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## Small and medium enterprises in the face of the corona pandemic

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### Abstract:

This research came to highlight the repercussions of the economic crisis left by the Corona pandemic on the activity of small and medium enterprises in Algeria as the main representative of the private sector, and the backbone of the economy of developing and developed countries. Where the main problem was: what are the remnants of corona pandemic on the activity of small and medium enterprises in Algeria?

It also aimed to get acquainted with the support plan set by the government to overcome the financial problems known to these institutions and to urge them to stay and confront this virus.

**Keywords:** Coronavirus (Covid-19), small and medium foundation, economy, reflections, rescue plan, Algérie.

**Jel Classification Codes:** L33, I15.

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### 1. Introduction :

By 2020, the world faced a major health crisis caused by the emergence of a new virus detected from the coronavirus strain, the COVID-19 virus that began its outbreak in the Chinese city of Wuhan in December 2019 and then turned into a pandemic that affected most of the world's countries.

The pandemic has caused heavy human losses worldwide, leading to the need to resort to large-scale isolations, general bans, and lockdown to avoid the spread of the epidemic, which has had a negative impact on economic activity that has deteriorated significantly and continuously throughout this period.

Like other economic institutions affected by this deterioration, SMEs (small and medium-sized enterprises) have not been spared from this pandemic.

These institutions, whose role in the economy cannot be ignored, including manpower employment, stimulating self-employment, and reducing poverty rates, usually do not withstand economic crises for a long time because of their small size and weak financial potential. SMEs knew major problems that led to a shortage of liquidity and the collapse of many of them.

**Hence, the main problem of research rises: What are the consequences of the Corona pandemic on the activity of SMEs in Algeria?**

#### 1.1. The following sub-questions fall within this main problem:

- What is the origin of the new coronavirus becoming an epidemic?
- How has the Corona pandemic affected the activity of SMEs in Algeria?
- What measures has the Algerian state taken to protect SMEs from the risk of bankruptcy in the context of this pandemic?

#### 1.2. To answer them, we suggest the following hypothesis:

- ❖ The main reason the new coronavirus has become an epidemic is its high prevalence in most countries of the world and in a short period with a failure to have proper treatment.
- ❖ The virus influenced negatively SMEs' activity and their financial situation.
- ❖ The Algerian state has developed urgent support programs to protect SMEs from the risk of bankruptcy.

Study objective:

This study aims to obtain a realistic image of the problems faced by small and medium-sized enterprises due to the Corona pandemic, as well as to find out what mechanism the Algerian state has put in place to help them overcome the crisis.

### 1.3. Structure of the study:

- First axis: The nature of the new CORONA virus.
- Second axis: Impact of the CORONA pandemic on SMEs.
- Third axis: Algeria's plan to save SMEs from the negative consequences of the Corona pandemic.
- Study methodology:

In order to address these axes, we have adopted the descriptive analytical approach based on text analysis and data description, as well as the analytical approach to data analysis.

## 2. The nature of the new CORONA virus:

The new coronavirus, known as covid-19, is the latest virus to be detected from the coronavirus strain, whose molecules resemble the appearance of the crown. It is a virus that attacks the respiratory system and affects both humans and animals.

The virus appeared in the seafood and animal market in the Chinese city of Wuhan in December 2019 and then rapidly spread until it touched most of the world, leading the World Health Organization (WHO) to classify it as a global pandemic (Unicef, 2020).

Symptoms of the virus are fever, fatigue, dry cough, and shortness of breath. In some cases, it causes pain, aches, nasal congestion, headaches, conjunctivitis (pink eye), throat pain, diarrhea, loss of taste or smell, rashes, or changes in the color of hand fingers, or feet.

These symptoms begin to appear gradually until the virus controls the patient's entire respiratory system and causes him or her to experience a deteriorating state of health that could lead to death. Moreover, the period between exposure to the virus and the onset of symptoms takes about five to six days but can range from 1 to 14 days.

