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Development of Small and Medium Enterprises (SMEs) in Algeria

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Abstract.
The purpose of this paper is to discuss the situation of Small and Medium Enterprises (SMEs) in Algeria, which are still developing. SMEs are playing a major role but their contribution has not be discussed or well researched in Algeria.

The development of the small and medium enterprises sector in Algeria has become an inevitable necessity dictated by the current situation of the search for an alternative economy to the rent economy which relies on the hydrocarbon sector as the main source of income. The new directive Law 17-02, In this direction gives stronger legal support for the development of small and medium enterprises in Algeria.

Key words: *Algeria, SMEs, Directive Law, Economic development, Support and development policies.*

Résumé.
Le présent document a pour objet d'examiner la situation des Petite et Moyenne Entreprises (PME) algériennes en développement. Les PME jouent un rôle majeur mais leur contribution n'a pas fait l'objet de discussions ni de recherches approfondies en Algérie .

Le développement du secteur des petites et moyennes entreprises en Algérie est devenu une nécessité inévitable dictée par la situation actuelle de la recherche d'une économie alternative à l'économie rentière qui s'appuie sur le secteur des hydrocarbures comme principale source de revenus. La nouvelle loi 17-02 dans ce sens renforce le soutien juridique au développement des petites et moyennes entreprises en Algérie.

Mots clés: *Algérie, PME, Loi d'orientation, Développement économique, Politiques de soutien et de développement.*

Codes de classification JEL: *L11، L33، L53.*

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1. Introduction.

Small and medium enterprises (SMEs) have an important role in the Algerian economy. Their importance is expressed by providing more job opportunities, reducing unemployment, resulting in poverty, deviations and social unrest, As well as the development of consolidation and integration at the national and local levels in a way that reduces dependency, and contributes to the growth of the economic fabric and the provision of intermediate goods and services.

However, this type of enterprise faces many difficulties and challenges in light of the globalization of markets and the intensification of competition, which has become a major obstacle for Algerian small and medium enterprises to prevent them from achieving their objectives, forcing the public authorities to pass legislation and laws aimed at protecting small and medium enterprises And development

The promulgation of directive Law No. 01-18 may be the first real response by the authorities to the demand for the development and support of small and medium enterprises. However, despite all the mechanisms that this law and the various executive decrees have brought about, and in view of the current situation that Algeria is going through and its desire to achieve economic development away from oil dependence, it was necessary to review the aforementioned law. Where a new law 17-02 was adopted and a rate of the previous law gives new impetus to the support and development of small and medium enterprises in Algeria.

In this article, I will try to answer two main questions: What are the determinants of small and medium enterprises under the new law? What are the various mechanisms and means developed through this law for the development of SME in Algeria?

2. Small and Medium Enterprises in the world:

A survey conducted by the United Nations (1993) has found that small medium enterprises (SMEs) play a significant in the economic and social structure of developed economies. The study also found that SMEs account for more than 90% of all enterprises in developing countries, whilst SMEs operate in almost all industries, they defer greatly in their nature and importance from industry to industry and from country to country.

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2.1. Definitions of SMEs:

Definitions of SMEs vary 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.

a. World Bank's: definition of SMEs is that micro scale; less than 50 employee, small scale; 50 employees, medium scale; 50-200 employees.

b. European Union: Following the first SMEs definition of EU in 1996, the SME definition which is related with personel numbers is required to revised because of increases in inflation and productivity (Keskgn & et all, 2010).

The criterias about EU definition of SMEs in 2005, are presented in Table 1 below:

Table 1: Definition of SMEs in European Union

Type of enterprise	Number of workers	Turnover (€ million)	BALANCE SHEET (€ million)
Micro	10	50	43
Small	50	10	10
Medium	250	2	2

Source: Hidayet KESKĠN, et all, "The Importance of SMEs in Developing Economies, 2 nd International Symposium on Sustainable Development, June 8-9 2010, Sarajevo, P.184.

c. United State: The U.S. Small Business Administration (SBA) provides a list of small business size standards matched to the NAICS codes. To be considered a small business and be eligible to apply for government contracts and targeted funding, a business must be within the defined limits in terms of a number of employees or revenue (Ward, 2018).

