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The contribution of business centers of private banks in the financing of SMEs in Algeria: Case of the wilaya of Bejaia

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Abstract:

The objective of this article is to examine the contribution of the Business Centers of Private Banks in the financing of SMEs in the wilaya of Bejaia, through a qualitative and quantitative exploratory study based on a field survey. The results show that banking regulations towards SMEs can be described as rigid and that the financing constraint lies in bureaucratic practices, the slowness of administrative procedures, as well as the high level of guarantees required.

Key words: Banks, bejaia, business center, credit, SMEs.

JEL Classification Codes: G310, G320.

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Introduction:

Often considered to be one of the main engines of economic growth, the role of SMEs is increasingly being rethought as this category of business has become a powerful lever on which the public authorities rely. Indeed, the Small and Medium Enterprise (SME) is present in all sectors of economic activity, and operates in the various markets, whether local, regional, national or international.

Thus, SMEs are at the forefront of the news today. It is the subject of great solicitation from the public authorities. Hence, the establishment by the government of various assistance plans and support mechanisms for the creation and development of this category of businesses long considered to be the engine of Algerian economic growth. According to edition 77 of the official journal of the Algerian Republic, the SME is defined, whatever its legal status, as being a company producing goods and / or services employing 1 to 250 collaborators, and whose figure is annual business does not exceed 2 billion Dinars, or whose balance sheet total does not exceed 500 million Dinars.

In addition, the main characteristic of the SME is its low specialization. Unlike large companies, or large multinational groups, which have in common a functional organization deemed to be specialization, SMEs clearly favor the versatility of their employees. Leave a maximum of initiatives to people, determining workload plans often even being the subject of genuine negotiation with the employee (Marchesnay M and Julien P A, 2011, p17). Even if some consider this approach as a weakness, or even a handicap, at a time when change is rapid, it constitutes an advantage allowing more flexibility for SMEs (BOLDRINI J C, 2008, p23). In a more complex qualitative analysis, JULIEN P.A distinguishes three major groups of companies: those which are based on the type of origin or ownership of the company; those which introduce the management's strategies or objectives; those which are based on the evolution or stage of development or organization of the firm.

The development of a company can only be envisaged by a study of its needs and its financing (AHOUISSOU B A and ANDRIAMAHENINA M N, 2012, p12). These can

most often be linked to its investments on the one hand (long-term financing need), or to its operation on the other hand (short-term financing need), and finally those linked to innovation. (MOURGUES N, p10). Apart from self-financing, which is considered to be the monetary surplus generated by the company on its own activity and kept to finance its future development (Cohen E, 1991, p194), the major part of companies' financing needs are covered by bank loans.

Thus, companies seeking to finance an investment cycle should know that the latter includes all operations relating to the acquisition or creation of intangible means of production (patents, goodwill, etc.), tangible (land, construction, transport equipment, etc.), or financial (equity securities, etc.). It also includes the capitalized part of working assets (stock, receivables, etc.).

Furthermore, the need for financing for innovation comes from the fact that fierce competition between companies pushes them to innovate in order to offer new products and services of high added value (BOLDRINI J C, 2008). Because many companies rely on creativity and innovation to survive in a rapidly changing and fiercely competitive market. The whole is in a vision of improving productivity and thus pushing further modernization and innovation, what are commonly called expansion investments (DUFOURCQ N, 2014).

However, given the panoply of types and modalities of SME financing, we were interested in the business centers of Algerian private banks, in this case those of the wilaya of Bejaia, in order to identify the maximum number of bank brands. It is from this angle that we have concentrated our efforts in a field study this year. The main objective of our investigations is therefore to study the needs, the modalities as well as the conditions for granting credit to this essential component of the Algerian economy, which is none other than the SME, through a survey of business centers of private banks located in the wilaya of Bejaia.

So the main objective of this article is to answer the following main question:

What are the financing needs of Algerian SMEs? And what are the terms and conditions required by the centers?

