

The impact of SMEs on the unemployed in Algeria from 2003 to 2017

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Abstract :

The aim of this research is to analyze the impact of the evolution of the number of SMEs on the unemployed number in Algeria during the period of 2003-2017. To this end the study uses the available semi-annual data from the Algerian ministry of industry and mines, and the World Bank. For this, we used the ARDL model which gives us more efficient and accurate results. The test showed that there is a co-integration between the variables which are included in the model. The study also found that there is a direct and positive relationship between the number of SMEs and unemployed number in long term, and a negative relationship between the variables in the short term.

Keywords: SMEs, unemployment, co-integration, ARDL.

Jel Classification Codes : C29, E24, L29.

Introduction:

Small and medium enterprises in economies are the most important sector contributing to the achievement of social and economic development, due to the important role of SMEs in creating jobs and reducing the unemployment gaps.

Unemployment is considered to be one of the biggest challenges that hinder development improvement as well as the economic progress, it's important today to give more attention to the policies and programs to tackle unemployment and push the labor market by absorbing large number of workers. SMEs become an effective alternative as a potential solution to the unemployment problem in Algeria.

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SMEs now play an indisputable role in economic development and economic integration and diversification by increasing the volume of investment, production and employment.

It is to solving the problem of unemployment, support and encourage SMEs in Algeria, the government has put in place policies and programs such as creating agencies and support bodies responsible for the establishment and development of SMEs. In the light of our study, we can raise the following problem: ***What are the contributions of Algerian SMEs to alleviate unemployment?***

Objectives of the study

The primary aim of this study is to analyze the impact of the evolution of the number of SMEs on unemployment in Algeria.

The specific objectives include:

- To know the current status and the situation of the Algerian SMEs sector.
- Definition and reality of unemployment in Algeria.
- To analyze the contribution of Algerian SMEs in reducing unemployment.

the estimation approaches of the model

We shall present our data sources then the econometric approach

A) **Data sources:** The sample comprises 30 semi- annual observations for the period 2003-2017. The sources of our variables are collected from different issues of information bulletins from Ministry of Industry and Mines, World Bank indicators and the national office of statistics.

B) **Econometric approach:** The ARDL model is used to analyze co integration series for long-run and short-run dynamics.

Our variables are: une (number of unemployed) and sme (number of SMEs).

Previous studies

Much and substantial work has been done to analyze and to evaluate the contribution of SMEs to job creation and to total employment in developed and developing economies.

(L.Birch, 1981) has shown that in the United States small enterprises play a major role in job creation. Birch's result showed that enterprises with less than 100 employees are responsible for 80 percent of the jobs created during the years 1969-76 in the United States.

(Youcef Ali, 2014) Inspected the role of SMEs in solving the unemployment issue in the Arab region in general and Algeria in particular, the results of this research reveal that SMEs contribution remains limited and insignificant compared to the required role and Away from the desired goals.

(Bouazza, 2015) examined the contribution of SMEs to economic development and employment creation in Algeria during the period (2001-2013) and found that SMEs in Algeria are fragile and Contribute modestly to creating employment.

(Ben abd elfettah, 2016) This study aimed to measure the impact of employment programs adopted by the Algerian government on increasing the number of workers and reducing unemployment in the province of Adrar. The study depended on the least-squares method for predicting using EVIEWS program. The study concluded by explaining the effectiveness of employment programs in creating jobs at the state level and reducing unemployment.

(Bendada, 2017) This paper examines the contribution of SMEs in reducing unemployment in Algeria during the period 2006-2016. The research showed the

role of the Algerian government's strategy to develop the SME, which led to the reduction of unemployment to about 11.6% in 2016.

(Ben-Ayesh, 2018) her study aimed to clarify the effectiveness of SMEs to reduce unemployment based on the study of the experiences of leading countries in this sector. The study concluded that Algerian SMEs should provide more jobs in the framework of government policies and the need to provide more investment for these enterprises to be an effective tool to address the problem of unemployment.

1. Concepts about Small and Medium Enterprises

1.1. Definition of SMEs

The Algerian definition

The Algerian definition of SME is based on three criteria: the workforce, the turnover and independence of the company.

