

The role of Small & Medium Enterprises (SMEs) in economic development: the Algerian experience

دور المؤسسات الصغيرة والمتوسطة في التنمية الاقتصادية: التجربة الجزائرية

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Abstract:

This study aims to identify the reality of SMEs and their contribution to the economic development in Algeria, as this sector is considered the main engine of economic development in the world.

The results show that despite the efforts made by the Algerian state to develop SMEs, the results remain weak and the contribution of this type of enterprises to economic development (employment, export, GDP, value added) has not been met, Which requires intensifying efforts and a new strategy that will raise the challenge and overcome the difficulties of financing, technology and marketing ... etc.

Keywords: SMEs; Economic Development, The growth, GDP, Algeria.

Jel Classification Codes: L25, L33, D92

ملخص:

تهدف هذه الدراسة إلى التعرف على واقع المؤسسات الصغيرة والمتوسطة ومدى مساهمتها في تحقيق التنمية الاقتصادية في الجزائر، إذ يُعتبر هذا القطاع المحرك الأساسي للتنمية الاقتصادية في العالم. أظهرت النتائج أنه رغم الجهود التي بذلتها الجزائر لتطوير المؤسسات الصغيرة والمتوسطة إلا أن النتائج تبقى ضعيفة ومساهمة هذا النوع من المؤسسات في التنمية الاقتصادية لم ترقى إلى المطلوب. وهذا يتطلب تكثيف الجهود واتباع استراتيجية جديدة من شأنها رفع التحدي وتخطي الصعوبات

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1. INTRODUCTION

The modern economies face a series of transformations imposed by local and international developments on various economic sectors, which require countries to adopt new mechanisms based on the model of market economy, which in turn focuses on new foundations for creating value and wealth, giving a great role to the private sector, for individual initiatives and entrepreneurial spirit.

The SME sector plays an extremely important part in modern economy, proving to be the most attractive and tremendous innovative system. The vital contribution to SME in economic development is a reality unanimously recognised. Showing their economically and socially beneficial effects led to the consideration of the SME sector as a field of strategic interest for the economy. (NEAGU, 2016, p. 332)

SMEs have an important place in the economic development of Algeria; they already consist of the majority of private business which operate extensively from the biggest cities to the remote areas of the villages. They are dynamic and flexible and can afford the changes in the business environment and economical fluctuations. By the same time they are the main source of employment generation, innovation and productivity growth.

Like other developing countries, Algeria has realized the importance of this sector, especially after the economic openness, this is clearly demonstrated through the mechanisms adopted to support SMEs and the promulgation of laws that facilitate and regulate their work.

The problem of the study was identified in answering the following main question:

What is the role of SMEs in achieving economic development in Algeria?

This question is divided into the following questions:

a/ What is the economic importance of SMEs?

b/ What are the determinants and criteria for classifying SMEs in Algeria?

c/ How to describe the development of SMEs in Algeria?

d/ What is the impact of Algerian SMEs on: added value, GDP, employment and exports?

2. The importance of SMEs to the economy

SMEs play a key role in national economies around the world, generating employment and added value and contributing to innovation. SMEs are central to achieve environmental sustainability and more inclusive growth. However, these contributions vary widely across firms and across countries and sectors. (OECD, 2018, p. 02)

SMEs are considered the backbone of an economy, whether we are referring to a random state, or if we are talking globally. These companies represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries, just like they do in emergent economies and in development. The main argument for this is that SMEs are the dominant form of business organization, representing roughly 95 – 99% of all companies. According to the Organization for Economic Cooperation and Development, SMEs represent more than 95% of enterprises and ensure 60-70% of the jobs. (ROBU, 2013, p. 86)

On average, there are around 31 micro-enterprises, SMEs to each 1000 persons globally. There are countries that are above average, for instance Darussalam with 122 companies to 1000 inhabitants, Indonesia with 100, Paraguay with 95, Czech Republic with 85 and Ecuador with 84. The countries with a bigger income per capita tend to have a larger number of registered companies for 1000 persons. (ROBU, 2013, p. 87)

The following table illustrates the relative importance of SMEs in some countries.

