

# **Empirical analysis on the contribution of Algerian SMEs in regional development -Study territory "West Algeria"**

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## **Abstract:**

This study on the role of development of small and medium enterprises at the local level, which has become one of the most important issues of the modern world economy, and with its exceptional private and within the policies of the developed countries investment and also in developing countries such as Algeria, which places a strong emphasis on the establishment of specialized institutions support and promote small and medium enterprises, and to promote the development of local and national economy, and within the framework of achieving sustainable development through investment interest in small and medium enterprises are an important resource in local development durable. This encouragement of applications in the analysis of our efforts on regional development and to explore the idea of linking the development of small and medium enterprises and what is needed to develop the national economy in all regions.

**Jel Classification Codes:** C9,99

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We contacted through the study of the role of small and medium enterprises in the regional development in west of Algeria territory in our sample as a viable option and should be encouraged and distribution of additional investments in accordance with the policy of investment in Algeria.

**The keywords:** The regional development, sustainable local development, investment, SMEs, local investment

### **Introduction:**

SMEs and local development have become fashionable concepts in our societies. Not that they are new, on the contrary, they cover phenomena identified for a very long time. SMEs play a particularly important role in developing and transition countries. They are a major source of employment, income and export earnings.

**Problematic:**

Most economic development studies and research are increasingly focusing on the potential capacity of small and medium-sized enterprises (SMEs) to be a factor of economic growth. The reasons are for the most part, the flexibility of their management, the speed of their reaction and their ability to adapt to the requirements of an increasingly pressing environment. However, these Algerian companies still face a number of constraints in the exercise of their activities, particularly with regard to the monopoly of large companies, administrative procedures, the weakness and compartmentalization of the internal market, and the difficulty of obtaining the necessary skills. and necessary qualifications. All these difficulties threaten the economic and financial performance of SMEs. This requires, in order to fully play its role of wealth creation, the adaptation of an adequate and coherent strategy for promotion and assistance. And that's what makes it problematic to ask for this intervention, and formulated as follows:

What are the contributions of SMEs in regional development?

**SMEs: local force, global action:**

Criteria and ceilings vary not only from one legislation to another but also from one country to another. In this work, we have taken into account, as a definition of the SME, the definition of the European Union<sup>8</sup>. The commission wanted to be consistent without imposing too much rigidity in recommending a definition that took into account the different criticisms made by its members. This definition is however not at all exhaustive:

- Average annual workforce less than 250 people
- Revenues below 40 million euros
- Balance sheet total of less than 27 million euros
- The company must respect an independence criterion. Companies that are not owned 25% or more of the capital or voting rights by one or more large companies are considered as independent.

SMEs have an essential socio-economic role. They are indeed a source of vitality and vitality necessary for our economy in a competitive environment. Above all, thanks to their flexibility they are able to adapt quickly to changes in the markets, which are more and more frequent in a context globalization and economic cycles. They therefore have an impact on economic growth, given their

substantial contribution to our production, investments, and exports, as well as their enormous potential for new jobs.

The role of SMEs in the economic and social fabric - West Algerian region -  
1- Contribution to employment:

SMEs have an important role in the creation and maintenance of employment, in 2010 and 2011 they provided employment for 37% of the workforce in the economy and in 2012 this percentage rises to 44% . What is important, however, as a trend is that SMEs create new jobs while large companies dismiss and compress staff.

It is also that the SME is considered the magic panacea to socio-economic plagues and especially employment. In this challenge the SME is present in all sectors of Moroccan economic activity: industry, crafts and the TPP, businesses and finally services that include tourism, communications, transport, financial services, ...

In the industrial sector in particular, out of the 500,000 jobs in the sector today, the PMI accounts for almost half as follows: textiles and clothing (33%); chemistry and parachemistry (21%), agri-food (29%), mechanics and metallurgy (15%), electrical and electronics (3%).

In the artisanal sector, the SME predominates even more in fishing, livestock farming, and especially in traditional trades with high cultural and social added value (carpets, metal products, leather, traditional sewing, etc.).The SME also has a very noticeable presence in the construction sector, apart from the production of construction materials (iron and steel, cement works, pipe manufacturing).

Thus, the whole of this artisanal sector which counts nearly 2 million jobs is constituted for the most part of SMEs. The commerce sector, with 888,000 jobs (excluding informal jobs), is made up almost entirely of SMEs.

In the service sector, and first of all in tourism, which has nearly 500,000 jobs, the SME is a privileged tool in the promotion of hotels, restaurants and travel agencies.

For the western region of Algeria, SMEs create a total number of jobs equal to 93,403.

