

# **AID FROM THE SPECIAL FUND FOR EXPORT PROMOTION: DIFFERENCE BETWEEN FORECASTS AND ACTUAL RESULTS (2015-2017)**

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## **Abstract:**

Since the beginning of 2000, Algeria has adopted policies to encourage non-hydrocarbon exports subject to aid granted to exporters by the FSPE. This paper shows that there is a considerable gap between the funds consumed by the FSPE in official statistics and the ones that would have been spent if these funds had been properly used in the period 2015 to 2017. A hypothesis is put forward to explain this discrepancy, which consists in stating that the performance of the reimbursement process for this type of incentive and support has been poor.

**KEYWORDS:** Estimate of FSPE expenditure, Export promotion, Foreign Trade Policy, Special Export Promotion Fund.

## **1. Introduction**

The encouraging results in non-hydrocarbon exports and the stagnation of oil barrel prices, which still do not want to take their upward trend, mean that the government plans to focus on promoting non-hydrocarbon exports, this has been identified as a strategic objective. A number of measures to ensure more flexible, decentralized management of these exports.

Over the years, export promotion agencies have played an important role in promoting foreign trade operations. When we mention the theme at the level of Algeria, we must highlight the work carried out by agencies such as National Agency for the Promotion of Foreign Trade (ALGEX), Algerian Society of Fairs and Exports

(SAFEX), National Association of Algerian Exporters (ANEXAL), Algerian Export Insurance and Guarantee Company (CAGEX), Algerian Chamber of Commerce and Industry (CACI), and the Special fund for export promotion (FSPE), which was created to promote non-hydrocarbon exports through the payment of part of the costs related to the transport of goods and the participation of companies in fairs and exhibitions abroad.

This new legal and economic environment has led to the emergence of the concept of export subsidies. Thus, the state is obliged to encourage and support exporting companies in order to promote foreign trade.

Why did the FSPE support not allow Algeria to constitute a high-potential export, or to achieve the targeted objectives despite the considerable measures and funds dedicated to this end? This paper attempts to answer this question by first attempting to estimate the funds consumed by the FSPE if they had been properly used in the period 2015 to 2017, then comparing this amount with that provided by official statistics, and finally by trying to explain the difference between these two amounts.

In this work, in order to estimate the funds consumed by the FSPE, we used two methods of estimation: estimation based on expert opinion and estimation based on historical data. The objective is not to determine the funds consumed by the FSPE accurately, but to approach these funds realistically.

## **2. Literature review**

Most of the studies that have examined the relationship between the encouragement of exporting companies and foreign trade, particularly between export barriers and the promotion of non-hydrocarbon exports, such as ALGEX, SAFEX, CACI and FSPE, consider that these agencies support exporting companies in order to promote foreign trade. BOUCHAKOUR Mohamed (2017) and Hausmann.R (2010) indicate that the main obstacle is political and lies in the absence of a strong and shared will to move away from a vision of growth and development dependent on hydrocarbon revenues. While KALAFATE Nadia (2016) confirms that Algeria's difficulty

lies in the fact that its specialisation is very concentrated on peripheral products that are far from each other. The results of CHIKH Najia (2018) are different. She noted that the challenge is to create a significant number of SMEs, to have a real productive fabric, capable of responding quantitatively and qualitatively to local demand, then project themselves internationally and it is at this level that incentives for non-hydrocarbon exports would be introduced. CHIHA Khemici (2014) shows that the creation of a real business climate adapted to the behaviour and new data of the international environment are the best strategy for promoting non-hydrocarbon exports. The majority of studies on the subject show that the state can play a role in the export process through assistance and support to companies.

