

## Role of SMEs in the Algerian economy and barriers to their development

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Received: 09/08/2021

Accepted: 17/10/2021

Published: 01/12/2021

### Abstract:

This paper examines the contribution of small and medium-sized enterprises (SMEs) to economic development in Algeria. To this end, the analytical approach has been mobilised through the use of available data to analyse the state of the Algerian economy and the efficiency of these enterprises in terms of wealth creation. The results of our research reveal that Algerian economy remains largely concentrated in the hydrocarbon sector despite the attempt to adopt an economic diversification strategy, and that SMEs in Algeria are too fragile and do not contribute effectively to wealth creation, especially in the non-energy sector. Moreover, the SME sector remains underdeveloped as it faces many constraints.

**Keywords:** Algeria, economic status, GDP, SMEs.

**Jel Classification Codes :**A10, A19, E60

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## 1. Introduction:

The oil price-related economic difficulties facing Algeria, especially after the fall in oil prices in 2014, could prove to be a double-edged sword: while the additional pressures are bound to slow the pace of improvement in the living standards and welfare of citizens have already begun to weigh on public finances, the new circumstances also provide a pressing incentive for the country to slowly wean itself off its dependence on hydrocarbons and to develop a more dynamic private sector through the creation of small and medium-sized enterprises (SMEs). Increasing integration and globalization have led to the recognition of SMEs as an important sector in developed and developing economies. There is growing recognition of the positive role that SMEs can play in the economic development of nations. Formal recognition of this role came from the G-8 group, which at its meeting in Denver in 1997 noted the considerable contribution of this sector to economic dynamism and employment in the most industrialized countries and recognized that this experience would be a source of sustainable development if replicated in developing countries (Raynard,2002). While the growth of SMEs has flourished as a result of incentives and the relaxation of labor laws in most developed and emerging countries, their development in transition countries has been the result of the dismantling of large enterprises and the privatization of state-owned enterprises (Caner, 2013). SMEs are the most labor-intensive business entities. Unquestionably, SMEs can become an appropriate tool to counterbalance the economic power of large enterprises (Quartey, 2010) while their development is seen as a cornerstone for achieving economic and socio-economic goals, including poverty reduction. More generally, SMEs are seen as a key driver of job creation, social cohesion, innovation and growth, both in advanced industrialized countries and in emerging and developing economies.

Our central question is the following: **What is the contribution of SMEs in Algeria in the light of current economic indicators and what are the most important constraints to strengthening their contribution?**

This paper, which is exploratory in nature, uses government documents, academic research and related statistics to examine the contribution of SMEs in Algeria and the challenges and constraints to their economic contribution. It is organised as follows: Section one discusses the Algerian economic situation.

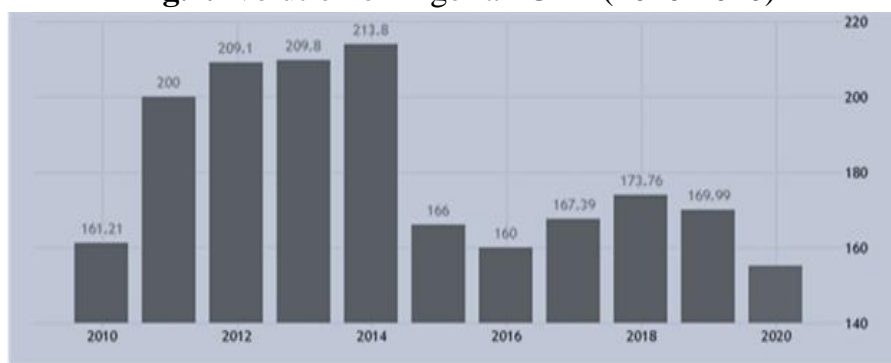
Section two examines the status of the Algerian SME sector. Sections three and four examine the contributions of SMEs to economic development and the constraints to SME development. Section five concludes the paper.

