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Small and Medium Enterprises as a Strategic Choice for Development Case Study of Algeria

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Abstract

This study aims to diagnose the reality of small and medium enterprises in Algeria and her contribution in development. And to achieve the purpose of study, we analyzed the statistics that it extracted by the annual reports issued by Information Bulletin SMEs Statistics. Also it examines by the National Agency of Employment Support between 1997 and 2017. The study revealed that SMEs is one of the modern mechanisms for financing development in Algeria and alternative financing for development, where it has contributed effectively to the absorption of labor, especially at the macro level, where we find that industrial and service enterprises played an important role in net income gross. However, we find that other enterprises don't contribute to the development process, because it has a serious management problem, mainly; the problem of difficulties of economic feasibility.

Keywords: Small and Medium Enterprises, Development, Strategy, Algeria.

Introduction

Economic and financial changes have prompted governments and economic companies to research for modern and efficient ways to improve their economic level (Eneizan et al, 2015) where many countries have embarked on new strategies that rely on small and medium enterprises, rather than large enterprises as a result of their place in the national economy and its effective role in moving the economic wheel and its effective contribution in attracting and mobilizing savings, developing exports and raising the rates of economic development (Matar & Eneizan, 2018).

Algeria, like other third countries and with the transformation of the Algerian economic scene towards economic diversification, realized the role of these enterprises in expanding the national

economy. It established a charter for small and medium enterprises at the beginning of the 21st century as a comprehensive strategy to regulate the activities of these institutions on a legislative basis. In order to improve the performance of small and medium enterprises on the one hand and to create sustainable competitive advantages that will enhance their growth and survival on the economic front.

Where statistics and national annual reports show that the rate of development of small and medium enterprises in Algeria has been improving continuously, especially in recent years, but it has not reached the required level, so the political and economic authorities should intervene to provide the appropriate economic climate for their development and application of different Repairs, and provide the support needed by the contractor to establish his own organization.

Objectives of Study

More specifically, the study aimed to achieve the following objectives:

- Diagnose the situation of SMEs in Algeria.
- Determine the contribution of SMEs in level micro and macro.
- Analyze the statistical of SME in Algeria
- Recommend some suggestions to improve the performance of SME and her development as fast as possible.

Literature Review

Bouazza, (2015), examined the current developments of small and medium-size enterprises (SMEs) in Algeria and investigates the contribution of those enterprises to economic development and employment creation. To this end the study uses the available data from the Algerian National Office of Statistics (ONS) and the Algerian Ministry of Industry, Small and Medium Enterprise and Investment Promotion, to analyze the effectiveness of those enterprises in terms of employment and wealth creation. The results of our research reveal that SMEs in Algeria are too fragile and do not contribute effectively to creating employment opportunities in which unemployment remains high, particularly among youth. Although Algeria has managed to diversify its economy, this diversification is still weak and the productive fabric remains largely concentrated in the hydrocarbon sector. In addition labor-intensive SME sector remains underdeveloped. Bouazza et al (2015), analyzed the factors influencing the growth rate of small and medium-sized enterprises (SMEs) in Algeria and explores the extent to which their success or failure depends on the wider business climate. This study also examined different internal factors that may be responsible for the unstable and limited growth of SMEs. The study revealed that the growth of SMEs in Algeria is hampered by several interrelated factors, which include business environmental factors that are beyond the SMEs' control and internal factors of the SMEs. Brahim & Nourredine, (2017), their study aimed to shed light on the fact of corporate governance in the Algerian small and medium size enterprises where the intention is to identify and make the point over the fact of corporate governance in Algerian joint-stock enterprises, so as to state the major and essential obstacles that stand against the good practice of corporate governance. The study took place in 4 joint-stock enterprises in the region of CHLEF the empirical study was about a questionnaire in which we tried to recognize the fact of corporate governance of these stated companies and to pull out the different problems that impedes the