We have divided our work into three distinct parts:

- The first part of our contribution essentially expresses the main stages of our field work carried out with the business centers of private banks in the wilaya of Bejaia (which represents 14 business centers; see table 1). This step requires a good organization of work and can be carried out using software for data management, survey processing, or statistical analysis. Within the framework of this article, we have opted for the "Sphinx iQ2" software which allows in particular to design the questionnaire and to enter the answers manually and automatically.
- The second is devoted exclusively to the analysis and interpretation of the results obtained through the questionnaire sent to the business centers of private banks in the wilaya of Bejaia.
- The third part will be dedicated to a few recommendations for better credit management by financial institutions, which will be discussed in the conclusion.

Presentation of the stages of our investigation

Due to the lack of data, particularly in figures, allowing us to synthesize the financing dynamics of SMEs in Algeria on the one hand, and the abstract nature of this component on the other hand, we resorted to a field survey, which seemed to us to be the best suited for finding answers to our questions and which will be the subject of this part. Moreover, given that Algeria's financial center is made up of both public and private banks, it was therefore essential for us to take a closer look at these two segments with a view to analyzing them, and this through a questionnaire dedicated to these financial organizations, taking up the main questions we ask ourselves.

Thus, initially, we looked at the presentation of the content of our survey developed by questionnaire, as well as the conditions of its realization. We will continue by highlighting and synthesizing the feedback obtained from the field survey.

Finally, we will discuss the results of our research as well as their interpretations, which will be discussed in the conclusion. We have targeted, through this field survey developed by questionnaire, consisting of 25 open and closed questions, all the business centers of private banks in the wilaya of Bejaia (of which there are 14). This survey was carried out during the period from August 09 to September 10, 2020, and we were able to obtain answers from the majority of the establishments questioned, except for a few questions for various reasons: unknown answers, confidential information. .etc.

Analysis of the results

In this second section, we will try to highlight the responses collected from financial institutions, in this case banking business centers, which will allow us to better understand and analyze objectively, on the one hand, recurring financing needs of SMEs, the operating mechanisms and provision of the panoply of loans made available to them by banking business centers. On the other hand, to analyze the different methods of granting funding by these same organizations to cover the needs of SMEs.

We conducted this survey with the business centers of private banks in the wilaya of Bejaia. This choice is motivated by the fact that this region is home to an important banking network, on which we did not hesitate to distribute our survey questionnaire. Likewise, this city is home to a large and diversified number of SMEs, all categories combined, which operate in the different branches and sectors of activity, and whose needs for financing operations are greatly felt by the high volume of requests for credits addressed to financial institutions. All the business centers interviewed carry out all credit operations. The respondents to our questionnaire are mainly decision-makers; their answers and explanations enlightened us sufficiently on the subject.

Table 1. The sample of our field survey

SIGNS	WILAYA OF BEJAIA
TRUST	1 business centre
NATIXIS	2 business centres
AGB	2 business centres

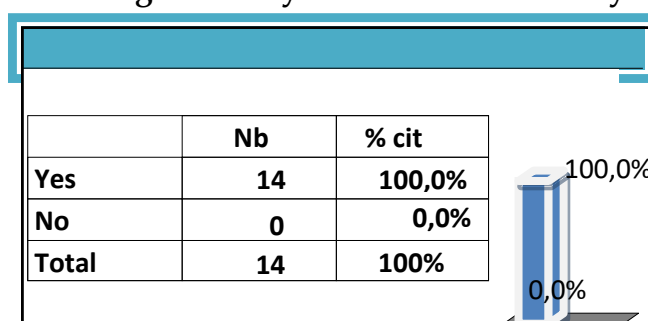
AL SALAM BANK	1 business centre
FRANSABANK	1 business centre
SGA	2 business centres
BNP	2 business centres
HOUSING	1 business centre
ABC	1 business centre
EL BARAKA	1 business centre

Source: Established by the authors

❖ **The answer to question 01: Does your business center have a clearly defined credit policy?**

Fig 1 below summarizes the results obtained with regard to credit policy. It emerges from the responses to the question asked that all the business centers surveyed have a clearly defined credit policy in terms of granting loans, which confirms our hypothesis on this subject.

Fig.1. Clearly Defined Credit Policy

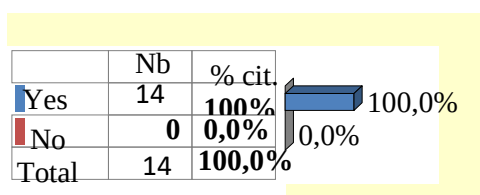


Source: Established by the authors

❖ **The answer to question N ° 02: Do you consider the SME as a strategic element in your activity?**

The results of the survey (see figure below) confirm that all of the business centers surveyed consider SMEs to be a strategic element in their activity. This result thus confirms the preponderant place of this type of company in the financial circuit.

