

Promoting SMEs Sector for development: The Algerian Experience

تعزير قطاع المؤسسات الصغيرة والمتوسطة من أجل التنمية: التجربة الجزائرية

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Abstract:

This research aims to identify the reality of SMEs and their role in achieving economic development in Algeria, as this sector is the main driver of economic development in the world. Since this strategic sector has an important role in the advancement of the national economy. This research paper highlights the efforts of decision-makers in Algeria in developing the SMEs, and the role that this sector can provide as an effective mechanism for achieving economic development (employment, GDP, value added).

Keywords: Economic Development; SMEs; Algerian economy.

JEL Classification Codes: L25, O43.

ملخص:

يهدف هذا البحث إلى التعرف على واقع المؤسسات الصغيرة والمتوسطة ودورها في تحقيق التنمية الاقتصادية في الجزائر، حيث يعتبر هذا القطاع المحرك الرئيسي للتنمية الاقتصادية في العالم. بالإضافة إلى أنه قطاع استراتيجي له دور هام في النهوض بالاقتصاد الوطني. تسلط هذه الدراسة الضوء على جهود صانعي القرار في الجزائر في تطوير المؤسسات الصغيرة والمتوسطة، والدور الذي يمكن أن يوفره هذا القطاع كآلية فعالة لتحقيق التنمية الاقتصادية (العمالة، الناتج المحلي الإجمالي، القيمة المضافة).

كلمات مفتاحية: التنمية الاقتصادية، المؤسسات الصغيرة والمتوسطة، الاقتصاد الجزائري.

تصنيفات JEL : L25، O43.

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1. INTRODUCTON

All countries seek to achieve economic development, through the development of appropriate action plans and strategies, in order to reach the required economic growth rate. In order to ensure the achievement of economic and social well-being. The new trends in the development of economies is to rely on the establishment of small and medium enterprises, and to focus on their role in growth and economic development, in contrast to the previous view that seeks to rely on giant enterprises and industries only as a gateway to comprehensive development units. (Bruque, S., & Moyano, J. , 2007) Several programs have been realized to improve innovation and entrepreneurship in SMEs.

SMEs are characterized by fewer resources and small size compared to large enterprises. Which gives those advantages such as quick decision-making, flexibility, few strict regulations, government support, and fast internal communications, rather than having large research facilities, and spread of risks (Berisha, G., & Pula, J. S. , 2015).The development of the SME sector is a top priority in developing countries. (Rochdi, D., Khatijah, O., & Muhammad, A. S. A. H., 2017)

Algeria, like other countries, has given a broader scope and greater support for the development and promotion of small and medium-sized enterprises, and this is demonstrated through the development of an arsenal of laws and legislation as the main actor in the field of development and job creation.

2. STATUS OF ALGERIA'S SME SECTOR

Defining the concept of small and medium-sized enterprises in general changes with the change in the economic size of countries. Thus, the phrase SMEs has an economic meaning rather than a legal one. Most countries accept that headcount is a common metric for defining SMEs. The definition of SMEs and the criteria for their size is a controversial topic. (Keskgn, H., Ğentürk, C., Sungur, O., & Kğrgğ, H. M., 2010)

Many concepts related to small and medium enterprises have been presented, including those dating back to the Second World War, for

example, but not limited to, the definition of the General Center for Small and Medium Enterprises (CGPME), founded in 1944, which defines them as institutions whose supervisor is responsible.

Personally and directly over all financial, technical, social and moral matters of the institution, whatever its legal form. (Gibson, T., & Van der Vaart, H. J., 2008)

Various criteria have been used to which the concept of small and medium enterprise is related, as the latter is left behind according to the nature of the economy and the peculiarities of the country. Through this axis, we will try to present a conceptual approach to the newly adopted small and medium enterprise sector in Algeria.

2.1 Definition of SMEs in Algeria

Official definitions of SMEs differ from country to country and from organization to organization. These definitions have quite a wide spectrum, differ significantly, and are frequently modified. Several factors are introduced to define SMEs, such the number of employees, revenue figures including annual turnover, years of business, and number of branches or locations.

