

**Building and public works sector: Financing and insurance
institutions**

قطاع البناء والأشغال العمومية: مؤسسات التمويل والتأمين

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Abstract

This study aims to shed light on the institutional structure of the building and public works sector in Algeria, composed of banks, financial institutions, insurance companies and specialized funds. This study revealed that banks provide long-, medium-, and short-term financing, while financial institutions finance investments without the possibility of intervening in the operating cycle. The Public Procurement Guarantee Fund also provides short-term financing, particularly in the form of bonds. Insurance companies provide coverage in the form of guarantees to banks, the project owner's accountant guarantees the recovery of the public

الملخص

تهدف هذه الدراسة إلى القاء الضوء على الهيكل المؤسساتي لقطاع البناء والأشغال العمومية في الجزائر، والمتكون من بنوك، مؤسسات مالية، شركات تأمين، وصناديق متخصصة. توصلت هذه الورقة إلى أن البنوك، تقوم بعملية التمويل على نوعيه الطويل، المتوسط وقصير الأجل، أما المؤسسات المالية فتقوم بتمويل الاستثمارات من دون إمكانية التدخل في دورة الاستغلال. كذلك فإن صندوق ضمان الصفقات العمومية يعمل على توفير التمويل قصير الأجل خاصة في جانب الكفالات. أما هيئات الاسناد فهي شركات التأمين التي تقدم التغطية في شكل ضمانات للبنوك، ومحاسب صاحب المشروع الذي يضمن تحصيل رهن الصفقة العمومية والصندوق الوطني للعطل مدفوعة الأجر.

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procurement pledge, and the National Paid Leave Fund. الكلمات المفتاحية: التمويل، التأمين، قطاع البناء والأشغال العمومية؛ الجزائر.

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Algeria.

Jel Classification: G21, G22, L74

1. INTRODUCTION:

In Algeria, banks and financial institutions offer their clients uniform financing services in terms of form. However, the sectoral nature of each project requires tailored approaches, in addition to the need to use other specialized institutions to support the financing.

Given the specific nature of the building and public works sector, the Algerian institutional financing system prioritizes institutions that protect against the risks to which this sector is exposed. These institutions are also used by banks, financial institutions, and even the Public Procurement Guarantee Fund.

Based on the above, this research paper examines the following problem: what are the components of the institutional structure for financing the building and public works sector in Algeria, and what is the type of functional overlap between them?

This main problem includes the following sub-questions:

- What are the components of financing institutions in the building and public works sector?
- What are the components of financing guarantee institutions in the building and public works sector?
- Where is the functional overlap between these institutions?

Research significance:

The significance of this research lies in its ability to present a comprehensive picture of the institutions involved in financing the building and public works sector in Algeria, whether directly or indirectly

through financing guarantees. It also explains how each actor participates in this process, while highlighting the complementarity and overlaps between these institutions.

Research Objectives:

This research aims to:

- Identify the institutions involved in financing the building and public works sector in Algeria;
- Identify the institutions involved in establishing guarantees for financing the building and public works sector in Algeria.

2. Financing of SMEs :

In the following we will present the SME and its financing.

2.1. Definition of SMEs :

An SME is considered to be any entity engaged in an economic activity regardless of its legal status. A universal and comprehensive definition of SMEs has never been achieved; it is difficult to give a single image, as the presentations vary according to countries, political regimes, levels of economic development, the divergence of opinions and the non-existence of a single criterion for classifying SMEs (Tari & Attari , 2018, p. 28).

2.2. The structure and method of financing of the SME:

Recent banking theory has clearly demonstrated that banks have a comparative advantage in providing credit to businesses. This advantage is based on their ability to lend to borrowers whose economic and financial situation is complex to analyze, particularly due to information imperfections. Geographic proximity strengthens relational proximity by facilitating physical meetings between the banker and his clients. It also allows the banker to better understand the borrowers' immediate environment. Granting short-term debt allows banks to exercise more frequent and therefore more effective control over these businesses.

Through a periodic review of loan conditions, the bank reduces information asymmetry (Ben Bayer & Trari-medjaoui , 2009, p. 211).