## **2. Analysis of the economic situation in Algeria**

The Algerian economy remains dominated by the state, a legacy of the country's post-independence socialist development model. In recent years, the Algerian government has halted the privatisation of state-owned industries and imposed restrictions on imports and foreign participation in its economy, pursuing an explicit policy of import substitution. Hydrocarbons have long been the backbone of the economy, accounting for about 30% of GDP, 60% of budgetary revenues and nearly 95% of export earnings. Algeria has the 10th largest natural gas reserves in the world - including the 3rd largest shale gas reserves - and is the 6th largest gas exporter. It is the 16th largest exporter of gas. Hydrocarbon exports have allowed Algeria to maintain macroeconomic stability, amass large foreign exchange reserves and maintain low external debt at a time of high world oil prices. As oil prices have fallen since 2014, Algeria's foreign exchange reserves have more than halved and its oil stabilisation fund has fallen from around \$20 billion at the end of 2013 to around \$7 billion in 2017, the legal minimum. Lower oil prices have also reduced the government's ability to use state-led growth to distribute rents and fund generous public subsidies, and the government has been under pressure to cut spending. Over the past three years, the government has adopted gradual increases in some taxes, leading to modest increases in the prices of gasoline, cigarettes, alcohol and some imported goods, but has refrained from cutting subsidies, particularly for education, health and housing programmes. Algiers has increased protectionist measures since 2015 to limit its import bill and encourage domestic production in non-oil and gas industries. Since 2015, the government has imposed additional restrictions on access to foreign currency for imports, and import quotas for specific products, such as cars. In January 2018, the government imposed an indefinite suspension on the import of about 850 products, subject to periodic review. The collapse of oil prices has weighed heavily on the Algerian economy, resulting in large twin budget and current account deficits. Given that the state is still heavily involved in the

non-hydrocarbon sector of the economy, but relies on hydrocarbon exports for most of its revenue, it is not surprising that efforts to close the budget deficit - which have been underway since the second half of 2016 - have slowed growth. Nevertheless, measures to reduce dependence on hydrocarbons have coincided with the private sector playing a much larger role in the economy. Algeria remains a relatively closed economy, with foreign investors not allowed to take majority stakes in local companies or projects since 2008. A series of import restrictions have also been introduced in recent years as the government has sought to boost domestic production capacity and reduce external account imbalances. Diversification has not, however, extended to the export sector, the vast majority of which is still represented by oil and gas. In mid-2016, the government introduced a bold medium-term fiscal framework that aims at a balanced budget for the next four years, along with a new growth model setting out a strategic vision for economic development and diversification to 2030. Efforts to reduce dependence on hydrocarbons are underway as the government implements reforms and develops new policy frameworks. The following figure shows the evolution of Algeria's GDP:

**Fig.1.**Evolution of Algerian GDP (2010-2020)



**Source :** <https://tradingeconomics.com/algeria/balance-of-trade> . viewed on 20/05/2021

According to official World Bank data and Trading Economics projections, real GDP growth in 2015 was 3.9%, up from 3.8% in 2014, driven mainly by agriculture, especially vegetable production, and a notable rebound in oil and gas activity in the fourth quarter of 2015. Against the backdrop of falling world oil prices since June 2014, this rebound follows nine consecutive

years of decline(African Economic Outlook, 2018). Also, real GDP growth in 2016 was 3.5%, compared to 3.9% in 2015 following the recovery of the hydrocarbon sector based on increased production, refining and liquefaction activities. The GDP was worth US\$169.99 billion in 2019. The value of Algeria's GDP represents 0.14% of the world economy.The following figure gives a real picture of the state of the annual growth rate in Algeria from July 2017 to January 2020:

**Fig.2.** Annual growth rate of Algerian GDP (July 2017 - January 2020)



**Source:**<https://tradingeconomics.com/algeria/balance-of-trade> . viewed on 20/05/2021.

We could say that the annual GDP growth rate in Algeria has averaged 2.68 per cent from 2001 to 2020, reaching an all-time high of 6.70 per cent in the fourth quarter of 2003 and a record low of -3.90 per cent in the first quarter of 2020. Also, Algeria recorded a trade deficit of USD 2740 million in the first quarter of 2019 as shown in the following table with the main economic indicators:

**Table 1.**Algeria's main economic indicators

Algeria Trade	Last	Previous	Highest	Lowest	Unit
Balance of Trade	-2740.00	-2620.00	34060.00	-2740.00	USD Million
Current Account	-4.02	-4.01	28.95	-8.33	USD Billion
Current Account to GDP	-11.40	-9.60	24.70	-16.50	percent
Imports	12120.00	13050.00	26250.00	2310.00	USD Million
Exports	9380.00	10430.00	60300.00	1831.00	USD Million
Gold Reserves	173.60	173.60	173.64	173.60	Tonnes
Crude Oil Production	859.00	809.00	1427.00	775.00	BBL/D/1K
Terrorism Index	3.41	3.76	7.23	3.41	
Tourism Revenues	207.30	203.20	324.50	203.20	USD Million
Tourist Arrivals	2102.00	2039.00	2733.00	1710.00	Thousand
Foreign Direct Investment	0.48	-0.34	1.85	-1.33	USD Billion
External Debt	3858.00	4042.00	5859.00	3021.00	USD Million

**Source:**<https://tradingeconomics.com/algeria/balance-of-trade> . viewed on 20/05/2021

The data below show that the Algerian economy is highly dependent on oil and natural gas exports. Hydrocarbons account for more than 95% of export revenues. Algeria's main export partners are the United States, Italy, Spain, France and Canada. Algeria mainly imports capital goods, foodstuffs and consumer goods. Its main import partners are: France, China, Italy, Spain and Germany.

### **3.The status of the Algerian SME sector**

There was no official definition of SMEs in Algeria before 2001. The only definition that existed before that date was proposed by the National Statistics Office (ONS), which defined SMEs as enterprises producing goods and services and employing no more than 250 workers (Atil, 2009). Here, the number of employees was the only criterion taken into account. In 2001, Algeria signed a partnership with the European Union. A new orientation law on SMEs was quickly adopted and led to the adoption of the European definition of SMEs that was decided by the European Union in 1996. According to this definition, SMEs, regardless of their legal form, are defined as "any enterprise producing goods and services and employing between 1 and 250 people, whose annual turnover does not exceed DZD 04 billion or whose balance sheet total does not exceed DZD 1 billion". This definition, which

clearly distinguishes between micro, small and medium-sized enterprises, uses four criteria: number of employees, total turnover, total balance sheet (see Table 2).

**Table 2.**Definition of SMEs in Algeria

Type of enterprises	Employee	turnover	Annual assets
Micro	1-9	< 40 Millions DA	< 20 millions
Small	10-49	< 400 Millions DA	< 200 millions
Medium	50-250	400 Millions da- 4Milliards	200 Millions- 1Milliards

**Source:** Project of guiding law for the promotion of small and medium enterprises ministry of industry and mines corresponding to September 2016, articles 8,9,10. P20.

According to this definition, the absolute majority of all enterprises in Algeria are SMEs. One of the reasons why Algeria adopted the European definition may be that this definition is considered a good example since the EU has made great efforts to standardise the definition of SMEs in its member countries. Facilitating future integration into the European Union and benefiting from European support and cooperation could be other reasons.

According to the guidelines of the law, on 10 January 2017, the Law No. 17-02 on SME development was adopted. The new legislation aims to encourage the creation of new SMEs, and to improve both their competitiveness and their export capacity. The law charges the National Agency for SME Development with the growth and modernisation of the SME sector, as well as the implementation of the country's accompanying development strategy. The law also provides for the creation of a coordination council, which brings together specialised and representative organisations of Algerian SMEs. This council was officially launched on 1 August 2017. Finally, the law provides for the creation of two funds to support the development of SMEs, including the Algerian Credit Guarantee Fund and a seed capital fund. The latter allows for the financing of costs related to the development of product prototypes, such as business plans, research and development. (Oxford Business Group).

In terms of density, according to the latest NOS population statistics (40.4

million inhabitants as of 1 January 2016), the national average of SMEs is about 23 SMEs (all statuses) per 1,000 inhabitants. This national ratio decreases to 17 per 1,000 inhabitants for private SMEs of the "legal person" type and shows a significant variation across the country:

- ✓ 20 private SMEs per 1000 inhabitants in the north of the country.
- ✓ 13 private SMEs per 1,000 inhabitants in the highlands region.
- ✓ 16 private SMEs per 1,000 inhabitants in the southern region. (Ministry of industry and mines, 2017,P12).

