





The contribution of Small and Medium-sized Enterprises in Achieving Economic Diversification: An Analytical Study of the Algerian Economy During the Period (2010-2022)

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Abstract:

This study aims to assess the development of small and medium-sized enterprises in Algeria from 2010 to 2022 and their contribution to economic diversification and reducing Algeria's reliance on oil revenues, using descriptive and analytical techniques plus the inductive approach to examine and analyze data collected, the study shows that Algeria's small and medium-sized enterprises are vulnerable and ineffective at contributing to the country's economic diversification, and their extensive orientation towards the services and construction sectors does not help create added value despite the significant growth in their count during the period of study.

Key words: Small and Medium-sized Enterprises, Economic Diversification, Algerian exports.

JEL Classification Codes : Q32, Q37

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1-Introduction

The new global energy market circumstances impose an urgent necessity on the Petro-states Abandoning traditional growth models based on public expenditures for which the oil industry is a source for, as the current global economic conditions, and the extent of their impact on oil prices, forces Algeria as the rest of the oil economies to propose a new model based primarily on the trend towards economic diversification and relying on other sectors to reduce the potential negative effects of fuel price fluctuations or economic crises in partner countries.

As a response, the Algerian government rushed to adopt these types of institutions (small and medium) because of their ability to face fluctuations and crises and fill the shortcomings that large institutions suffer from which is evident from the extent of the capabilities and infrastructure devoted to this type of institutions to reduce the Algerian economy dependency on the hydrocarbon sector.

1-2 Statement of The Problem

And in this context, we took into account the main problem of our article as follows: **Were the Algerian SMEs able to help Algeria reduce its reliance on the hydrocarbon sector during the period 2010-2022?**

From the previous main question, we can derive the following sub-questions:

- How did the Algerian SMEs develop between 2010 and 2022?
- To which extent do the Algerian SMEs contribute to the structure of the state's exports outside the hydrocarbon sector?

1-3 Study Hypotheses:

This study is built upon the following primary hypotheses:

- The Algerian SMEs were not able to help Algeria reduce its dependence on the fuel sector during the last 13 years.

This study will proceed from the following sub hypotheses:

- The Algerian SMEs has known incredible development between 2010 and 2022;
- The Algerian SMEs contribution to the country's non-oil exports is improving but still weak.

1-4 The Importance of the Study

This study derives its importance, especially in light of the recent events in the Russian-Ukrainian war and the sharp fluctuations in energy prices that accompanied it which reflects the inevitability of moving towards the sector of small and medium enterprises to create added value and diversify sources of income, especially after the recent recovery in oil prices, and the possibility of providing capital for these institutions for their development and raising their competitiveness at the local and international levels.

1-5 Study Objectives

- Verification of the reality of SMEs during the last ten years;
- Standing on the various capabilities and efforts harnessed by the Algerian state for the development of SMEs;
- Knowing the extent to which this sector contributes to the diversification of the Algerian economy.

1-6 Methodology

We will rely in our study on the techniques of description and analysis for familiarity with the theoretical aspect of the subject and also the inductive approach to present and analyze the various data on SMEs and give accurate readings of their situation and their contribution in growing the Algerian economy.

2- REVIEW OF CONCEPTS:

2-1 Definition of Small and Medium-Sized Enterprises

There are many definitions for SMEs across the world and this varies from country to country depending on the degree of economic progress and the structure of the economy itself, and according to OECD in its 2000 policy brief (OECD, 2000, p. 2): small and medium-sized enterprises are those that depend in their management on a very simple personal hierarchy, and the owner of the enterprise sits at the top of the pyramid, where decisions are made by him in the end, as they rely on three criteria:

- Small and medium enterprises are managed by their owners in a personal manner;
- These institutions have weak market shares;

- The independence of the institution.

As to the economist Schmidt (Schmidt, 1990, p. 68): they are units that produce and distribute goods and services and are mostly composed of independent producers, some depend on working from within the family and some of them hire workers and craftsmen, and some of them work with a fixed capital which generates a low return, and they usually earn irregular incomes and create unstable job opportunities.