2.3. Investment and financing of SMEs:

Investment financing methods can be divided into two parts, namely (Azzaoui , 2016, p. 73):

- **Loans:** Traditional loans are those from banks, suppliers, or customer deposits. The duration and amount of these loans depend on the guarantees the company can offer and its financial situation, as analyzed by its partners, its relationship with its lenders, and the trust of third parties, etc.

- **Leasing:** This method has grown considerably in recent years and offers numerous advantages to businesses, particularly newly established SMEs. Leasing functions as a rental of equipment by the company, with the option to purchase it at the end of the contract. It can be used in all areas where the company needs to invest, such as the purchase of machinery or vehicles.

3. Credit risk and bank guarantee:

In the following we discuss credit risk and guarantees, two aspects differ, namely: technical and legal, but there is a great banking complementarity between these two elements.

3.1. Definition of credit risk:

Credit risk is the first risk borne by a bank and represents the risk that a customer may at a given time be unable or unwilling to fulfill his financial obligations as stipulated in the contract. It is therefore; the potential loss resulting from the inability of a debtor to honor his commitments. Credit risk can be defined as: The potential loss borne by an economic agent following a change in the credit quality of one of its counterparties, or a portfolio of counterparties, over a given horizon (Bencheriet & Bensahla Tani , 2022, p. 481).

3.2. Financial analysis:

Consists of studying the past to evaluate the present and predict the future, financial analysis constitutes both the oldest and most used method by banks to measure the solvency, profitability and liquidity of the company, based on an economic diagnosis and a financial diagnosis. Overall, financial analysis consists of tracing the financial policy carried out by a company in order to assess how it achieves its objectives and respects the various constraints that weigh on it, including that of solvency (Bencheriet & Bensahla Tani, 2022, p. 482).

3.3. The guarantee fund:

A guarantee fund is intended to compensate for any losses incurred by a credit institution in granting its loans. If the borrower does not repay, the fund acting as guarantor must assume all or part of (depending on what is stipulated in the contract) the borrower's obligations. The guarantee is therefore the promise of a guarantor to a lender. The statutes of the institutions providing such guarantees are multiple; it is noted that the guarantee can be provided by public authorities or by mutual professional associations (pooling of risks between borrowers or between lending financial institutions) (Azzaoui , 2016, p. 74) .

3.4. Guarantees:

The entrepreneur is encouraged to launch the least risky projects to avoid losing his guarantees. The introduction of guarantees in loan contracts would allow borrowers to be discriminated against by associating stronger guarantees with lower lending rates, and would thus contribute to increasing bank debt. However, the only form of guarantee that can be measured to date is that which is expressed through financial statements (Tari & Attari , 2018, pp. 34-35).

In the context of bank guarantees there is a family belonging to another type of financial institution called the insurance company, in the following we will approach this technique to better understand the complementary links that exist between the bank and an insurance company.

4. The insurance contracts:

In the following, we will discuss the definition of insurance, its elements and its parts.

4.1. Definition of insurance:

According to Henri Ford: New York is not the creation of men, but that of insurers. Without insurance, there would be no skyscrapers, because no worker would agree to work at such a height, risking a fatal fall and leaving his family in poverty (Lezoul , Vers Une Réforme Du Secteur Des Assurances En Algérie : Situation Actuelle Et Nouvelle Alternative, 2023, p. 611). Insurance is the operation by which an insurer organizes mutuality between policyholders exposed to the occurrence of specific risks, and compensates those of them who suffer a loss thanks to the common pool of premiums collected (Yousfi épouse Bourakni, 2007, p. 202). Thus, Professor Joseph HEMARD defined insurance as an operation by which a party, the insured, is promised, in return for remuneration, the premium, for him or for a third party, in the event of a risk occurring, a service by another party, the insurer, who takes charge of a set of risks, compensates them in accordance with the laws of statistics (Omrani & Tahri , 2021, p. 242). In Algerian law, the definition of the insurance contract is given to us by the Civil Code which provides in its article 619 that the insurance contract is defined as a contract by which the insurer binds itself, in return for premiums or other financial payments, to be provided to the insured or the third-party beneficiary for whose benefit the insurance is taken out, a sum of money, an annuity or another financial benefit, in the event of the risk provided for in the contract occurring (legal-doctrine, 2024).