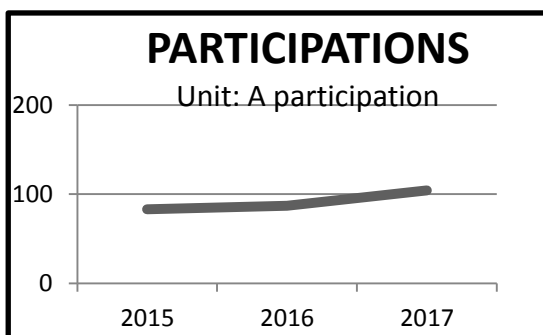
### **3. What should have been FSPE expenditures from 2015 to 2017:**

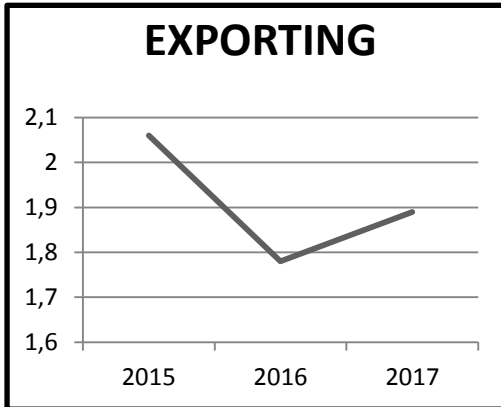
In this work and in order to estimate the funds consumed by the FSPE if they had been properly used in the period 2015 to 2017, only the aid for participation in fairs, exhibitions and specialized exhibitions held abroad and aid for the transit and international transport of products for export are considered.

Our methodology is based on two approaches, a first one relying on documentation in order to gather all the necessary elements regarding the subject and a second one, qualitative study based on semi-directive interviews with experts of the field.

Participation in fairs and non-hydrocarbon exports, which have been continuous since 2015 (see graph below).

**Fig 1. Algeria's participation in fairs and non-hydrocarbon exports**





Source: Prepared from the basis of data from the Ministry of Commerce

Non-hydrocarbon exports decreased from \$2.06 billion US in 2015 (Ministry of Finance, 2015) to \$1.78 billion US in 2016 (Ministry of Finance, 2016) and to \$1.89 billion US in 2017 (Ministry of Finance, 2017). A total of \$5.33 billion US was exported from 2015 to 2017. As for participation in fairs, 83 participations by Algerian companies abroad in 2015 (Ministry of Commerce, 2015), in 2016, the number increased to 87 participations (Ministry of Commerce, 2016), in 2017, 104 participations in various international fairs and exhibitions (Ministry of Commerce, 2017). A total of 274 participations in fairs, exhibitions and specialized shows held abroad from 2015 to 2017.

To estimate the expenditure of the FSPE if it had been properly operated, it is necessary first of all to estimate the expenditure for participation in fairs, exhibitions and specialized exhibitions held abroad and the expenditure for the transit and international transport of products intended for export.

### **3.1. Estimate of FSPE expenditure on the transit and international transport of products for export.**

In general, the cost of international transport depends on the volume of products transported, the mode of transport used, the type of Incoterms... established by a contract. It should be noted that the contract of carriage of goods is a commercial contract which is materialized by a document called differently according to the mode of transport (consignment note in case of road transport, in air transport the contract is called an air transport note and in maritime transport of goods, the contract is called a maritime bill of lading). Generally, the contract of carriage of goods contains the category of goods transported and its weight and volumes as well as the places of loading and unloading and the name of the carrier and the name of the

freight forwarder. It also indicates the dangerousness of the transported goods as well as the sums to be collected and the specific delivery instructions. Maritime transport is the preferred mode of transport for all goods; today 90% of the goods produced and consumed in the world are transported by sea. (FENDER, 2016. P.57).

Handling fees in Algerian ports are all the costs of loading and unloading operations from the arrival of the goods to their stowage on board the ship or their storage on the platforms.

The estimation of transit costs and international transport in this work is based on the opinion of experts in the field of transit (GAUTIER, 2001. P.14). It is preliminary to choose 5 experts to establish the estimation of this type of costs. The objective is first to find the percentage of transit costs and international transport in relation to the total amount of the goods, then to calculate the total international transport cost for Algerian exports in the period 2015 to 2017. Finally, the estimation of the FSPE's expenditure on the transit and international transport of products intended for export in accordance with the procedures of the inter-ministerial decree of 1 June 2002 fixing the nomenclature of revenue and expenditure of the Special Fund for the Promotion of Exports.