As for the Algerian regulations according to the law n° 01-18 issued in 2001 (Official Gazette of the Algerian Republic, 2001, p. 5): it is every enterprise that produces goods and/or services, regardless of its legal nature, that employs from 1 to 250 people and that its annual turnover does not exceed 2 billion dinars, or its total annual proceeds do not exceed 500 million dinars, it is also independent as its capital is not owned by 25 percent or more by another institution or group of institutions.

The previous law was updated when the law n° 17-02 was issued in 2017 and the maximum annual turnover became 4 billion dinars or the maximum annual proceeds or revenue became 1 billion dinars after it was 2 billion and 500 million dinars respectively in 2001, whilst the number of workers criterion and the independence one remained the same in both laws. (Official Gazette of the Algerian Republic, 2017, pp. 05-06)

2-2 Definition of Economic Diversification

According to the economist John Wagner (Wagner, 2000, p. 30): diversification does not mean the absence of specialization; rather, it manifests through the existence of various specialized sectors, intricate industries, and robust interconnections within the industry, the greater the level of economic diversification within a country's economy, the more resilient it becomes to fluctuations triggered by external factors.

According to Professor Attaran Mohsen (Attaran, 1986, p. 48): economic diversification involves diminishing the heavy reliance on the oil sector as a primary contributor to government budget income, this is achieved by fostering growth in the non-oil sector, promoting non-oil exports, and cultivating alternative revenue streams. The objective is to diminish the public sector's dominance while fostering the expansion

of the private sector, ultimately establishing a contemporary economy that can thrive independently of the oil industry.

According to the Organization for Economic Co-operation and Development (OECD/WTO, 2019, p. 150): it is the transition to a more diversified national production structure to increase productivity, create job opportunities, and lay the foundations for sustainable growth, and it reflects the structural transformation mechanism because successful diversification of national production involves the redistribution of resources within and among sectors, from low-productivity activities to high-production activities.

3- RESULTS AND DISCUSSION

3-1 Census of SMEs in Algeria during the period 2010-2022

The attention given by the Algerian state to the sector of SMEs was a great catalyst for the development of their number during the period between 2010 and 2022, which is confirmed by the statistics that indicate the increase in the number of these institutions and the spread of their branches of activity towards various economic sectors:

Table 01. The evolution of Algerian SMEs between 2010 and 2022.

The year/The Number of Institutions	The Number of private SMEs		The Number of Public SMEs	Rate of Evolution	Total
	Moral Persons	Physical Persons			
2010	369319	249196	557	-	619072
2011	391761	266976	572	6.5%	659309
2012	420117	291158	557	7.97%	711832
2013	459414	317845	557	9.3%	777816
2014	496989	354522	542	9.5%	852053
2015	537901	396136	532	9.7%	934569
2016	575906	446325	390	9.42%	1022621
2017	609344	464892	267	5.07%	1074503
2018	643493	498109	261	6.3%	1141863
2019	671267	521829	243	4.5%	1193339
2020	689383	541461	229	3.16%	1231073
2021	720495	565645	225	4.49%	1286365
2022	762769	596811	223	5.71%	1359803

Source: Compiled by the researchers based on: (Ministry of Industry and Pharmaceutical Production, 2010-2022, pp. 6-9)

It is clear to us from table no.01 that the number of SMEs increased at a relatively high rate during the period 2010-2015, reaching 934569 private and public enterprises in 2015 after it was 619072 in 2010, and their number continued to rise from year to year with increasing rates reaching the largest percentage of 9.7 % in 2015, this development can be explained by the increase in the granting of loans as a result of the huge financial savings that Algeria possessed during this period as a result of the increase in oil prices and the allocation of large financial budgets to establish industrial zones and support private investors within the framework of the five-year program 2010-2014, and the number of SMEs continued to rise reaching 1193339 institutions in 2019, but we note that this increase is taking place at a decreasing pace from year to year and this is due to the drop in fuel prices in 2014 and the state's identification and reduction of financing these types of enterprises through its active bodies in this field (ANGEM/ ANSEJ / CNAC/...) to be limited to added-value projects only.