Table 1: Share of SMEs in Some Countries (%) (2004)

Country	Enterprises	Employment	Investment	Added value	Export	Credits
USA	97.2	50.4	38	36.2	32	42.7
Germany	99.8	64	44	49	31.1	35
Japan	99.4	81.4	40	52	38	50
England	96	36	29.5	25.1	22.2	27.2
S- Korea	97.8	61.9	35.7	34.5	20.2	46.8

India	98.6	63.2	27.8	50	40	15.3
Turkey	99.5	61.1	56.5	37.7	8	4

Source: (KESKIN, SENTURK, SUNGUR, & M. KIRIS, 2010, p. 187)

SMEs constitute the basic source of materials, ideas, process and service that large enterprises cannot do or do not want to do. Because aiming to benefit from the cost advantage of economies of scale, large enterprises implement a policy of manufacturing a product for a long period due to the big investments for the machines, tools, devices and labour force. However, SMEs do not have such problems as maintaining a large scale investment. Because their economies are small and they possess more elastic structure when compared to large enterprises. (KESKIN & SENTURK, 2010, p. 121)

Definition of SMEs varies among countries in the world; different countries use different standard and different criteria to measure the size of firms to define SMEs. According to some institutions number of employee has more importance, for the others enterprises turnover have more importance in SMEs definition. (Mechaali & Mahrez, 2019, p. 49)

3. SMEs definition in Algeria

The SME is defined in the old directive Law 01-18 as follows: "The SME, regardless of its legal nature, is defined as a producer of goods and/or services. It operates from 10 to 250 persons and does not exceed its annual turnover 2 billion dinars, or does not exceed the total annual revenue (budget) 500 million dinars, and meet the criteria of independence. (Ministry of industry, 2001, p. 05)

New Law No. 17-02 was issued on 11 January 2017 which amends and supplements the 2001 Law, which includes The new guiding law for the development of SMEs, this law came to amend the financial limits (number of workers and annual proceeds) between small, medium and large enterprises in line with the economic development and the state's goals to develop this sector.

The definition of SMEs in accordance with article 5 of the SME Promotion Act 2017 is as follows: "The SMEs, regardless of its legal nature, is defined as the enterprise for the production of goods and / or services. It operates from 10 to 250 persons and does not exceed 4 billion dinars or does not exceed the total annual budget 1 billion Algerian dinars, and meet the criteria of independence" (Ministry of industry, 2017, p. 05)

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The definition of SMEs in Algeria can be described as follows:

Table 2. Quantitative standards for the definition of SMEs in Algeria

Type of enterprise	Number of workers	Turnover (Million DZD)	Budget (Million DZD)
Micro	1-9	Less than 40	Less than 20
Small	10-49	Less than 400	Less than 200
Medium	50-250	Less than 4000	Less than 1000

Source: Prepared by both researchers based on (Ministry of industry, 2017, p. 06)

4. SMEs development in Algeria

The development of SMEs is one of the main axes of the Algerian government's work in recent years, where this type of enterprises received support and development programs contributed to the growth of these enterprises number. Table 3 shows the evolution of the private and public SMEs number in Algeria between 2010 and June 2018.

Table 3. Development of SMEs in Algeria (2010 - June2018)

Year	2010	2011	2012	2013	2014	2015	2016	2017	June 2018
Total SMEs	619072	653309	711832	777816	852053	934569	1022621	1074503	1093170
Growth rate (%)	-	5.53	8.96	9.27	9.54	9.68	9.42	5.07	1.74
Private SMEs	618515	658737	711275	777259	851511	934037	1022231	1074236	1092908
Public SMEs	557	572	557	557	542	532	390	267	262

Source: Prepared by both researchers based on SMEs statistical information bulletins of Algerian Ministry of Industry.

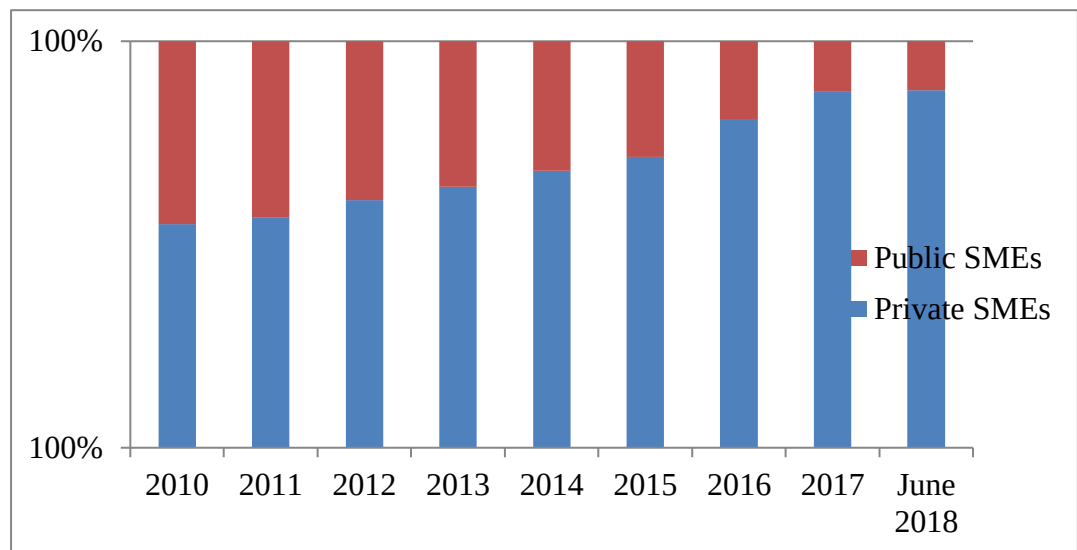
Table 3 shows that the number of SMEs has almost doubled, it moved from 619072 in 2010 to 1093170 in June 2018.