The term “SME” may be broadly defined as a business that maintains certain revenue or a number of employees below a certain level. In the United States, one may not readily identify an SME as SMEs’ qualifications are industry specific. However, in the European Union, an SME is any business with fewer than 250 employees . (PAUL, Justin. , 2020)

The definition of SME’s in Algeria is as follows: “The SMEs, regardless of its legal nature, is defined as the enterprise for the production of goods and/or services. It operates from 10 to 250 persons and does not exceed 4 billion dinars or does not exceed the total annual budget of 1 billion Algerian dinars, and meet the criteria of independence. (Mechali, B., & Mahrez, S. . , 2020)

According to the Act, on guidance for the promotion of small and medium enterprises, in December 2001, SMEs are defined regardless of their legal status in terms of providing either goods or services, or both, by determining certain characteristics (DRIS, Y., BENMOUIZA, A., & BENNOUR, R., 2022), as presented in **Table 01**.

3. Review of past initiatives aimed at promoting in Algeria

Previous governments have adopted numerous initiatives to promote the development of SMEs in Algeria. These Programs according to Olumide (2004) include.

3.1 National Agency for Microcredit Management “ANGEM”

Following the recommendations emanating from the international forum in December 2002 on the “microcredit experience in Algeria”. Executive Decree No. 04-14 of January 22, 2004 established the National Agency for the Management of Microcredit.

This agency is developing the micro-loan, aiming at developing the individual capabilities of people wishing to take on the creation of their own activities, and this device is directed to every citizen over the age of 18 years, provided that he is without income or has unstable and irregular income, as well as for women Staying at home. This body aims at economic and social integration by creating activities for the production of goods and services.

3.2 SME Credit Guarantee Fund (FGAR)

This fund was established, pursuant to Executive Decree No. 02-373 of November 11, 2002. It is a public institution under the tutelage of the Ministry of Industry and Mines, and enjoys legal personality and financial independence. The fund officially launched its activities on March 14, 2004. It also aims to facilitate access to medium-term loans that are included in the financial structure of viable investments, by granting guarantees to institutions that lack the necessary in-kind guarantees required by banks.

Based on **the figure 02**, it becomes clear to us that the states of the Algerian central region received the highest percentage of funding from this fund. In Algiers alone, 506 projects were funded, comprising about 16,714 workers, and the large number of projects translates into the presence of a large population, so unemployment is high, which pushes these people to carry out projects that create.

3.3 National Youth Employment Support Agency

It is a public body, established in 1996, charged with encouraging, supporting and accompanying the creation of enterprises. This device is directed to unemployed youth aged between (19-35) who have project ideas that enable them to create institutions. The device ensures the accompanying process in the creation and expansion of the institution. It also grants financial aid, where the loan in the form of a gift represents from 28 to 29 percent of the total cost of the project, with a reduction in bank taxes.

It was also established as a basis for the following support measures: Assistance and special training for the young entrepreneur through the maturation of the project and the development of a work plan.

It is clear to us from **the figure 03** that the rate of projects funded by the Agency for vocational training increased by 34% in 2014, or about 13,737 projects, to 66% in 2016 with approximately 9,4792 projects, while at the university level it increased by about 18%, i.e. an estimated 32,552 projects.

3.4 The National Unemployment Insurance Fund (CNAC)

This fund was established according to Executive Decree No. 94-188 of July 26, 1994. It also works to mitigate the successive social effects resulting from the layoff of wageworkers in the economic sector in accordance with the structural adjustment scheme. (L'industrie, 2016)

One of the professions of this fund is unemployment compensation for wage workers who lost their jobs. Involuntarily and for economic reasons. **(figure 04)**

3.5 National Agency for Investment Development (A.N.D.I)

The agency was established by Presidential Decree No. 01-282 of September 24, 2001. It is a public institution with legal personality and financial independence. Its main task is to develop and follow up on investments, by facilitating the completion of administrative procedures related to launching enterprise creation projects. Created within the framework of the first-generation reforms that began in Algeria in 1990, the agency responsible for investment has undergone several changes aimed at adapting to changes in the economic and social situation of the country. It was initially from 1993-2001 - called the Agency for Promotion, Support

and Follow-up of Investment, and then the National Agency for Investment Development, this governmental body was assigned the task of facilitating, promoting and accompanying investment.

4. Evaluation of the contribution of SMEs to the development of the national economy

All countries aspire to achieve economic development, which is a complex phenomenon that includes economic growth as one of its important elements. However, it includes it coupled with a change in the economic, political and social structures of the state. In addition, in its relations with the international economic system, which would achieve sustainable cumulative increases in real per capita income over an extended period along with a number of other non-economic consequences, and the reverse concept of development is Underdevelopment (Al-Esawy, 2001).