enterprises path toward the good development. Researchers revealed that the corporate governance concept is not enabled as it should be and the Algerian small and medium enterprise suffers from lot of problems in which initially the family nature and successions problems, also the relation between the main actor's elements is not good and the legal and organizational environment is not encouraging. Brahmi & Laadjal, (2015), The objective of their study was to determine the extent of adoption of the approach and the strategic decision by the Algerian SMEs, and highlight the characteristics of its strategies through a survey on a sample of SMEs located in the West of the Algeria. The analysis of this empirical study will be preceded by a theoretical overview that aims to show the different concepts of business strategy, and more specifically those of the SMEs, and then to identify the specifics of strategic management within the SME. Finally, we will analyze the survey data basing on graphics to determine the different strategic options available to theses SMEs from the sample according to this specific economic territory. Study revealed that 85%, the majority of companies respond that they have a strategy but in reality 50% of companies in the sample have a strategy. Nourredine & Brahim, (2017), focused on the corporate governance practices in the Algerian small and medium size enterprises where the main intention is to recognize and clarify the degree of corporate governance practices. The study has taken place in 6 enterprises located in 3 different provinces. The tool of research is considered to be the questionnaire. After the descriptive and inferential analysis of data collected. The study revealed that the level of corporate governance in Algerian small and medium enterprises is intermediate and the enterprises widely neglect the external and audit committee, also the implementation of transparency and disclosure principle are not enough which lead us to conclude that the mode of corporate governance is facing serious imbalances and have to be enabled in a good way. Kerbouche et al, (2015), the aim of this study is to define the organizational characteristics of Algerian SME and measure the relation between these characteristics and organizational effectiveness through a survey presented to 41 Algerian SMEs. At the end we have found that the Algerian SME are features by several character such as high centralization degree of organization structure, Entrepreneurial type decision, Authoritarian leadership style and finally the Algerian entrepreneur is the person who prefer Continuity independence, growth . Study found that there is a big significant relation between Algerian SMEs characteristics and effectiveness as all p-value calculated was less than 5% but this relation differ from variable to another. Mosbah & Debili, (2014), the study sheds light on the development of SMEs in Algeria since the independence in 1962. Once independent, Algeria chose to follow socialism as a model that governs the socio-economic life. Within this model SMEs were marginalized because the focus was on oil and gas sector and heavy industries. In 1988 the country decided to shift to the open market model and, therefore, recognized private sector as a main driver to diversify economic outputs and lessen dependence to hydrocarbons which had shown high vulnerability to different international fluctuations. Since then, successive governments have shown increasing efforts to support SMEs financially and upgrade their competitiveness while creating a conducive environment for their flourishing. Though they have grown locally in terms of number, GDP share and employment, SMEs still face various challenges and issues in both enterprise and environment levels that undermine their business conduct. Furthermore, SMEs' share of export is very low which means that they are far from competing internationally. Therefore, much efforts are needed in the future to

equip SMEs with necessary managerial, human and financial resources in order to create competitive advantages which are necessary tools for a better competitiveness.

Theoretical Study

Based on the literature review our current study started about the definition of SMEs enterprises in regard of Algerian legislator (presented in table1)

Definition of SMEs in Algeria

Official definitions of SMEs differ from country to country and from organization to organization. These definitions have quite a wide spectrum, differ significantly, and are frequently modified. Several factors are introduced to define SMEs, such the number of employees, revenue figures including annual turnover, years of business and number of branches or locations. According to the Act on guidance for the promotion of small and medium enterprises, in December 2001, SMEs are defined regardless of their legal status in terms of providing either goods or services, or both by determining certain characteristics, as presented in (table1). (Bouazza, 2015, P7).

Table 1: Definition of SMEs in Algeria.

Type of enterprises	Employee	turnover	Annual assets
Micro	1-9	< 40 Millions DA	< 20 millions
Small	10-49	< 400 Millions DA	< 200 millions
Medium	50-250	400 Millions da- 4Milliards	200 Millions- 1Milliards

Source: Project of guiding Law for the Promotion of Small and Medium Enterprises Ministry of Industry and Mines corresponding to September 2016, articles 8,9,10. P20.

According to act guidance on January 10, 2017 Law No. 17-02 on the development of SMEs was adopted. The new legislation aims to encourage the establishment of new SMEs, and to improve both their competitiveness and export capacity. The law tasks the National Agency for the Development of SMEs with the growth and modernisation of the SME sector, as well as the execution of the country's accompanying development strategy. The law also provides for the creation of a coordination council, which brings together the specialist and representative organisations relevant to Algerian SMEs. This council was formally launched on August 1, 2017. Lastly, the law foresees the establishment of two funds to support the development of SMEs, including the Algerian Credit Guarantee Fund and a seed capital fund. The latter helps finance costs related to the development of product prototypes, such as business plans, research and development. (Oxford Business Group).