People can catch Covid-19 infection from other people with the virus mainly if they inhale the tiny droplets that a person with Covid-19 releases from his nose or mouth when he coughs, sneezes, or speaks. Since these droplets are relatively heavy, they do not move far but fall quickly on objects, the ground, and surfaces around the person, such as tables, door handles, and stairs.

This is why a person gets infected if he gets into these places and then touches his eyes, mouth, or nose (world, 2020).

In general, no vaccine has been found to avoid or adequately treat the disease to date, and individuals are therefore responsible for protecting themselves and their families from infection by taking the preventive measures recommended by the World Health Organization: (virus, 2020)

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- Good and frequent cleaning of hands, whether by alcoholic disinfectants or by water and soap to kill the viruses on them.
- Avoid crowded places and maintain at least one meter (3 feet) between each person and another.
- Avoid touching the nose, mouth, and eyes to avoid catching the virus from surfaces.
- Follow good respiratory hygiene practices by covering the mouth and nose with an elbow or with a paper napkin when coughing or sneezing, and then immediately dispose of the napkin.
- Avoid physical contact when greeting.
- Wear medical masks properly.
- Wash vegetables and fruits thoroughly and wash your hands before touching them.
- Cleaning surfaces used such as door handles, electricity plugs, and sinks with water and detergents on a daily basis.
- Not sharing personal belongings with others.
- Wash clothes with regular detergents at a temperature of between 60 and 90°C.
- Drink too much fluid, eat a balanced diet, and improve sleep patterns in order to strengthen the immune system.
- Take self-isolation and quarantine measures in case of contact with someone infected with Covid-19 or if some of the initial symptoms of the disease appear, for at least 14 days.
- Do not contact the elderly and people with chronic diseases; instead, seek medical attention and contact a doctor or health care facility if an infection is confirmed.

While 80% of people with the disease recover without the need for special treatment, 20% have difficulty breathing, with an increased risk of severe complications that may lead to death, especially for the elderly and people with other health problems such as hypertension, heart and lung disease, diabetes, or cancer (world, 2020).

### 3. Impact of the Corona pandemic on SMEs in Algeria:

The Algerian legislator defines small and medium-sized enterprises (SMEs) as enterprises that produce goods and/or services that meet the criteria of independence and employ from one to 250 workers, provided that their annual turnover does not exceed 4 billion Algerian dinars or their total annual earnings do not exceed 1 billion Algerian dinars (Law17-02, 2017, p. 5). They are classified as:

- ❖ Medium-sized enterprises employ between 50 and 250 workers. They have an annual turnover of between 400 million Algerian dinars and 4 billion Algerian dinars, or total annual revenue of between 200 million Algerian dinars and 1 billion Algerian dinars ( the Directive Law on the Development of Small and Medium Enterprises, 2017, p. 6).
- ❖ Small enterprises employ between 10 and 49 workers and their annual turnover does not exceed 400 million Algerian dinars, or their total annual revenue does not exceed 200 million Algerian dinars ( the Directive Law on the Development of Small and Medium Enterprises, 2017, p. 6).
- ❖ Micro-enterprises (very small) employ from one to 9 workers, with an annual turnover of less than 40 million Algerian dinars, or total annual revenue of only 20 million Algerian dinars ( the Directive Law on the Development of Small and Medium Enterprises, 2017, p. 6).

It should be noted that if an enterprise is classified in one category based on the number of employees and another based on its turnover or total revenue, the standard of the turnover or total revenue shall take precedence in classifying it (No17-02, Article 11 of contains the Directive Law on the Development of Small and Medium Enterprises, 2017, p. 6).

According to statistics provided by the Ministry of Industry and Mines in November 2019, start-ups, and small and medium-sized enterprises account for 95% of the total number of economic enterprises in Algeria, with a total of 945,171,111 enterprises, mostly active in services, crafts, and construction field.

