

The impact of the COVID-19 crisis on Algerian Small and Medium Enterprises (SMEs)

تأثير أزمة كورونا COVID-19 على المؤسسات الصغيرة والمتوسطة الجزائرية

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Abstract:

The study aims to shed light on the reality of Algerian small and medium enterprises in light of the global health crisis resulting from the spread of the Corona pandemic (Covid-19). Because of this crisis, small and medium enterprises in Algeria face many difficulties and problems that threaten their continuity. For its part, the Algerian state must make greater efforts by providing financial, tax and logistical assistance, as well as escort and custody services in this difficult period that these institutions are going through, and entrepreneurs must adapt to the current situation.

Key words: SMEs; COVID-19; Coronavirus; Pandemic; Global Health Crisis.

الملخص:

تهدف الدراسة إلى إلقاء الضوء على واقع المؤسسات الجزائرية الصغيرة والمتوسطة في ظل الأزمة الصحية العالمية الناتجة عن انتشار جائحة كورونا (كوفيد-19). ونتيجة لهذه الأزمة تواجه الشركات الصغيرة والمتوسطة في الجزائر العديد من الصعوبات والمشاكل التي تهدد استمراريتها. من جانبها، يجب على الدولة الجزائرية بذل جهود أكبر من خلال تقديم المساعدة المالية والضريبية واللوجستية، وكذلك خدمات المرافقة والحضانة في هذه الفترة الصعبة التي تمر بها هذه المؤسسات، كما يجب على رواد الأعمال التكيف مع الوضع الحالي.

الكلمات المفتاحية: المؤسسات الصغيرة والمتوسطة؛ كوفيد – 19 ؛ فيروس كورونا ؛ جائحة ؛ الأزمة الصحية العالمية.

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Introduction:

The economic development in Algeria went through two important stages. The first one was after independence by adopting the heavy industry model and establishing large public enterprises to be funded by relying on oil revenues. The second stage came after lowering oil prices and declining state revenues in the eighties of the last century, by turning towards the private sector and to privatize public enterprises, as well as to give Small and Medium Enterprises (SMEs) their economic importance.

The SMEs sector has formed and passed through a considerable development in Algeria during the period of market reforms. Throughout this period the government has been developing and implementing a policy of development of SMEs, to which various support measures were used, including the adoption of laws, government policies and targeted programs, as well as the establishment of institutions whose activities are directly aimed at the development of SMEs. But what distinguishes SMEs is the severity of their vulnerability to economic crises and market volatility .

The COVID-19 pandemic crisis is causing large-scale loss of life and severe human suffering globally. It is the largest public health crisis in living memory, which has also generated a major economic crisis, with a halt in production of affected countries, a collapse in consumption and confidence, and stock exchanges responding negatively to heightened uncertainties. (OECD, 2020) This infection has spread to Algeria and affected economic activities, including SMEs which are in the center of the economic crisis brought on by the pandemic and containment measures.

Public health and health security are important to maintaining economic security and ensuring continued economic activity. The importance of research

stems from the importance that SMEs have acquired in Algeria. The study aims to know the expected negative effects of the global health crisis (COVID-19) on the activity of Algerian SMEs, and to shed light on the plans and expected solutions to revive this sector in light of the pandemic.

This study involves answering various questions that can be brought together in a problem that arises as follows: What is the impact of the COVID-19 health crisis on Algerian SMEs? and what are the measures to be taken in this regard?

1- SMEs in Algeria: definition, evolution and roles:

SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. (The World Bank)

1-1- Definition of SMEs in Algeria

The Algerian SME - whatever its legal status- is defined by the law No. 17-02 of January 10, 2017 which amends and supplements the 2001 Law, relating to the promotion of the SMEs, as being an enterprise of production of goods and/or services. (General Secretariat of the Algerian government, 2017, pp. 3-8)

- Employing one (1) to two hundred and fifty (250) people;
- Whose annual turnover does not exceed four (4) billion DZD, or whose total annual balance sheet does not exceed one (1) billion DZD;
- Also respects the criterion of independence.

This criterion means that the capital must not be held at 25% and more by one or more other enterprises.