4.1 The contribution of small and medium enterprises in creating added value (VAB)

Through **the figure 05**, it becomes clear to us that the contribution of small and medium-sized entities represented in the private sector is constantly increasing in Algeria, and this is due to the incentive measures and programs that encourage the advancement of this strategic sector.

The average contribution of the private sector in the study period is 86.31%, while the public sector contributes 13.68%. In addition, private establishments that are active in the issued trade sector, in their contribution to the benefit at an average period of 95.76%, occupy 95.76% of the sector's total contribution. Followed by the agricultural sector.

As for the industrial sector, it knows a slowdown in its growth and considered very weak in view of the internal market requirements of consumer goods and investments, as well as job positions. Especially qualified ones, which the increasing groups of graduates with degrees aspire to, and thus the growth of industries outside hydrocarbons remains the weakest growth for all sectors, despite the government's efforts to include it in the fabric of the Algerian economy.

4.2 The contribution of small and medium enterprises to employment policy

a. Contribute to job creation

Algeria targeted the small and medium Scale enterprise sector to reduce unemployment levels. Therefore, it has established procedures and agencies that support and support this sector, as it finances projects that create value-added on the one hand and provide jobs on the other hand. **Table (10)** shows in detail the contribution of the total of small and medium-sized enterprises in providing jobs.

b. Contribute to the volume of employment according to the supporting devices

The small and medium enterprises sector is among the largest contributors to creating job opportunities, as it exceeds even the large industrial establishments in this field, despite their small size and the modest capabilities that they have, and this is what the table below shows us. The average capacity to provide jobs from 2004 to 2011 was about 1380,135 jobs, and reached 19,15495 in 2013, an increase of about 8.2% compared to 2012, and reached 25,406,981 in 2016, an increase of about 9.42% compared to 2015.

From **Table (02)**, it is clear to us that Algeria has been able to reduce unemployment levels through its agencies by opening job positions by financing the establishment of small and medium enterprises to produce goods and services. The National Agency for Youth Employment Support was able to provide 878,264 jobs through 367,980 projects, as 37,189 projects were directed at women.

The agency also worked hard to activate all economic activities. As for the number of jobs provided by the National Investment Agency, it was high and was estimated at 1138412 jobs. The agency also worked hard to stimulate local investment, which provided 1018887 jobs compared to 119,525 jobs with foreign investment.

As for the National Agency for the Management of Microcredit, which attempted to involve the women staying at home in the economic development process, it provided 1202,270, distributed between 801,513 jobs for males and 501095 jobs for females.

The Guarantee Fund also provided loans to small and medium-sized enterprises 61,788 jobs, where the majority of positions were located in the states of the Algerian central region, because the number of projects in them increased and amounted to 29,266 jobs, compared to 16,752 jobs in the east of the country, 13113 jobs in western Algeria and 2,657 jobs in the south of Algeria.

4.4 The contribution of small and medium enterprises to the gross domestic product

The goal of using the criterion of the gross domestic product for the two sectors lies in knowing the contribution of each of them to the production of wealth and reaching the position they occupy in the economy, after translating what the country produces each year.

From **Figure (06)**, it is clear to us that the contribution of small and medium-sized enterprises to the GDP outside the hydrocarbon sector is constantly increasing.

Its average contribution, during the period from 2007 to 2011 amounted to 4957.49 billion dinars, and in 2015 it amounted to 9237 87 billion dinars of gross domestic product. Moreover, the private sector, the main representative of small and medium enterprises in Algeria, contributes with a value of 7924.51 billion dinars, which highlights the importance and vitality of the private sector in the Algerian economic fabric.

5. Internal factors affecting the promotion of SMEs enterprises in Algeria

Among the prominent factors responsible for the limited growth of small and medium-sized companies in Algeria, regardless of the challenges of the serious business environment that hinder their development are mainly: the characteristics of entrepreneurs, weak administrative efficiency, deficiencies in marketing strategies, low efforts for research and development and low technological capabilities. **Table (03)**

6. Opportunities and Challenges of the SMEs in Algeria

6.1 Opportunities

Arguably, governments should promote SMEs because of their higher

economic benefits in terms of job creation, efficiency, and growth. The following major driving forces strengthen SMEs in Algeria: (Bouazza, 2015)

SMEs support and strengthen the role of the private sector in economic activity. SMEs constitute approximately 99% of all enterprises and contribute to more than 80% of the total added value in Algeria.

