

Financial inclusion of small and medium enterprises in Algeria

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Abstract ;

This study aims to shed light on the ability of small and medium enterprises to access financing by studying a set of indicators, and the importance of this funding to achieve financial inclusion for these enterprises, through a case study of the ability of Algerian SMEs to access financing compared to a group of Arab countries. The results of the study show that the financial inclusion of SMEs depends on a complex and interconnected set of factors, which requires the application of comprehensive strategies at the policy level. With the need to achieve a wide range of requirements to support the financing of SMEs in Algeria

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1. Introduction

Policymakers from around the world are increasingly recognizing the importance of financial inclusion for SMEs, in particular, which is a key element in the challenges facing many countries in diversifying their economies and achieving economic growth. SMEs constitute a large proportion of companies in Algeria in particular and in the Arab region in particular, but in Algeria we are still lagging behind many other countries in terms of ease of access to finance for these projects. Improving financial inclusion for SMEs can increase economic growth, create jobs, enhance the effectiveness of fiscal and monetary policies, and also contribute to financial stability. There are significant potential benefits; in some cases, annual economic growth may rise by as much as 1%, creating thousands of jobs.

This study aims to shed light on the ability of small and medium enterprises to finance by studying a set of indicators and the importance of this financing to achieve financial inclusion for these enterprises by studying the capacity of small and medium enterprises. By answering the following sub-questions:

- * What is the importance of financial inclusion for small and medium enterprises?
- * Compared to some Arab countries, what is the reality of economic inclusion in Algeria?

Through this research paper, we addressed the following elements:

- Key concepts around financial inclusion
- The importance of SMEs and the need for financing
- The importance of financial inclusion for SMEs
- examining the reality of financial inclusion in Algeria

2. Basic concepts about financial inclusion

2.1 Definition of Financial Inclusion:

The term financial inclusion appeared for the first time in 1993 to reflect the concept of financial exclusion in the study of **Leyshon & Thrift** on financial services in the southeast of England, in which we showed the impact of closing a bank branch on the actual access of the region's residents to banking services. During the nineties of the last century, many studies appeared illustrating the difficulties faced by some groups of society in accessing services (Mohamed Ben Moussa, 2019).

The term financial inclusion was also used in 1999 more to describe the determinants of individuals' access to available financial services, and it should be noted that the United Kingdom and Malaysia were among the first countries to develop and implement national strategies for financial inclusion in 2003, and currently many countries have tended to develop national strategies for financial inclusion.

The names of specialists and researchers about financial inclusion differed, as some called it the term financial inclusion, comprehensive financing, and financial inclusion, and some of them called it financial support, and some called it financial inclusion or financial access. Some also called it financial consolidation or financial access, but they all revolve around the same cycle and the same meaning, which is to work on developing banking financial institutions, intensifying their efforts, and diversifying their tools in order to attract

income earners. and linking them to the formal financial system, which may support their financial decisions and help them face financial shocks (Baida Star Lafta, 2019).

The World Bank defined it as the access of individuals and businesses to useful, affordable financial products and services that meet their needs—transactions, payments, savings, credit, and insurance—and are delivered to them in a responsible and sustainable manner.

Being able to access a transaction account is the first step to broader financial inclusion because a transaction account allows people to save money, send and receive payments. a transaction account can also serve as a gateway to other financial services, which is why ensuring people around the world have access to a transaction account is central to the World Bank Group's financial inclusion initiative by 2020.

As defined by the Organization for Economic Cooperation and Development (OECD) and its Global Financial Education Network (IFE), financial inclusion is defined as "the process by which access to a wide range of formal and regulated financial services and products is enhanced at a reasonable time and at an adequate price, and the use of these services and products is expanded by different segments of society through the application of innovative approaches that include financial awareness and education with the aim of promoting financial well-being and social and economic inclusion (Asmaa Dardour, 2020).

Among the most prominent definitions issued by the Group of Twenty (G20) and the Global Alliance for Financial Inclusion (AFI) as "access by all segments of society and affordable ones to financial services and products that suit their needs, as these services are provided to them fairly and at reasonable costs.

The Bank of Algeria defined financial inclusion as "the availability and use of all financial services to the various segments of society in its institutions and response, especially those marginalized ones, through official channels including bank accounts and savings, payment and transfer services, insurance services, financing and credit services, and the creation of more appropriate financial services at competitive and fair prices, in addition to working to protect the rights of consumers of financial services and encourage these groups to manage their money and savings properly to avoid some resorting to channels and means." Financial inclusion is measured in a way that represents the supply side and its use, which is the demand side, and the quality of those services in a way that integrates the supply and demand sides" (Malika, 2019).

Providing financial services makes everyday life easier, helping families and businesses plan everything from long-term goals to unexpected emergencies. As account holders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and cope with financial shocks, which can improve their overall lives.