Only 8.71% are industrial enterprises. Moreover, 244 enterprises are public enterprises and the remaining of which are private sector enterprises (Ministry of Industry and Mines, November 2019, P. 5).It is distributed as follows:

**Table N°1: SMEs distribution according to the size**

Type of enterprises	Number of enterprises	Percentage
Micro-enterprise (less than 9 employees)	1136787	97%
Small enterprise (from 10 to 49 employees)	30471	2,6%
Medium sized enterprise (from 50 to 250 employees)	4688	0,4%
Total	1171945	100%

**Source:** Ministry of Industry and Mines, Information Bulletin SME Statistics, Issue 35, November 2019, P. 8

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**Table N°2: SMEs distribution according to ownership and activity sector**

Activity sector	Public institutions			Private institutions	Number	Percentage %
	Micro-enterprise	Small enterprise	Medium enterprise			
Industry	1	15	57	102055	102128	8,71%
Services	1	11	48	602695	602755	51,3%3
Agriculture	19	57	17	7275	7368	0,63%
Constructions and public works	-	2	13	188275	188290	16,07%
Energy and mines	-	1	2	3032	3035	0,26%
Art and hand crafts	-	-	-	268369	268369	22,90%
<b>Total</b>	<b>21</b>	<b>86</b>	<b>137</b>	<b>1171701</b>	<b>1171945</b>	<b>100%</b>

Source: Ministry of Industry and Mines, Information Bulletin SME Statistics, Issue 35, Nov2019, Op. Cit., p. 10

**Table N°3: SMEs distribution according to the geographical area**

Geographical area	Number of SMEs	Percentage %
North	817806	%7
Hauts Plateaux	257558	%2
South	96581	%
<b>Total</b>	<b>1171945</b>	<b>100</b>

Source: Ministry of Industry and Mines, Information Bulletin SME Statistics, Issue 35, November 2019, Op. Cit., p. 12

Since most of Algeria's economic institutions are small and medium-sized enterprises, they have a strong relationship with the state of the national economy, affecting it positively by seeking to absorb unemployment and create new jobs on the one hand.

On the other hand, any crisis affecting the economy has a negative impact, especially since it does not enjoy the necessary support of the Algerian state compared to other states.

This can be reflected in the current economic crisis of the Corona pandemic, which has caused significant damage at the level of SMEs. Following the outbreak of the COVID-19 virus in Algeria, the state issued executive decrees on preventive measures and procedures to curb the spread of the disease, namely the closure of shops and alternating hours in addition to the application of total or partial quarantine in most of the country's states (Executive Decree on Measures to prevent the spread of Coronavirus, 2020).

This has led to a dramatic drop in demand for various sectors and paralysis of economic activities, negatively affecting SMEs that cannot resist any difficult circumstances or withstand an emergency crisis because of their lack of financing capacity.

Moreover, the circumstances have led most of them to enter a liquidity crisis, failing to pay workers' salaries and resulting in the layoff of a large number of workers, thus reducing their production capacity and expansion, not to mention increasing unemployment and thus decreasing the economic status of the state.

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According to Mr. Samy Akli, Chairman of the FCE (Enterprises Leaders Form), it is currently difficult to estimate the extent of these enterprises' losses because no rule applies to all of them because each company has its potential. However, huge losses are expected, owing to the presence of numerous institutions on the verge of bankruptcy.

Others intend to stop their activities, especially since this pandemic occurred following the crisis of the collapse of oil prices in 2019, which had previously caused the bankruptcy of a significant number of institutions, and the suffering of many other institutions that remained steadfast and resisting.

If this pandemic takes longer, the negative consequences will be multiple and catastrophic, as it is difficult to activate economic performance with high unemployment and inflation (Boudriche, 2020, pp. 8-9).

The supply of raw materials is one of the most significant problems faced by enterprises that rely on foreign materials for the continuity of their products in the current crisis, especially after the Council of Ministers, at its meeting on 22 March 2020, decided to reduce the import bill from 41 billion dollars to 31 billion dollars.

The council identified this as one of the necessary measures to deal with the repercussions of the coronavirus and the significant decline in oil prices (Algeria announces public spending cuts due to Corona, 2020).

This will have a significant impact on the industrial sector, which is highly dependent on overseas in general, and on China in particular.