At the end of the first half of 2019, the overall population of SMEs amounted to 1,171,945 entities, of which more than 56% are made up of legal entities, among which there are 244 public economic enterprises. The rest are natural persons (44%), of which 21% are liberal professions and 23% are craft activities. Thus, at the end of the first half of 2019, the overall population of SMEs was composed of 97% Very Small Enterprises (less than 10 employees), i.e. 1,136,787 start-ups which remain strongly dominant in the economic fabric, followed by Small Enterprises with 2.60% and Medium Enterprises with 0.40%. (See table below):

**Table 3.**Definition of SMEs in Algeria

SMEs TYPE	SMEs Nbr	%
Very small (less than 10 employees)	1136787	97
Small enterprise ( employees between 10 and 49)	30471	2,6
Medium enterprise( employees between 50 and 249)	4688	0,4
<b>Total</b>	<b>1171945</b>	<b>100</b>

**Source:** Adapted from Ministry of Industry and Mines, Information Bulletin SME Statistics 1st semester 2019, P08.

#### **4. Role of SMEs in the growth of the non-energy sectors of the Algerian economy:**

Small and medium-sized enterprises predominate among Algerian



businesses, forming the backbone of the private sector. At the end of 2016, Algeria's one million SMEs employed more than 2.5 million people and generated some AED 75 billion (US\$622.1 million) in bilateral trade. According to the Ministry of Industry, Algeria created an average of 60,000 SMEs per year in the period 2012-15, and there is every indication that the pace of business creation is accelerating. There was a net increase of 88 100 SMEs in 2016 alone - a 9.4% increase over 2015 - and a 7.2% increase in SME employment. The government's target is to create an additional 1 million SMEs over the period 2015-19. Of the 1 million SMEs in existence at the end of 2016, 56.3% were incorporated, while a small minority - only 390 enterprises - were state-run. The remaining 43.7% were sole proprietorships. At 97.1%, the vast majority of Algerian SMEs are micro-enterprises, with less than 10 employees. There are only 3170 registered medium-sized enterprises - those with between 50 and 249 employees - representing 0.31% of all SMEs. This "missing middle" phenomenon is common to many other emerging markets, as is the existence of a large informal economy.

The Government supports the SME sector by investing in private sector companies through the National Investment Development Agency. While 2016 saw a 9.6% reduction, to 7185, in the number of such investments, the amount invested increased by 24.8%, to AD 1.8trn (\$14.9 billion), and the number of jobs supported by these companies increased by 9.1%, to 164,000. In 2011, the authorities launched a national programme worth AD380bn (\$3.2bn) to revamp the country's SME sector, with the aim of more than tripling the number of SMEs from just over 600,000 to around 2 million by 2025. Although this programme has benefited more than 20 000 SMEs in multiple sectors, it has been judged by many observers to have fallen short of its objectives. With this in mind, the government stepped up its efforts to boost the SME sector in 2017.

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**Table 4.** Summary Statements of Investment Projects (Q1 / 2019)

	Activity sector	Building	Industry	Services	Tourism	Health	Agriculture	Total
<b>Reported Project</b>	Q1/2018	408	1179	162	113	63	102	2027
	Q1/2019	459	922	147	102	50	85	1765
	Share Q1/2019(%)	26.01	52.24	8.33	5.78	2.83	4.82	100
	Evolution	11.11	27.87	10.20	10.78	26	20	14.84
<b>Amount (Millions of DA)</b>	Q1/2018	53566	481294	203686	51224	30441	19904	848114
	Q1/2019	41254	329110	279850	89291	21087	21563	530291
	Share Q1/2019(%)	7.78	62.06	5.28	16.84	3.98	4.07	100
<b>jobs</b>	Q1/2018	5175	46636	10427	6244	3015	2339	73836
	Q1/2019	4496	32644	3236	5143	1642	1623	48784
	Share Q1/2019(%)	9.22	66.92	6.63	10.54	3.37	3.33	100

**Source:** Adapted from Ministry of Industry and Mines, Information Bulletin SME Statistics 1st semester 2019, P17.

The table below shows the declarations of investment projects between the first quarters of 2018 and 2019, so we revealed that some declared projects were decreased between this period except for the construction sector, where it recorded 11.11% due to the government housing projects. As a result the industry sector was the highest by 52.24%, as much as the services were the latter occupied 8.33% to be followed by the tourism sector by 5.78% and this sector occupied 16.48% of the workers, but the other sectors did not contribute in the development.