This law highlights in its articles 8, 9 and 10 three types of SMEs, which can be clarified in the following table:

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Table 1. Types of Algerian SMEs

Types of SMEs	Employee	Turnover (M DZD)	Budget (M DZD)
Micro	1 – 9	Less than 40	Less than 20
Small	10 – 49	Less than 400	Less than 200
Medium	50 – 250	Less than 4000	Less than 1000

Reference: Prepared by the researchers based on (General Secretariat of the Algerian government, 2017, pp. 3-8)

1-2- Evolution of SMEs in Algeria

The increase in the national number of SMEs was well supported by the private sector encouraged by the provisions adopted in terms of investment promotion and economic opening, whose growth and evolution in numbers is remarkable, as shown by the following table:

Table 2. Evolution of Algerian SMEs (2010 – June 2019)

Year	Total SMEs	SMEs Growth %	Private SMEs	Public SMEs
2010	619072	-	618515	557
2011	653309	5.53	658737	572
2012	711832	8.96	711275	557
2013	777816	9.27	777259	557
2014	852053	9.54	851511	542
2015	934569	9.68	934037	532
2016	1022621	9.42	1022231	390
2017	1074503	5.07	1074236	267
2018	1141863	6.27	1141602	261
2019	1171945	2.63	1171701	244

Reference: Prepared by the researchers based on (Algerian Ministry of Industry, 2010-2019)

1-3- The role of SMEs in Algeria

SMEs are considered a source of satisfaction for economic and social needs in terms of economic growth, regional development and absorption of unemployment.

1-3-1- Employment

The overall workforce of SMEs, at the end of the first half of 2019, is 2,818,736 agents, of which only 20,955 are from public SMEs. Note that the overall workforce of SMEs increased by 4.78% between the 1st half of 2018 and the 1st half of 2019

(Algerian Ministry of industry, 2019). The following table shows the Evolution of employment in Algerian SMEs from 2010 to June 2019.

Table 3. Employment growth rates in Algerian SMEs

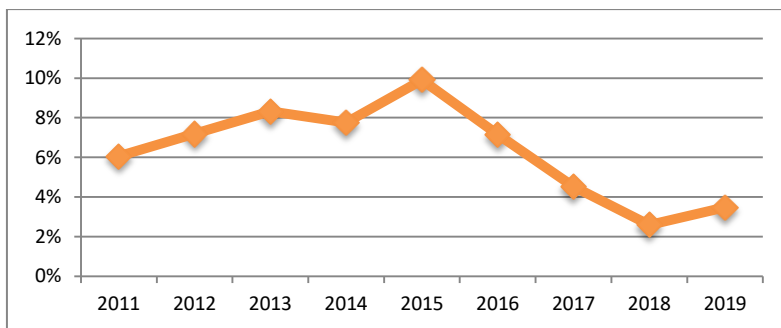
Year	Employment	Growth %
2010	1625686	-
2011	1724197	6.06
2012	1848117	7.19
2013	2001892	8.32
2014	2157232	7.76
2015	2371020	9.91
2016	2540698	7.16
2017	2655470	4.52
2018	2724264	2.59
2019	2818736	3.47

Reference: Prepared by the researchers based on (Algerian Ministry of Industry, 2010-2019)

In June 2019, statistics indicated that SMEs employ 25.03% of the workforce in Algeria; it is a good indicator although it can be improved and brought to global levels.

However, what is concerned is the decline in the growth rates of workers number in SMEs since 2015. Figure 1 illustrates this regression.

Figure1. Employment growth rates in Algerian SMEs

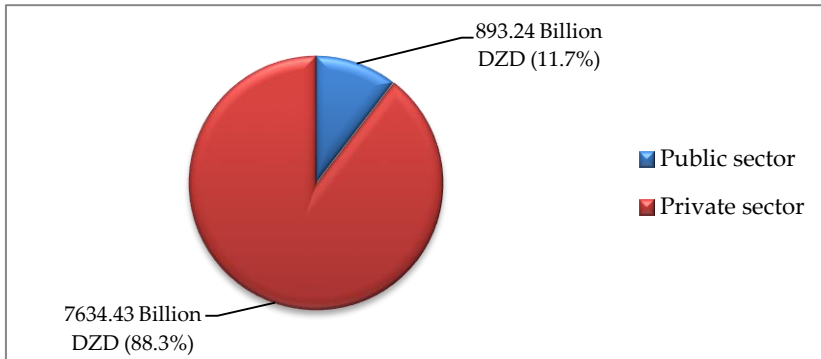


Reference of figure: Excel outputs based on the data in Table 3

1.3.2. Gross Domestic Product (GDP)

Represented by a majority of SMEs (99%) in 2013, the Algerian private sector contributed to 88.3% of the GDP, at an estimated value of 6741.19 billion DZD. (Algerian ministry of industry, 2015, p. 49)

Figure 2. GDP distribution by sectors in Algeria (2013)