- Financial inclusion has become a priority for policymakers, regulators, and development agencies globally.
- Financial inclusion has been identified as a key factor in achieving seven of the seventeen Sustainable Development Goals.
- The G20 committed to promoting financial inclusion worldwide and reaffirmed its commitment to the application of the G20 High Principles on Digital Financial Inclusion.

Since 2010, more than 55 countries have pledged financial inclusion, and more than 30 countries have launched or developed a national strategy. Our research suggests that when countries develop a national financial inclusion strategy, they increase the speed and impact of reforms.

The countries that made the most progress towards financial inclusion provided an enabling regulatory and policy environment and encouraged competition that allowed banks and non-banks to innovate and expand access to financial services. However, the creation of this innovative and pro-competitive space must be accompanied by appropriate consumer protection procedures and regulations to ensure the responsible provision of financial services.

The globalization of digital fintech, particularly mobile phones, has helped to expand access to low-cost and risk-free financial services for hard-to-reach people and small businesses.

- Digital IDs have made opening an account easier than ever.
- Digitization of cash payments is the introduction of more people to transaction accounts.
- Mobile-based financial services provide convenient access, even to remote areas.
- Increasing the availability of customer data allows service providers to design digital financial products that better suit the needs of unbanked individuals.

As countries accelerate efforts toward financial inclusion, it has become clear that they face similar obstacles to progress. This includes:

- Ensure that access to financial services is expanded and communicated to hard-to-reach populations, including women and the rural poor.
- Increase the culture and financial capabilities of citizens so that they can understand the various financial services and products.
- Ensure that everyone has proper identification documents and that the means of verification are low-cost and easy.
- Create useful and relevant financial products tailored to consumer needs.
- Establish strong frameworks for consumer financial protection by adapting and preparing relevant regulatory and supervisory authorities, including through the use of technology to improve supervision globally. The lack of ID cards makes it difficult to open a bank account and access capital and credit.

2.2 Financial Inclusion Goals:

Financial inclusion is not an end in itself but a means to achieve a number of key objectives, which are as follows:

- Affordable access to a range of financial services for all households and institutions;
- Building sound institutions, guided by appropriate internal management systems, industry performance standards, market performance monitoring, and the proper prudential regulation required;
- Deploy as many financial service providers as possible in order to provide a variety of cost-effective alternatives;
- Empowering women to access financial services and reducing the gender gap in access to financial services
- Achieving financial stability by diversifying the asset base of banks and thus reducing their risks;
- Enhance the ability of individuals to start and expand their own businesses, invest in education, manage risk, and absorb financial shocks;
- Reducing poverty and unemployment, reducing income inequality, and accelerating economic growth;
- Provide alternative products to those financially excluded for reasons of religious beliefs, such as Islamic finance;
- Contributes to spreading banking awareness and financial culture through the participation of all concerned parties and in the best ways.

2.3 The Importance of Financial Inclusion:

- Financial inclusion enhances competition among financial institutions by working on the diversity of their products and paying attention to their quality to attract the largest number of customers and transactions, and by regulating some informal channels.
- Financial inclusion is a key factor in achieving the Sustainable Development Goals, as the universalization of financial services contributes to improving the standard of living, empowering women, financing microprojects, reducing poverty and inequality, providing job opportunities, and integrating the informal economy into the formal economy by formalizing small and medium enterprises and thus raising economic growth rates.
- Financial inclusion is concerned with the social aspect, in terms of caring for the poor and low-income through their access to financial products fairly and at low prices, thus developing their social and economic conditions (Marwan Ben Qida, 2018).
- Financial access will attract investors from the global market in countries that embrace financial inclusion, leading to increased employment opportunities;
- Contributes to increased business opportunities, which in turn leads to an increase in GDP, so it is a means of growth and development;
- Access to appropriate financial services can significantly improve the financial management of the state and individuals, as well as provide opportunities for the banking sector to include various segments of society;
- Financial inclusion is an effective tool that can help reduce poverty and reduce income inequality;

- An inclusive financial system can help limit the growth of informal sources of financing;
- Financial inclusion provides individuals with the possibility and atmosphere of a safe place to save for the future, and thus can enhance financial stability (Baida Star Lafta, 2019)

3. The importance of SMEs and the need for financing

3.1 Economic Importance:

The importance of small and medium enterprises is due to the economic and social roles they play, the most important of which is their contribution to providing jobs, achieving economic development, and their ability to resist economic crises, which we highlight as follows:

- ❖ As a means of creating employment, as it relies more on labor-intensive production than on capital intensity, it is an opportunity for the developing country, which often suffers from high unemployment rates with the resulting weakness and decline in demand.
- ❖ Respond to the characteristics of the small-sized market, which is the dominant characteristic of the markets of developing countries because of their weak ability to compete at the level of international markets on the one hand and the modest levels of internal demand on the other;
- ❖ Availability of an internal information system characterized by low complexity, which allows rapid deployment up or down between the management of the institution and its workers. Externally, the information system is also characterized by simplicity as a result of the proximity of the market geographically.
- ❖ Lack of specialization in work to the degree where one job performs the tasks of several jobs and the worker is multiple.
- ❖ Represents a means of support for large enterprises through subcontracting operations;
- ❖ It can establish several industrial units that produce a variety of goods, especially consumer ones, which gives them the advantage of distribution in industrial production;
- ❖ These enterprises are characterized by the use of a less complex and less capital-intensive production technique, are therefore relatively dependent on labor, and are considered a factor in the valuation of the latter.
- ❖ It is also characterized by its ease of adaptation to the external environment and the extension of its activity even to remote areas, where it is seen as a means of promoting these areas, especially since the projects it adopts do not require a high value of investment, which corresponds to the level of middle income;
- ❖ Contribute to job creation and assistance in unemployment problems through youth employment at a relatively low cost compared to the cost of job creation in large enterprises; (Abdel Aziz Jamil Mokhaimer, 2005).

- ❖ Achieving the geographical balance of the development process, where small and medium-sized enterprises are flexible in settling and moving between different regions or regions, thus contributing to the creation of new productive communities in remote and rural areas, population redistribution and the reduction of migration to large cities;
- ❖ Renewal: Individuals and small and medium enterprises are the main source of new ideas and inventions, as small and medium enterprises run by their owners are exposed to renewal and talk more than public institutions because brilliant people who work to create new ideas affect their profits and find in it incentives that push them directly to work. for example, from the patents issued by the Patent Office in the United States of America during the past twenty-five years, more than a third belong to individuals and more than a quarter (Ezzedine Amqran, 2007) .
- ❖ High productivity rates in enterprises and small and medium-sized enterprises compared to government and public work, as the individual is as productive as he is consumed in small enterprises, but it is not necessary to produce in public jobs to the same degree;
- ❖ Small and medium-sized enterprises (SMEs) provide goods and services for final and intermediate consumption, thereby increasing the country's national income;
- ❖ It helps small and medium enterprises increase sales and distribution, which reduces costs related to storage and then marketing and leads to the delivery of goods to the consumer at the lowest possible cost (Larqat Farida, 2003).
- ❖ Dependence on local resources and thus reduce imports by SMEs.

Believing in the importance of small and medium enterprises and in order to activate their role in supporting economic growth, the state has established the aim of providing the legal and institutional framework for the work of this type of institution, and this can be highlighted as follows:

In particular, during the period of reforms, Algeria has issued a series of legal texts, all of which seek to create a favorable climate for the development of investments.

Among the most important provisions of these laws are the establishment of investment promotion agencies and other bodies to support and encourage it, including: the Agency for the Promotion and Support of Investments (APSI), the Committee for the Support and Promotion of Local Investment Sites (CALPI), the National Agency for the Support of Youth Employment (ANSEJ), the National Agency for Investment Development (ANDI), the National Investment Council (CNI), the Single Window (GU), the Investment Support Fund (CSI), and the Ministry Delegate in charge of Investment Promotion and Follow-up of Reforms.

3.1.1 National Investment Council (CNI):

This Council was established by Article 18 of Ordinance No. 01-03, chaired by the Head of Government, and one of the functions of the Council is to promote the development of investment in accordance with the procedures of Article 19 of Ordinance No. 01-03, which states:

- ✓ Propose an investment development strategy and priorities;
- ✓ Propose incentive measures for investment in line with the observed developments;
- ✓ Adjudication of benefits granted under investments;

✓ Propose to the government all necessary decisions and measures to implement the Investment Support and Promotion Arrangement;

✓ In addition to the above-mentioned Article 19 procedures, it shall also determine the expected amount of parallel allocations to the Investment Support Fund and the code of expenditures that may be charged to the Fund.

For reference, this Council is composed of the Minister of Finance, the Minister in charge of Contribution and Coordination of Reforms, the Minister in charge of Local Authorities, the Minister in charge of Trade, the Minister in charge of Energy and Mines, the Minister in charge of Industry, the Minister in charge of Small and Medium Industries and Small and Medium Enterprises (PME/PMI), the Minister in charge of Cooperation, and the Minister in charge of environment Development. the Council meets quarterly, and the secretariat of the Council is guaranteed by the National Agency for Investment Development (**Article 08 of Executive Decree No. 01-281**).