According to the results of the study carried out with the 5 experts, the percentage of transit costs and international transport in relation to the total amount of the goods is presented for each expert in the table below:

**Table 1. Results of the study conducted with the 5 experts**

Experts	Percentage (%)
Expert 1	21%
Expert 2	25%
Expert 3	20%
Expert 4	19%
Expert 5	20%
Percentage Average	21%

Source: Realize by ourselves after conducting the interview

To determine the percentage of transit costs and international transport in relation to the total amount of the goods, it is preferable to

reason in terms of average percentage ((GAUTIER, 2001. P.20), so 21% is the percentage of international transport costs.

**Table 2. Total cost of transit fees and international transport for Algeria's exports from 2015 to 2017 (Values in millions USD)**

Non-hydrocarbon Exports	<i>Values in USD millions (Ministry of Finance)</i>			Transport costs		
	2015	2016	2017	2015	2016	2017
Non agricultural products	1878,71	1511,83	1622,17	394,53	317,48	340,65
Perishable agricultural products (Perishable agricultural products with the exception of dates)	149,85	231,65	225,46	31,47	48,65	47,35
The dates	34,44	37,52	51,37	7,23	7,88	10,79

Source: Prepared from the basis of data from the Ministry of Commerce

By applying the procedures and conditions of the inter-ministerial judgment of 1 June 2002, the estimated expenditure of the FSPE for the transit and international transport of products intended for export is presented in the table below:

**Table 3. Estimated expenditures of the FSPE for international transport during the period 2015 to 2017 (Values in millions USD).**

	2015		2016		2017		TOTAL	
Non-agricultural products for instant destinations (25%)	Transp ort costs	FSPE expens es	Trans port costs	FSPE Expe nses	Transp ort costs	FSPE expens es	Transpo rt costs	FSPE Expen ses
	394,53	98,63	317,48	79,37	340,65	85,16	1052,66	263,16

Perishable agricultural products with the exception of dates (50%)	31,47	15,73	48,65	24,32	47,35	23,68	127,47	63,73
The dates (80%)	7,23	5,78	7,88	6,30	10,79	8,63	25,9	20,72
<b>TOTAL</b>		120,15		110		117,46		<b><u>347,62</u></b>

Source: Prepared from the basis of data from the Ministry of Commerce

### **3.2. Estimated expenditure on participation in fairs, exhibitions and specialised exhibitions held abroad**

Each year the Algerian Ministry of Commerce publishes the official programme of Algeria's participation in economic and trade events abroad. A rich programme to find out about opportunities to promote and place Algerian products and know-how and to conclude deals in this direction.

Measures have been taken by the authorities to encourage Algerian companies to become more involved and to strengthen Algerian pavilions, which are often timid in these economic events, the FSPE is one of these measures.

Fair means any event of a commercial and international nature (including trade fairs, exhibitions, markets, exchanges and partner meetings, etc.). Companies participate in fairs held abroad to find new customers, especially for exports, to develop their networks, including internationally and for other reasons. (University Presses of France, 2015. P.48).

To estimate the expenses for participation in fairs, exhibitions and specialized shows held abroad for the period 2015 to 2017, it is necessary to calculate before the participation costs of Algerian companies in these events from 2015 to 2017.

Participation in a trade show requires the installation of a stand. This exhibition involves a significant expense that can be extremely costly. Total expenses are divided into costs directly related to the event and indirect costs.

*Expenses directly related to the event:* (University Presses of France, 2015. P.69).

- Stand rental;
- The technical layout of the stand;
- Stand furniture;
- Stand decoration;
- Printing costs of promotional documents;
- Transportation costs of samples for the exhibition;
- Transit and handling costs for samples destined for the exhibition.

*Indirect costs:* (University Presses of France, 2015. P.71).

- Travel expenses;
- Personnel costs;
- Accommodation costs;
- Advertising costs.

