

The Role of Small and Medium-Sized Enterprises in Diversifying the Algerian Economy Outside the Hydrocarbon Sector

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**Abstract:**  
Algeria's economy has historically relied on its hydrocarbon industry, which accounts for over 90% of exports. However, SMEs are increasingly seen as economic diversifiers. This paper examines SMEs' genuine contribution to Algeria's non-hydrocarbon economy using recent empirical research and official statistical data from 2001 to 2024. The analysis shows that SMEs' impact on industrial transformation and export diversification is negligible despite their rapid growth—they will exceed 1.3 million by 2022. This paper uses firm-level surveys and entropy-based analyses of government reports to conclude that structural barriers related to financing, bureaucratic inefficiencies, low innovation capacity, and regional disparities are still limiting the sector's transformative potential. Without deliberate changes to overcome these underlying restrictions, leveraging SMEs for major economic diversification would remain unattainable.

**Keywords:** small and medium enterprises; economic diversification; hydrocarbon dependence; non-oil exports; SME policy.

**Jel Classification Codes:** L25, O14.

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## **1. INTRODUCTION**

Algeria has been dealing with what economists call the "resource curse" for decades. This means that the country relies too much on oil and gas revenues, which makes it hard for other sectors to get investment and makes the economy very vulnerable to changes in global commodity markets. This dependence has had very bad effects many times. For example, the sharp drop in oil prices in 2014 wiped out almost half of the country's export earnings in just one year. The combined shock of the COVID-19 pandemic and another price drop in 2020 made it even clearer how weak an economy built on a single pillar is. In this context, successive Algerian governments have seen small and medium-sized enterprises (SMEs) as a promising way to change the economy. The reasoning is simple: SMEs make up the vast majority of private businesses in most economies. They also tend to be more labor-intensive and spread out over larger areas than big companies, which makes them good at creating jobs and spreading economic activity across regions. It's easy to see why a SME-driven diversification strategy would be appealing in Algeria, where youth unemployment and regional inequality are still big problems. But looking more closely at the evidence brings up some troubling questions. The number of registered small and SMEs in Algeria has grown quickly, from a few hundred thousand in the early 2000s to more than a million by 2022. However, the structure of the economy has not changed nearly as much. Hydrocarbon products still make up most of the country's exports. The non-oil sectors are growing, but they haven't reached the level of depth and sophistication that would show real diversification. This paper endeavors to elucidate the disparity between policy aspirations and economic realities. It looks at recent empirical research on how Algerian SMEs help diversify the economy, looks at the main problems that make them less effective, and thinks about what needs to change for the sector to reach its full potential. The conversation uses a lot of studies from 2015 to 2025, as well as official numbers from the Ministry of Industry and the World Bank and other international groups.

## **2. Literature Review**

The notion that SMEs can function as catalysts for economic diversification is well-documented in the literature of development economics. Small businesses are usually more adaptable and responsive to changes in the local market than big businesses. They can take advantage of niche opportunities, quickly change to meet changing demand, and provide specialized inputs to larger businesses through subcontracting relationships. In economies reliant on resources, the expansion of SMEs across various sectors is frequently regarded as a requisite for diminishing the hegemony of extractive industries. (Bouazza, 2015)

In Algeria, policymakers have eagerly accepted this theoretical promise. The government has set up special agencies to help small and medium-sized businesses grow and start up, changed the laws that govern them, and offered a number of financial incentives to encourage people to start their own businesses. (Taleb, 2019) recorded these initiatives, indicating that SMEs play a role in non-hydrocarbon exports and job creation, although the author recognized that the outcomes have not met expectations.

The empirical literature on Algerian SMEs depicts a narrative that is, to be candid, rather disheartening. There is no doubt that the sector has grown a lot in terms of numbers. (Khellil & Loucif, 2024) performed a comprehensive examination of more than 120 government statistical bulletins from 2001 to 2022, employing both descriptive methodologies and an Entropy index to assess the sector's impact on various economic indicators. Their results showed that SMEs make "significant contributions to employment rates and GDP values." This is what one would expect since SMEs make up about 98% of all private businesses in the country. Conversely, the study indicated that SME export performance is "very low," with most firms exclusively engaging in the domestic market. This conclusion is corroborated throughout the literature. (Kacemi, Sekhri, & Bouzidi, 2022) in their examination of 38 SMEs in Algeria, found that merely 11% of the firms in their sample engaged in any form of export activity. The other 89% sold all of their goods and services in the country.