In order to diagnose the economic and social contribution of SMEs, we have

analysed the data published in the statistical review of SMEs in the following table:

**Table 5.** Eligibility certificates by sector of activity (cumulative as of the 30th of June 2019)

<b>Activity</b>	<b>Financing projects</b>	<b>Impact of employment</b>	<b>Rate of financing</b>	<b>Rate of work</b>
<b>Agriculture</b>	57183	135 222	14.99%	14.85%
<b>Arts and crafts</b>	42998	126 245	11.27%	13.86%
<b>Buildings</b>	34282	99 590	8.98%	10.95%
<b>water</b>	556	2 049	0.14%	0.23%
<b>Industry</b>	26740	77 133	7.02%	8.47%
<b>maintenance</b>	10271	23 663	2.69%	2.60%
<b>Fish</b>	1131	5 549	0.29%	0.6% <sup>1</sup>
<b>Free professions</b>	11356	25 485	2.97%	2.7% <sup>9</sup>
<b>Service</b>	108003	251 301	28.31%	27.61%
<b>refrigerated transport</b>	13385	24 132	3.52%	2.65%
<b>Transportation of goods</b>	56530	96 237	14.83%	10.58%
<b>Transportation of passengers</b>	18992	43 691	4.98%	4.79%
<b>Total</b>	<b>381427</b>	<b>910 297</b>	<b>100,00%</b>	<b>100,00%</b>

**Source:** Adapted from Ministry of Industry and Mines, Information Bulletin SME Statistics 1st semester 2019, P17.

The statistics show that business creation projects were estimated at 381427 projects until 30/06/2019. We note that the service sector was financed by 28.31% of the total of other financing, the highest percentage reflected positively on the increase in the number of jobs, which contributed to the decrease in unemployment. After it followed both agriculture and transport of goods activities by 14.99% and 14.83%, as a result their work rates take about 14.85% and 10.79%, these important areas have been declined in the few decades, because the guideline of Algerian banks specified to finance this type of SMEs due to its financial crisis exactly in 2014 until now. For the arts and aviation sector which showed an increase in financing so it was financed by 11.27% and had an impact on employment by 14.85%. As for the passenger transport sector, it took 16.30% which was introduced by Algeria and its cities in 2006 and 2008 in transport equipment (buses, taxis). However, the market

was quickly saturated by this type of equipment, which led to the freezing of funding in 2019. But the contribution of other sectors was very low, such as water, which was financed at 0.14%, due to the state's strategy and difficult administrative procedures.

### **5. Obstacles to development encountered by Algerian SMEs:**

Despite the potential role of SMEs in accelerating growth and job creation in Algeria, a number of bottlenecks affect their ability to realise their full potential. SME development is hampered by a number of factors. (Asma, 2015) examined the current developments of small and medium enterprises (SMEs) in Algeria and investigates the contribution of these enterprises to economic development and job creation. To do so, the study uses available data from the Algerian National Statistics Office (ONS) and the Algerian Ministry of Industry, Small and Medium Enterprises and Investment Promotion, to analyse the effectiveness of these enterprises in terms of employment and wealth creation. The results of his research reveal that SMEs in Algeria are too fragile and do not contribute effectively to job creation in a country where unemployment remains high, particularly among young people. Although Algeria has succeeded in diversifying its economy, this diversification is still weak and the productive fabric remains largely concentrated in the hydrocarbon sector. In addition, the labour-intensive SME sector remains underdeveloped. Bouazza et al (2015), analysed the factors influencing the growth rate of small and medium-sized enterprises (SMEs) in Algeria and explores the extent to which their success or failure depends on the wider business climate. The study also examined various internal factors that may be responsible for the unstable and limited growth of SMEs. The study found that SME growth in Algeria is hampered by several interrelated factors, including factors related to the business environment that are beyond the control of SMEs and factors internal to SMEs. Brahim&Nourredine, (2017), their study aimed to shed light on the fact of corporate governance in Algerian small and medium enterprises where the intention is to identify and take stock of the fact of corporate governance in Algerian joint stock companies, in order to state the major and essential obstacles that stand against the good practice of corporate governance. The study took place in 4 public