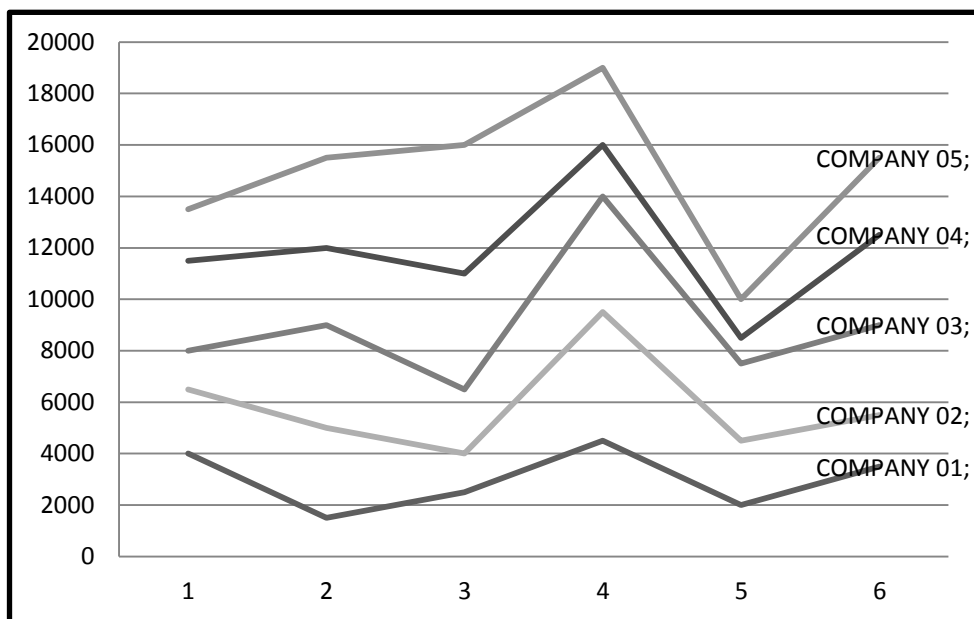
In order to estimate more accurately the participation costs of Algerian companies in events held abroad from 2015 to 2017, it is preferable to estimate this cost on the basis of historical data on the participation of 05 companies in international fairs, then identify the average cost of participation for each year (GAUTIER, 2001. P.15). This task is greatly facilitated by the use of software that allow the calculation of average distribution and dispersion, (EXCEL for example).

The following graph shows the dispersion of the costs of participation of the 05 Algerian companies in the events held abroad



for each year (from 2015 to 2017). These figures are provided by these 05 companies and processed using EXCEL software

**Fig 2. From 05 Algerian companies to demonstrations held abroad.**



Source: Based on data from 5 companies.

As it is represented in the graph, the average cost of the participation of the 05 Algerian companies in international fairs held between 2015 and 2017 is 2983.33 US Dollars.

The FSPE covers the costs of transport, transit of samples, rental of exhibition space and specific advertising costs for the event. Based on this logic, the FSPE's expenditure on participation in trade fairs, exhibitions and specialised exhibitions held abroad is estimated in the following table:

**Table 4. Expenses of the FSPE for participation in fairs, exhibitions and specialized shows held abroad.**

The year	Number of participations		Attendance fees		FSPE expenses	
	Participation in the official program	Individual participation	Participation in the official program	Individual participation	Participation in the official program (80%)	Individual participation (50%)
2015	83	21	247616,66	62650	198093,33	31325
2016	87	17	259590	50716,66	207640	25358,33
2017	104	32	310266,66	95466,66	248213,33	47733,33
TOTAL					<b><u>758363,33</u></b>	

Source: Prepared from the basis of data from the Ministry of Commerce

The Special Fund for Export Promotion is intended to provide financial support to national exporters in their actions of promotion and placement of their products on foreign markets; it is under the supervision of the Ministry of Trade. These expenditures were estimated for the period 2015 to 2017 based on the fees presented in Table 03 and Table 04, so the funds consumed by the FSPE if they had been properly used in the period 2015 to 2017 are 348,378,363.3 \$ US.

- 4. Official statistics and an explanation of the difference between these statistics and the estimated figures.**  
(Ferroukhi.L, Chief of Cabinet of the Ministry of Commerce, meeting of the Export Club of the World Trade Center Algeria, March 1, 2018).

After estimating the funds consumed by the FSPE if they had been properly used in the period 2015 to 2017, we will present in this section the figures provided by the services of the Ministry of Commerce.