(Abadli, Boutaleb, & Djekidel, 2020) reached a comparable conclusion via a survey of entrepreneurial culture and export orientation among Algerian SMEs, indicating that "the majority of these new companies are non-exporting" and that SME export contributions remain "too far from the objectives targeted" by government policy. (Chigar & Nassira, 2021) and (Bouazza, 2015) may have given the most important evaluations. They both said that the Algerian economy "remains largely concentrated in the hydrocarbon sector" even though efforts to diversify have been going on for 20 years. (Chigar & Nassira, 2021) characterized Algerian SMEs as "fragile and underdeveloped," making minimal contributions to authentic economic diversification beyond the hydrocarbon sector. (Bouazza, 2015), in a frequently referenced study, described the SME sector as incapable of effectively generating employment or fostering non-hydrocarbon growth, attributing this deficiency to a confluence of financial limitations, managerial inadequacies, and an adverse business climate. It would not be fair to say that the Algerian government doesn't care about the problems that SMEs are having. In fact, a large institutional framework has been set up to help the sector. (Meizi & Boudah, 2021) studied the National Agency for Entrepreneurial Support and Development (ANAD) and how it helps investment outside of the hydrocarbon sector. They found that the agency has had some positive effects, especially when it comes to helping new businesses start up in areas that don't get enough attention. The study also found that there were major problems with coordination between different support agencies and that there was a big difference between the policy framework on paper and how it was put into action.

### **3. Methodology**

This paper employs a descriptive-analytical methodology, integrating insights from existing empirical literature on Algerian SMEs with official statistical data to formulate a holistic representation of the sector's role in economic diversification. The analysis utilizes two primary categories of sources. First, we look at published academic studies that have used different methods to look at how SMEs are doing in Algeria. These include (Khellil & Loucif, 2024) entropy-based analysis of over 120 government

statistical bulletins, (Kacemi, Sekhri, & Bouzidi, 2022) firm-level survey of 38 businesses, (Abadli, Boutaleb, & Djekidel, 2020) survey of entrepreneurial culture among SMEs, and more general evaluations by (Bouazza, 2015) and (Chigar & Nassira, 2021). Secondly, we use official statistics from the Algerian Ministry of Industry, the Algerian Press Service (APS), the World Bank, and UNCTAD to give a current quantitative context. The tables and figures that follow show data from these published sources. We note the differences when exact numbers are reported through different channels, which is sometimes the case with official statistics.

#### **4. The SME Landscape in Algeria: A Statistical Overview**

##### **4.1. Growth in Numbers**

The fact that the number of registered SMEs has grown so quickly over the past 20 years is one of the most impressive things about Algeria's private sector growth. In the early 2000s, there were less than 250,000 small and medium-sized businesses in the country. According to the Ministry of Industry's statistical bulletin, that number had grown to 1,320,664 by the middle of 2022. This is more than five times what it was in about twenty years. These businesses together hired 3,220,661 people on a salary. As of November 2024, APS reporting showed that there were more than 1,655,656 production and service businesses listed in the trade register.