In manufacturing, for example, an SME is defined as having 500 employees or less, whereas in wholesale trades it is typically 100 employees or less. Ranges within sectors can vary quite a bit. For instance, in sector 21, Mining, Quarrying and Oil and Gas Extraction, a business involved in Copper Ore and Nickel Ore

Mining can have up to 1,500 employees and still be considered an SME while a business involved in Silver Ore Mining can only have up to 250 employees (Ward, 2018).

d. India: the definition of small and medium enterprises in India was recently settled. The Micro, Small and Medium Enterprises Act, 2006, defines enterprises on the basis of investment in plant and machinery (Kour, 2013).

According to the new Act, the MSMEs are defines as follows: (Gandhi, 2016)

- Micro Enterprises Less than 2,500,000 Rupees.
- Small Enterprises Less than 50,000,000 Rupees.
- Medium Enterprises Less than 100,000,000 Rupees.

2.2. Importance of SMEs:

Small and Medium Enterprises have always taken significant roles in the world economy. SMEs, which are the driving force of economic growth, have an important effect on the economic activity. The following table illustrates the relative importance of SMEs in some countries.

Table 2: 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: Hidayet KESKĠN, et al, "The Importance of SMEs in Developing Economies, 2 nd International Symposium on Sustainable Development, June 8-9 2010, Sarajevo, 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 its aim is 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,

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devices and labor 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 (Keskgn & etall, 2010).

3. The determinants of SMEs in Algeria:

First, it is necessary to mention the fundamental amendments made by the new law specific to SMEs by defining their classification and the conditions for benefiting from the support.

3.1. Definition of small and medium enterprises (SMEs):

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).

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 small and medium enterprises, this law came to amend the financial limits (number of works 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 small and medium enterprises 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).

3.2. Classification of small and medium enterprises:

Article 8 of the same Act No. 17-02 referred to the definition of a medium enterprise as "an enterprise that employs between 50 and 250 workers and the turnover of which is limited to between 400 million and 4 billion Algerian dinars or the total annual revenue of between 200 million Algerian dinars to one Billion Algerian dinars" (Ministry of industry, 2017).

Article 9 of the same law defines a small enterprise as "an enterprise that occupies 10 to 49 persons and does not exceed the annual turnover of 400 million Algerian dinars or does not exceed

the total annual turnover of 200 million Algerian dinars" (Ministry of industry, 2017).

Finally, article 10 of the above-mentioned law defines the micro-enterprise as "an enterprise which employs one to nine workers, whose turnover is less than 40 million Algerian dinars or does not exceed the total annual revenue of 20 million Algerian dinars" (Ministry of industry, 2017).

The definitions in Article 5, 8, 9 and 10 of the SME directive Law show that it is based on the number of workers, the value of sales and the annual proceeds, all of which are quantitative. This is in order to create a boundary between small, medium and small enterprises on the one hand and distinguish them from the rest Large enterprises, on the other hand, These standards are among the most widely used and common standards, and the Algerian legislator used a qualitative criterion when it required the criterion of independence, The four articles can be summarized in the following table:

Table 3: 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 the researchers based on the directive law for the Promotion of SMEs, Ministry of industry, Official Journal No. 02, 2017.

3.3. Scope and Conditions of Application of the directive Law 17-02:

The provisions of this Law shall benefit all enterprises established or planned, Which respects the aforementioned limits on the basis of a statement whose model is determined by a decision of the Minister in charge of small and medium enterprises (Ministry of industry, 2017).

Small and medium enterprises with social capital within 49% of a company or group of venture capital companies benefit from the

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subsidy measures provided for in this law (Ministry of industry, 2017).

In addition to the two previous conditions, the condition of independence must be met. As explained in a previous reference Any enterprise that does not own a capital of 25% or more by an enterprise or group of other enterprises does not meet the definition of small and medium enterprises.

The following enterprises are excluded from the support measures approved by this law: (Ministry of industry, 2017)

- Banks and financial institutions.
-Insurance companies.
- Real Estate Agencies.
- Import enterprises.

The most important thing of the new law compared to the directive Law of 2001 that the export enterprises were dropped from the list of excluded, , in order to support and develop and find urgent solutions to bring hard currency after the drop in oil prices.