According to statistics prepared by the Ministry of Industry and Mines, the majority of these enterprises are micro-enterprises with only nine workers (see table 01 above).

These institutions are typically small businesses run by women and young entrepreneurs, and their small size undoubtedly makes them more vulnerable. They are characterized by their low funding potential and therefore do not have the necessary precautions to cope with emergency crises. The current crisis is the best example.

Statistics on the distribution of SMEs across the national territory (see table 3 above) also show that small and medium enterprises in Algeria suffer from uneven geographical distribution.

Most SMEs (70%) are concentrated in the north of the country. Unfortunately, this region is the most affected by the new coronavirus.

We may also note from the statistics in table 02 above that more than half of these enterprises are active in the service sector. This sector, which includes banking and tourism services, insurance, entertainment, communications, Internet services, information, transport, etc., provides 60% of the jobs in Algeria, 44% of the GDP, and 2.2% of the value-added.

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It is a sector that has been hit greatly by the epidemic, with the President ordering the closure of the air, land, and sea borders, causing a widespread contraction in the hotel sector by up to 80%.

Moreover, tourism agencies have seen a significant decline in activity, particularly those active in religious tourism, after Saudi Arabia decided to suspend Umrah to further notice as part of the corona epidemic prevention measures (Coronavirus repercussions...social and economic paralysis in Algeria, 2020).

The President also ordered a halt to transport in the country by suspending public mass transport (buses) and private transport (taxis) within cities and between governorates, as well as suspending train traffic in all directions, to reduce as much as possible the movement between cities and states as necessary measures to prevent the spread of the virus (Algeria stops public transport and trains, 2020).

This caused significant damage both at the level of these institutions and at the level of the national economy as a whole.

### **4. Algeria's plan to save SMEs from the negative consequences of the Corona pandemic:**

As soon as the economic situation caused by the general lockdown of the Algerian state aimed at reducing the spread of the corona epidemic, the Government of Algeria, like other States, launched an urgent plan aimed at providing financial assistance to the affected institutions (especially small enterprises) in order to maintain their activities.

While the experts warned of the inability of private and state companies to cope with the negative financial consequences of the Corona pandemic, the Algerian President revealed that the state would provide all economic means for SMEs to return without loss, with the Prime Minister ordering several actions: (Algeria, 2020)

- ❖ Immediate freezing of all payments of financial burdens and liabilities incurred by economic operators during the quarantine period. No penalties or fines shall be imposed on such operators during this period.
- ❖ Conducting a thorough and transparent assessment of the damage caused and losses suffered by economic operators, especially in relation to small and medium-sized enterprises and small-scale professionals.
- ❖ Granting financial assistance to small-scale professionals (30.0000 DZD) for three months based on a "rigorous assessment" of the status of each case during the last four months.
- ❖ Delay or reschedule loan payments of businesses suffering losses due to the restrictions aimed at curbing the spread of the virus.
- ❖ The Minister of Finance has instructed the banking sector to ensure the implementation of the measures to facilitate access to finance, which the Bank of Algeria has already taken.



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On the other hand, a group of economists and the Chairman of the National Organization of Economic Institutions and Crafts called for the speedy application of all these procedural solutions.

The economist Dr. Omar Haroun has also proposed a number of necessary actions that the Government can take to break these institutions out of crisis and restart their activities: (elhiwar, 2020)

- ❖ Comprehensive control of the list of national economic institutions affected by the pandemic, with preliminary estimates of losses and a distinction between them and the structural problems present in the institutions. This is an opportunity for the authorities to require enterprises that have not declared their workers or activities to do so in order to be integrated into the official aspect.
- ❖ Strengthen the liquidity of national banks to provide interest-free loans to companies affected by this health crisis.
- ❖ Exempting affected SMEs from taxation and providing assistance to businesses that were affected by the pandemic.
- ❖ Update the social support system by counting those in need to avoid supporting workers twice (workers and those in need), and streamline administrative procedures for small and medium enterprises in order to enable them to obtain certain deals for toiletries and sterilization.
- ❖ Accompanying daily contractors with crafts and occupations or so-called self-contractors by counting them through a national platform and following them during this stage in exchange for organizing their post-pandemic activity.