3.1.2 National Agency for Investment Development (ANDI):

The Agency is a public institution of an administrative nature with legal personality and financial independence, where the Minister of Contributions and Coordination of Reforms follows up on the overall activities of the Agency (Article 01), one of the functions of the Agency within the framework of investment, and in cooperation with the departments and organizations concerned to carry out the following: (**Article 03**).

- Ensure the promotion, development and follow-up of national and foreign investment.
- Receive, inform and assist resident and non-resident investors in the implementation of investment projects.
- Facilitate the completion of the formalities of establishing institutions and realizing projects through the decentralized single window (Guichet Unique).
- Granting investment-related benefits;
- Ensure that the obligations undertaken by investors during the exemption period are respected.

In addition to the above, the agency is also mandated to:

- Establishment or construction of a single window in accordance with articles 23 and 24 of Ordinance No. 01-03;
- Identify investment opportunities and form an economic data bank and put them at the disposal of customers;
- Collect, process and publicize all necessary information related to investment opportunities and benefit from the wealth and experience of other countries;
- Identify obstacles facing the implementation of investments and propose appropriate regulatory and legal measures to address them to public authorities.

3.1.3 The National Agency for the Support of Youth Employment (ANSEJ):

The purpose of which was to help this group establish small enterprises and thus reduce unemployment rates by using small investments and investor follow-up, but the results were not in the sense of several considerations, including:

- Banks' insistence on guaranteeing the loan;

- Weak flow of information on activity opportunities and the possibilities of subcontracting start-ups dealing with the national economy;
- Neglect of a wide group of those to whom this activity is directed in terms of media within universities, centers and higher institutes.

3.2 Institutions and the Vital Importance of Financing:

Financing is the backbone of the project and the driving energy of all jobs and businesses, as there is no profit or investment that generates interest without capital, and as much as the size of the financing and the management of its sources and good investment, projects in general need funds from the beginning of their activity and their launch in production processes to continue their activity or to cover their deficit or productive expansion of their activity in order to raise their production capacity, and through this we can conclude that the importance of financing is represented in:

- Creation of new projects;
- Exploitation of frozen financial resources;
- Covering the financial deficit of investment entrepreneurs;
- Increase in production by employing financial resources;
- Creation of new jobs, thereby reducing unemployment;
- Achieving the economic development of the country;
- Achieving the well-being of members of society by improving their living conditions.

But in order to achieve the operational objectives and investment objectives of small and medium enterprises, the financing market must be compatible with the characteristics that distinguish small and medium enterprises from other institutions, as small and medium enterprises in general are characterized by their legal form, which is usually in the form of partnership companies or limited liability, which hinders them from registering in the financial markets, and therefore their financing almost depends on the banking system. This body plays the role of mediator between all economic sectors; hence, the extent of development and flexibility of the banking system are key issues in determining the investment climate, as small enterprises are in constant need of borrowing to supply their activities and supply industrial inputs and raw materials.

The financing of this type of institution is considered high-risk, which makes some banks reluctant to lend to them due to the low confidence of financing institutions in the feasibility studies provided by these institutions. In this context, only a highly efficient banking sector is able to assess and manage risks to ensure at the same time the financing of institutions and the collection of their rights, and therefore banks that do not adopt modern management mechanisms and arts are unable to meet the needs of small and medium enterprises.

4. The importance of financial inclusion for SMEs:

This section illustrates the nature and size of the overall financial benefits of increasing financial inclusion for SMEs. Complementing the findings from the relevant economic literature, the impact of increased financial inclusion of SMEs on economic growth, job creation, macroeconomic policy effectiveness and macroeconomic stability has been examined.

4.1 Economic Growth:

Financial inclusion is one of the most important factors in achieving a country's economic growth, as it is important in strengthening financial stability and supporting sustainable development opportunities. This means that banks around the world can enhance the security of communities without banking transactions by providing a variety of innovative banking services that meet their needs at the right prices, use them correctly, and in a transparent, responsible, and sustainable manner. This is achieved by the tendency to reach a large number of young people, especially young women and businessmen.

Thus, financial inclusion means providing appropriate opportunities for all segments of society, whether financial institutions or individuals, to properly and safely manage their money and savings, ensuring the participation of all segments of society in banking services, and the majority not relying on informal channels that are not subject to management or supervision. This can expose you to fraud, charging more fees, and losing money. These services are not simply based on finance or loans but include all banking transactions such as payments, savings, credit, and insurance. They also take into account the client's conditions and do not incur them with loans, unfair fees, or charges.

The spread and diversity of digital financial technologies, especially the global spread of mobile phones, has helped to expand access to financial services at low cost and low risk. For example, in the Arab region, the available statistics highlight great opportunities in the development of digital services since about 85% of adults in the region own mobile phones, 48% have mobile phones, and at the same time, they have access to the internet. 7% have mobile financial accounts, about 33% sent and received digital payments in 2020, and about 44% worldwide. The expansion of the coronavirus pandemic, the current development, the negative impact of distance, and the imposed preventive measures have reinforced the importance of adopting modern technologies for the purposes of financial inclusion and the need to expand digital financial services and raise awareness among their users.