Fig.2. The SME as a strategic element

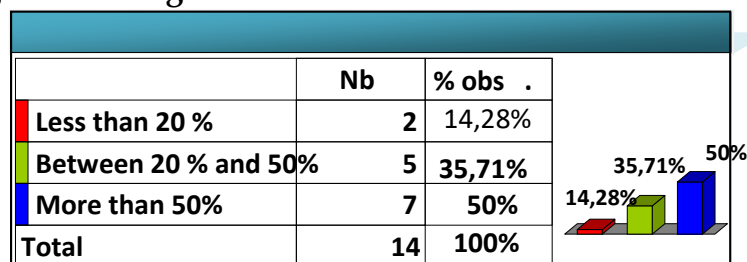


Source: Established by the authors

❖ **The answer to question N ° 03: What is the percentage devoted by your organization to SMEs in the total loans?**

The answers of our respondents to this question are shown in figure N ° 0 3 below. From the results obtained, it appears that all business centers give a privileged place to SMEs in terms of loans. Thus, half of the establishments surveyed (50%) devote more than half of their total loans to SMEs. While five centers in our sample claim to have devoted between 20 and 50% of their total loans to these same companies. After investigations, it appears that all the business centers surveyed make this category of businesses their priority, which is confirmed by the considerable share of the total loans granted.

Fig.3. Percentage devoted to SMEs in the total credits



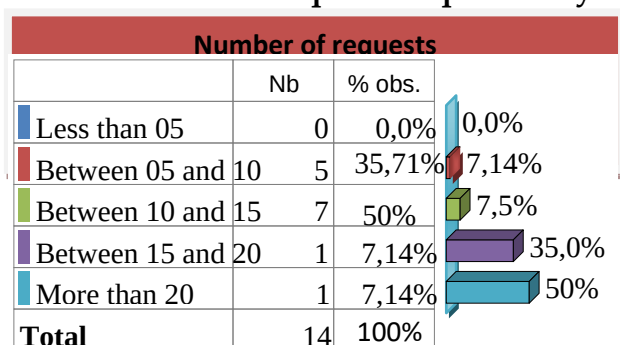
Source: Established by the authors

❖ **The answer to question N ° 04: What is the number of loan requests requested by SMEs over a one-month period?**

The answers to this fifth question are shown in Figure 04. The number of loan requests sent to bank business centers by SMEs differs from one establishment to another, but the majority of respondents (5 and 7 business centers) claim that these requests average between five fifteen requests per month. Based on the responses gathered on this subject, it turns out that it inevitably depends on the establishment

sought by these companies seeking funding. On the other hand, it also largely depends on the size of the customer portfolio that the business center has. Another parameter to take into account is that of the cost of credit. Thus, we can see an influx of SMEs on banks which offer preferential or derogatory conditions.

Fig.4: Number of loan requests requested by SMEs

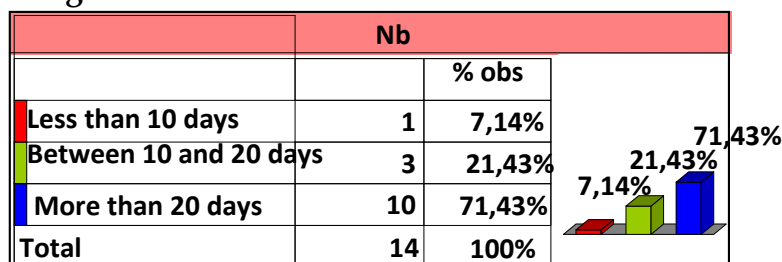


Source: Established by the authors

❖ **The answer to question 05: What is the average duration of mobilization of a credit file for SMEs?**

According to the results of our study, it appears that the vast majority of business centers of private banks in the wilaya of Bejaia agree to a period of more than ten days. Thus, out of the sample questioned, only two have an average mobilization time of between 10 and 20 days and a single center (TRUST) processes requests in less than 10 days. Otherwise, all the other centers mobilize their loans in more than 20 days, which represents a rate of 71.43% of our sample. To conclude, nearly 78% of the banking business centers have a mobilization period of more than 20 days, a period which in our opinion really penalizes the applicants for these loans.