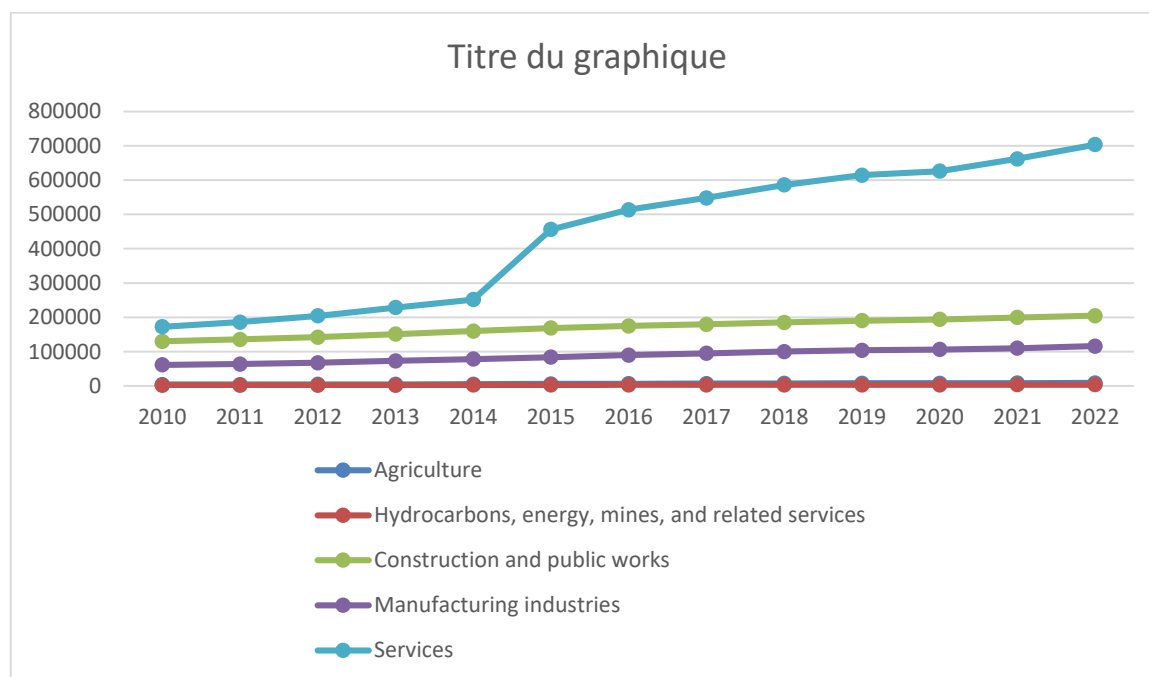
And during the year 2020, we noticed a very slight increase standing at 1231073 institutions with a 3.16% rate of evolution since 2019, and this is due to the complete closure due to the Covid-19 epidemic and its attendant repercussions on the SMEs sphere in Algeria in particular as well as the country's overall economy, and the number of small and medium industries continued to grow during the years of 2021 and 2022, when an increase rate of approximately 4.49 and 5.71 % in this order was recorded, this is caused by the rise in oil prices in this period for several reasons, the most important of which is the start of the Russian-Ukrainian war, and this reflected positively on the state's general spending policy and the easing of import restrictions, which contributed to the SMEs large growth during this period.

We also notice from the table above that the number of public small and medium industries that were registered during the period from 2010 to 2022 is constantly decreasing and their number is very small, not exceeding 600 enterprises compared to the number of private small and medium industries that were registered during the same period, and this is mainly due to the trend that the state adopted it at the

beginning of the nineties, relying more on the private sector as a main engine to push the wheel of economic development and promote economic diversification plans.

3-2 The distribution of small and medium-sized enterprises according to their field of activity

Chart 01. Distribution of SMEs according to their field of activity during the period 2010-2022.



Source: Prepared by the researchers based on: (Ministry of Industry and Pharmaceutical Production, 2010-2022, pp. 10-13)

So, the above graph represents the distribution of SMEs depending on their field of activity and it is clear to us from the previous data that more than half of the activity of SMEs in Algeria over the span of thirteen years is concentrated in the services field, followed by the field of construction and public works with rates ranging around 30%, and the field of hydrocarbons, energy, and mines is ranked at the bottom with percentages not exceeding 1% alongside the agriculture sector.

The previous information shows us that the Algerian small and medium enterprises are of a service nature per excellence, and this does not help in creating wealth and added value and achieving diversification in the national economy, as this requires the state to review national programs and financing methods and directing

new enterprises towards industrial sectors and productivity and help existing institutions in these two areas to develop and achieve international competitive advantage.