In the same vein, the Adviser in the Strategy for Institutions and Management stated: "The priority given to combating the disease, ensuring public health, and recruiting health-care providers is urgent, but our economy is facing a critical situation that threatens to bankrupt thousands of small businesses."

He, therefore, recommended the establishment of a national technical committee to act as a "special task force" to support the work of the government. He stressed the need to develop financial, bank, and tax procedures of an "urgent" nature in order to maintain the activity of companies and professions affected by quarantine measures taken as a result of the outbreak of the pandemic.

In this regard, the adviser suggested that interest-free bank loans, tax relief, and the payment of receivables held by private companies be granted to state institutions, local communities, and major public companies, in the same context calling on the Algerian bank to reduce interest rates to support other banks (Coronavirus: Experts calling for strong and urgent intervention by the state to save jobs, 2020).

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The Algerian Youth Centre has also submitted proposals for urgent action to save small and medium-sized enterprises and their staff, which it has divided into three groups, and which must be implemented in two phases: the quarantine phase to ensure a wage that protects the dignity of workers, and the post-quarantine phase to enable enterprises to re-activate their businesses.

The first group is based on the approval of grants financed by the National Unemployment Insurance Fund or a special fund for Covid-19, the maintenance of their social security and “Chifa” cards until June 2020, and the postponement of paying premiums until 1 September 2020 concerning loans granted to workers.

The second group is based on postponing the deposit of tax statements until 30 September 2020, suspending the payment of social and tax charges during the pandemic and for three months after the date of returning to normal life, and finally scheduling their payment over 6 to 12 months.

The third group of such measures enables businesses to obtain a low-interest loan guaranteed by the government in order to pay their dues and finance the resumption of their operations.

This loan can be worth between 25% and 30% of the total turnover in 2019 (Employers’ organization proposing actions to maintain employment positions and SMEs, 2020).

In order to avoid previous mistakes, Djamel Chorfi, a World Bank expert specializing in macroeconomics, green economics, and architecture, advised that loans and subsidies should be directed towards emerging, economically efficient institutions rather than those on the verge of bankruptcy (Abed, 2020, p. 5).

### 5. Results and discussion:

The pandemic that has devastated the health, financial, and economic system has had a severe impact on the Algerian State. The pandemic has come at a time when the Algerian economy has been fragile because of the crisis in the price of oil and gas, which are its main artery, not to mention the reforms that the new government was completing.

Hence, the research reached some conclusions, including the following:

- ❖ Algeria’s SMEs bar suffers from unequal geographical distribution.
- ❖ Algeria neglects the SMEs sector despite the considerable benefits it offers to national income.
- ❖ The Corona pandemic has caused considerable damage to the financial situation of Algerian SMEs, especially after their low production capacity due to the quarantine decisions.
- ❖ The measures developed by the Algerian Government as solutions to save small and medium-sized enterprises from the negative consequences of the Corona pandemic can reduce the severity of these effects if they are effectively and urgently implemented.

## 6. Conclusion:

These successive crises have put economic institutions at risk, in which small and medium enterprises have taken the biggest hit due to their small size, which makes them more responsive to the challenges that occur in the world. Since the onset of the health crisis, these enterprises have faced turbulence in supply and distribution lines and a dramatic drop in demand for their products, which has brought them into a spiral of financial burdens that they cannot meet, such as wages for employees and customers, repayment of loans, taxes and so on, and the specter of bankruptcy.

That is why we put forward a set of suggestions as follows:

- ❖ Ensure the expansion of small and medium-sized enterprises across the entire national territory in order to decompress northern areas and encourage investment in rural areas.
- ❖ Support the SME sector and help it overcome its problem of marginalization.
- ❖ Facilitate procedures for establishing small and medium-sized enterprises that will revitalize and stimulate the economy's movement.
- ❖ Do not ignore the emergency actions proposed by economists to alleviate the crisis that most SMEs know under the Corona pandemic.

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