The law no.01-18 of December 12, 2001 containing the law of orientation on the promotion of SME stipulates that the SMEs is defined as a goods and services production enterprises that is characterized by: employing 1 to 250, of which the annual turnover does not exceed 2 billion Dinars or whose annual balance sheet total does not exceed 500 million Dinars and it should match with the criteria of independence (Officiel journal, 02-17): As shown in table no.01.

Table 1. Characteristics of each type of SMEs according to the size of the enterprises

Enterprises	Workforce	Turnover	Total assets
Very small	1-9	<20 million	<10 million
Small	10-49	<200 million	<100 million
Medium	50-250	200m-2billion	100-500million

Source: Law of orientation on the promotion of SMEs, Algerian official journal no. 01-18, article 05,06,07.

1.2. Evolutio

1.3.n of SMEs in Algeria

The SME sector in Algeria has undergone significant changes as a result of evolving objectives and programs put in place by governments since independence. We can distinguish three periods (Hamidi, 2011):

- First phase (1963-1982): After independence, Algeria relied on a socialist system based on state control over the economic power of development and prioritization of the public sector over the private sector, which led to the marginalization of the PME-PMI sector and the development of the private sector remained very limited.

- The second phase (1982-1988): For the first time after the promulgation of the Investment Law of 1982, the private sector played a role in achieving the national development goals, but it didn't encourage the establishment of SMEs because the restrictions of investment.

- third phase (starting in 1988): because of the negative results recorded on many sectors. Algeria decided to adopt a market economy as an alternative option, and for that:

- The Monetary and credits Law was promulgated on 14 April 1990, enshrining the principle of freedom of foreign investment and the promotion of all forms of partnership.

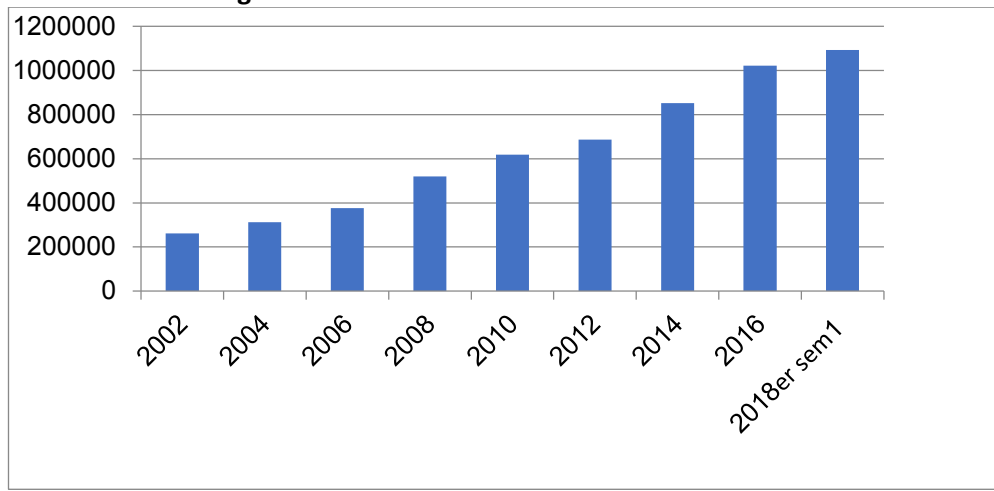
- The Investment Promotion Law was promulgated on 05-10-1993 to promote economic liberalization, which stipulated equality between national and foreign investors.

- Ordinance No 01-03 was issued in 2001 on investment development and the law of orientation on the Promotion of SMEs in 12/12/2001 aimed at improving the environment for SMEs.

1.4. Current situation of SMEs in Algeria

Since 2000, the number of SMEs in Algeria has doubled, the density has quadrupled, and available statistics indicate that 54% of SMEs were established between 2001-2008 (Bouri, 2017), figure no.01 presents and classifies the annual evolution of the number of SMEs during the period 2003 until the 1st semester of 2018.

Figure 1. Annual evolution of SMEs in ALGERIA



Source: figure established from Ministry of Industry and Mines, information bulletins no:4,6,8,10,12,14,16,20,22,24,26,28,30,33.