companies in the region of Chlef, the empirical study focused on a questionnaire in which we tried to recognize the fact of corporate governance in these companies and to highlight the various problems that hinder the path of companies towards good development. The researchers revealed that the concept of corporate governance is not activated as it should be and the Algerian small and medium enterprise suffers from many problems in which first of all the family nature and the problems of successions, also the relationship between the elements of the main actor is not good and the legal and organizational environment is not encouraging. According to Gharbi (2011), the common obstacles that hinder the development of SMEs in Algeria are;

- ✓ Difficulties in accessing finance;
- ✓ Bureaucracy, slow administrative practices and lack of organisation;
- ✓ The lack of support and management training;
- ✓ Difficulties related to the acquisition of land due to the complication of administrative procedures and the lack of transparency;

In a more global approach, the European Commission's final report on the Algerian SME upgrading programme (2007) identified a plethora of problems in the general SME environment (see Table 6), which includes the enterprise, the macro level, support institutions, professional groups and information and telecommunications. Each of these actors has created problems in terms of finance, management, human resources, production and technology, trade and marketing. Algerian SMEs face various obstacles to their performance and growth, with access to finance frequently being reported as one of the main barriers.

**Table 5.** An overview of the problems faced by SMEs in Algeria

	<b>Financing</b>	<b>Management &amp; Strategy</b>	<b>Human resources</b>	<b>Productions &amp; technology</b>	<b>Commercialisation &amp; markets</b>
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# Role of SMEs in the Algerian economy and barriers to their development

<p><b>Macro-Economic context</b></p>	<p><i>-Inefficient public banks</i></p> <p><i>-Lack of capital risk and leasing companies</i></p>	<p><i>-Lack of clear strategy for the development of private sector</i></p>	<p><i>-Absence of continuing vocational training</i></p> <p><i>-Lack of qualified human capital</i></p> <p><i>Concentration of qualified people within public sector</i></p>	<p><i>-Little or lack of information Weak local market of equipment</i></p> <p><i>-Lack of strategy of support for quality and innovation</i></p>	<p><i>- Inadequate rules and regulations for competition</i></p> <p><i>-Liberalization</i></p>
<p><b>Intermediary Institutions &amp; Supporting Services</b></p>	<p>-Limited access to banks</p> <p>-Lack of banks' credit services</p> <p>-Absence of supporting services</p>	<p>-Inefficient supporting services</p> <p>-Limited number of institutions</p> <p>Lack of information</p>	<p>-Lack of qualified trainers</p> <p>-Weak counselling services</p>	<p>-Supporting services are less efficient in terms of information , technical support , quality management and development of innovation</p>	<p>-Absence of supporting services</p> <p>-Lack of information absence of training</p>
<p><b>Professional Groups labor unions and employers associations</b></p>	<p>-Lack of guarantee companies and mutual caution</p> <p>-Lack of cooperation with banks</p>	<p>-Entrepreneurs are not properly represented</p> <p>-Less powerful associations</p>	<p>-Lack of consultation regarding labour market</p> <p>- No cooperation with training institutions</p>	<p>-Shortage in terms of technical exchange and consultation</p> <p>-No cooperation with supporting centers</p>	<p>-Weak promotion of products</p> <p>-Lack of information exchange</p>
<p><b>Enterprise level</b></p>	<p>-Family base financing traditional financial management</p> <p>-Lack of awareness regarding banks 'offerings</p>	<p>Entrepreneurs are not dynamic but they do not have strategic management</p> <p>-Weak innovation</p> <p>-Lack of information</p>	<p>-Limited qualifications of technical staffs</p> <p>-Staff instability</p> <p>-Entrepreneurs reluctant to delegate some authorities to staff</p>	<p>-Low and average quality with high prices</p> <p>-Limited know-how</p> <p>-Poor organisation</p> <p>-Old technology materials</p>	<p>Poor knowledge about markets</p> <p>Poor channels of distribution</p> <p>Poor relations with customers</p>
<p><b>Information &amp; telecommunication</b></p>	<p>-Unavailability of data and guidance on investment opportunities;</p>	<p>-Lack of information and database on competition and the practices of economic</p>	<p>-Lack of statistical databases and a national information system about</p>	<p>-Difficulties in accessing specialized information sources and the Internet,</p>	<p>-Lack of data and market studies (national, regional and local);</p>

		operators	competencies.		
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**Source:** Adapted from The support program for SMEs in Algeria of the European Commission, (2007), <https://www.eesc.europa.eu/resources/docs/qe-02-17-762-en-n.pdf>. viewed on 15/07/2021.