**Table 1.** Growth of SMEs in Algeria (2002–2024)

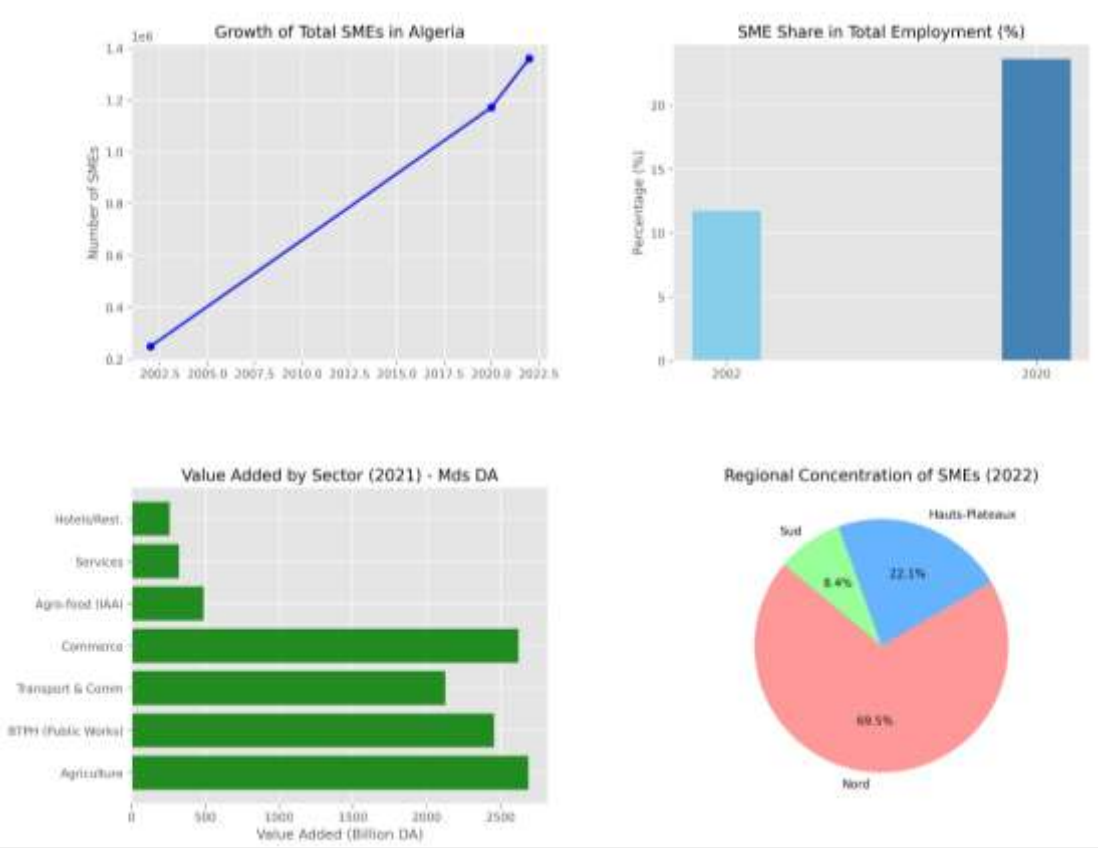
| Year | Number of SMEs | Employment | Growth Trend |
|------|----------------|------------|--------------|
| 2002 | 245,000        | 900,000    | -            |
| 2010 | 600,000        | 1,600,000  | +145%        |
| 2018 | 1,000,000      | 2,500,000  | +67%         |
| 2022 | 1,320,664      | 3,220,661  | +32%         |
| 2024 | 1,655,656      | -          | +25%         |

**Source:** Compiled from (ONS, 2025).

These numbers are impressive, but they leave out an important structural detail: about 98% of all registered SMEs are very small businesses (TPE) with fewer than 10 employees. This micro-dominance has important effects on the sector's ability to promote diversity, as many researchers have pointed out (Bouazza, 2015); (Chigar & Nassira, 2021). A company with three or four employees can support its owners and maybe even hire a few

people looking for work, but it is not likely to invest in technology, build up its ability to export, or build the kinds of supplier networks that deeper industrialization needs.