Since the opening of the Algerian economy in 1990 and the adoption of the market economy, the number of SMEs has increased massively. At the end of the first half of 2018, the number of SMEs becomes 1,093,170, of which 1,092,908 private and 262 public SMEs, we note from the figure no.01 that the number of SMEs has increased significantly since 2002, and this is due to the direct impact of government support policies and facilitating the creation of new enterprises (BERBER, 2015), without forgetting laws that expanded an developed mechanisms and means of supporting and accompanying SMEs for their promotion, among these laws, there is the law n 17-02 containing the law of orientation on the promotion of SMEs, through this law two organisms have been established to help, support and develop SMEs in Algeria:

a-agency: the agency is mandated to develop a strategy and implementation of the SME development policy in the field of construction, development and sustainability, including improving quality, promoting innovation and strengthening the managerial skills and capabilities of SMEs (Officiel journal, 02-17).

b- The national council for consultation for the development of SMEs: It is a consultative body, consisting of specialized professional organizations and associations representing enterprises and representatives of sectors and bodies concerned with the establishment and development of SMEs (Officiel journal, 02-17).

2. Unemployment in Algeria

The problem of unemployment is a mirror of the state of the economic, social and political system in any country. Unemployment is a problem for all the economies of the countries as it is the main cause of the phenomenon of poverty, which led the international governments to look for reasons and solutions to address this problem.

Unemployment occurs as a result of imbalances in the labor market and the labor market is affected by macroeconomic performance, through the level of growth and labor intensity, which reflects the ability of different sectors to create jobs (Mohamed El-Sayed, 2010). The unemployment rate is expressed as the proportion of the unemployed population to the active labor force (Kunduz, 2015):

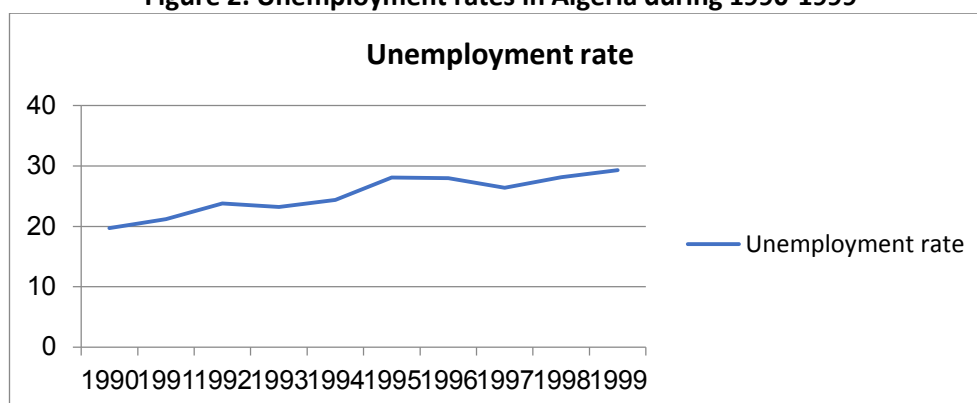
Unemployment rate = unemployed population / active labor force.

2.1. Unemployment in Algeria 1990 – 2018

Unemployment has undergone many changes that can be classified in two phases:

-The first stage: 1999-2000: Due to the oil price crisis that affected the Algerian economy, it led to the deficit of institutions, the reduction of wages and the freezing of employment in the early 1990s, which resulted in the increase of unemployment rates. During the period 1994-1998, 212960 workers were laid off and the unemployment rate rose from 19.7 % in 1990 to 29.29% in 1999 (Azri, 2018). The figure no.02 shows the change in unemployment rates in Algeria during the period 1990-1999.