Fig.5. Duration of mobilization of a file credit

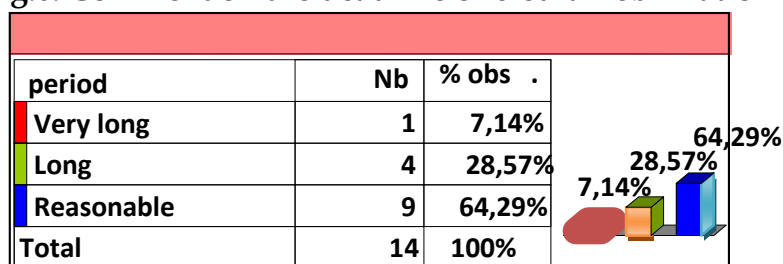


Source: Established by the authors

❖ **The answer to question N ° 06: How do you qualify the delay in mobilizing credit?**

The majority (nine) of the responses to this question suggest that more than twenty days is quite reasonable. The respondents justify their assessment by the circuit of procedures for approving the said credit, not to mention the socio-economic and financial counter study of the project which is carried out by the credit institutions, the consultation of the credit bureau and that of the risks, etc. Added to this, the study of the financial statements of the company and the viability of the project to be financed. As a result, most of the private banking business centers questioned agrees that this response time is quite reasonable.

Fig.6. Comment on the deadline of credit mobilization

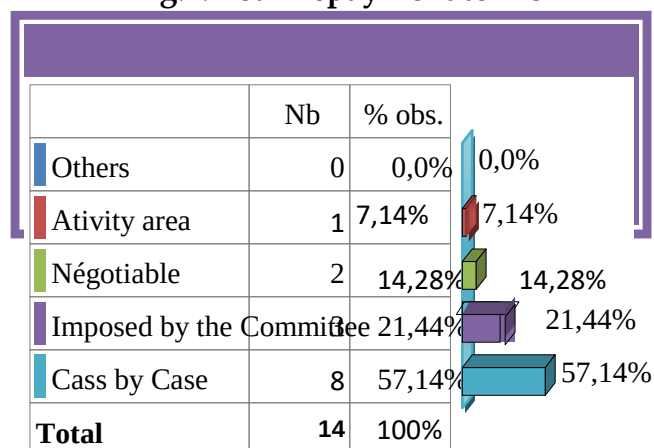


Source: Established by the authors

❖ **The answer to question N ° 07: What are the terms of the duration as well as the repayment details of loans to SMEs?**

According to Figure 07 below, the loan repayment terms by SMEs are mostly (i.e., 57.14% of our sample) processed on a case-by-case basis. This is explained by the taking into account of many parameters, in this case, the risk, the relevance of the project, the profitability of the credit, as well as the collateral collected. However, two establishments emphasized the negotiation and only one checked the box imposed by the credit committee. So, according to this survey, the repayment terms are mostly handled on a case-by-case basis

Fig.7. Loan repayment terms



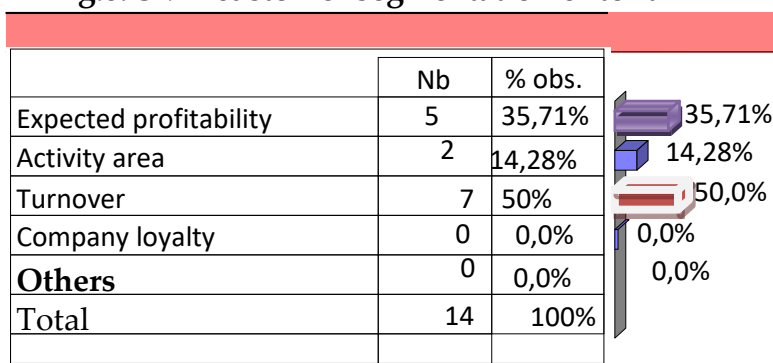
Source: Established by the authors

❖ **The answer to question N ° 08: What are the criteria for SME clientele segmentation that you practice?**

According to the results of our study, it emerges that half of the business centers (7 out of a sample of 14) opt for turnover as the main criterion for customer segmentation, followed by expected profitability and the sector. activity. This result can be explained by the fact that the segmentation of customers based on turnover as the main lever allows decision-makers in these business centers to place on the same footing of equality, or to grant the same privileges to different pool companies. This is because the business differs from one company to another, as does the expected profitability on funded projects.