- a) SMEs make significant contributions to the national economy. Contribute to 40% of Algeria's GDP and are effective tools for accelerating non-hydrocarbon exports, generating tax revenues, and stimulating innovation.
- b) SMEs are an effective solution to reduce unemployment and have a significant ability to provide job opportunities to a broad range of the Algerian labor force, unlike large corporations. SMEs are involved in labor-intensive activities.
- c) SMEs assist in ensuring social and political stability and provide job opportunities to groups that lack the financial or academic capabilities to positively participate in economic activity.

6.2 Challenges

SMEs in Algeria face several challenges that could hamper their development and affect their ability to create more jobs. These challenges are summarized as follows:

- ✓ The Algerian private sector in general and SMEs in particular face cumbersome business environment challenges that affect their development, such as regulatory obstacles, lack of access to industrial real estate, informality, poor quality financial statements, and weak human resource capacities.
- ✓ Moreover, these SMEs face several internal challenges that affect their growth and that are a major cause of their failure, such as poor management competences, lack of skilled managers, deficiencies in marketing strategies, weak R&D and weak technological capacities.

7. CONCLUSION

The SMEs sector has become a locomotive for economic development, due to its characteristics such as flexibility, efficiency and

speed of adaptation to changes in the external environment. Likewise, given This clear role, Algeria has drawn up many policies and procedures to promote and develop Small and medium enterprises That aim to raise their competitiveness, which Is currently increasing in light of the trend to open up to the global economy and the increasing intensity of international competition. Based on the exploratory Survey of the paper, the following recommendations are suggested for implementation:

- Government initiated programmes should be restructured, if not redesigned and should be centered on a participatory approach to enhance SME development.
- Government should encourage philanthropists and nongovernmental organisations to supplement their effort in providing moral, technical and Financial support for the development of Small and Medium Scale Enterprises.
- Government should develop and implement policies That Will stand the test of time and enable SMEs compete and survive in a commercial setting.
- Also, investors in SMEs companies should provide more training for their employees. In addition, they have to invest more in research and development activities and technology and knowledge agreements with forgien companies to improve their technology capabilities.
- Government should endeavour to provide a friendly business environment in terms of adequate infrastructural facilities, good roads, efficient telecommunication system and uninterrupted power supply for the growth and development of SMEs.
- The Algerian government should make a greater effort to create a comprehensive and targeted Policy to improve the business climate in the country, which is not currently conducive to the development of the private sector.

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6. Appendices

Table 1. Criteria for differentiating between the sizes of institutions stop the Algerian law

Enterprises	Employee	Total assets (dinars)	Turnover (dinars)
Micro	1-9	<20 million	<40million
Small	10-49	<200million	<400million
Medium	50-250	200-1 billion	400 million-4 billion

Source: Algeria’s Ministry of Industry, Small and Medium Enterprise and Investment Promotion. 1 US\$ = 84 DZD (Algerian Dinar)

Table 2. The contribution of the SMEs sector according to the supporting apparatus in the provision of jobs

Agency	Period of Activity	The Number of job positions	Number of Projects
ANDI	From 2006 to 2016	1138412	63804
ANSEJ	From 2010 to 2016	878264	367980
FGAR	From 2004 to June 2017	61788	1937
ANGEM	From 2005 to August 2017	1202270	801513

Source: Prepared by both researchers based on the data of Ministry of Industry, 2019.

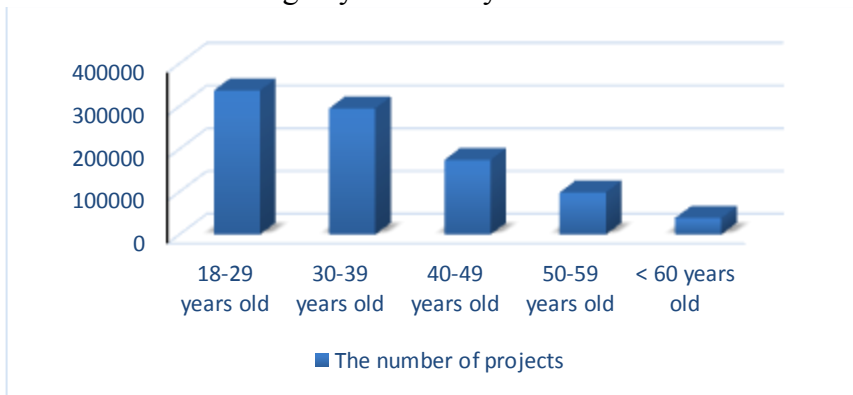
Table 3. Internal Factors Affecting the Growth of SMEs