Figure 2. Unemployment rates in Algeria during 1990-1999

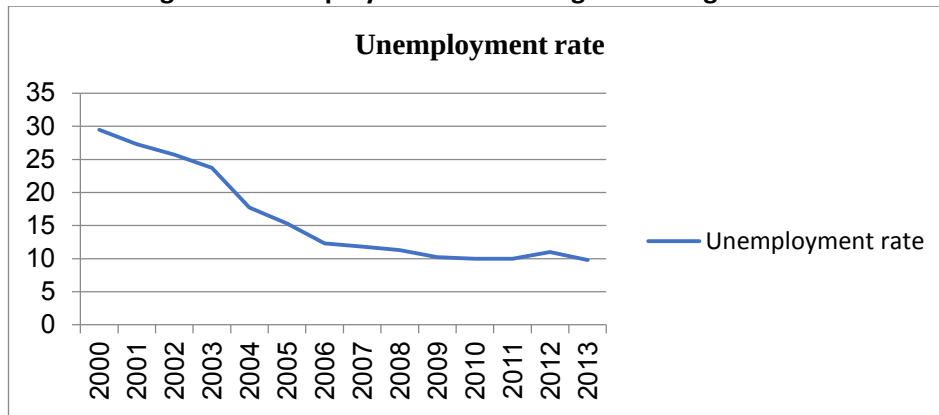


Source: Prepared by researchers based on the data of the National Bureau of Statistics

- The second stage: 2000-2013: This period witnessed a gradual decrease in the unemployment rate from 29.5% in 2000 to 9.8% in 2013. This continuous decline in unemployment is due to the following reasons (Hussein, 2013):

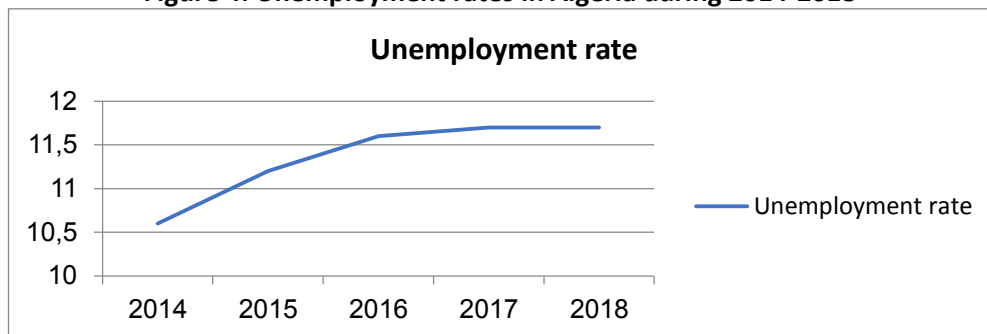
- Improved investment climate after the return of political stability
- Incentive measures to support investment
- Support employment and youth employment and facilitate the establishment of SMEs.
- The economic recovery program was adopted by the government in 2001 and implemented in the form of development plans.

The figure no.03 shows the change in unemployment rates in Algeria during the period 2000-2013.

Figure 3. Unemployment rates in Algeria during 2000-2013

Source: Prepared by researchers based on the data of the National Bureau of Statistics.

- third Phase 2014-2018: This period witnessed a significant rise in unemployment rates from 10.6 years in 2014 to 11.7 years in 2018, mainly due to the freezing of investment projects and the reduction of open jobs in public employment and economic institutions due to the decline in resources due to the significant decline in oil prices in 2014 due to the oil crisis (Amara, 2018). Figure 04 shows the beginning of the rise in unemployment in 2014.

Figure 4. Unemployment rates in Algeria during 2014-2018

Source: Prepared by researchers Based on World Bank data.

2.2. Factors affecting the labor market and causing unemployment in Algeria

There are several factors that affect the Algerian labor market and lead to stopping employment and increasing unemployment rates. The most important of these factors are (Amara, 2018,):

- Demographic factor: The increase in population is characterized by the fact that the majority of the population is young, and the state has been unable to absorb it due to the high demand for employment.
- The fluctuation of fuel prices: The sudden fall in oil prices led to imbalances in the economic system, which resulted in the cessation of production and reduce imports and high unemployment.

- Urbanization factor: through the phenomenon of rural migration and migration for security reasons in the black decade.
- The political factor: the failure of economic policies and the absence of political reforms have exacerbated matters, and other factors that affect unemployment such as the informal economy, which the state was unable to fight.

3. the contribution of Algerian SMEs in reducing unemployment

After the spread of the problem of unemployment and the damage it caused to the Algerian economic and social system, which led the government to put in place many programs and mechanisms to reduce this phenomenon, including stimulating and encouraging the creation of SMEs with a view to creating new jobs, following the experiences that have achieved good results in many countries, for example, SMEs in the European Union are seen as essential for the European employment. SMEs account for 65% of business turnover in the European Union and provide around 90 million jobs (Grisejda Myslimi, 2016). In this countries, SMEs provide jobs for about 67% of the working population (Pinkovetskaia, 2018).