#### **4.1. Official figures of FSPE expenditure in the period 2015 to 2017**

The FSPE grants aid for the partial reimbursement of international transport costs and for part of the expenses incurred in connection with the participation of Algerian companies in economic events (fairs, exhibitions, etc.) organised abroad. According to figures and reports provided by the Trade Monitoring and Promotion Directorate of the Ministry of Commerce, the total amount of aid granted by the fund to companies rose to nearly 478 million DA in 2015, compared to 180 million DA in 2016. In 2017 the amount is 234 million DA. The table below represents the official expenditure of this fund in the period 2015 to 2017.

**Table 5. Official expenditures of the FSPE in the period 2015- 2017**

The year	Expenses in dinars	Expenditure in US (Exchange rates for each year-end, Bank of Algeria).
2015	478 millions	4758112,68
2016	180 millions	1644286,11
2017	234 millions	1980868,53
<u>TOTAL</u>		8383267,32

Source: According to figures provided by the Trade Monitoring and Promotion Directorate of the Ministry of Commerce

After the collection of official information and figures, the total amount of reimbursements by the fund is 838,326,667.32\$ US.

How can we explain the difference between the figure given by the statistics of the Ministry of Trade and those of the aid that could have been spent?

## **4.2. How to explain the difference?**

The difference between the estimate made and the official figures can be explained either:

- ✓ In the unreliability of official statistics;
- ✓ In the performance of the estimation methods used;
- ✓ In the event that companies are not informed or avoid benefiting from the aid granted by the fund;
- ✓ In the process and reimbursement measures applied by the FSPE;

What is the most likely hypothesis?

### **4.2.1. The reliability of official statistics:**

How are official statistics on the expenditure of the special fund for export promotion compiled?

The official statistics of the FSPE are provided by the Ministry of Commerce each year in the form of a physical and financial balance sheet which is fixed by law, in particular the inter-ministerial decree of 1 June 2002 fixing the nomenclature of revenue and expenditure of the FSPE and the executive description n° 96-205 of 5 June 1996.

In this description, the legislator has set out the obligation to draw up an action plan to be carried out by the authorising officer of the FSPE, setting out the objectives and deadlines for achieving them.

In addition, in accordance with legislative and regulatory procedures, the FSPE's expenditure is under the control of the authorised State bodies. A physical and financial assessment of the aid granted is sent annually to the Ministry of Finance.

The possibility of unreliability of official statistics is far from occurring, especially in the management of the FSPE, because it is subject to public accounting or the accounts must give a true and fair view of their assets and financial situation. Therefore, the assumption that official statistics are unreliable is false. There would therefore be another explanation for the discrepancy found.

#### **4.2.2. The performance of the estimation methods used:**

To estimate the FSPE's expenditure on the participation of Algerian companies in events held abroad, we adopted the cost estimation method based on historical data. In this method (called physical or historical) the data are real, derived from the participation of 05 Algerian companies in international forestry and provided by their financial and accounting services for the period 2015 to 2017.

In this estimation method it is preferable to use software to estimate the average cost of the participations of the 05 companies and then generalize it to all participations for each year in order to have the participation costs of Algerian companies in the events held abroad, therefore this method allows to obtain results of a higher level of precision, in relation to the sophistication of the model and the data it contains.

In addition, the FSPE's expenditure on transit and international transport for the period 2015-2017 is estimated in this work using the cost estimation method based on expert opinion. In this case, the cost of transport is obtained from the opinions of the experts (5 experts in this work), who carry out the cost estimate. This estimation method is only used when the data collected is no longer relevant for cost estimation.

This method has some disadvantages, particularly in the case of:

- The expert uses his memory of past occurrences of the event to provide the estimate. As a result, the cost of transit will be underestimated when it is difficult for the expert to remember the past costs of transport.
- The expert focuses on a particular detail of the problem and overlooks the whole problem.

To combat these weaknesses and shortcomings in this work, it is necessary to use the twelve "good practices" in estimation by the judgment of the Jørgensen expert (2005, P.57), in addition we interviewed experts who rely on their experiences, their understanding

of the logic of international transport, the information available on it and the transit operations already completed to derive an estimation.

Expert judgement provides useful knowledge on the environment and information from transit operations. This method involves consulting several experts to directly develop a cost estimation, so this method is one of the most efficient real-time estimation techniques.