3-3 Small and medium-sized businesses contribution to diversifying exports away from the oil sector

Over the past 13 years, SMEs in Algeria have emerged as a driving force behind the transformation of the nation's non-oil export sector, and their remarkable contribution has not only significantly diversified the country's export portfolio but has also played a pivotal role in reducing Algeria's historical reliance on oil-related revenue streams, this sets the stage for a deeper exploration of how SMEs have become instrumental in reshaping Algeria's economic landscape through their valuable contributions to non-oil exports, fostering economic growth, and enhancing the country's economic resilience.

The table below presents a comprehensive analysis regarding the crucial role fulfilled by SMEs in Algeria's non-oil export sector over the period spanning from 2010 to 2022, and this table highlights the significant contributions made by SMEs to the nation's export landscape, shedding light on their important role in diversifying and strengthening Algeria's economy, and through a detailed examination of this data, we gain valuable insights into how SMEs have actively shaped and supported the growth of non-oil exports during this 13-year timeframe.

Table 02. The contribution of SMEs to the Algerian non-oil exports during the period 2010-2022.

Years/values	Exports outside the hydrocarbon sector (million US dollars)	The percentage from total exports (%)	SMEs exports outside the oil sector (million US dollars)
2010	1526	2.87	239,61
2011	2062	2.93	400,6
2012	2187	2.95	430,48
2013	2014	3.11	407,2
2014	2582	4.46	523,18
2015	2063	5.46	421,67
2016	1780	6.16	350,89
2017	1899	5.45	406,54
2018	2218	6.62	421,42
2019	2068	6.98	289,52
2020	1909	2.86	76,36
2021	4495	4.53	494,45
2022*	4606	4.93	1013,32

Source: Prepared by the researchers based on: (General Directorate of Customs, 2010-2022, pp. 14-15)

It is worth noting that the above table represents the exports of the Algerian state as a whole outside the hydrocarbon sector and also the SMEs ones, using the data gathered from publications of the Bank of Algeria and the General Directorate of Customs and according to the same source, determining the value of the contribution of SMEs to Algeria's exports outside the oil sector is difficult due to the lack of disclosure and transparency in these institutions, and not announcing its financial statements.

*We also mention that the data for the year 2022 pertains to the first, second, and third trimesters only, because it is not issued yet according to the Ministry's data, and therefore we will try to give an approximate value of the exports for the fourth trimester, depending on the average of the first three trimesters to complete our study.

This table provides valuable insights into Algeria's exports outside the hydrocarbon sector, specifically focusing on the percentage of these exports relative to the total exports and the contributions of SMEs in this context, here are some key observations and comments on the table:

As an overall trend from 2010 to 2014, there is a noticeable increase in exports outside the hydrocarbon sector, however, after 2014, there is some fluctuation in the values due to the drop of the prices of oil during this timeframe, with a significant drop in 2020 followed by a sharp increase in 2021 and 2022.

The percentage of exports outside the hydrocarbon sector as a portion of the share of total exports has been steadily on the rise over the years, after it was around 2.87% in 2010 and reached 6.98% in 2019, indicating a gradual diversification of the country's exports beyond the oil sector.

SMEs' exports outside the oil sector have also shown growth over the years, with values increasing from 239.61 million US dollars in 2010 to 1013.32 million US dollars in 2022, this demonstrates an increasing role of SMEs in expanding non-oil exports.

The sharp drop in both total non-hydrocarbon exports and SMEs' exports in 2020 are attributed to various factors, such as the worldwide economic impact of the COVID-19 epidemic and disruptions in supply chains.

The substantial increase in non-hydrocarbon exports in 2021 and 2022 is noteworthy, this could be due to a combination of factors, including recovery from the pandemic, improved economic conditions, and potentially new market opportunities after the Russian-Ukrainian conflict and its positive impact on the global non-renewable energy market.

Given the volatility in the values, it's essential to continue monitoring these trends to understand the factors driving these changes, policy decisions, global economic conditions, and changes in the competitiveness of non-oil sectors can all influence these numbers.

The increasing share of non-hydrocarbon exports and the contribution of SMEs indicate progress in economic diversification, which can help reduce a country's reliance on oil revenue and create a more stable and sustainable economy.