3.1. Evolution of employment of SMEs relative to total employment

Table 2. Evolution of employment of SMEs to total employment

	2010	2011	2012
Total employment(In thousands)	9.735	9.599	10.170
Employment of SMEs	1.625.686	1.724.197	1.848.117
percentage	16.70%	17.96%	18%
Number of SMEs	619.072	659.903	711.832
2013	2014	2015	2016
10.788	10.566	10.594	10.846
2.001.892	2.157.232	2.371.020	2.487.914
18.56%	20.42%	22.38%	23.32%
777.816	852.053	934.569	1.014.075

Source: figure established from Ministry of Industry and Mines, information bulletins no: 20.21.22.23.24.25.26.27.29.

-Bulletin of employment and unemployment data of the National Bureau of Statistics

We can see from the table no.02 the increase of the contribution of SMEs in the total Algerian employment from 16.70% in 2010 to 23.32% in 2016 and this is due to the measures taken by the authorities to support this sector and encourage entrepreneurship, which resulted in an increase in the number of SMEs from 619,072 enterprises in 2010 to 1.014 .75 institutions in 2016. . In the table no.02, we notice the direct relationship between the number of enterprises and employment, where the employment of SMEs increased from 1,625,686 in 2010 to 2,487,914 in 2016 at a rate exceeding 50 %.

4. Methodology and Data

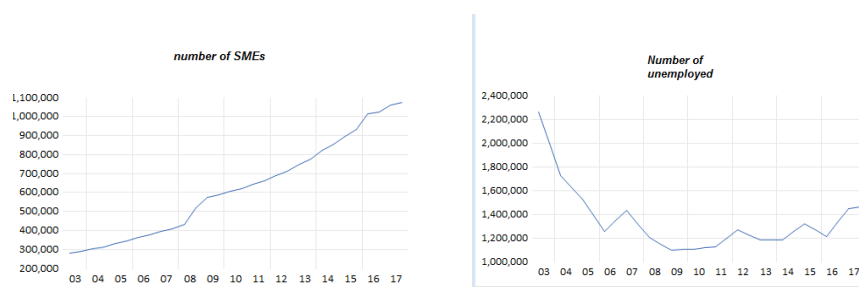
The study of the evolution of the number of SMEs and the phenomenon of unemployment at all the stages crossed by Algeria, which proves the inverse relation between the increase of the number of SMEs and the number of unemployed.

We are interested in this study by dealing with available data on the two variables from 2003 to 2017 and trying to test the relationship between SMEs and

the number of unemployed, using the methodology of the ARDL model, which is one of the most important dynamic models for modern econometric research.

Through the semi-annual data of 30 views between 2003 and 2017 and using the EVIEWS program we get a graph curve that appears in the figure no.05, which shows us the behavior of variables during the study period due to the policies and programs applied in this period.

Figure 5. Graphical representation of study variables



Source: By researchers based on the EVIEWS program

From the figure n05, we note that the number of SMEs has been increasing since 2003. The number of unemployed has witnessed many changes as a result of policies and programs that have had a negative or positive impact.

To understand how the number of SMEs affects the number of unemployed in Algeria, one must know the nature of the relationship with other economic variables. Because the econometric analysis is based primarily on linking the change in the number of unemployed to the change in the number of SMEs, therefore, policies and programs supporting the sector of SMEs are the same policies to eliminate unemployment, and on this basis has been taking into account the quantitative economic variables for the period between 2003 and 2017 represented in the logarithm of the number of SMEs and the logarithm of the number of unemployed.

5. Results

5.1. Stationary of time series (Unit Root Test):

The series is stationary if its values fluctuate around a constant arithmetic mean, with no time-related variance.

We have relied on simple and partial self-correlation functions as a eye test, The first step is to analyze the stationary of the variables using the Augmented Dickey-Fuller (ADF) test based on the statistical program EVIEWS10.