Density

In terms of density, according to the latest ONS demographic statistics (40.4 million inhabitants as of 1 January 2016), the national average of SMEs is around 23 SMEs (all statuses combined) per 1,000 inhabitants. This national ratio decrease to 17 per 1,000 inhabitants for private SMEs of the "legal entities" type and shows a significant

Variation from one region to another in the country:

- 20 private SMEs per 1000 inhabitants in the north of the country.
- 13 private SMEs per 1000 inhabitants in the highlands region.
- 16 private SMEs per 1000 inhabitants in the South region. (Ministère de l'Industrie et des Mines, 2017, P12).

Methodology

In the methodology we choose two approaches the descriptive approach, and analytical approach, and we choose the first models to determine the framework of study, and the second models in order to analyze the situation of SMEs in Algeria.

Empirical Study

This paper aims to diagnose the situation of SMEs in Algeria. Therefore, to collect the necessary data for our study we have extracted the data base from the annual report of ministry of Industry and Mine, Bulletin SME Statistics as well the National Agency of Employment Support branch of BOUMERDES, during the study period.

This study started by global concentration of SMEs in 48 cities in Algeria between 2016 and the first quarter of 2017 while citing its creation, reactivation growth...ect

After that we address the contribution of SMEs Algerian in local development in the level macro while study the SMEs by activity sector including their credit amount during the study thus we show the summary statements of investment Projects (Q1 / 2017), and contribution of SMEs Algerian in local development in the level micro (case study SMEs in BOUMERDES).

Table 1: Concentration of SME by city

Concentration rate = (Number of SMEs / Resident population) * 1000

City	Number of SME 2016	Movement of SME in S1 2017				Number of SME S12017	Population by City (RGPH 2008)*	Concentration rate
		Création	Radiation	Reactivation	growth			
Alger	64 678	1721	143	307	1885	66563	2988145	22
Tipaza	25 464	1086	98	120	1108	26572	591010	45
Boumerdes	21512	905	90	115	930	22442	802083	28
Blida	20036	731	90	188	829	20865	1002937	21

Tizi Ouzou	34743	1355	219	424	1560	36303	1127607	32
Bouira	13 359	550	25	73	598	13957	695583	20
Médéa	9 344	344	22	44	366	9710	819932	12
Ain Defla	9 405	231	13	67	285	9690	766013	13
Bejaia	28372	933	126	152	959	29331	912577	32
Chlef	13 053	287	103	57	241	13294	1002088	13
Oran	26 688	1027	31	116	1112	27800	1454078	19
Tlemcen	13 486	606	65	170	711	14197	604744	23
Sidi Bel Abbès	9 678	258	51	86	293	9971	949135	11
Aïn Temouchent	6 171	194	6	33	221	6392	726180	9
Mostaganem	9 413	193	7	25	211	9624	737118	13
Mascara	9 354	280	58	54	276	9630	784073	12
Relizane	7 648	219	8	37	248	7896	371239	21
Constantine	18 362	616	66	104	654	19016	938475	20
Mila	10 338	305	16	106	395	10733	766886	14
Jijel	10 752	475	26	95	544	11296	636948	18
Annaba	13 951	370	13	89	446	14397	609499	24
Skikda	12 077	397	44	25	378	12455	898680	14
El Tarf	5 108	116	58	55	113	5221	408414	13
Guelma	7 623	226	6	44	264	7887	482430	16
Total North	400 615	13 425	1 384	2 586	14 627	415242	21075874	20
Highlands								
M'sila	12 528	440	15	78	503	13031	990591	13
Djelfa	8 685	191	3	36	224	8909	1092184	8