On the other hand, we also find as answers, the expected profitability as well as the activity sector, which are also two equally relevant segmentation criteria, because any credit will only be granted to viable projects. In addition, the business sector must be buoyant and not subject to recurrent crises, as is currently the case for the construction industry.

Fig.8. SME customer segmentation criteria



Source: Established by the authors

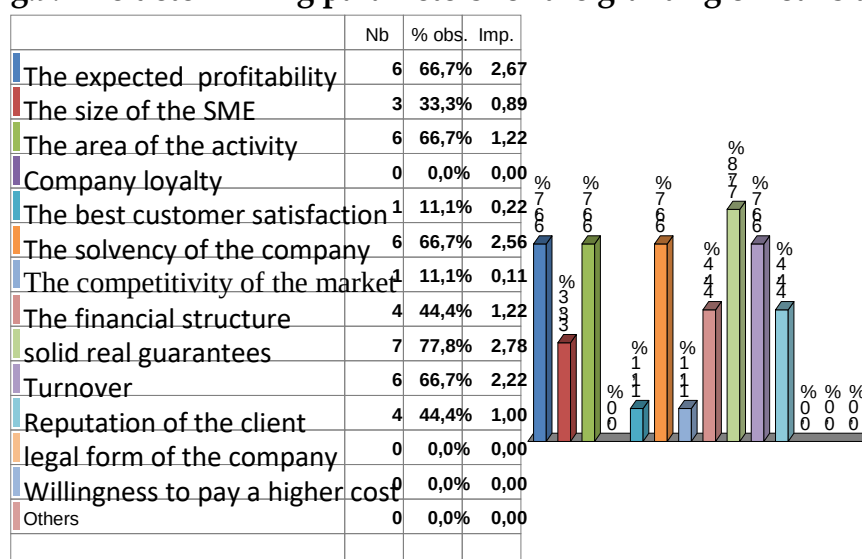
❖ **The answer to question N ° 09: What are the determining parameters for granting loans to SMEs?**

According to the results of our research, it emerges that the main parameter taken into account by these business centers for the granting of loans is the provision of solid real guarantees, to the tune of more than 77%. . Because any bank, or banking business center, must protect itself against risks, and the best way to contain credit risk is to cover it with solid guarantees. In the second place, we find in the same row:

- The expected profitability of the projects presented by the companies;
- The turnover, which is very important in the classification of companies;
- Finally, the industry.

After investigation, it turns out that business centers favor certain industries to the detriment of others. Thus, in the first place we find industry, followed by trade (resale companies as is), services, and finally construction, which is really in difficulty, especially lately because in addition to the economic and financial crisis in recent years, this sector has been very affected by the current pandemic. Hence the need for a double banking perspective and a fairly extensive feasibility study.

Fig.9. The determining parameters for the granting of loans to SMEs

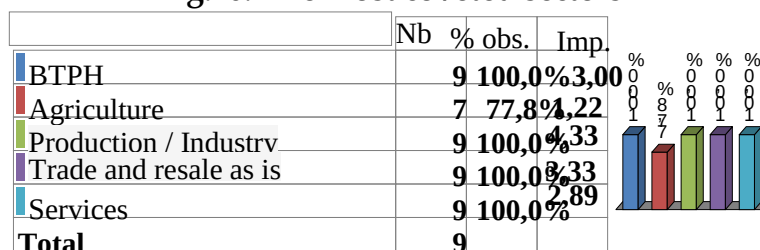


Source: Established by the authors

❖ **The answer to question N ° 10: What are the most coveted sectors for your business center?**

According to the responses of respondents, it turns out that all sectors of activity are well coveted by financial institutions, with the exception of agriculture, which is in decline. This is clearly explained by the fact that the major part of the banking business centers surveyed do not distinguish between the sectors of activity of client companies, but rather on other parameters, in particular quantified, particularly their financial health and viability. of their project, as well as their ability to cope with repayment deadlines, which seems more logical and more professional to us.