## 6. Results and discussion:

Algeria's economy is dominated by its exports of oil and natural gas, commodities which, despite fluctuations in world prices, contribute annually to about one third of the country's GDP. Until 1962, the economy was largely based on agriculture. Since then, the extraction and production of hydrocarbons has been the most important activity and has facilitated rapid industrialisation. However, the economy remains heavily dependent on the energy sector, which accounts for 94% of total exports; a continued slowdown in global energy demand has put significant pressure on Algeria's fiscal and external positions. Despite this, SMEs predominate among Algerian companies, forming the backbone of the private sector. Our analysis has shown that despite the potential role of SMEs in accelerating growth and job creation in developing countries, a number of bottlenecks affect their ability to realise their full potential in Algeria. For example, SME development is hampered by a number of factors, including financing, lack of managerial skills, equipment and technology, regulatory issues and access to international markets. The lack of managerial know-how imposes significant constraints on SME development. Although SMEs tend to attract motivated managers, they can hardly compete with large companies.

This is why new laws have been passed, initiatives have been launched, support funds have been created and huge budgets have been allocated, all with the aim of developing SMEs to become a reliable alternative to the hydrocarbon sector, to play a more important economic role and to be able to compete in an increasingly globalised market. Thanks to these reforms, the number of SMEs has increased considerably. Their share of GDP has increased, but not to the expected levels, as much of the growth is still driven by the oil and gas sector. SMEs have also contributed positively to job creation, but according to some economists, this indicator is misleading because of the high mortality among SMEs created. Similarly, most of the growth of SMEs has been in the service sector.

We could say that, according to Table 06, SMEs still face many challenges that hinder their development. Financial problems and tax burden, as well as bureaucracy and corruption, are the most recurrent of these obstacles. The banking system is underdeveloped and usually only public banks are involved in programmes designed for SME financing. This situation erases competition and leads to the failure of many programmes (Emine, 2012). Upgrading programmes have been in place since 1996; some of these programmes have been initiated by the government while others have taken place in regional and international partnerships. Many programmes have already been completed, while others are ongoing. The actual results of these programmes are not known, but the continued dependence of the economy on the oil and gas industry, the very low share of exports outside this industry (5%), the lack of diversification of economic activities and the low share of labour-intensive industries indicate that little has changed outside the traditional scope of SMEs. This situation calls for an urgent need to step up efforts to first assess the impact of previous programmes and then put in place more appropriate programmes with strict monitoring of all actions aimed at developing SMEs. Support agencies have also been set up by the government to assist in SME development. These bodies need more power and less centralisation in order to engage effectively in the development process. A clear delineation of the roles assigned to each organisation will have a positive impact in creating synergies while eliminating possible conflicts.

## **7. CONCLUSION**

This paper reviewed Algeria's economic indicators and the state of SMEs and also discussed the characteristics, contributions of SMEs to economic development, and constraints to SME development. Thus, the aim of our research was to study the contribution of Algerian SMEs in the development in Algeria and to reveal its difficulties in development, despite the fact that this type of enterprises had recognized a progression in some sectors such as: service and industry and this sector has given back in the net income, even the SMEs have reduced unemployment.

We recommend that the strengthening of SME leadership should be achieved through the adoption of strategies and policies to broaden and deepen



their skills and increase their productivity. Strengthen cooperation between the state and regional communities to support SMEs, such as business incubators, business development centres and others as needed. Allocate new private banks for SME financing, such as local banks, to meet the diverse needs in different circumstances. Introduce other agencies and funds that offer low-interest loans and guarantees for the benefit of those who wish to establish small and medium-sized enterprises. Establish advisory offices to provide guidance and full support to SMEs.

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