The year 2015 witnessed the largest growth rate of the number of small and medium enterprises estimated at 9.68%, the growth rate in the last two years fell to 1.74% in June 2018.

There was also a great dominance of the private sector and an increase in the number of its enterprises compared with the public sector, which recorded a decline in the number of SMEs because of the policy of the state open to the market economy.

Figure 1 shows the evolution of the number of public and private SMEs in the period from 2010 to June 2018

Fig.1. Evolution of the number of public and private SMEs (2010 – June 2018)



Source: Prepared by both researchers using Excel software based on the data in table 3

SMEs in Algeria can be divided by size at the end of the first half of 2018 as shown in Table 4.

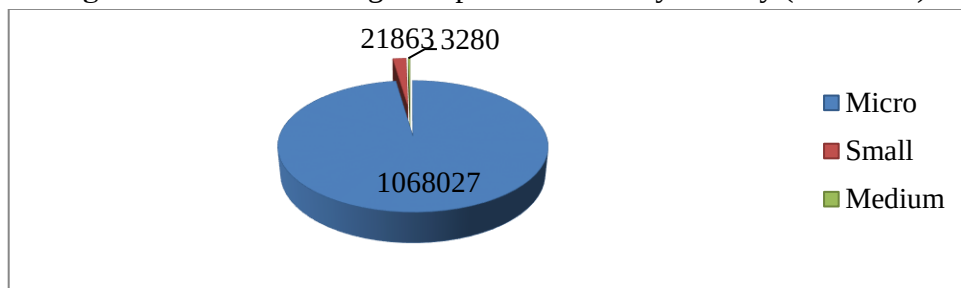
Table 4. Typology of SMEs in Algeria (June 2018)

Type of enterprise	Number of SMEs	%
Micro (less than 10 employees)	1068027	97.7
Small (between 10 and 49 employees)	21863	2.0
Medium (between 50 and 250 employees)	3280	0.3
Total	1093170	100%

Source: (Ministry of Industry, 2018, p. 8)

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Fig.2. Distribution of Algerian private SMEs by activity (June2018)



Source: Prepared by both researchers using Excel software based on the data in table 4

Table 4 and figure 2 show that micro enterprises occupy the first rank in terms of number, with 97.7%, followed by small enterprises with 2.0%, and in the latter, medium enterprises by 0.3%.

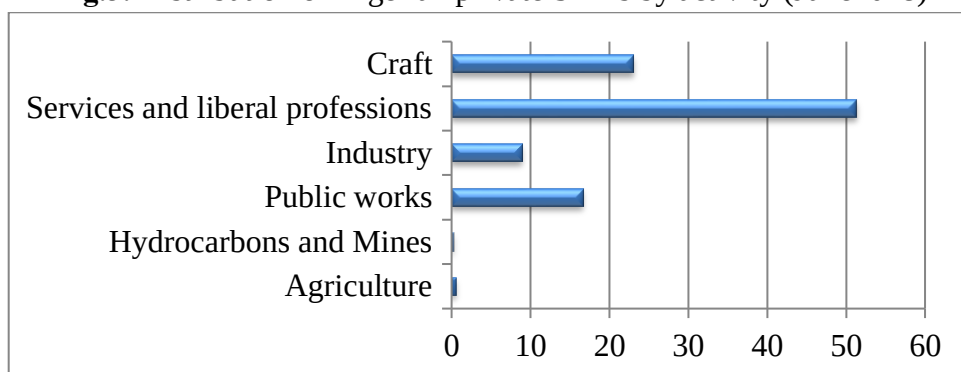
Table 5 and figure 3 show the distribution of SMEs by various economic activities at the end of the first half of 2018.