When an enterprise registers a difference in the financial proceeds at closing for the limits stated in the definition, this does not earn or lose the status of a small and medium enterprise in accordance with Articles 8, 9 and 10 of this law unless this situation continues for two consecutive financial years (Ministry of industry, 2017).

4. Mechanisms for the development of SMEs in the new directive law 17-02

The new directive law has expanded and developed mechanisms and means of supporting and accompanying small and medium enterprises for their promotion and development.

4.1. Bodies responsible for the establishment and development of small and medium enterprises:

Through the new directive 17-02, two bodies have been established to support and develop small and medium enterprises 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 small and medium enterprises (Ministry of industry, 2017).

Local agencies of the Agency shall be established consisting of: (Ministry of industry, 2017)

* Support and consultation centers for small and medium enterprises, whose main task is to support the creation, development, sustainability and accompaniment of small and medium enterprises.

* Nurseries of enterprises in charge of supporting and embracing emerging enterprises.

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 small and medium enterprises (Ministry of industry, 2017).

4.2. Ensure financing and assistance to small and medium enterprises:

The new Directive law 17-02 stipulates that loan guarantee funds and venture capital funds should be established with the aim of guaranteeing loans to small and medium enterprises and upgrading emerging enterprises in the context of innovative projects (Ministry of industry, 2017).

The Ministry in charge of small and medium enterprises, in consultation with the ministries and other concerned authorities, also takes every initiative to identify the needs of SME in the area of finance and to Encourage the development of appropriate financial means (Ministry of industry, 2017).

The State shall also encourage and support, through financial aid or assistance: (Ministry of industry, 2017)

a. Associations representing very small enterprises and private donors that meet the needs of these enterprises.

b. Small and medium-sized enterprises that aim to improve sectors of activity.

4.3. Procedures for ensuring the competitiveness of SME:

The new Act 17-02 in Articles 25 and 26 provides for the preparation and implementation of a modernization program for small and medium enterprises, In the context of improving the competitiveness of small and medium enterprises and upgrading the local product, by allocating part of the public transactions concluded

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by the interests of the state and its entitlement to competition among small and medium enterprises Also ensures the development of partnership between the public and private sectors, and is working to expand the concession in the field of public services for the benefit of small and medium-sized enterprises.

4.4. Developing the economic information system on SMEs:

The agency put a system in terms of information on small and medium-sized enterprises, in particular, it is a tool to explore and help decision-making.

Authorities and departments (ONS, CNRC, CNAS, CASNOS) should also provide the economic information system on small and medium enterprises with the various information contained in the cards they hold.

4.5. Upgrade Handling:

Handling is also called subcontracting. The Agency shall ensure the implementation of the State's policy in the field of development of handling, in particular: (Ministry of industry, 2017)

a. Ensure mediation between the commanders and the recipients of orders.

b. Collecting and analyzing supply and demand in handling capacities.

c. Assess the potential of small and medium enterprises in the field of handling.

d. Upgrade the handling and partnership activities through the support of the dealing exchanges.

e. Prepare and update a legal guide for handling.

f. Ensure mediation between commanders and recipients of orders in case of disputes.

The Agency also provides technical and material support to small and medium-sized enterprises handling their product conformity within the framework of the National Handling Development Policy.

Under the new directive Law, the State encourages national capacities for handling, particularly those that replace imports of goods and services with the national product.

5. Conclusion:

The contribution of SMEs in Algeria is huge. SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labor force, providing desirable

sustainability and innovation in the economy as a whole. In addition to that, large number of people relies on the small and medium enterprises directly or indirectly. The most important development priority in Algeria is to diversify the economy in general, and to diversify production for export in particular. The diversification of exports should include services as well as manufactured goods. Economic diversification is necessary for future economic growth, and this in turn is necessary for the growth of employment and others. SMEs are the pillars to the government's diversification drive.

By reviewing the content of the new SMEs Directive law, the State has given great importance to the promotion and development of this vital sector, which is one of the development alternatives for the Algerian economy.

The new directive law introduced a number of measures and mechanisms to accompany and support small and medium enterprises in comparison with the directive Law (2001), which has proved limited.

In order to ensure the success of this process, there is a need for genuine political will and all efforts to achieve this goal, as well as to ensure the good implementation of the provisions of this law, especially regarding the allocation of part of public transactions for the benefit of small and medium enterprises.

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