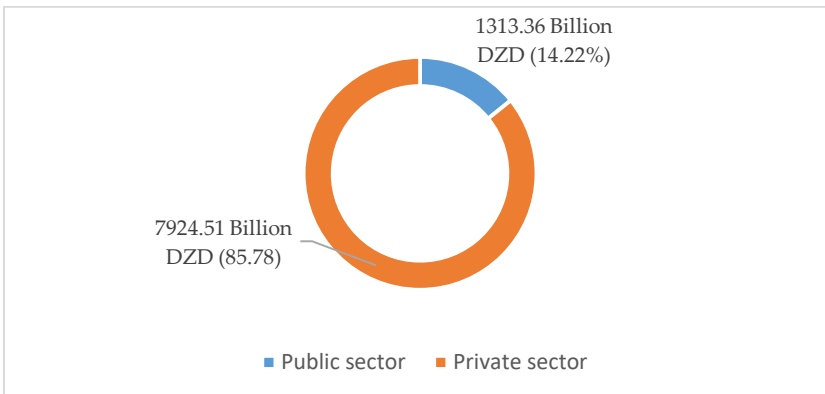


Reference of figure: Excel outputs based on (Algerian ministry of industry, 2015, p. 49)

1.3.3. Added Value

In Algeria, the private sector, represented by SMEs, contributes significantly in shaping added value compared to the public sector; this was 85.78% in 2015, at an estimated value of 7924.51 billion DZD. (Mechaali & Mahrez, 2020, p. 163)

Figure 3. Added Value distribution by sectors in Algeria (2015)



Reference of figure: Excel outputs based on (Mechaali & Mahrez, 2020, p. 163)

2- Overview of COVID-19 crisis

On March 11, 2020, the World Health Organization (WHO) declared that COVID-19, which is spreading in various parts of the world, "a global pandemic".

2-1- What is COVID—19?

The COVID-19 (Coronavirus Disease 2019) is a new virus that causes respiratory illness in humans and can spread from person to person. It was first identified during an epidemiological investigation in China. (Algerian health ministry, 2020)

COVID-19 affects people in different ways. Most infected people develop a mild to moderate form of the disease and recover without hospitalization. The most common symptoms: fever, dry cough and fatigue.

2-2- The human losses of COVID—19

On August 25, 2020 (07:27 GMT) the number of confirmed cases globally due to this pandemic was 23,818,450 people and the number of deaths was 817,090 people. (Worldometer, COVID-19 Coronavirus Pandemic)

2-3- Vaccines and treatments

The development of vaccines takes time. Several pharmaceutical companies are working on vaccine candidates. These will, however, take months before vaccines can be widely used as it needs to undergo extensive testing to determine its safety and efficacy. (Nseobot, Soomro, Effiong, & Solangi, 2020, p. 6846) Currently, some countries are following different treatment protocols while awaiting the vaccine.

3- The economic effects of COVID-19 crisis in the world

COVID-19 health crisis has created the second largest economic crisis in this century after the 2008 financial crisis. As this crisis affected many sectors and activities.

3-1- Oil markets

Lockdown measures put in place to contain the spread of COVID-19 represent an unprecedented shock to global oil demand. On 20 April 2020 the oil price made history. The US benchmark oil contract – known as West Texas Intermediate (WTI) – ended the day at minus \$37/barrel, entering negative territory for the first time. (Tagliapietra, 2020)

3-2- Financial sector

The most visible outcome of the COVID-19 crisis on financial markets was the effect in the global stock market. Global stock markets lost 6 trillion dollars in value over six days from 23 to 28 February 2020. Also the crisis led to a rise in non-performing loans in the banking sector by 250 basis points. (Ozili & Arun, 2020, p. 09)

3-3- Health sector

Strengthening frontline services for pandemic response, the current priority for governments given the COVID-19 virus outbreak, requires supportive health financing policies. (World Health Organization, 2020)

3-4- Tourism sector

The global rise in COVID-19 has paralyzed tourism worldwide as it is considered the most affected, in the context of uncertainty.

3-5- Transport sector

COVID-19 effects could reduce global freight transport by up to 36%. The 80% global drop in flights has caused severe financial disruption to the aviation sector. (OECD, Restoring air connectivity under policies to mitigate climate change, 2020, p. 01)

3-6- SMEs sector

The COVID-19 outbreak is causing a global economic slowdown. Trade, investment, growth, and employment are all affected and the crisis will have an impact on the SMEs activities.

The results of a survey of over 5 800 small businesses in United States show that 43% of responding businesses are already temporarily closed. (OECD, Coronavirus (COVID-19): SME Policy Responses, 2020, p. 04)

4- Algerian SMEs in the time of COVID-19 crisis

Algeria, like other countries, knew the spread of COVID-19 and had negative effects on the economy, finance and business.

4-1- The epidemiological situation in Algeria

On August 26, 2020 (10:40 GMT) the number of confirmed cases globally due to COVID-19 pandemic in Algeria was 42,228 people and the number of deaths was 1,456 people, the number of recovered cases reached 29,587. (Worldometer, COVID-19 Coronavirus Pandemic, n.d.)