4.2. Historical overview:

Insurance spread very quickly in England, the need for which was reinforced by the tragic fire of London in 1666. We found in the statutes of Queen Elizabeth I of England this quote: Insurance was established so that the loss weighs lightly on many, rather than heavily on few... Risks being linked to the progress of modern life, insurance therefore appears as

a phenomenon of civilization and corresponds to the evolution of security needs (Omrani & Tahri , 2021, p. 241). The Algerian insurance market has been subject to liberalization, enshrined in the promulgation of Ordinance No. 95-07 relating to insurance. This text, by proceeding to the final realization of the reform of the sector by the abolition of the state monopoly. It takes into account the rules of operation of the market through in particular the competition induced by the diversification of participants and the freedom to practice all insurance operations (Said Lhadj & Si Mansour , *Fidélisation De La Clientèle Au Sein D'une Compagnie D'assurance: Cas De La Caisse Régionale De Mutualité Agricole Crma De Tizi Ouzou*, 2021, pp. 92-93).

4.3. The elements of an insurance transaction:

The elements of an insurance operation are subdivided into four parts as follows (Said Lhadj & Souki , *L'industrie Assurantielle En Algérie : Quelle Réalité ?*, 2023, pp. 535-536) :

- **Risk:** An insurance risk is defined by an uncertain event which, if it occurs, will penalize an individual or a company. It is insurable when it concerns damage due to a mutualizable random event, which neither the insurer nor the insured has an interest in seeing occur.
- **Premium or contribution:** The premium is the sum of money that the insured must pay in return for the coverage granted by the insurer to cover a risk. When the insurance organization is a mutual company in which the insured is at the same time a member, the premium is called “contribution”, a word from the Latin *quota pars*, a share which goes to each person.
- **The insurer's service:** The service is a sum of money, paid by the insurer, which is intended either for the subscribers and the insured; either to a third party; or to the beneficiary.
- **Clearing:** within the mutuality implies that all members of this mutuality are treated fairly.

4.4. Parts of the insurance contract:

The parts to an insurance contract are: the insured, the subscriber, the beneficiary, the third party and the insurer (Lezoul , Vers Une Réforme Du Secteur Des Assurances En Algérie : Situation Actuelle Et Nouvelle Alternative, 2023, pp. 612-613).

- **The insured:** The person whose property, actions and life are guaranteed against various risks upon payment of a certain sum (premium or contribution).
- **The subscriber:** The person who contracts with the insurer by paying the premium.
- **The beneficiary:** The person who will receive the benefits promised by the insurer in the event of the risk provided for in the insurance contract occurring.
- **The third party:** Any person outside the contract but can claim the benefit, like the beneficiaries of life insurance or victims of liability insurance.
- **The insurer:** Is the one who is obliged to pay the compensation provided in the event of the occurrence of the insured risk.

5. Technical aspects of insurance:

Insurance is a risk management technique, in what follows, we will focus on this aspect through, the inversion of the production cycle, the distribution network, and risk management.

5.1. Reverse production cycle :

In a traditional business, the purchase price is known in advance and subsequently the selling price can be determined accurately. In insurance, moreover, premiums are collected before paying claims. We can therefore say that the selling price of an insurance product is not known in advance but that it should be paid by the insured as soon as he is exposed to the risk. As a result, the insurance sales price is only actuarial, it is calculated on the basis of statistics using probability laws (Omrani & Tahri , 2021, p. 242).

5.2. Distribution network:

Insurance is creative when it comes to developing new distribution channels. It is probably one of the sectors where the most diverse distribution channels coexist: direct agencies, general agencies, brokers, employees, internet, bancassurance...etc. Within the insurance companies themselves, different distribution channels can coexist (Kahoul, 2017, p. 87).

5.3. Business and risk management :

The very first method of risk management is to have financial reserves and borrowing capacity in order to absorb poor annual economic results. The second method of managing risk is to diversify it. The third method of managing risk consists of selling it to a third party (Lezoul & Khaloui , *Le Rôle De L'assurance Dans La Gestion Des Risques Agricoles Cas De La Cnma*, 2023, pp. 678-679).