Table 5. Distribution of Algerian private SMEs by activity (June2018)

Activity	Number of SMEs	%
Agriculture	6877	0.629
Hydrocarbons and Mines	2936	0.269
Public works	182477	16.696
Industry	97728	8.942
Services and liberal professions	561395	51.367
Craft	241495	23.096
Total	1092908	100%

Source: (Ministry of Industry, 2018, p. 11)

Fig.3. Distribution of Algerian private SMEs by activity (June2018)



Source: Prepared by both researchers using Excel software based on the data in table 5

Table 5 and figure 3 show that services and liberal professions are at the forefront with a percentage of 51,367% of the total private SMEs in Algeria, Followed by craft activity with a percentage of 23,096%

In the latter, we find the activity of hydrocarbons and mines with a percentage of 0.269%. This indicates that this activity requires large capital and investments.

The development in the number of SMEs witnessed by Algeria in recent years made it in front of another challenge of how to leverage these enterprises to achieve targeted economic development and contribute to economic diversification.

5. Contribution of SMEs in Algerian economic development

SMEs have great importance in creating added value, providing more jobs and raising the value of Gross domestic product and export. Below we will try to find out the importance of SMEs to the Algerian economy

5.1 Added Value (AV):

According to the study conducted by the National Economic and Social Council, in 1994 the added value of the public sector amounted to 617.4 billion Algerian dinars, representing 53.5% of the total added value, while in the private sector was estimated at 358.1 billion Algerian dinars, it means 46.5% of the total added value. Since 1998, these shares have been reversed, with the private sector at the forefront. (BRIBECH, 2007, p. 73)

Table 6 and Figure 4 show the evolution of the Algerian private and public sector added value (outside hydrocarbons) in the period from 2010 to 2015.

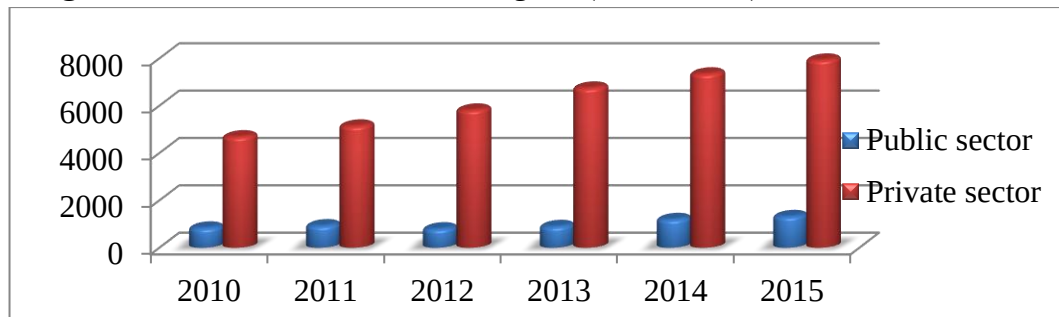
Table 6. Evolution of added value in Algeria (2010 - 2015) Unit: Billion DZD

Year	2010	2011	2012	2013	2014	2015
Public sector	827.53	923.34	793.38	893.24	1187.93	1313.36
%	15.02	15.23	12.01	11.70	13.93	14.22
Private sector	4681.68	5137.46	5813.02	6741.19	7338.65	7924.51
%	84.98	84.77	87.99	88.30	86.07	85.78
Total AD	5509.21	6060.8	6606.4	7634.43	8526.58	9237.87
AD	-	10.01	9.00	15.56	11.69	8.34

growth
rate (%)

Source: Prepared by both researchers based on SMEs statistical information bulletins of Algerian Ministry of Industry.

Fig.4. Evolution of added value in Algeria (2010 - 2015) Unit: Billion DZD



Source: Prepared by both researchers using Excel software based on the data in table 6

Statistics on SMEs in Algeria show that the private sector is the main representative of these Institutions, unlike the public sector that emerges as the representative of large enterprises, so the contribution of SMEs to the creation of added value is reflected in the contribution of the private sector. (BEKRITI & TAOUIL, 2018, p. 34)

In Algeria, the private sector, represented by small and medium enterprises, contributes significantly in shaping added value compared to the public sector, this was around 85% for all years studied. The year 2013 recorded the highest annual growth rate of total added value at 15.56%.