SMEs in Algeria lack the managerial skills and connections to effectively conduct their business and to deal with the cumbersome regulatory framework	Management Capacities
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Among the major challenges facing the development of SMEs in Algeria is the huge lack of technological capabilities, Technological capacities are considered as tools for strengthening the competitiveness of SMEs. (Romijn, 2001)	Technological Capacities
SMEs in Algeria are weak in terms of market research and have inadequate marketing skills because most Algerian SMEs are owned and managed by one person.	Marketing skills
An entrepreneur’s characteristics, comprising age, gender, motivation, experience, educational background, propensity to take risks, preference for innovation, mindset, and personality, can have a significant impact on the performance and success of a company, and the growth of SMEs can depend greatly on them. (Sidik, 2012)	Advantages of Entrepreneurs

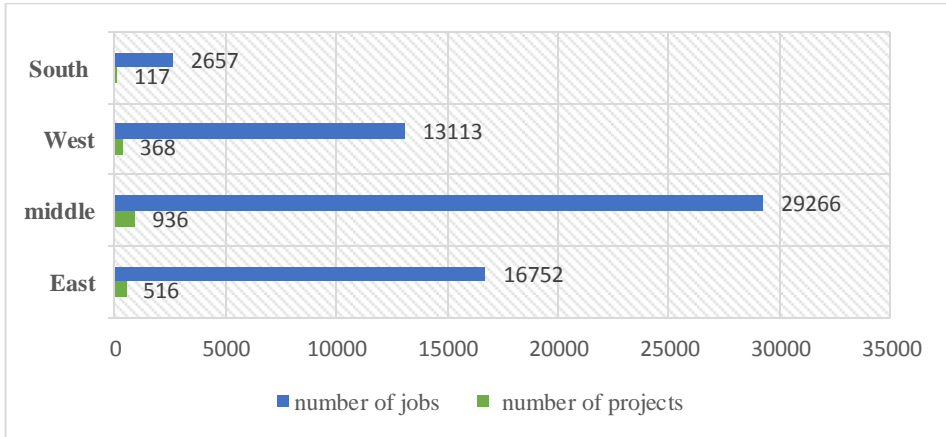
Source : Prepared by both researchers.

Fig.1. Distribution of loans granted by age group from the establishment of the Agency until the year 2021



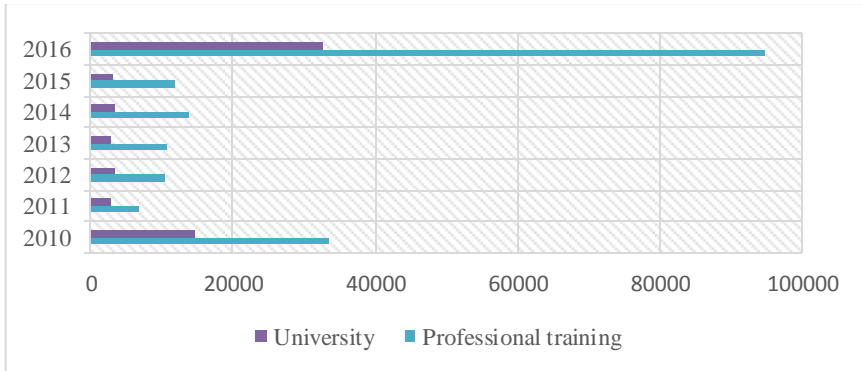
Source : Prepared by both researchers using Excel software based on the data of Ministry of Industry, 2017.

Fig.2. Distribution of the number of projects and the number of jobs by region from April 2004 to June 2017



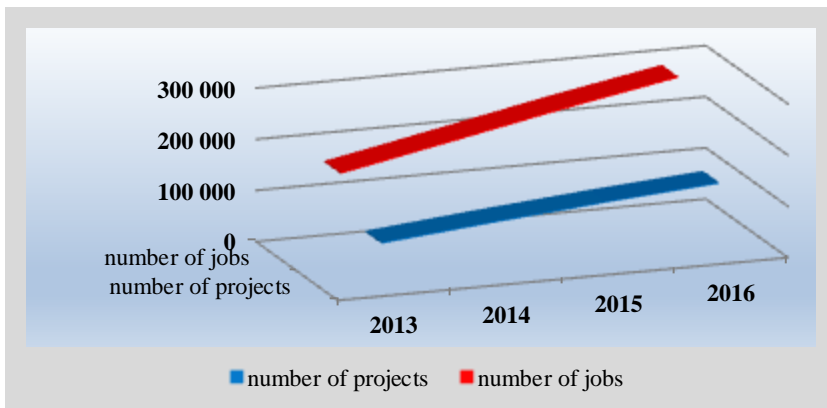
Source: Prepared by both researchers using Excel software based on the data of Ministry of Industry, 2017.