Policymakers are increasingly noticing financial inclusion for the many benefits it brings to society by mobilizing resources to increase investment rates, create new jobs, address the challenges of poverty and unemployment, and provide financing for small businesses that help establish social justice. The provision of financial services also facilitates life problems and ensures that companies, individuals, and families work according to sound plans. This helps to start and expand a business on an economic basis away from randomness, stimulates more investment, gives them the ability to manage risks and cope with financial shocks, and reflects them positively in their lives. At the level of the banking sector, the progress made by countries in expanding financial inclusion and providing an appropriate regulatory environment and policies for it will encourage

competition among banks, innovate banking services, expand the scope of banking services, and increase access to financial services. And it attracts more customers, especially since there are about 20 billion people around the world who are not involved in the formal financial sector.

Expanding financial inclusion requires developing the infrastructure of the financial and banking systems, promoting the development and expansion of digital financial services, improving the spread and innovation of financial and banking services, and developing legal and regulatory frameworks to help provide protection to customers. In addition to raising awareness among all groups, it protects their financial rights, enhances their culture, competence, and knowledge of digital financial issues, and allows them to make sound decisions on these services.

4.2 Job Creation:

SMEs play a key role in promoting employment, especially in developing economies, and are the largest contributors to employment across all income groups in different countries. SMEs are also major shareholders in employment growth (**Kumar study, 2017**).

The findings of the study (**Maksimovic and Demirguc, Ayyagari 2014**) indicate that SMEs (less than 100 employees) represent almost half of the average country's workforce, and small businesses (less than 20 employees) are the largest contributors to employment growth. The study also found that young companies have the highest employment growth rates. Increased financial inclusion for SMEs in the MENA region will contribute to higher employment rates, potentially creating around 10 million jobs by 2025. Firm-level analyses indicate that providing access to formal financial services to firms leads to a 1 percentage point increase in their annual employment growth rate and 2.4 percentage points in the productivity growth rate of their workforce, which is in line with findings from the relevant economic literature. These estimated gains are significantly higher for SMEs (1.3 percentage points and 2.3 percentage points, respectively) than for large firms (0.8 percentage points and 1.8 percentage points).

At the SME level, employment gains are the largest in small firms (1.7 percentage points), which are the most exposed to credit constraints, while medium-sized firms record the largest gains in productivity (2.5 percentage points), which may be due to relatively larger gains by increasing their production capital intensity. Macroeconomic analyses indicate that any 1% increase in credit to SMEs leads to a decrease of about 0.1% in the unemployment rate in a sample of emerging markets and developing economies, up to 0.2 percent in MENA countries.

4.3 Effectiveness of Macroeconomic Policies:

Increased financial inclusion for SMEs is accompanied by increased effectiveness of macro-fiscal policy, including through improved tax collection. The autoregressive vector approach suggests that any positive shock to the output gap is followed by more effective tax revenue mobilization in countries that rank high in the MENA SME Financial Inclusion Index.

The International Monetary Fund (2018) study (FMI) also reports that increased financial inclusion is associated with higher revenues and expenditures as a share of GDP. The improvement also appears to be following the possibility of monetary policy and price stability in countries with higher levels of financial inclusion for SMEs. As more and more SMEs have access to formal lending services, the role of the interest rate in the economy can increase, improving the transmission of monetary policy effects and allowing monetary authorities to work better to ensure price stability. The impulse response of the output gap to a nominal interest-rate shock is often strongest in countries with high SME financial inclusion. Similarly, central banks' reluctance to inflation (measured by the ratio of the output gap and inflation gap) increases the financial inclusion of SMEs.

4.4 Financial Stability:

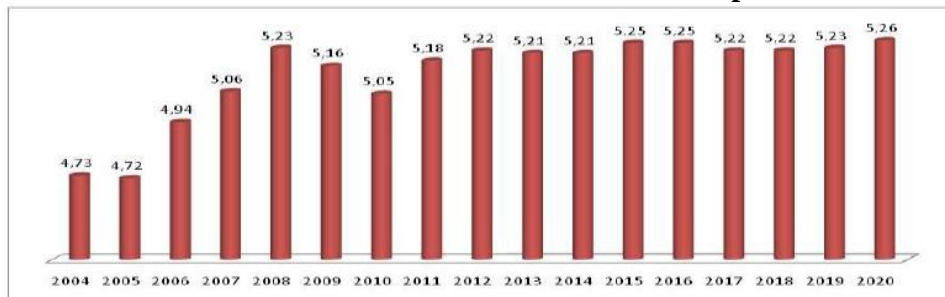
Financial inclusion can support financial stability if strong risk management and financial control measures are in place. Increasing lending to SMEs can help maintain economic stability by allowing banks to diversify their lending policies and provide evidence of risk, but SME lending is a relatively risky asset class and is developing rapidly without accuracy. It could be a credit summary. The management of these structured trades requires appropriate institutional safeguards, including sound financial control measures to ensure strong standards of credit discipline and risk management.