In fact, all these data still confirm the socio-economic role played by the SME, by allowing to create new job positions and thus improving the standard of living of the Moroccan population through the distribution of income, which gives the dynamic character in the productive system, not only of the coast of employment but also of the coast of the production of added value, the internal commercial exchange ... etc.

The SME is undeniably a nursery for job creation, not only to meet job demands, but also and especially for the promoters themselves.

2- The reality of the weight of SMEs in local development in the western region of Algeria :

To solve socio-economic problems (unemployment, rural exodus, purchasing power, standard of living ...) to increase wealth and improve the level of employment; the return to the promotion and the development of SME remains indispensable and incontestable, because these last ones constitute the base of the economic fabric of Algeria, numerically by far the most numerous (60% of the

number of the companies) they participate to handle positively to economic growth, job creation and regional and local development.

Nevertheless, their contribution remains well below the potential that this category of enterprise can develop in terms of added value, of receiving unemployment, especially that of young graduates and of creating new opportunities for wider sections of the population.

It is in this perspective that the new SME promotion policy can contribute to the constitution of efficient productive systems able to face durably the future challenges of their insertion in an increasingly global economy and less and less administered and protected. In this respect the SME must claim its control to ensure a development on objective wealth and human potentialities; historic natural resources must contribute to the success of the creation of P.M.E. businesses in order to improve economic and social development.

To understand the reality of the weight of SMEs in western Algeria we will focus on 3 points namely: the weight of SMEs in economic policy, the role of SMEs in the economic and social fabric, focusing on its contribution employment, the reduplication of income and the formation of domestic capital, and in the last section we will focus on the development potential of the SME sector in this region.

The development of small and medium size plays a vital role in nation growth and prosperity. Although large-scale companies, especially industrial firms contribute substantially / grossly to Gross Domestic Product (GDP) and other economic variables of prosperity, but the importance of SMEs is widely recognized in the whole world . SMEs make a substantial contribution to GDP, collecting revenue in the form of taxes, fostering the culture of entrepreneurship, job opportunities, income generation, human resource development skills, struggle against poverty and improve the standard of living and the quality of life.

Above all the major economic benefits of SME development include perfect encouraging competition and fair distribution of wealth. If there are only big companies either, then there will be a monopoly an industry, with only one supplier or oligopoly with only a few suppliers or monopolistic competition with that some suppliers, the bulk of revenues and national wealth will move into the hands of the big capitalists. SME sector, but generates fair competition and equitable distribution of wealth.

SMEs know how to help in regional and local development, they accelerate industrialization in rural areas by connecting them with the more organized urban sector and help achieve a fair and equitable distribution of wealth through regional dispersion of economic activities.

1-Objectives of the research :

The research objectives are delimited below:

- Identify the basic constraints of SME access to finance for this region and other relevant barriers to SME growth and development.
- To identify the role of incentives and support for SME growth and development and to understand their meaning.
- SME contributions from this region in regional and local development

2-The Benefit / Justification of the study:

The benefit / rationale report for conducting this study is to determine the significant gap in demand and supply of SME finance in Karachi, with the aim of making proposals to overcome their growing funding needs.

### 3-Scope of the study:

The scope of the analytical research work of this thesis is to explore the following key points:

- The study will highlight the gaps in SME financing in this region.
- Actions required tackling the financing constraints of SMEs.
- Factors that create functional / internal barriers to SME financing need to be addressed.
- Solutions to develop SME-friendly policies for SME growth and development.

### 4-Limitations of the research :

The main limitations of the research are described below:

- The time frame and financial resources to undertake exploration activities were limited.
- In conducting interviews, many bankers, heads of credit institutions, senior SME managers, and other stakeholders have shown reluctance to express their views and considered a leak of secrecy.
- Because of the lack of higher education background by many owners and senior managers of various SMEs, it took a lot of trouble and time to get them to understand the questionnaire and get the answers during the survey.
- The reality of the contribution of SMEs to this development.

### 5-Methodology of research :

Quantitative, qualitative sperm research techniques have been used to discover innovative solutions for SME financing in western Algeria. The data collection methods used in this study included the collection of primary technical data, namely the collection of data from new and original sources, including surveys. A survey was conducted and a questionnaire was framed, pre-tested, and completed by a sample of 300 SME respondents (men and women of different ages and social classes, selected on a convenience basis) belonging to manufacturers, traders, importers, exporters, and service companies. The desired scale of measurement is the Likert scale to know the amount of agreement or disagreement of respondents on a scale of five.

### 6- research hypothesis:

The following hypotheses are developed to conduct a comprehensive study:

**H<sub>11</sub>:** The high cost of financing is detrimental to SMEs and overall socio-economic development.

**H<sub>01</sub>:** The high cost of financing does not prove detrimental to SMEs and overall socio-economic development.