Fig.3. Distribution of the number of projects according to the level of education from 2010 to 2016



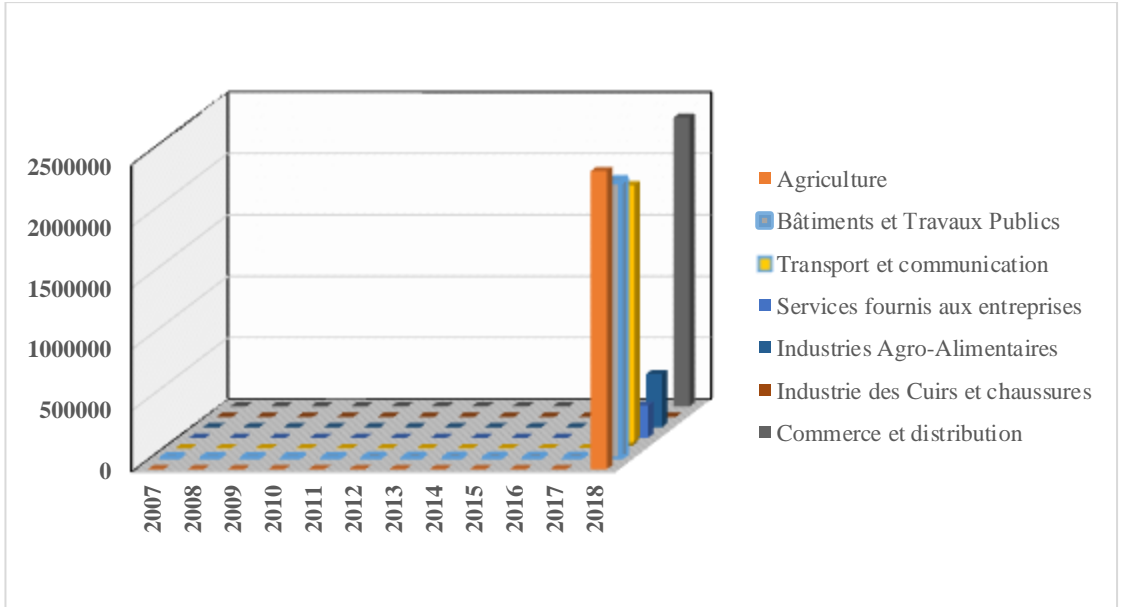
Source: Prepared by both researchers using Excel software based on the data of Ministry of Industry, 2017.

Fig.4. Number of projects and jobs from 2013 to 2016



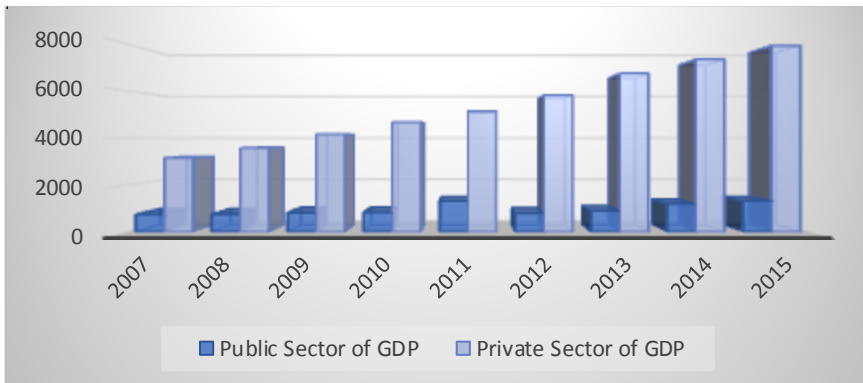
Source: Prepared by both researchers using Excel software based on the data of Ministry of Industry, 2017.

Fig.5. the contribution of SMEs to the added value by sector of activities



Source: Prepared by both researchers using Excel software based on the data of Ministry of Industry, 2017.

Fig.6. The evolution of the contribution of SMEs to the gross national product non- hydrocarbons in the period 2007-2015 (billion dinars)



Source: Prepared by both researchers using Excel software based on the data of Ministry of Industry, 2017.