5. Diagnosis of the reality of financial inclusion in Algeria

5.1 Financial Accessibility Indicators:

We notice through the figure a relative increase at a weak and stable pace in the number of branches of commercial banks in Algeria per 100,000 adults from 4.73 in 2004 to 5.26 in 2020, and this ratio remains very weak compared to other countries, especially neighboring countries, where 22 branches per 10,000 adults in Tunisia and 24 branches per 100,000 adults in Morocco exceeded the ratio respectively in 2020, knowing that the number of branches of commercial banks in Algeria in 2020 reached 1578 branches, while in the same year, the number of branches of commercial banks reached 1973 branches in Tunisia and 6500 branches in Morocco.

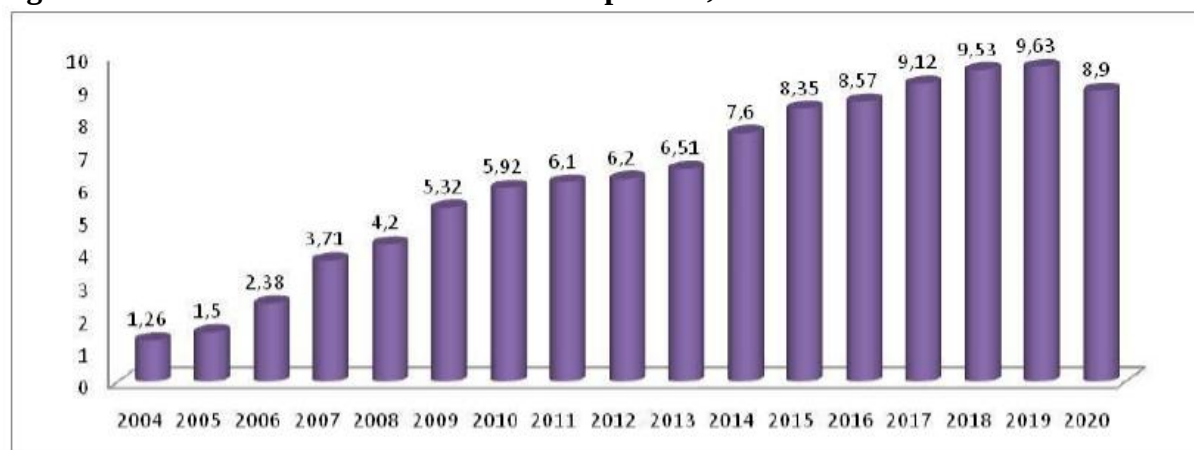
Figure 1: Evolution of the number of commercial bank branches per 100,000 adults



Source: Prepared by researcher based on data from the International Monetary Fund and the World Bank

Despite the remarkable increase in the index of the number of ATMs per 100,000 adults from 1.26 in 2004 to 9.63 in 2019 and 8.9 in 2020, this indicator remains weak compared to neighboring countries, as the year 2020, respectively, reached about 29 in Morocco and exceeded 30 in Tunisia, noting that the number of ATMs in 2020 in Algeria reached 2702 machines, compared to 7734 in Morocco and 3029 in Tunisia.

Figure 2: Evolution of the number of ATMs per 100,000 adults

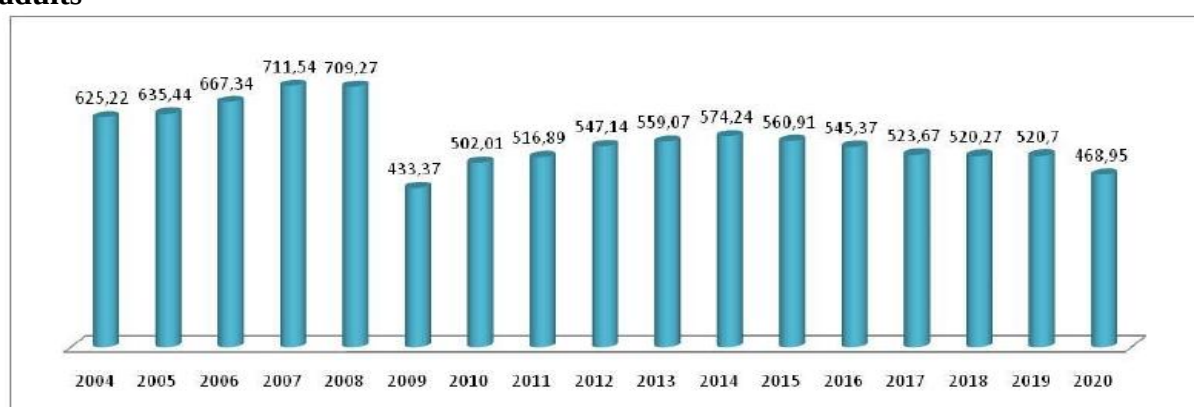


Source: Prepared by researcher based on data from the International Monetary Fund and the World Bank