**Figure 1.**The Role of SMEs in the Algerian Economy



**Source:** Author's compilation based on (ONS, 2025)

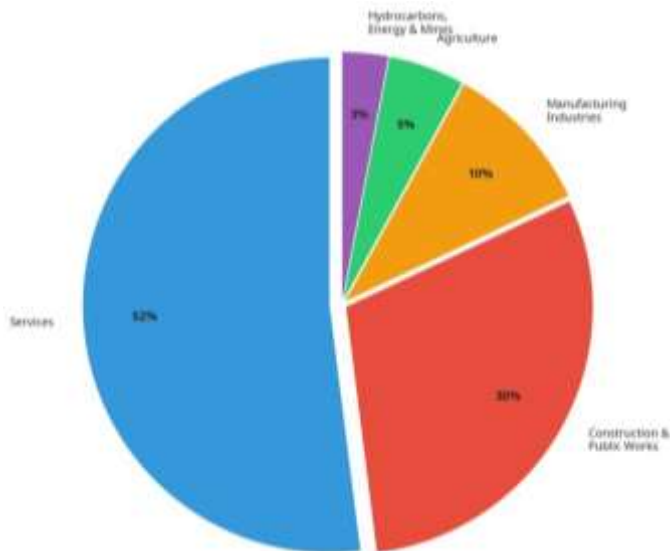
Figure 1 shows a number of different parts of the SME landscape that are worth looking at in more depth. The top-left panel shows that the total number of SMEs has been steadily rising, from about 245,000 in 2002 to more than 1.3 million by 2022. This is a very impressive growth curve by any measure. The top-right panel shows that the percentage of SMEs in total employment roughly doubled during this time, going from about 12% to about 23%. The bottom-left panel, on the other hand, tells a more complicated story. When value added is broken down by sector for 2021, agriculture, construction, and transportation are the biggest contributors. Services and hospitality, on the other hand, are sectors that could offer

higher value-added opportunities but don't contribute much. The bottom-right panel shows that there is a very high geographic concentration, with the North accounting for almost 70% of all SME activity.

#### **4.2. Sectoral Distribution**

To figure out how much SMEs could diversify, you need to know where they actually do business. A company that makes manufactured goods that can be sold abroad adds to diversification in a way that is very different from a company that only sells goods locally. Figure 2 shows the breakdown of Algeria's SMEs by sector. This pattern should make anyone who thinks that SMEs alone can change the economy's productive structure think twice.

**Figure 2.** Distribution of SMEs by Sector in Algeria (2022)



**Source:** (ONS, 2025)

Figure 2 shows that the services sector is by far the largest, making up 52% of all SMEs. Construction and public works come in second with 30%. Manufacturing industries, which are the ones most directly linked to import substitution, value chain development, and export capacity, only make up 10% of the total. The hydrocarbons, energy, and mining sector, as expected, only makes up 3%. Agriculture only makes up 5%. This distribution indicates that the majority of Algeria's SMEs are engaged in activities that, although significant for the domestic economy, possess

limited capacity to produce tradable goods and exportable products that would signify authentic diversification from hydrocarbons. A small business sector that is mostly made up of services can create jobs and add to GDP in accounting terms, but it doesn't, by itself, make the country less dependent on oil and gas exports.

4.3. Legal Framework and Classification

Law 17-02, which went into effect on January 10, 2017, is the most recent law in Algeria that governs SMEs. It replaced an earlier law from 2001. This law says that a SME is any business that has between 1 and 250 employees and makes less than 4 billion Algerian dinars (DA) a year or has a balance sheet total of less than 1 billion DA. Table 2 shows how the law divides things into three groups.

Table 2. Classification of SMEs Under Law 17-02 (2017)

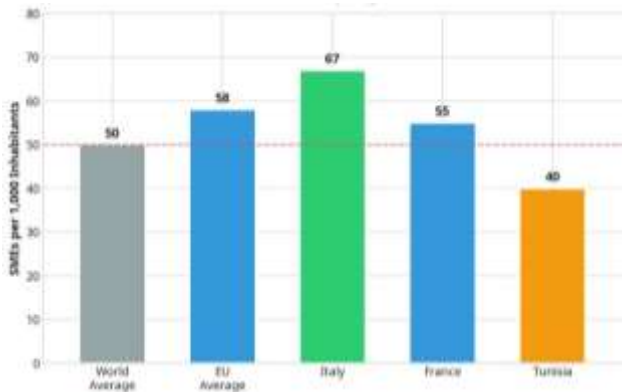
| Category          | Employees | Annual Turnover  | Balance Sheet    |
|-------------------|-----------|------------------|------------------|
| Micro-enterprise  | 1–9       | < 40 million DA  | < 20 million DA  |
| Small enterprise  | 10–49     | < 400 million DA | < 200 million DA |
| Medium enterprise | 50–250    | < 4 billion DA   | < 1 billion DA   |

Source: (Law No. 17-02, 2017).