4-2- Algerian preventive Measures of COVID-19

In order to limit the spread of the COVID-19 pandemic, the Algerian government has taken several preventive measures: (U.S. Embassy in Algeria, 2020)

- All schools, universities and houses of worship are closed;
- All cultural, sporting and commercial events are suspended;
- Closed all land borders and suspended non-cargo international air and maritime travel as of March 17 and suspended domestic flights as of March 22;
- Public transportation, restaurants, cafes and public baths are closed;
- The government imposed a partial curfew in all regions except Blida, where it was initially imposed on the curfew completely;

- Other measures include requiring citizens to wear a protective mask when in public.

These measures, although they do not directly affect the activity of Algerian SMEs, but they indirectly affect them.

4-3- Effect of COVID-19 crisis on Algerian SMEs

Several thousand SMEs are on the brink of financial collapse due to the current economic crisis caused by the Covid-19. The president of the National Union of Young Investors sounded the alarm by revealing that at least 90,000 SMEs are on the verge of bankruptcy because of the containment and stagnation of economic activity in general and consumption in particular. (Dzair daily, 2020)

Considering that the companies that benefit from the loans of the National Agency for the Support and Employment of Youth and the National Fund for Unemployment Support "ENSEJ _ CNAC" are the most affected, since the latter was living in difficult financial conditions during the past years and even before the start of the health pandemic, and today reached the stage of suffocation and bankruptcy. (Dzair daily, 2020)

Specifically, SMEs in this crisis face: (Jansen & Mohan, 2020)

- Production constraints: isolation or containment of workers limits production;
- Access to finance: SMEs typically have lower cash reserves and go out of business much faster;
- Supply chain disruptions: SMEs typically have small inventories. Shortages can impact SMEs faster and harder than large firms;
- Policy uncertainty: rapid changes in policies pose difficulties for SMEs navigating through the crisis.

4-4- Responses and solutions

The health crisis of COVID-19 constitutes a blow for many Algerian sectors which are already in crisis, after a difficult year 2019, marked by a very strong slowdown in economic activity, The Algerian Center for Young Leaders noting that businesses, especially SMEs and their employees are the most affected, faced with this exceptional situation, it is therefore essential to take urgent measures to save jobs and ensure the sustainability of these businesses. (Algeria press service, 2020)

The Algerian Center for Young Leaders explains that "these emergency measures must be implemented in two stages: during confinement to provide employees with an income of dignity and after confinement to allow companies to restart their activity". (Algerie Eco, 2020)

Rubble plans and rapid solutions to bring life to Algerian SMEs under this pandemic must be developed. Emphasis must be placed on:

4-4-1- Access to finance

SMEs typically have lower cash reserves and go out of business much faster.

4-4-2- Fiscal measures

SMEs need to lower corporate tax rates and obtain support for severely affected industries

4-4-3- Social contributions

Subsidizing business sick-pay expenses, expanding health insurance to cover costs for test, treatment and vaccination can help SMEs reduce costs for maintaining employment. (International Trade Centre, 2020)

4-4-4- Interest rate

Low interest and zero interest loans are the first line defense in many countries seeking to safeguard the short term liquidity of SMEs.

4-4-5- Supply chain disruptions

SMEs typically have small inventories. Shortages can impact SMEs faster and harder than large firms. Sourcing from new suppliers or absorbing price increases is challenging for them. (International Trade Centre, 2020)

4-4-6- SMEs plans

Here are the six steps necessary to develop your business continuity plan: (International Labour Organization, 2020)

Step 1: Identifying the main products or services;

Step 2: Defining the objective of the business continuity plan;

Step 3: Assessing the potential impact of disruption on business and the employees;

Step 4: Listing the steps to protect the business;

Step 5: Making sure that there are accurate and up-to-date lists of all key contacts (WhatsApp calls, Zoom meetings, etc.);

Step 6: Respecting, reviewing and updating the business continuity plan continuously.

Conclusion:

Despite the difficulties caused by the global health crisis as a result of the spread of COVID-19, the Algerian government should intensify efforts to curb the spread and effects of the virus to promote a healthy environment where economic activities can continue. The aid should be given to some industries and businesses to help their business sprout again.

Policymakers who wish to encourage and support the activity of SMEs in these exceptional health conditions must address the factors that restrict the survival and growth of small entrepreneurs in Algeria and take into account the strategies proposed by entrepreneurs.

This support will take the form of financial procedures by exempting SMEs from paying bad debts to banks and by exempting social charges, in order to reduce the expenses of enterprises which are suffering financially.

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