**H<sub>12</sub>:** Low-cost financing increases the demand for SME loans and the profitability of banks and creditors.

**H<sub>02</sub>:** Low-cost financing does not increase the demand for SME loans and the profitability of banks and creditors.

**H<sub>13</sub>:** SME growth and development is directly linked with SME capacity building and incentives and state aids.

**H<sub>03</sub>:** SME growth and development is not directly linked with SME capacity building and state incentives and aid.

7-The research model:

The model shows the relationship between the different independent variables with the dependent variables.

Model / Conceptual Framework on SME Financing:

Independent variables:

- Financing constraints
- Functional internal barriers
- Government and support incentives
- SME growth and development

Dependent variable:

- financing of SMEs

8-Development of the SME Financing Model Conceptual Framework:

There seem to be various types of constraints or problems that hinder the growth and development of SMEs in the country. The model presents SME financing as a dependent variable, while independent variables include funding constraints, internal functional barriers / internal weaknesses, government incentives and support, and SME growth and development. The independent variables serve as barriers to the growth and development of the SME sector and eventually, if these constraints are removed, they will lead to the superb growth and development of SMEs. The list of these constraints is described below:

9-Financing Constraints:

- Guarantee based on loans
- Heavy and long lending process
- Preference for large companies
- Financing venture capital
- Lack of genuine Islamic funding

10-Internal functional obstacles:

- Shortage of skilled labor and human resources
- Lack of management skills, marketing, accounting and finance, risk management technology and poor information technology and work ethics
- Lack of financial information
- Lack of focus on more innovation and value Government Incentives and Support
- high cost of borrowing
- Eve-escalating business costs
- high tax rate
- bad infrastructure
- lack of good governance and transparency
- Delayed judicial process (commercial in nature)
- Situation of law and order Mine SME growth and development
- Improved productivity
- Increase in employment
- Increase in income, prosperity and quality of life
- Reduces poverty
- Investment in family health and education

### 11-Objectives and Tools:

Among the main objectives of local development is first of all, the mobilization of all the potentialities available to a given territory to boost productive activities and improve the standard of living of the citizens of the same territory.

Secondly, it concerns the development and operation of local development projects that create a synergy between:

- The potentialities of this territory namely agricultural, industrial, tourist, cultural and ecological resources.
- Its human resources (dynamism and qualification, entrepreneurial spirit and cultural wealth of the local population).
- Its insertion in the orientations of regional planning (communication infrastructures, major economic orientations).

Thirdly, it is therefore a question of making a rational and intelligent division of roles at the territorial level between the public actors: government, local authorities, external services of the ministerial departments ... etc. and the private actors: Private sector, the professional organizations, etc. ... with a view to combating inherited socio-spatial imbalances and spatially harmonizing development actions within the framework of a real territorial development plan.

To achieve these objectives, specific tools, methods and trades have been developed and refined by experience:

The diagnosis, the starting point of any local development approach, is generally based on a multi-disciplinary and exhaustive study of the strengths and weaknesses of the territory.

- The overall project that must be elaborated by the partners consensually, identify lines of force and priorities

- in the medium and long term "integrate" the different functions of the territory in a "sustainable" development perspective.

- The animation, carried by the development technicians, women and men "to do everything" whose mission consists at the same time to make emerge the projects, to finance them and to accompany them while "managing" a dynamics of the territory and the relation between its different partners:

- Training - Development, concept of multidisciplinary training, not systematically qualifying, but tailor-made and at once to accompany the realization of the projects.

### 12-The Observations of a Sample:

Before starting our work in the field, we report here the difficulties encountered during the investigation, namely:

- The long duration; the visit lasted almost 8 months.
- Absence of leaders.
- Refusal to complete the questionnaire.
- Failed filling of the questionnaire, with refusal to do maintenance.
- We have distributed (345) copies, (300)

### 13- Purpose and methodology Purpose of the inquiry:

#### 13-1- of the investigation :

This survey is part of the preparation of a doctoral thesis in economics, economic option and regional development, under the title "Territorial SMEs and Regional Development in Algeria - Challenges and Prospects," study region "West Algeria" ,

it aims to verify all the theoretical concepts explained in the first two parts, to assess the real potentialities that offer SMEs to development. It is also the study of their internal environment that external.

#### 13-2- Methodology of the survey:

For a better analysis of the situation of the company, our study is not limited to studying the handicaps and assets of SMEs in terms of its internal structure but will go further to the analysis of the SME environment through the verification of the degree of cooperation between the various local development actors (SMEs, banks, administrations and local authorities ...).