4.4. SME Density: An International Perspective

Without context, raw numbers can be misleading. Enterprise density, or the number of SMEs per 1,000 people, is one of the best ways to tell how mature a country's SME sector is. Figure 3 shows that Algeria's position is not good when looked at this way.

Figure 3. SME Density: Algeria vs. International Benchmarks



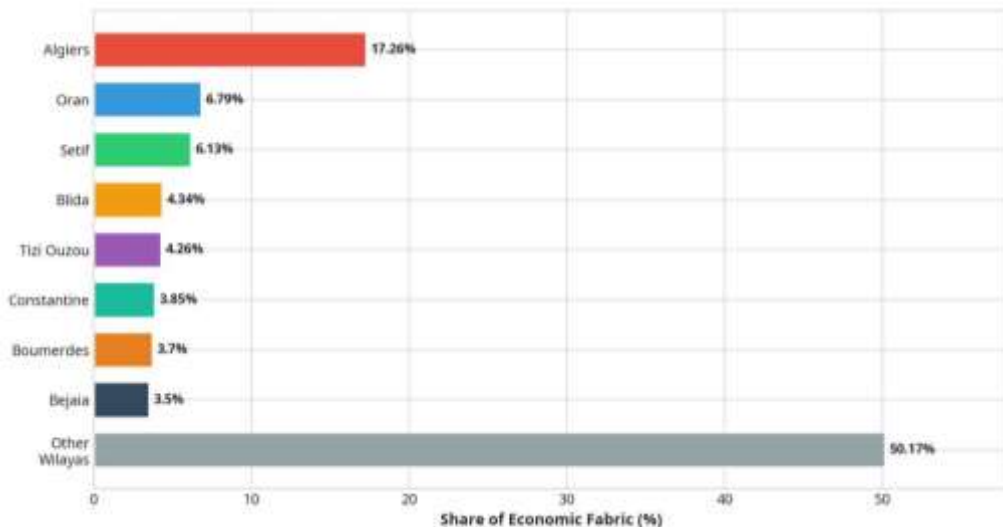
Source: (World Bank , 2025)

Algeria has about 25 SMEs for every 1,000 people, which is well below the world average of 50 and far behind European countries like Italy (67), the EU average (58), and France (55). It's more interesting to compare it to its neighbors. Tunisia has about 40 SMEs for every 1,000 people, which is also below international standards but much better than Algeria. The dashed red line that shows the world average is a strong visual reminder of how much work still needs to be done. This density deficit is important for diversification in a very real way. Diversification is all about having enough companies in enough industries making enough different goods and services so that the economy doesn't depend on just one source of income. In Algeria, the enterprise base is small compared to the population. This means that the foundation for broad-based diversification is also weak. It also helps explain why Algeria still doesn't have the critical mass of productive firms it needs to significantly change its economy, even though it has more than 1.3 million registered SMEs.

#### 4.5. Regional Concentration

Another way to look at the sector's structural problems is to look at where SMEs are located in Algeria's wilayas. Figure 4 shows the data, which shows a pattern of extreme concentration that has not changed even though the government has tried to encourage balanced regional growth.

**Figure 4.** Geographic Distribution of SMEs in Algeria by Wilaya (2024)



**Source:** based on trade register data.

The figures say it all. Algiers alone makes up 17.26% of the country's productive fabric, which means that about one in six businesses in the country is based in the capital. Next is Sétif with 6.13%, then Blida with 4.34%, and finally Tizi Ouzou with 4.26%. These eight top wilayas have almost half of all productive entities, and the other 50 wilayas have the other half. The picture that comes to mind is of an economy where most of the entrepreneurial activity is happening along the northern coast, and the Hauts-Plateaux and especially the huge southern regions are mostly left out of the SME dynamic. This level of spatial concentration is especially bad for a country that is 2.4 million square kilometers big, making it the largest in Africa by land area. It means that SME-driven diversification, if it is happening at all, is mostly happening in the northern cities. The interior and southern regions, which could benefit the most from economic diversification because they don't have many other ways to make money or find work, are the same places where small and medium-sized businesses are least active. This mismatch between where diversification is most needed and where it is actually happening is a big structural problem that policy changes have not been able to fix so far.