5.4. Insurance and risk management :

Risk management is a crucial aspect of the business of insurance companies. Indeed, insurance companies are exposed to many risks, such as underwriting risks, market risks, operational risks, reputation risks, etc. Effective risk management can help strengthen the solvency of insurance companies and improve their ability to deal with all eventualities (Metchat & Boudaoud , 2023, p. 653)

6. Financing and insurance for the construction sector:

In the following we analyze the institutional landscape of construction financing in Algeria, in particular through the presentation of the roles of banks and insurance companies in this area.

6.1. Credit file study for the construction sector:

The study of a bank loan application follows a standardized methodology, based on the steps taken by the banker to review the application documents, propose the required guarantees, and issue the loan authorization. This process also varies from one bank to another and from

one type of loan to another. In the construction sector, the banker's proposals are characterized by a certain standardization of the available options, both in terms of loans and guarantees. For example, well-known bank loans in this sector generally prioritize the operating cycle, particularly in the form of bank guarantees, which belong to the family of signature loans. Regarding guarantees, the most suitable guarantees for this type of loan are public procurement pledges.

As with other sectors, loan applications for the building and public works sector are reviewed by the agency, then by the regional management, and finally by the headquarters (Top Management), according to the decision-making levels adopted by each bank. At the end of this review phase, the bank issues the loan authorization, collects the guarantees, and finally uses the loan envelopes granted.

6.2. Types of Business Loans:

The building and public works sector fall under the category of business loans, as the entities operating in this sector are individuals or legal entities with commercial status. Business loans are divided into operating loans and investment loans. As previously mentioned, the most common loans in this sector are those related to operating activities.

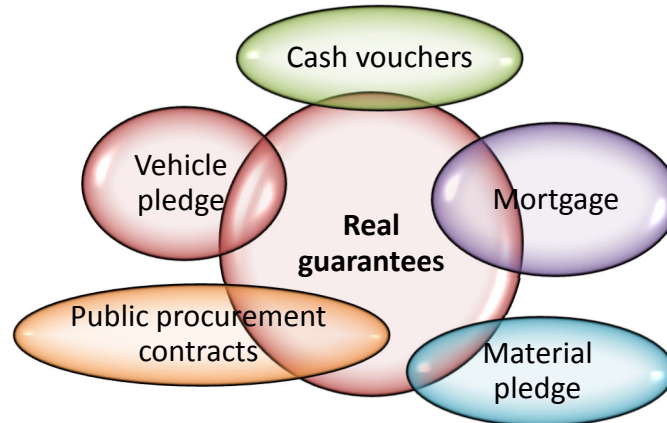
The types of loans granted to the construction and public works sector may vary in terms of principle or accounting method, but the general framework of bank lending remains unchanged: short-term operating loans and long- and medium-term investment loans.

6.3. Bank guarantees:

Bank guarantees provide protection against a client's inability to repay. Although the bank's real guarantee is the business, guarantees of any kind remain a prerequisite for obtaining financing. Guarantees are divided into two types: personal and real. In the construction and public works sector, the use of personal guarantees is minimal compared to real guarantees, for two reasons: the company requesting financing can be a natural person, which excludes the requirement for joint and several guarantees for partners; and the diversity of real guarantees to the

detriment of personal guarantees. Banking experience has shown that banks finance on the basis of real guarantees to the detriment of personal guarantees when preparing a loan authorization.

Figure 1: Types of real guarantees



Source: Prepared by the author based on: (Banking executives, 2025)