Table 3. Unit Root Test Results

Variable	Level			1ST Difference			Stationary at
	None	Trend & intercept	intercept	none	Trend & intercept	intercept	
Une	0.4416	0.0221	0.0370				I(0)
sme	1.0000	0.4849	0.9993	0.2303	0.0067	0.0026	I(1)

Source: Prepared by researchers based on the outputs of the EvIEWS10

From the results of the ADF test we note that at the probability value $\alpha = 5\%$ the time series of the dependent variable (number of unemployed) is stationary at the level, and the results based on the same test showed that the time series of the independent variable (number of SMEs) is not stationary at the first level but stationary at the first difference.

Based on the stationary test, since the dependent variable is stationary at the level and the independent variable is not stationary at the level and stationary at the first difference we can apply the ARDL methodology, which gives us good results when the sample is small.

Model estimation

It was concluded that the variables are in integration in order I (0) and I(1) .

This makes it possible to apply the ARDL model in the search for a long-term equilibrium relationship between the variables of the model.

5.2. Determine the optimal lag period for the unrestricted error correction model (UECM)

To determine the lag period for the unrestricted error correction model, we use the criteria for selecting the lag length. These criteria are LogL, LR, FPE, HQC, SBC, and AIC so that the delay period is chosen which gives the lowest value for the criteria. Note that the regression contains only a fixed amount.

The table no.04 shows that the optimal deceleration period for the first difference variants is $P = 2$ according to the mentioned criteria, and by making this deceleration, several attempts were made to estimate this model, which was the best model obtained according to statistical criteria.

Table 4. Optimal lag period test results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-374.8022	NA	2.66e+10	26.84301	26.89059	26.85756
1	-350.5468	45.04571	5.06e+09	25.18192	25.27707	25.21101
2	-348.1354	4.306183*	4.58e+09*	25.08110*	25.22383*	25.12473*

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Source: Prepared by researchers based on the outputs of the Eviews10

5.3. The co-integration test using ARDL methodology

This step is to test the existence of a long-term equilibrium relationship between the number of unemployed on the one hand, and the independent variable, which is the number of SMEs on the other hand, and the table no.05 shows that.

Table5. results of the co- integration test for the F statistic of the ARDL method

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
Asymptotic: n=1000				
F-statistic	6.061291	10%	3.02	3.51
k	1	5%	3.62	4.16
		2.5%	4.18	4.79
		1%	4.94	5.58
Finite Sample: n=35				
Actual Sample Size	26	10%	3.223	3.757
		5%	3.957	4.53
		1%	5.763	6.48
Finite Sample: n=30				
		10%	3.303	3.797
		5%	4.09	4.663
		1%	6.027	6.76

Source: Prepared by researchers based on the outputs of the Eviews10

- k indicates the number of independent variables and his number in this model is 1.

From the table no.05, the statistical value of F calculated greater than the highest critical value at a significant level of 1,5,10%, which means that there is a co-integration relationship between the number of unemployed and the independent variable in the model.

5.4. Estimate the long-term model using the ARDL model

Since the results confirmed that there is a co-integration between the variables, this requires estimating the long-term equilibrium relationship.

The long-term coefficients can be obtained from the previous model and the following table illustrates this:

Table 6. Results of estimating long term relationship

Conditional Error Correction Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	193911.6	106952.9	1.813057	0.0857
UNE(-1)*	-0.196569	0.082771	-2.374844	0.0282
SME(-1)	0.139831	0.055903	2.501289	0.0217
D(UNE(-1))	0.485683	0.157798	3.077878	0.0062
D(UNE(-2))	-0.668629	0.152768	-4.376774	0.0003
D(UNE(-3))	0.319871	0.171683	1.863151	0.0780
D(SME)	-1.393848	0.535224	-2.604233	0.0174

* p-value incompatible with t-Bounds distribution.

Levels Equation Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SME	0.711356	0.402934	1.765443	0.0936
C	986481.3	232870.0	4.236190	0.0004

$$EC = UNE - (0.7114 * SME + 986481.3183)$$

Source: Prepared by researchers based on the outputs of the Eviews10

Long-term model evaluation: Through the table no.06 we have the following results:

- The estimated parameter value of the constant is 986481.3, and statistically significant at 5% significance level because $P = 0.0004 < 0.05$.
- In the long term, there is a positive but not significant impact at 5% for the number of SMEs on unemployed. SMEs in Algeria cannot resist market volatility, so the jobs created by these enterprises are limited and their lives are short, especially as there is a continuous increase in the demand for work and the number of SMEs in Algeria cannot absorb all this demand (Ben-Ayesh, 2018).