Once the data were collected, they were analyzed, grouped, inter-presented and analyzed to finally produce a set of recommendations that could accelerate the process of local development based on SMEs. Thus three components are distinguished at the level of the questionnaire:

- Business identification survey.
- The internal environment of SMEs.
- The external environment of SMEs.

#### 14-Results of the survey:

variables Code :

**X1:** SME financing

**X2:** Financing Constraints

**X3:** Functional Internal Barriers

**X4:** Government Incentives and Support

**X5:** SME growth and development

**Table(01): Statistical Descriptive:**

	N	Mean	Std. Deviation
<b>X1</b>	300	2.7000	.48945
<b>X2</b>	300	2.4044	.34713
<b>X3</b>	300	2.5000	1.11802
<b>X4</b>	300	3.0115	.62076
<b>X5</b>	300	3.3150	1.14566
<b>Valid N</b>	300		

Source: output from spss.v.21.

#### Analyze the results:

The quantitative analysis of the data was carried out by SPSS software (Statistical Package for Social Sciences) using descriptive statistics, reliability test techniques, and correlation to test the model. The results are tabulated and elucidated below:

According to respondents, opinions, the rating of the variable independent growth of SMEs and development is highest, with an average of (3.31). The incentive score and government support was second with an average of (3.01), the SME rating was third with an average of (2.70), the functional rating / Internal barriers was ranked fourth with an average of (2.50) and the estimate of funding constraints is the lowest with an average of (2.40).



The standard deviation of respondents' opinion on "funding constraints" was the least (0.34), compared to the other dimensions. This indicates that there is the highest participation in the SME financing dimension. The standard deviation of respondents' opinions on SME growth and development is the highest (1.14), compared to other dimensions. This indicates that there is the least involvement in the financing dimension of SMEs.

Table (02): Correlations

		X1	X2	X3	X4	X5
<b>X1</b>	<b>Pearson Correlation</b>	1	.835 (**)	.824 (**)	.856 (**)	.821 (**)
	<b>Sig (2-Tailed)</b>		.000	.000	.000	.000
	<b>N</b>	345	345	345	345	345
<b>X2</b>	<b>Pearson Correlation</b>	.835 (**)	1	.775 (**)	.820 (**)	.800 (**)
	<b>Sig (2-Tailed)</b>	.000		.000	.000	.000
	<b>N</b>	345	345	345	345	345
<b>X3</b>	<b>Pearson Correlation</b>	.824 (**)	.775 (**)	1	.774 (**)	.737 (**)
	<b>Sig (2-Tailed)</b>	.000	.000		.000	.000
	<b>N</b>	345	345	345	345	345
<b>X4</b>	<b>Pearson Correlation</b>	.856 (**)	.820 (**)	.774 (**)	1	.871 (**)
	<b>Sig (2-Tailed)</b>	.000	.000	.000		.000
	<b>N</b>	345	345	345	345	345
<b>X5</b>	<b>Pearson Correlation</b>	.821 (**)	.800 (**)	.737 (**)	.871 (**)	1
	<b>Sig (2-Tailed)</b>	.000	.000	.000	.000	

\*\* Correlation is significant at the level of 0.01 (2-tailed).

Source: output of SPSS V.21.

Analyze the results:

The correlation values show that there is a positive correlation between SME financing with funding constraints, functional / internal barriers, government incentives, and SME support and growth and development. The dependent variable "Financing SMEs" has the highest correlation with incentives and government support (0.856 \*\*), then with the financing constraints (0.835 \*\*), the growth and development of SMEs (0.821 \*\*) and internal functional obstacles / (0.824 \*\*).

Conclusion:

SMEs are important actors in localities and regions of different countries. They can reduce poverty, create jobs and prosper regions. Local and regional authorities can rely on them to solve local problems. Because they are best able to understand and act quickly at the local level, local decision-makers need to be more involved in SME and employment promotion policies.

The results also accepted the hypothesis framed for the study and achieved its objectives, as stated below:

H<sub>11</sub>: The high cost of financing is detrimental to SMEs and overall socio-economic development. Accepted

H<sub>12</sub>: Low-cost financing increases the demand for SME loans and the profitability of banks and creditors. Accepted

H<sub>13</sub>: SME growth and development is directly linked with SME capacity building and incentives and state aids. Accepted

The research objectives were also met with quantitative results, as stated below:

- To identify the basic constraints of SME access to finance in Karachi and other identified barriers in the growth and development of SMEs. Objective fulfilled.
- To identify the role of incentives and support the growth and development of SMEs government and understand their meaning. Objective fulfilled.

So, working capital is largely negative, a situation mainly due to the difficulty of access to bank loans, especially for companies in the creation phase. Bankers, meanwhile, are always looking for guarantees and solutions that will allow them to minimize the risk and be reimbursed in the best possible conditions.

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