5.2 Financial utilization indicators:

We can see a significant decrease in the index of the number of deposit accounts with commercial banks per 1,000 adults from an average of 600 to an average of 544 in recent years, compared to neighboring countries. For example, Morocco witnessed a continuous increase in this indicator throughout the same period, from an average of 400 to 1000, exceeding 1090 during the year 2020.

Figure 3: Evolution of the number of deposit accounts with commercial banks per 1,000 adults

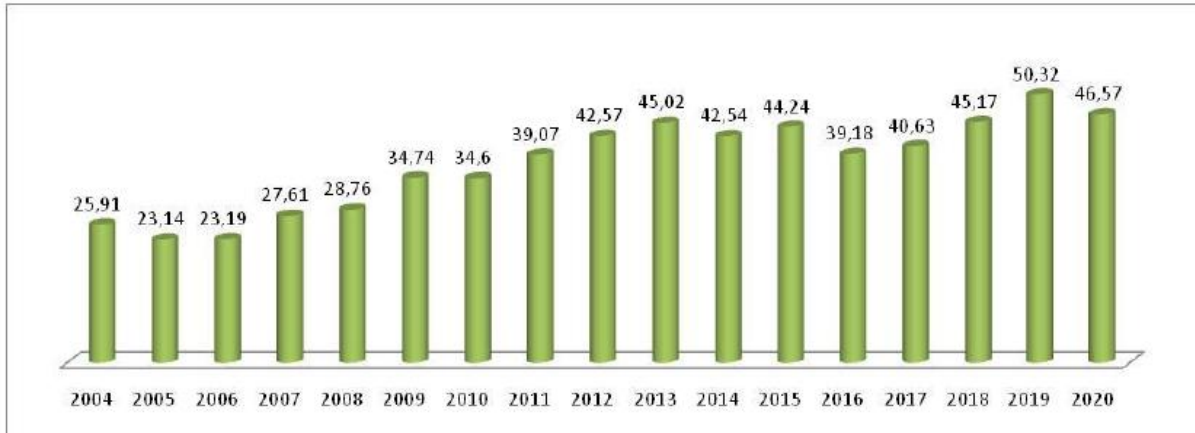


Source: Prepared by researcher based on data from the International Monetary Fund and the World Bank

The figure clearly shows the fluctuation of the index of the number of borrowers from commercial banks per 1,000 adults, rising at a very weak pace from an average of 25 during the beginning of the period to an average of 39 mid-period, gradually rising to an average of 45 at the end of the period, with a level of 50.3 in 2019 and 46.5 in 2020, and the level of

this indicator also remains very weak compared to neighboring countries, in Tunisia, the index witnessed an escalating and steady development from 74.4 in 2000 to about 246 in 2020.

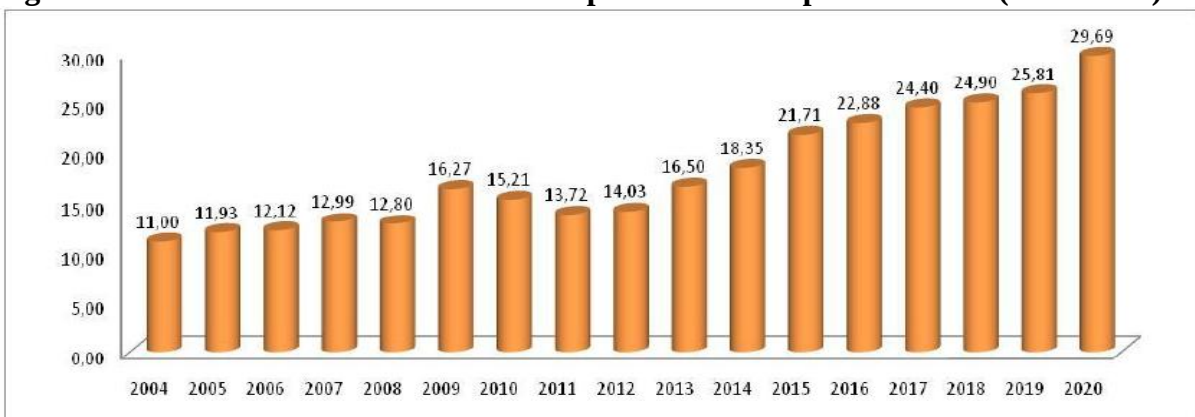
Figure 4: Evolution of the number of borrowers from commercial banks per 1,000 adults