5.5. Evaluation of short-term model (Error Correction Model-ECM-):

The Error Correction Model defines the function in the short term and gives attention to the long-term equilibrium state.

Table 7. Results of estimating long and short-term model using ECM

ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(UNE(-1))	0.485683	0.136559	3.556579	0.0021
D(UNE(-2))	-0.668629	0.138039	-4.843778	0.0001
D(UNE(-3))	0.319871	0.111944	2.857421	0.0101
D(SME)	-1.393848	0.359174	-3.880699	0.0010
CointEq(-1)*	-0.196569	0.043847	-4.483075	0.0003
R-squared	0.741922	Mean dependent var	-6318.282	
Adjusted R-squared	0.692764	S.D. dependent var	77562.34	
S.E. of regression	42991.92	Akaike info criterion	24.34645	
Sum squared resid	3.88E+10	Schwarz criterion	24.58839	
Log likelihood	-311.5039	Hannan-Quinn criter.	24.41612	
Durbin-Watson stat	2.028849			

Source: Prepared by researchers based on the outputs of the Eviews10

The estimation results of the parameter values give us the following results:

- The statistical coefficient of ECM t-1 is negative, and it is statistically significant at the level of 5% because $P = 0.0003 < 0.05$. This confirms the existence of a co integration between the variables of the study. There is a correction of the deviation of the value of unemployed in the previous year from its long-term equilibrium values in the current year by 19.65%.
- What confirms these results is: Adjusted R-squared = 0.6927

This ratio reflects the explanatory ability of the model, and shows the impact of the independent variable and its contribution to the identification and interpretation of changes in the number of unemployed, this model has the ability to interpret 69.27% due to the independent variable, and the remaining 30.73% due to other factors or variables not included in the model. It is subordinate to the random variable (UI).

5.6. Diagnosis of the model

First: the serial correlation LM test for autocorrelation in the errors:

Table 8. LM-TEST test results

F-statistic	0.062093	Prob. F(2,17)	0.9400
Obs*R-squared	0.188555	Prob. Chi-Square(2)	0.9100

Source: Prepared by researchers based on the outputs of the Eviews10

From the table no.08 we note that Fisher's statistical results indicate that: $P=0.94 > 0.05$ is greater than the 5% level and also with respect to $obs^* R-squared = 0.91 > 0.05$. This means accepting the null hypothesis, which acknowledges that there is no autocorrelation in the errors.

Secondly: the HETEROSKEDASTICITY TEST

Table 9. HETEROSKEDASTICITY test results

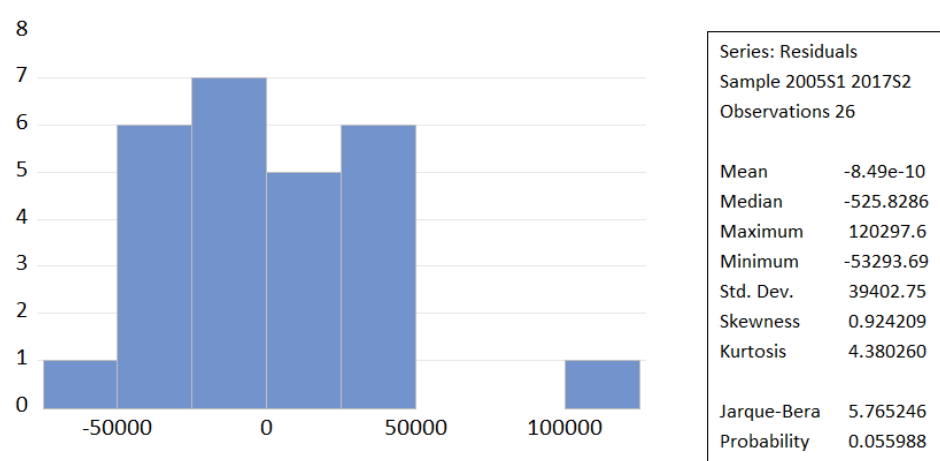
F-statistic	0.622533	Prob. F(6,19)	0.7102
Obs*R-squared	4.271577	Prob. Chi-Square(6)	0.6400
Scaled explained SS	3.855395	Prob. Chi-Square(6)	0.6962

Source: Prepared by researchers based on the outputs of the Eviews10

From the results of the table no.09 we note that $prob = 0.05 > 0.71$ so we accept the null hypothesis which recognizes the lack of stability of the variation.