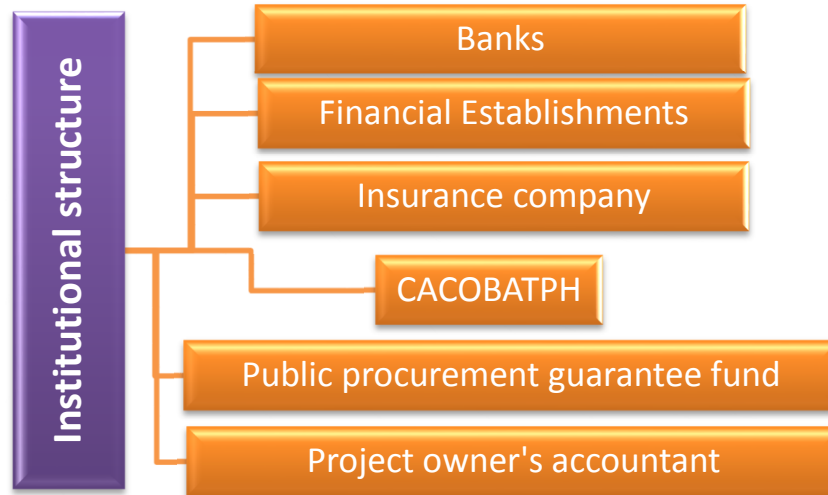
According to this figure, we note a certain diversity of real guarantees, to the detriment of personal guarantees, which are limited to bonds only. It should also be noted that all guarantees in this form are subject to banking conditions. However, the most suitable guarantee for the construction and public works sector is the public procurement pledge. Other guarantees, particularly real estate mortgages, are less suitable, due to the nature of the activity. A company operating in the road paving sector cannot have mortgageable real estate assets. On the other hand, this entity can offer a rolling stock pledge or a pledge on equipment, due to their ownership, as part of its commercial activities related to construction or public works.

6.4. Institutional structure supporting the financing of the building and public works sector:

The organizations financing projects in the building and public works sector can be divided into two categories: the first represents

institutions that provide direct financing, and the second is entrusted with a supporting role in financing. The following figure illustrates these institutions:

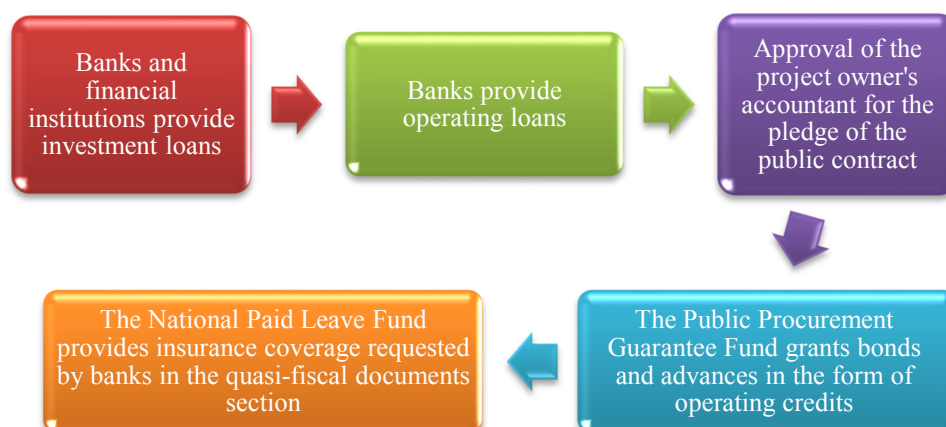
Figure 2: Institutional financing structure of the building and public works sector



Source: Prepared by the author based on: (Banking executives, 2025)

This figure presents the support organizations involved in financing the construction and public works sector. Banks, the main partners in this sector, provide long-, medium-, and short-term financing. Financial establishments also finance investments without the possibility of intervening in the operating cycle, as they are not tied to physical assets. The Public Procurement Fund provides short-term financing, particularly in the form of bonds. The other aspect of this “Fig” is represented by support organizations, including insurance companies that provide coverage in the form of guarantees to banks; the project owner’s accountant, who guarantees the recovery of public procurement collateral; and the National Paid Leave Fund, which compensates the contractor for losses resulting from construction site inactivity due to bad weather. This fund constitutes an essential document in the loan application, included in the parafiscal documents section.

Figure 3: Missions of institutions supporting the financing of the construction and public works sector



Source: Prepared by the author based on: (Banking executives, 2025)

7. CONCLUSION

This article concludes that the financial institutional structure supporting the construction and public works sector has two components. The first consists of ensuring direct financial coverage of the project through investment loans or operating credits. The second component consists of granting guarantees to financial institutions in the form of real guarantees or fulfilling financing conditions in the form of para-fiscal documents.

The insurance sector occupies a key place in bank financing, a complementary relationship, the nature of the activities of the two sectors is completely different, but the overlap of interests is there this time too, particularly in relation to the specificities of the public works sector including the rarity of real guarantees to be offered by customers, and insurance coverage becomes a real substitute product. While not losing sight of the social security component, which represents a specific insurance scheme.

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