After these explanations, the difference between the official figures and the estimations made can certainly not be explained by the level of performance of the estimation methods used.

#### **4.2.3. The abstention of companies from using FSPEs:**

An enterprise is the rational coordination of a certain number of people and means in order to achieve the objectives it has set for itself. In other words, a company brings together people, ideas and capital to achieve an objective.

The company's objective is essentially limited to profit. That is, companies must minimize costs and maximize revenues and profits; it is in a position to attract maximum profits, while seizing opportunities in the external environment.

The company is very interested in state subsidies for whatever reason, so the assumption that companies refuse to use FSPE subsidies is false.

#### **4.2.4. The difficulty of the FSPE's reimbursement measures:**

The assistance of the FSPE is granted to any resident company producing goods or services and to any trader duly registered in the commercial register operating in the export sector. It should be recalled that the FSPE only grants its financial assistance to exporters who achieve an export turnover not exceeding 10 million dollars.

It should be pointed out that the operations of this fund are subject to public accounting and to access them, it is necessary to create a file that is a little cumbersome.

The file to be provided to the FSPE must contain definitive and readable documents that demonstrate the various expenses incurred, the law has distinguished three cases:

A. As part of a participation in an exhibition as part of the official program.

These are the participation in the forests mentioned in the official program each year or the events organised by the state, the FSPE requires legible definitive documents justifying the costs incurred, namely:

- Legalized copies of the commercial register and tax ID;
- Invoice for stand rental issued by the fair organiser (original);
- Sample transport invoice (original);
- Sample transport ticket;
- Invoices for transit and handling of samples (original);
- Invoice for advertising costs specific to the event (original) + specimens (advertising) ;
- Check crossed out;
- List of products on display;
- A technical sheet of the company.

B. For individual participation in an event

Individual participation in an event means the participation of exporting companies in fairs not mentioned in the official program where the state is not the organiser.

In this case of participation, the FSPE requires companies wishing to benefit from the aid to submit a PREALABLE REQUEST by the operator, before the start of the event, as well as the final documents above, justifying participation in the event.

C. In respect of the exchange of a portion of the costs of international transport

In this context, the FSPE covers part of the cost of transit and international transport, subject to the presentation of legible final documents justifying the carrying out of export operations, namely:

- Copies of the commercial register and tax ID;
- Direct debit invoice (original) or duplicate;
- Transport invoice (original);
- Transit invoice (original);
- Customs declaration ;
- Transport ticket (LTA, Bill of Lading, consignment note...) ;
- Bank certificate of remittance);
- Check crossed out.

The files must be submitted within a maximum period of (180) days + (30) days after the export operation has been carried out. The amount of aid granted is fixed by the Ministry of Commerce according to percentages determined in advance, depending on the resources available.

- The admissibility of files is conditioned by: Registration of applications according to the application forms available on the Ministry of Commerce website;
- The presentation of legible (original) supporting documents.

After detailing in the process and refund measures, it is clear that the law marginalizes large companies (which have an export turnover exceeding \$10 million) and poses several constraints and difficulties in terms of bureaucracy. So the 4th hypothesis is the most likely and is the cause of the discrepancy between the estimated expenses and the official figures.

## **5. Conclusion**

The FSPE's operating policy on the financing of non-hydrocarbon exports should be reviewed as soon as possible. This mode of operation makes it difficult to access aid from this fund. In order to combat bureaucracy within the FSPE, it could be suggested that the fund be computerized, with sites linked together by an intranet system, thus ensuring more reliable information, refunds and faster services. In the FSPE, the IT infrastructure is necessary to enable a better organisation. It allows the Ministry of Commerce to use mechanisms that will enable them to better communicate with businesses and work under favourable conditions. The computerization of funds improves external communication, for a better reactivity. This speed of



decision-making and reimbursement increases the exploitation of the FSPE. At the end of this work, it is proposed to create a website for the FSPE with a high quality, in line with the reputation of the fund. Visitors will find that we are not afraid to do what it takes to better serve them. Today, the simple fact of having a web page increases notoriety. More and more, people rely on search engines to find an organization.

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