Source: Prepared by researcher based on data from the International Monetary Fund and the World Bank

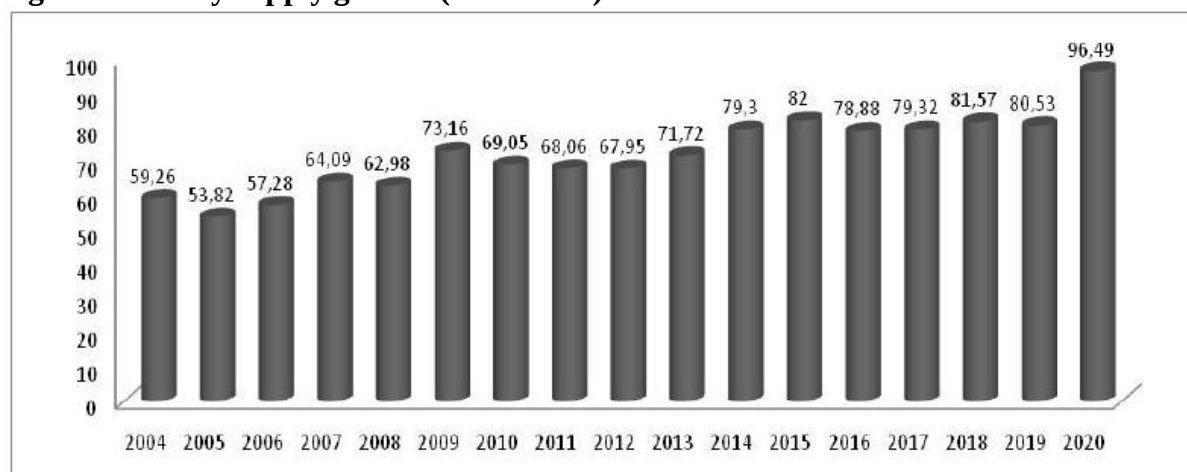
The figure clearly shows the significant increase in the volume of credit provided to the private sector relative to GDP, from an average of 12% at the beginning of the period to witness a fluctuation in the average period and then a continuous and noticeable increase starting from 2012 to reach about 29.6 in 2020, which highlights the role of banks in financing the private sector and thus their contribution to financing the national economy. However, comparing this index with other countries, we find that it is very weak. For example, this indicator reached 69% in Tunisia in 2020 and nearly 70% in Morocco during the same year.

Figure 5: Evolution of the volume of credit provided to the private sector (% of GDP)



Source: Prepared by researcher based on data from the International Monetary Fund and the World Bank

We clearly note the continuous development of the monetary expansion index in relation to GDP, rising from an average of 68% in 2012 to about 96% in 2020, and this indicator remains at an acceptable level compared to the level recorded in Tunisia in 2020 by 79.5%, while in Morocco, the index reached 136% in the same year.

Figure 6: Money supply growth (% of GDP)

Source: Prepared by researcher based on data from the International Monetary Fund and the World Bank

6. Conclusion:

Financial inclusion for SMEs is becoming increasingly important around the world. Financial inclusion is a key element in the challenges facing many countries in diversifying their economies and achieving economic growth because these projects help create jobs, diversify economies, and support growth.

Financial inclusion for SMEs can contribute to increasing economic growth, creating jobs, enhancing the effectiveness of fiscal and monetary policies, and contributing to financial stability. SMEs represent about 96% of registered firms and absorb more than half of the workforce. With only 7% of total bank lending, SME loans are the lowest in the world, so encouraging financial inclusion for SMEs requires an integrated approach. There is no silver bullet that allows financing for these projects in an effective, safe, and sustainable manner.

There are a range of economic and institutional factors needed to help increase bank credit available to SMEs, as follows:

- A strong and competitive economy and a banking sector that makes it easier for SMEs to enter the market
- Reducing the size of the public sector and creating a climate that provides equal opportunities for these projects
- The safety of the financial sector and the provision of a competitive banking system
- Institutional systems, such as strong governance and financial regulatory and supervisory capabilities, the availability of credit information, an enabling business environment, including modern security and insolvency frameworks, and legal systems that allow the enforcement of property rights and contracts,.
- Specific policy and regulatory frameworks must therefore be provided to encourage the development of SME finance through increased reliance on capital markets and modern technology. Capital markets can also conduct the various stages of SME

development, reduce restrictions on bank credit, and open new channels for financing SMEs with financial technology.

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