Laghouat	5 869	114	21	23	116	5985	455602	13
Tiaret	7 870	139	1	44	182	8052	846823	10
Saida	3 407	102	12	21	111	3518	330641	11
Tissem silt	2 823	127	5	24	146	2969	294476	10
Naama	2 444	99	119	8	-12	2432	192891	13
El Bayadh	3 033	84	11	19	92	3125	228624	14
Bordj Bou Arréridj	12 815	464	52	124	536	13351	628475	21
Sétif	25 816	858	72	136	922	26738	1489979	18
Batna	14 417	510	25	38	523	14940	1119791	13
Oum El Bouaghi	6 303	234	53	36	217	6520	621612	10
Khenchela	6 408	123	46	38	115	6523	386683	17
Tébessa	7 695	226	8	20	238	7933	648703	12
SoukAhras	5 583	143	18	33	158	5741	438127	13
Total Highlands	125 696	3 854	461	678	4 071	129767	9765202	13
Sud								
Illizi	1 772	35	14	12	33	1805	49149	37
Tamanrasset	2 695	56	19	24	61	2756	176637	16
Tindouf	1 907	34	1	7	40	1947	52333	37
Adrar	4 038	124	79	24	69	4107	399714	
Biskra	7 043	202	32	56	226	7269	721356	10
Ouargla	8 818	259	18	27	268	9086	558558	16
El Oued	7 535	237	33	48	252	7787	647548	12

Bechar	6 696	0	0	0	0	6696	270061	25
Ghardaia	9 091	185	10	82	257	9348	363598	26
Total south	49 595	1 132	206	280	1 206	50801	3238954	16
General total	575 906	18 411	2 051	3 544	19 904	595810	34080030	17

Sources: Ministry of Industry and Mines, Information Bulletin SME Statistics 2017, P43.

This table shows that SME in Algeria has concentrated largely in the North of Algeria effectively on 2016 and the first quarter in 2017, because the north is more actively than highlands or south in Algeria.

The geographical distribution of SME is unevenly distributed indeed, more than 50% of the population of SMEs are concentrated in the north of the country, such as ALGIERS, TIPAZA, BOUMERDES followed by BLIDA, TIZI OUZOU and BOUIRA, which host of the country's SME population. In this regard, the North region has 66563 SMEs in the first half of 2017 compared to 64 678 in the first half of 2016, an increase of 3.65%. Followed by the Highlands region with 129767 SMEs (3.23%), while the region of South and South only hosts 50801 SMEs is (2.43% of the total).

Contribution of SMEs Algerian in local development in the level macro

The SMEs play an important role in other country due to its contribution to grow the large enterprises, so the last one is result of the first one, because small company distributed all goods which considered the first goods of big company that needs to meet the different demand by customers.

Table 2 FGAR : Files treaty by Sector activity (since 2004 until last June 2017)

Activity by sector	Number of project	%	Amount of Guarantee	%	Number of jobs	%
Industry	970	50%	32 151 448 062	60%	36 609	59%
MINE AND CAREERS	18	0,9%	507 740 665	0,9%	534	0,9%
METALLIC STEEL INDUSTRY MECHANICAL AND ELECTRIC	126	6,5%	4 159 239 113	7,8%	6 212	10,1 %
MAT.CONST.AND GLASS	163	8,4%	6 458 170 860	12,1 %	4 722	7,6%
CHEMISTRY, RUBBER AND PLASTIC	168	8,7%	5 560 604 780	10,4 %	5 654	9,2%
agribusiness tobacco and matches	309	16,0 %	10 866 600 664	20,3 %	12 066	19,5 %