## **5. The Diversification Paradox: Growth Without Transformation**

### **5.1. Domestic Contributions vs. Export Performance**

The main paradox that comes up in the literature is this: SMEs in Algeria are very important to the economy. They hire millions of people, make goods and services that people actually use, and add a lot to GDP. But when it comes to the specific goal of government policy, which is to diversify the economy away from hydrocarbons, their help has been disappointing. To comprehend the rationale, it is beneficial to differentiate among the various channels through which SMEs can facilitate diversification. Table 3 summarizes the evidence from the studies reviewed in this paper across three main areas.

**Table 3.** SME Contributions to Diversification

| Channel                                   | Evidence                                                                     | Assessment                          |
|-------------------------------------------|------------------------------------------------------------------------------|-------------------------------------|
| <b>Employment &amp; poverty reduction</b> | SMEs employ 3.2M+ workers; share in total employment doubled since 2002      | Strong positive contribution        |
| <b>Non-hydrocarbon GDP / value added</b>  | Non-HC sectors $\approx$ 78% of GDP; positive econometric link to SME growth | Significant but needs qualification |
| <b>Non-oil export diversification</b>     | Only 11% of firms export; most SMEs operate locally; export basket narrow    | Weak contribution                   |

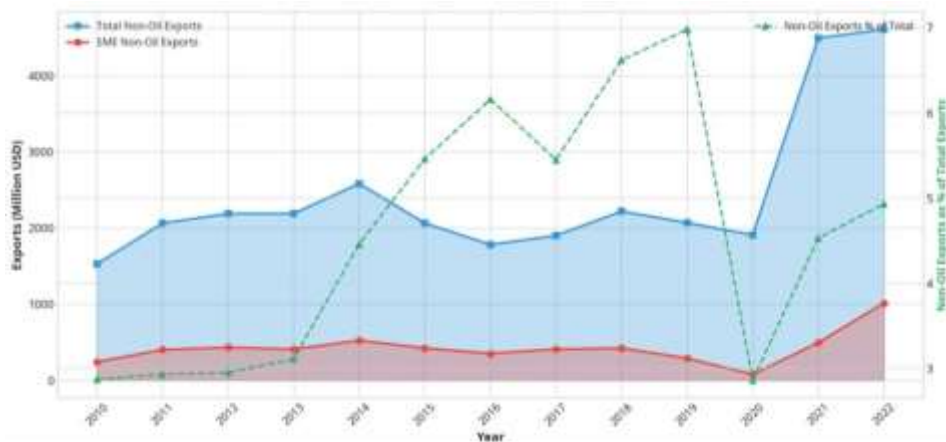
**Source:** Author's synthesis of reviewed literature.

It is very important to know the difference between domestic contribution and export-driven diversification. An economy can have a big and growing SME sector that adds to the GDP of the country, but it can still have a very limited range of external economic activity. This seems to be exactly what is happening in Algeria. In terms of accounting, the non-hydrocarbon sector may make up 78% of GDP, but a lot of this is due to government spending, services, and construction, which don't bring in money from exports or lower the country's reliance on oil and gas earnings.

## 5.2. The Export Gap

The data on SME export performance needs more attention because it shows the biggest difference between what could happen and what actually happens. Figure 5 shows how non-hydrocarbon exports have changed from 2010 to 2022. It separates total non-oil exports from the much smaller SME part.