5.2 Gross Domestic Product (GDP):

Gross domestic product (GDP) is the standard measure of the value of final goods and services produced by a country during a period. While GDP is the single most important indicator to capture these economic activities. (OECD, 2008)

SMEs contribute to over 55% of GDP in high-income countries; account for over 60% of GDP in low-income countries, while they contribute over 70% of GDP in middle-income countries. (Zafar & Mustafa, 2017, p. 195)

Table 7 shows the evolution of the Algerian private and public sector gross domestic product (outside hydrocarbons) in the period from 2009 to 2013.

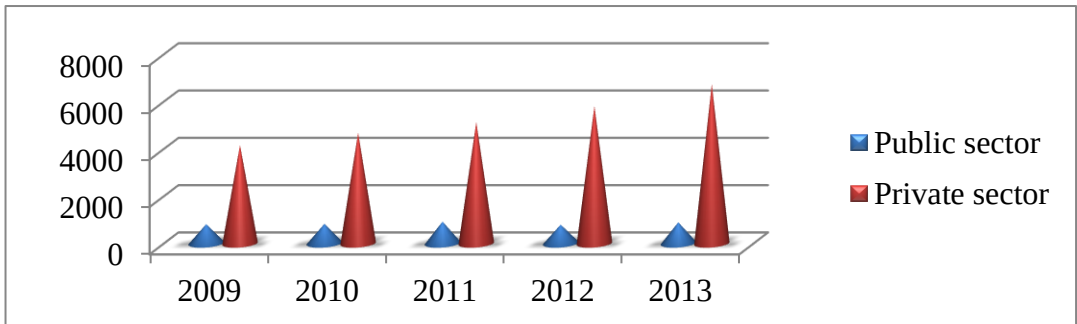
Table 7. Evolution of GDP in Algeria (2009 - 2013) Unit: Billion DZD

Year	2009	2010	2011	2012	2013
Public sector	816.8	827.53	923.34	793.38	893.24
%	16.41	15.02	15.23	12.01	11.70
Private sector	4162.02	4681.68	5137.46	5813.02	6741.19
%	83.59	84.98	84.77	87.99	88.30
Total GDP	4978.82	5509.21	6060.8	6606.4	7634.43
GDP growth rate (%)	-	10.65	10.01	9.00	15.56

Source: Prepared by both researchers based on SMEs statistical information bulletins of Algerian Ministry of Industry.

Table 7 data can be represented as shown in Figure 5:

Fig.5. Evolution of GDP in Algeria (2009 - 2013) Unit: Billion DZD



Source: Prepared by both researchers using Excel software based on the data in table 7

Table 7 and Figure 5 illustrate the following:

- There was a fluctuation in non-hydrocarbon GDP growth during the study period (2009 – 2013).
- The private sector represented by SMEs is more productive compared to the public sector, where its contribution to GDP reached 88.30% in 2013.
- The contribution of the public sector to Algerian GDP in the study period (2009-2013) has declined due to the importance that the State attaches to the private sector in general and SMEs in particular.

5.3 Employment:

SMEs play a key role in job creation, providing two thirds of all formal jobs in developing countries and up to 80 per cent in low income countries.

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(International Labour Organization, 2013)

In Algeria, SMEs provided 1625686 jobs, accounting for 17.42% of total employment in 2010. (Mohamed, 2013, p. 10)

Table 8 shows the evolution of the number of employees in Algerian SMEs by legal sector from 2010 to June 2018.

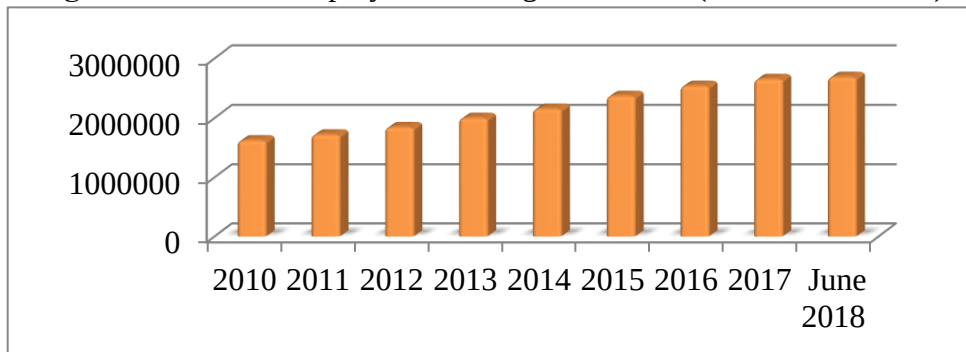
Table 8. Evolution of employment in Algeria by type of SMEs (2010 - june 2018)