TEXT.BONNET AND CONFECTION	31	1,6%	518 244 550	1,0%	849	1,4%
LEATHER INDUSTRY AND SHOES	7	0,4%	204 406 100	0,4%	279	0,5%
WOOD, LIEGE, PAPER AND PRINTING	95	4,9%	2 264 567 393	4,2%	3 134	5,1%
VARIOUS INDUSTRIES	53	2,7%	1 611 873 937	3,0%	3 159	5,1%
BTPH	526	27%	10 993 691 363	21%	15 999	26%
PUBLIC WORKS	289	14,9 %	6 515 055 539	12,2 %	9 467	15,3 %
BUILDING	220	11,4 %	4 116 340 135	7,7%	6 273	10,2 %
HYDRAULIC	17	0,9%	362 295 689	0,7%	259	0,4%
AGRICULTURE & FISHING	24	1%	882 180 868	2%	845	1%
AGRICULTURE	4	0,2%	70 366 398	0,1%	299	0,5%
Peach	20	1,0%	811 814 470	1,5%	546	0,9%
SERVICES	417	22%	9 466 535 915	18%	8 335	13%
HEALTH	94	4,9%	3 882 493 510	7,3%	3 362	5,4%
TRANSPORT	220	11,4 %	2 893 068 094	5,4%	1 972	3,2%
INDUSTRIAL MAINTENANCE	16	0,8%	475 663 183	0,9%	300	0,5%
TOURISM & LEISURE	59	3,0%	1 764 003 723	3,3%	1 548	2,5%
NTIC	14	0,7%	242 000 279	0,5%	711	1,2%
COMMUNICATION	8	0,4%	152 957 430	0,3%	163	0,3%
Engineering and technical studies topographical	6	0,3%	56 349 696	0,1%	279	0,5%
Total	1 937	100 %	53 493 856 208	100 %	61 788	100%

Sources: Ministry of Industry and Mines, Information Bulletin SME Statistics 2017, P44.

We note that 50% of number project treaty since 2004 until last year 2017 were in industry and 27% in BTPH 22% in services , but in other sectors weren't exceed 16% like agribusiness tobacco and matches,14,9% in public works sector, 11,4% transport...etc. And we concluded that most of SMEs were mostly invested in industry sectors because the Algerian state motivate this kind of sectors (Law guideline to upgrade small and medium enterprises chest in 2016), due to its importance contribution for net product gross and for global national economy. As consequence the amount of guarantee in this field of sectors was high, because the Algerian legislator would finance them.

As for the percentage of labor, we revealed that 59% of worker was concentrated in industry sector exactly in weaving and agriculture and 26% labor in building, such as majority foreigner SMEs like Turkish and Japanese were invested in this field, and other field the labor is very depressed.

Table CGCI-PME guarantees at 30-06-2017 by credit tranche

Total Banks	slices of credit	Number of folder	%	credit amounts	%
	0 = < Mt < 10 MDA	262	28	1395	3
	10 = < Mt < 50 MDA	339	37	9355	20
	> =50 MDA	317	35	36973	77
	Total	811	100	383047	100

Sources: Ministry of Industry and Mines, Information Bulletin SME Statistics 2017, P27.

The distribution of overall volume of loans guaranteed include in table below let appear a high proportion of the tranche of credits lower than 50 million DA, which represents to her alone 77% for global guaranteed projects for 30/06/2017 corresponding in financial terms at 35% of the guaranteed credit.

This order of magnitude (77%) confirms the statistics that indicate that 98% of the tissue of the SME is consisting of very small enterprises (VRE). A very important market which contains many VRE/ SMEs eligible to the device of guarantee of the box.

A enough proportion significant by slice of credits is equal to or greater than 50 Millions of DA, which represents in physical terms 20% of total number of guaranteed files, and larger proportion in financial terms more than two-thirds (77%) of the total amount of guaranteed loans.(Information Bulletin SME, P27).

Table: Summary Statements of Investment Projects (Q1 / 2017)

	Activity sector	Transport	BTP H	Industry	Services	Tourism	Health	Agriculture	Total
Reported Project	Q1/2016	991	479	1288	544	167	63	121	3653
	Q1/2017	525	364	1298	322	205	108	94	2916
	Share Q1/2017 (%)	18,00	12,48	44,51	11,04	7,03	3,70	3,22	100,00
	Evolution	-47,02	-24,01	0,78	-40,81	22,75	71,43	-22,31	-20,18
Amount (Millions of DA)	Q1/2016	55117	41895	600167	92625	90733	25592	24298	930427
	Q1/2017	42398	39467	794139	126099	232442	28863	20079	1283487
	Share Q1/2017 (%)	3,30	3,07	61,87	9,82	18,11	2,25	1,56	100,00
jobs	Q1/2016	6329	7902	45243	9723	7710	1943	2154	81004
	Q1/2017	4627	5884	59923	7244	12573	2479	2158	94888
	Share Q1/2017 (%)	4,88	6,20	63,15	7,63	13,25	2,61	2,27	100,00

Sources: Ministry of Industry and Mines, Information Bulletin SME Statistics 2017, P18.