Fig.10. The most coveted sectors



Source: Established by the authors

❖ **The answer to question N ° 11: How often do your customers request these products?**

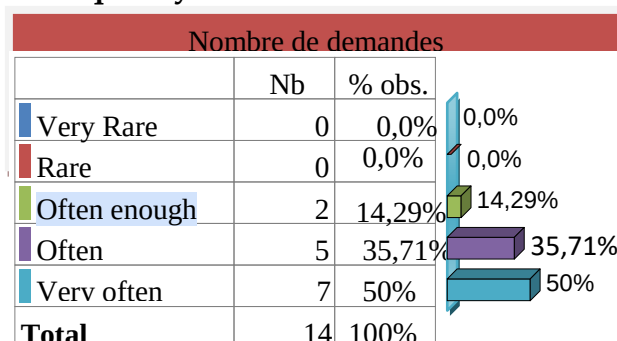
First of all, as responses collected on the types of products most in demand, we find on the same footing of conventional loans and financing as well as advances on invoices.

- For conventional loans and financing, this is explained by the real desire of companies to finance their investment projects through bank loans, most often justified by shortages of cash, lack of equity or significant investment costs. Because, even in abundance of cash, the choice to resort to bank loans to finance investments is a wise choice. On the other hand, with regard to the operating cycle, and in the presence of availability, the use of credits remains questionable.
 - Advances on invoices are most often mobilized in lines of credit which must imperatively operate in a very rigorous manner. This type of credit is most often requested by commercial or construction companies to cope with the discrepancies created between invoicing and debt collection. This confirms in fact the large number of commercial enterprises in the wilaya of Bejaia.
 - In second position, we find leasing / leasing which is also a product highly coveted by business customers, particularly for the acquisition or renewal of the rolling stock as well as the equipment of SMEs.
 - As followers, we find refinancing and consulting, which occupy a fairly comfortable place in this ranking. For the first point, this is motivated by the abundance of importing companies, because today, Algeria imports almost all of its food.
 - In terms of consulting, it is true that the platforms made available to business centers offer a panoramic view of the economy, and the prospects for investment.
- The rest of the products occupy the last places in this ranking.

On examination, we find that the appeal of companies for these products is divided between often, quite often and very often. This last proposition, in this case very often, is explained by the fact that the major part of banking products are cyclical and distant, and not short-term, knowing that investment loans are of the order of long

term. As for advances on invoices, these are used for an operating cycle of one year, in general.

Fig.11. Frequency of customer demand for banking products

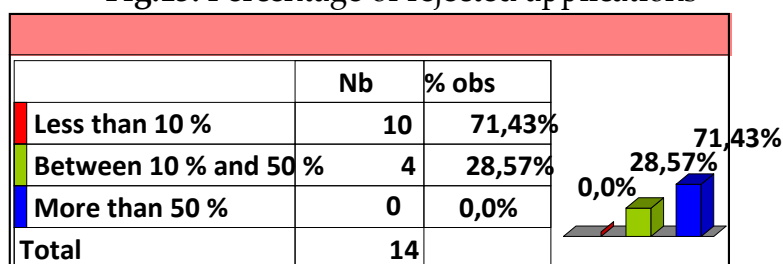


Source: Established by the authors

❖ **Answer to question No. 13: Can you identify as a percentage the volume of credit files rejected by your business center?**

According to the results of our study, the majority of these business centers surveyed claim that less than 10% of applications are rejected, and that the majority of credit files are granted. This underlines the willingness of the banking sector, including business centers, to support this category of businesses. At the same time, four banking business centers agree that the number of rejections is between 10 and 50%, which is illustrated in particular by the following figure:

Fig.13. Percentage of rejected applications



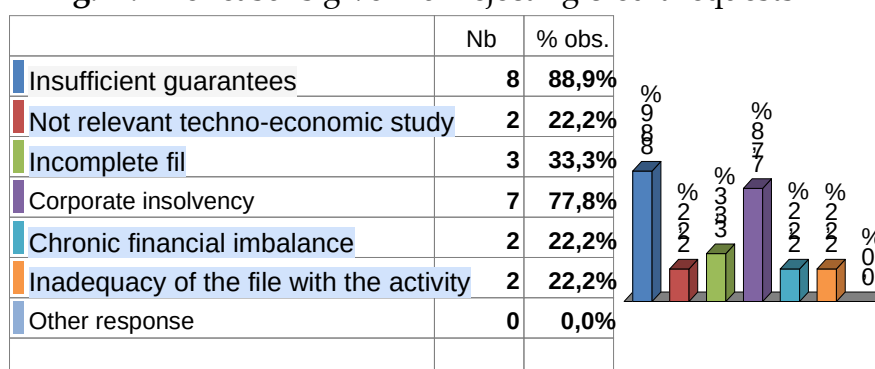
Source: Established by the authors

❖ **Answer to question N ° 14: What are the reasons that you put forward for the rejection of requests for credits?**

As the main argument, we find the insufficiency of guarantees provided by SMEs, at almost 88.90%. The explanation put forward is that most foreign banks are satisfied

with solidarity guarantees, which is not the case for public banks, or the latter require real and solid guarantees in return for funding, however less- they. For the second, among others the problem of insolvency of the company, this is largely explained by the financial statements of the companies. Because an already over-indebted company can in no way claim new bank loans. The other reason is manifested in the incomplete credit files provided to financial institutions, which is specific to each company.

Fig.14. The reasons given for rejecting credit requests



Source: Compiled by us from the results of the survey

Conclusion

In this article, we tried to analyze the problem of bank financing for SMEs, through a field survey carried out among the business centers of private banks in the wilaya of Bejaia, in order to explain the real determinants as well as the conditions for granting loans to businesses.

Our major concern was to try to detect possible brakes encountered by banking business centers in their financing activities for SMEs, which are always in search of funds to materialize their investment, operation and creation projects, and thus identify the various obstacles hindering access to bank financing for this category of companies.

In this regard, this study has highlighted the existing relationship between banking business centers and SMEs. To do this, we have drawn up a questionnaire intended for the various banking brands established in the region of Bejaia.

Through the results obtained in the framework of this survey, it appears that SMEs are constantly in need of bank financing, whether for the marketing of their

products and services, the purchase or the renewal of equipment, or for research and development activities, despite the heavy demands of the latter.

However, the Algerian SME has received special attention from the public authorities. Thus, this essential component of the economy has recorded a fairly easy quantitative jump in recent years, due to its contribution and involvement in economic, financial and commercial development, split with a view to growth.

Unfortunately, this category of companies still suffers from problems relating to financing, particularly banking, since the bank remains the main source of financing for companies in Algeria. In addition, the field study that we carried out on a sample of local banking business centers, led to the following conclusions:

- ✓ The level of guarantees required and the cost of loans granted to SMEs remain fairly high;
- ✓ The credit validation procedures and mechanisms remain very long, which causes delays and deadly losses for businesses;
- ✓ The opacity of information.

Beyond the funding constraints, it should be noted that the development of any business is necessarily dependent, to a large extent, on the general business climate which is not really based on solid foundations in Algeria, despite all the efforts made by national and international governmental bodies.

It is with the aim of finding real solutions to this problem observed through our survey, that we will try to put forward a series of suggestions and recommendations, in order to facilitate access to bank financing for SMEs, particularly those activating in the wilaya of Bejaia:

- ✓ Alleviate the requirement of banking business centers in terms of guarantees to SMEs carrying projects;
- ✓ Establishment of prioritization mechanisms for certain sectors of activity, which most often represent the core of the Algerian economy, ie industry;

- ✓ Favor so-called partnership approaches instead of those commonly called creditor-debtor, with a view to a solid and long-term partnership;—
- ✓ Reduction of loan costs, in order to encourage SMEs to give more priority to the banking circuit;
- ✓ Support for companies from the country's highest authorities must be easier to access and must go beyond red tape.

Ultimately, the main actor in the financing of Algerian companies remains the banking circuit, which can only change through a real rethinking of the national economy. Thus, to guard against credit risks, the main choice of banking business centers is to increase the levels of guarantees required in return for the financing granted, not to mention the administrative burdens and costs required, which greatly slows down business activity, but which have no other choice but to comply with banking conditions often described as penalizing.

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