**Figure 5.** SME Contribution to Non-Hydrocarbon Exports in Algeria (2010–2022)



**Source:** (World Bank , 2025)

There are a few patterns in Figure 5 that are worth noting. For most of the decade, the blue area shows that total non-hydrocarbon exports were between \$1.5 billion and \$2.5 billion. There was a big drop in 2020 during the pandemic, but they quickly bounced back. The green dashed line shows the percentage of non-oil exports to total exports. It shows a slow upward trend from about 3% in 2010 to peaks of almost 7% in 2019 and again after 2021. This is a sign of some structural progress, even though the absolute share is still small. The red area at the bottom of the chart, on the other hand, is the most important part for us. The SME's share of non-hydrocarbon exports is still very small compared to the total, even though it is slowly growing. This visual disproportion shows the main problem better than any statistical table: Algeria's non-oil exports mostly come from large state-owned or private companies in capital-intensive industries like fertilizers, steel, and cement. They don't come from the 1.3 million small and medium-sized businesses that are supposed to be driving diversification. Abadli et al. (2020), in their examination of the entrepreneurial culture within Algerian SMEs, discovered that although government initiatives have effectively stimulated the establishment of new enterprises, the overwhelming majority of these companies exhibit no inclination towards foreign markets. According to World Bank data, Algeria's total non-hydrocarbon exports reached about \$5.1 billion in 2023, which is a real improvement—a threefold increase since 2017. But this number is only about 2% of GDP, and the export basket is very narrow: fertilizers, iron and steel products, and cement make up more than 80% of non-hydrocarbon exports.

**Table 4.** Key Indicators of Algeria's Non-Hydrocarbon Export Performance

| Indicator                                               | Value                         |
|---------------------------------------------------------|-------------------------------|
| Share of hydrocarbons in total exports (2023)           | > 90%                         |
| Non-hydrocarbon exports (2023)                          | ~US\$5.1 billion (~2% of GDP) |
| Growth of non-HC exports since 2017                     | Tripled                       |
| Share of fertilizers + steel + cement in non-HC exports | > 80%                         |
| Share of exporting SMEs                                 | ~11%                          |
| Government target for non-HC exports by 2030            | US\$29 billion                |

Source: (World Bank , 2025)

## **6. Understanding the Barriers**

If Algerian SMEs have the numbers but not the impact, the obvious question is: what's stopping them? The literature indicates a cluster of interconnected challenges that have demonstrated notable resilience despite numerous policy interventions.

### **6.1. Financing Constraints**

Researchers studying Algerian SMEs most often say that access to finance is the biggest problem. The issue functions on various levels. Because of information asymmetry, banks tend to limit credit to small businesses. Most micro-enterprises don't have formal financial statements, which makes it hard for lenders to judge how creditworthy they are. Even when businesses have the right paperwork, the collateral requirements that Algerian banks put on small businesses are often too high. Bouazza (2015) found that financing was the biggest problem for SMEs to grow, and later studies have always agreed with this. The government has tried to solve the problem by setting up guarantee funds like the FGAR (Fonds de Garantie des Crédits aux PME), but these funds don't cover enough of the unmet demand.

### **6.2. Bureaucratic and Administrative Obstacles**

The business climate in Algeria has gotten better in the last few years, but small businesses still have to deal with a lot of red tape. There are many steps and often unpredictable timelines involved in registering, buying land, paying taxes, and going through customs. Chigara and Nassira (2021) stressed that bureaucratic complexity is not just a hassle; it is a real problem that stops businesses from growing, making their operations more official, and doing business with other countries. For a small business with limited administrative resources, the time and money it takes to follow these rules can be too much.

### **6.3. Innovation and Managerial Capacity**

A barrier that doesn't get talked about as much but is just as important is the firms' own internal capabilities. Algerian SMEs lack the management skills, technology, and willingness to try new things that they would need to move into higher-value activities or start exporting. (Kacemi,

Sekhri, & Bouzidi, 2022) noted that even among companies that want to grow, only a small number have put money into the kinds of organizational and technological improvements that would make that growth possible. This is partly because of the financing problems we talked about earlier. Companies that can't get capital can't invest in ways to improve productivity. It also shows that there are problems with training, education, and getting business advice.

6.4. Regional Disparities

As shown by the geographic analysis in Section 4.5, most of Algeria's SMEs are located in a few northern provinces. This concentration creates a self-reinforcing cycle: businesses move to areas with good infrastructure, markets, and skilled workers, which brings in more investment to those areas and leaves the interior and southern regions without enough. This pattern is a big problem for a diversification strategy that wants to reduce spatial inequality, like Algeria's does.