The table below shows the statements of investment projects between the first quarters of 2016 and 2017, so we revealed that some project reported were decreased between this period except tourism and health sector, where they recorded 23% and 72% because they didn't need some share capital by against other sector required very capital. As result the industry sector was the highest field, if we compared by other field, as much as industry were this last occupied 63,15% to be followed tourism sector by 18,11% and this sector occupied 13,25% of workers, but other sector didn't contribute in development.

Contribution of SMEs Algerian in local development in the level micro (Case study of SMEs in BOUMEDES)

In order to diagnose the economic and social contribution of SMEs we will examined the statistical issued by the National Agency of Youth Employment Support branch of BOUMRDES as samples city micro in Algeria since 1997 until 2017.

Since inception until the accumulation of the year 2017				
Activity	Financing projects	Impact of employment	Rate of financement	Rate of work
Agriculture	306	917	3,85%	4,63%
Character	271	801	3,41%	4,04%
Buildings	731	2535	9,21%	12,80%
water	36	180	0,45%	0,91%
Industry	1311	4592	16,63%	23,18%
maintenance	88	255	1,11%	1,29%
Fish	23	154	0,29%	2,43%
Free professions	230	481	2,90%	2,43%
Service	2949	5974	37,42%	30,16%
Transportation of goods	1273	2546	16,30%	12,85%
Transportation of passagers	689	1372	8,68%	6,93%
Total	7881	19648	100,00%	100,00%

Source: National Agency of Youth Employment Support branch of BOUMERDES (ANSEJ) 1997- 2017.

The Statistics presented that the projects funded by the National Agency for the Promotion of Youth Employment in BOUMERDES city were estimated at 7881 projects from 1997 until 31/12/2017. We noted that service sector was high field financed by 37,42% of total other financing, so this highest percentage was positively reflected on the increase in the number of employment, which contributed to the lack of the unemployment. After it followed the industry sector by 16,63%, as consequence it rate work take about 23,18%, this important field were decline the few decades, because the guideline of Algerian specified banks to finance this type of SMEs due to her financial crisis exactly in 2014 until 2017. As for the passenger transport sector, it took for 16,30% which was introduced by Algeria and its cities in 2006 and 2008 in transport equipment (buses, taxis). However, the market quickly became saturated with this type of equipment, which led to the freezing of funding in 2017.

But other sector her contribution were very decline like as agriculture such as Boumerdes city was Agricole zone, so it financed by 3,85% and it due to the state strategy and to difficult administrative

procedures, while its contribution in local net result gross was approximately 1%, this result improves that sector of agriculture is marginalized by the local authorities.

Some difficulty to establish the SMEs in Algeria

Between the difficulties which the SMEs in Algeria and its cities suffer since a long time we find : Difficulties related to the acquisition of land which are due to the complication of administrative procedures and the lack of transparency (Mosbah & Debili, 2014). Most small and medium enterprises are individual and individual institutions where they do not rely on modern management methods but are based on a mixture of tradition and jurisprudence. (Haiba, 2009, P57). The difficulty of obtaining information and modern technology in the absence of specialized bodies, which these enterprises seek to support and technical advice. (Abdullah, 2017, P37). Absence of public register and private offices for information sharing and loans. (Karim, 2013, P24).

Conclusion

The purpose of our research was to study the contribution of Algerian SMEs in development in two levels macro and micro, so we revealed that this type of enterprises had recognized a progression in some sector like as: service and industry and this sector were rebound in net income, even SMEs reduced the unemployment. Also we concluded that ANSEJ focus on subsidies only and neglect of the escort process, beside that absence for accompaniment to entrepreneurship when establishing their enterprises, and absence of sensitization of entrepreneurial thought these factors were a big obstacle for SMEs. This study recommended that the strengthen leadership of SMEs through the adoption strategies and policies in order to expand and deepen their skills and increase their productivity. Strengthen cooperation between state and regional communities in support SMEs, such as business incubators business development center and other as needed. Allocated new private banks to finance SMEs like as local banks to meet various needs in different circumstances. Introducing other agencies and funds that offer loans with low interest rates and guarantees for the benefit of those wishing to establish small and medium enterprises. Establish consulting offices to guide and provide full support of SMEs.

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