Third: Normality Test

Figure6. Test results of The Normality test



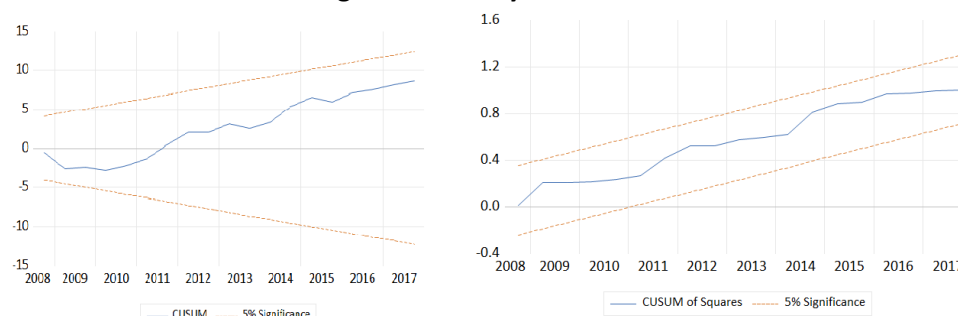
Source: Prepared by researchers based on the outputs of the Eviews10

Jarque-bera results show us that random errors in the estimated model follow a normal distribution, $prob = 0.055988 > 0.05$.

Fourth: model stability test

Tests such CUSUM test and the CUSUM of squares test should be used to ensure that the data are free of any structural changes and the stability and consistency of long-term parameters with short-term parameters.

Figure7. Stability test results



Source: Prepared by researchers based on the outputs of the Eviews10

From the figure no07, the CUSUM TEST test for this model expresses a linear medium within the boundaries of the critical region, indicating a kind of stability in the model at 5% significant, the same for the CUSUMSQ TEST test. Thus, we conclude from these tests that there is stability and harmony in the model between long-term and short-term results.

Conclusion:

The Algerian economy experienced difficult conditions starting from the 1990s, which was reflected in the high unemployment rates due to the change of state policy and the privatization of public sectors.

However, these rates have gradually declined and improved after the implementation of economic recovery programs starting in 2001, which aimed to support and encourage the sector of SMEs, which in turn contributed to the creation of new jobs that reduced unemployment rates.

In our study, we proved that when the number SMEs increases, the number of unemployed will increase in the long term, but on the short term, the number of SMEs have an adversely effect on the number of unemployed. So when the number of SMEs increases, the number of unemployed decreases.

The most important results obtained through this study:

- The dependent variable (number of unemployed) is stationary at the level and the independent variable (number of SMEs) is not stationary at the level but is stationary at the first difference, which shows that the variables are integrated of order $I(0)$, $I(1)$.
- The results of the study showed that there is a positive relationship in the long term between the number SMEs and the number of unemployed and the existence of an inverse relationship between them in the short term.
- The existence of a co-integration relationship between the number of unemployed and the independent variable (number of SMEs) in the model, which shows a long-term equilibrium relationship between the variables of the model.

Research Recommendations:

In the light of the results obtained, a set of recommendations and suggestions can be made:

- The government should adopt a policy that increases the ability of SMEs to cope with market obstacles, improve their production and improve their position in order to create long-term employment opportunities to absorb the increasing demands of employment.
- Supporting SMEs as more attractive to the labor force by providing tax facilities to new enterprises.
- Establishing a public bank or public fund to finance only SMEs as a facilitation measure due to the many restrictions imposed on enterprises by private banks to obtain loans.
- Effective and serious support and accompaniment by the agencies and bodies to the SMEs to promote this sector in Algeria.

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