a range of banking products linked to the financing of both segments: businesses and households. The most important part of the financing methods currently existing in Algeria is dedicated to businesses. Whose financing needs are varied and complex. Unlike households, whose credits are simple and are granted by banks. Credits to individuals are granted neither by leasing nor by private equity.

Algerian public banks are the best capitalised financial institutions on the market, they have shares in all the segments mentioned in this document, namely: private equity company,, leasing company and guarantee fund. Cross-participation between financing institutions in Algeria is explained by the complementarity between bank credits and other modes of financing and intra modes of financing, namely leasing and private equity. Adding to this the financial guarantees which also supplement the traditional bank guarantees, whether for credits granted to business or households’ segments.

Through this article, we studied the relationship of complementarity or substitution between the financing institutions in Algeria, based on capital contributions. The relationship of complementarity and overlap appears at the same time between the formulas granted. On the other hand, the contribution to financing institutions depends on the strategy of the financial institution itself. In terms of leasing, some banks have chosen to market this service through their counters, while others have chosen to create specialised subsidiaries. Adding to this, banks preferred to entrust the task of private equity financing to specialised companies due to the specificity of this financing formula and its technical distance from bank loans. There seems to be an implicit complementarity and an explicit conflict between these financing institutions, whether for financing methods intended for businesses or households.

In this chain of ideas, the contribution to the capital of a financing institution depends on three factors, namely: the characteristics of the financing method, the internal strategy of the financing institution, and the external specificities of the market. Since the borrower replaces bank credit with leasing or private equity, according to his capabilities and needs. With the existence of complementarity between these financing methods to ensure the sustainability of the client's activity, and between these institutions given the existence of cross-participation links. On the client's side, the interest in financing is the realisation of his investment. On the side of financial institutions, the angles of vision are different for each method of financing.
These findings, inspired by the Algerian financing market, can make it possible to map the landscape of banks and financial institutions in Algeria, in order to optimise future partnerships, whether for existing financing methods or for other modes of development, such as factoring.

In conclusion, we argue that the Algerian financing market is very diversified in terms of financing methods, particularly for the business segment, which gives the investor the opportunity to choose the financing method that is appropriate for their activity. There is no one financing method that is better than another, but there are activity requirements that impose one method to the detriment of another, and it is up to the financing institutions to intervene in this area, to guide the investor towards a tailor-made financing method that is suited to their activity and size.

As limitations of the study, this paper focused on the Algerian market only, without making a comparison either with other countries in the world, or with Algerian banks established abroad. This requires a deep knowledge of these markets, as well as a detailed and exhaustive study of data that does not generally exist on a single document. Therefore, only the banks approved and operating in Algeria which were taken into consideration.

This paper generates several research issues, which can be considered in future studies, namely: studies of the quantitative impact of the opening of Algerian banks abroad on the Algerian banking system. As well as the development of comparisons between financing institutions and the financial market, of which private equity is the link between these two markets.

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