Year	Private SMEs	%	Public SMEs	%	Total employment
2010	1577030	97,01	48656	2,99	1625686
2011	1676111	97,21	48086	2,79	1724197
2012	1800742	97,44	47375	2,56	1848117
2013	1953636	97,59	48256	2,41	2001892
2014	2110665	97,84	46567	2,16	2157232
2015	2327293	98,16	43727	1,84	2371020
2016	2511674	98,86	29024	1,14	2540698
2017	2632018	99,12	23452	0,88	2655470
June 2018	2668173	99,18	22073	0,82	2690246

Source: Prepared by both researchers based on SMEs statistical information bulletins of Algerian Ministry of Industry.

Figure 6 shows the evolution of the total number of workers in Algerian SMEs from 2010 to June 2018.

Fig.6. Evolution of employment in Algerian SMEs (2010 – June 2018)



Source: Prepared by both researchers using Excel software based on the data in table 8

Statistics in table 8 show that the contribution of private SMEs in Algeria to job creation has evolved from year to year. The number of employees in this sector in all its branches reached 2668173 equivalents to 99.18% of the total employees in Algerian SMEs at the end of June 2018

compared to 97.01% in 2010 with a population of 1577030 employees.

On the other hand, we find that the public sector is witnessing a decrease in the number of workers in the SMEs of this sector, where its share reached 0.82% in June 2018, after it was estimated at 2.99% in 2010.

This underlines the importance of the private sector and SMEs in Algeria.

5.4 Export:

SMEs have a significant role in export promotion in many countries. Algeria, like other countries, is betting on the role of SMEs in diversifying their exports despite all the difficulties.

In Algeria hydrocarbons accounted for the bulk of our exports abroad during the year 2017 with share of 94.54% of the overall volume of exports, and an increase of 16.45% compared to the year 2016. "Non-hydrocarbon" exports, which are still marginal, with only 5.46% of the total volume of exports is the equivalent of nearly 1.89 billion US dollars, registered a 5.21% increase over the year 2016. (Ministry of industry, 2018, p. 38)

Table 9 shows the value of SME exports during the period from 2015 to 2017.

Table 11. The value of Algerian SMEs exports (2015 – 2017) Unit: USA \$

Year	2015	216	2017	Total exports
Value of exports	37787	28883	34763	101433

Source: Prepared by both researchers based on SMEs statistical information bulletins of Algerian Ministry of Industry.

Table 9 shows the following:

- The total exports of Algerian SMEs is estimated at 101433 dollars, a weak value reflecting the weakness of Algerian exports outside hydrocarbons;

- There is a fluctuation in the value of exports, recording a decline of 23.56% in 2016;

- Finally, despite the weak exports of SMEs, it remains a vital area and sector promising to diversify exports and improve incomes outside the hydrocarbons sector.

6. CONCLUSION

We can conclude from the above that Algeria has made considerable

efforts to develop and upgrade SMEs especially in the post-structural adjustment program period.

Specific criteria have been set to classify these types of enterprises, and Algeria is encouraged to invest in them, which led to a significant increase in the number of these enterprises to 1093170 enterprises, which created more than 2.6 million jobs at the end of June 2018, despite the difficulties encountered.

In this context, we believe that it is appropriate to pay more attention to this sector because it constitutes the locomotive of economic and social development if the obstacles facing it are removed.

We therefore recommend:

- Benefit from leading global experiences in the development of small and medium enterprises;
- Providing facilities to market products and services in the international market;
- Protecting this sector from foreign competition through qualifying and raising the competitiveness of these enterprises;
- Encourage entrepreneurial thought and contracting through the establishment of institutes dealing with these sciences;
- Encourage investment in rural areas through the establishment of enterprises that take into account the circumstances of these areas;
- Giving more tax liens to SMEs to gain competitive advantage;
- Adapting and guiding the banking system to take care of the financing needs of SMEs;
- Strengthen infrastructure services delivery to facilitate market access and reduce the cost of doing business;
- Reinforce support structures for private sector/SMEs development, particularly institutional support;
- Embed national private sector/SMEs development strategies in the broader national development and/or poverty reduction and growth strategy through institutionalized, participatory processes;
- More interest in entrepreneurship, which will enhance the role of SMEs in the national economy.

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