Table 5. Major Barriers to SME-Driven Diversification in Algeria

| Barrier Category  | Specific Constraints                                                                                             | Impact on Diversification                                                  |
|-------------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Financial         | Credit rationing; high collateral requirements; underdeveloped capital markets; limited reach of guarantee funds | Prevents scaling; blocks investment in technology and export capacity      |
| Administrative    | Complex registration; slow land acquisition; customs bottlenecks; tax compliance burden                          | Raises costs; discourages formalization and export activity                |
| Internal capacity | Weak management skills; low R&D investment; limited technological adoption; poor quality systems                 | Limits competitiveness and ability to enter higher-value markets           |
| Spatial           | 69.5% of SMEs in northern region; 8 provinces hold ~50% of activity; infrastructure gaps in south                | Undermines inclusive diversification; leaves most of territory underserved |

Source: Author's synthesis.

7. RESULTS AND DISCUSSION

The evidence examined in this paper leads to an unequivocal conclusion: Algerian SMEs possess considerable potential for economic diversification, yet this potential remains predominantly unfulfilled. It is impressive how much the sector has grown in terms of numbers, but just

growing in numbers is not enough to be considered diversification. For real economic change to happen, SMEs need to be making new types of goods and services, reaching new markets, joining domestic and global value chains, and building the technological and managerial skills they need to compete outside of the protected local market. The record is disappointing on these points. Most of SMEs in Algeria are micro-enterprises that only do business in their own country, make goods for the local market, and don't have the money to invest in new ideas or build up their export capacity. There is a lot of information about the financial, administrative, institutional, and geographical barriers they face, and the policy changes that have been made so far have not been able to get rid of them.

This doesn't mean that things are hopeless. A number of studies (Taleb, 2019); (Meizi & Boudah, 2021) have pinpointed particular domains in which policy reforms could yield significant impact. In similar situations, it has been shown that simplifying the steps for registering a business and buying land, making credit guarantee systems more accessible and effective, investing in management training and business advisory services, and improving infrastructure in areas that don't get enough of it all help small and medium-sized businesses grow. The government wants to export \$29 billion worth of goods other than oil and gas by 2030. This is a big goal, and to reach it, there will need to be more SMEs that are better equipped, more productive, and more focused on exporting. This also teaches us a bigger lesson about the limits of SME-led diversification as a strategy. SMEs are important for diversification, but they are not enough on their own. Countries like the UAE, Malaysia, and Chile that have successfully moved away from relying on resources show that successful diversification needs a mix SME growth, big investments in infrastructure, changes to trade policy, and a coordinated industrial strategy. Focusing only on the number of small and SMEs without looking at the bigger picture in which they work is unlikely to get the results you want.

## **8. CONCLUSION**

This paper has looked into how small and medium-sized businesses can help Algeria's economy grow in areas other than oil and gas. The

evidence, derived from various recent empirical studies and official statistics, uncovers a fundamental paradox. The number of SMEs in Algeria has grown a lot, reaching over 1.65 million registered businesses by the end of 2024. The sector also really helps the economy and creates jobs. On the other hand, these businesses have not had a big effect on the specific problem of export diversification and structural economic change. There is no mystery about why this gap exists. Persistent financial constraints, bureaucratic inefficiency, limited innovation capacity, and pronounced regional disparities continue to undermine the ability of SMEs to move beyond local markets and low-value activities. Even though the government set up institutional support structures with good intentions, they haven't been big enough or effective enough to get past these long-standing problems yet. Algerian policymakers' next big task is not just to start more SMEs. The country already has a lot of them. They also need to help existing and new businesses grow, improve their skills, and join competitive value chains. This will necessitate a transition in focus from quantity to quality, from firm establishment to firm advancement, and from disparate policy initiatives to a unified strategy that tackles the various, interrelated obstacles currently hindering the sector's transformative capacity. If this doesn't happen, the goal of using small and medium-sized businesses to really diversify the economy will stay, as some of the studies we've looked at here have honestly said, more of a dream than a reality.

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