In summary, this table illustrates a positive trend of diversification in a country's exports away from the hydrocarbon sector, with SMEs playing a significant role in this process, however, the fluctuations in recent years underline the need for a robust and adaptable economic strategy to maintain and enhance this diversification effort as the exports of small and medium enterprises of the total non-oil exports of the country are estimated at 1% (Asma, 2015, p. 12), and this percentage is very weak compared to other countries that are similar to us in its economic structure and size, such as Morocco and Tunisia for example, which calls for a review of the approaches adopted by the Algerian state towards the SMEs in particular, and towards all nationally active institutions, whether they are public or private.

4- CONCLUSION

The primary objective of the article was to assess the diversity of the Algerian economy in the last 13 years, and also the extent to which the Algerian SMEs contribute to this diversification to evaluate the Algerian state's policy in reducing the dependency on the hydrocarbons sector.

And we can say that the hydrocarbon sector is the dominant sector in the Algerian economy, as it dominated exports in the last 13 years at rates exceeding 90%, and this has constituted a major obstacle for the Algerian state to search for other sources of income and diversify its economy, and therefore economic diversification is not a goal in itself, but rather a mechanism through which to ensure sustainable economic development outside the hydrocarbon sector and to avoid the risk of relying on a single source of income, and this has been proven by the concurrent crises and their impact on oil prices, the last of which was the Russian-Ukrainian war, and its proof of the fragility of the rentier economy.

And here, SMEs have emerged as a promising solution to achieve economic diversification and have proven their importance, especially when noting the

experiences of developed countries, because of the advantages and flexibility they have that are unique to large and public institutions, and according to what we have previously shown and over the past 13 years that there has been a slight improvement in the number and contribution of Algerian SMEs in diversifying the national economy, but this contribution remains below the required level despite the initiatives undertaken by the Algerian government

to get the economy out of dependence on one fleeting wealth.

At last, our study reached a set of findings that can be formulated as follows:

- The number of small and medium-sized enterprises increased during the period 2010-2022 from year to year, and this shows the state's interest in this sector and the huge financial resources allocated to these institutions, as their census in 2022 reached 1359803 small and medium private and public institutions after it was 619,072 institutions in 2010;
- The Algerian SMEs are of a service nature per excellence, as more than 50% of these institutions work in the field of service provision, and about 30% of them work in the field of construction and public works, on the other hand, these enterprises have moved away from the agricultural and manufacturing sectors Where the weakest percentages were recorded during the period 2010-2022, and this does not help the Algerian economy in creating added value and raising the share of these institutions from exports and diversifying the economy;
- The contribution of SMEs to diversifying the Algerian economy during the period 2010-2022 is very weak, as their contribution to the country's non-oil exports is estimated at about 1%, which calls for an inclusive review of how this sector is managed.

The study's conclusions lead to the following recommendations:

- The Algerian government needs to intensify its efforts in formulating a comprehensive and efficient business policy due to the persistently unfavorable business environment for the private sector within the nation, furthermore, there is a pressing need for gradual and persistent initiatives aimed at advancing and nurturing

various industries, without consistent robust growth in other sectors, the nation's vulnerability to fluctuations in global oil prices remains, among these industries, the SME sector stands out as holding the greatest potential for achieving the country's objectives, Consequently, fostering the growth of more SMEs in productive sectors such as tourism, manufacturing, and agriculture could potentially create job opportunities, enhance overall wealth, and reduce the nation's reliance on foreign markets;

- Due to its favorable geographic position and ideal temperature, Algeria offers a lot of chances in the agriculture industry, for the production of cereal, producing olives, raising animals, and arboriculture, it is essential that large, well-organized SMEs be established, the fishing industry also has a lot of promise;
- Algeria's coastal and Saharan regions provide a lot of promise for the industry; therefore, the development of this industry depends on the construction of large, efficient hotels and restaurants;
- Algeria has significant potential as a manufacturer due to its access to cheap energy resources (gas, fuel, and electricity); industrial gas is 22 times less expensive than the average price in Europe, and electricity is 6 times less expensive than in the EU, and labor costs are both low and plentiful;
- Due to their considerable role in job creation, SMEs in Algeria have the potential to significantly contribute to economic growth and are the solution to the country's young unemployment issue, to expand this crucial industry, more work is needed from the Algerian government as well as SME owners and managers.

4- Appendices

Appendix 1. The structure of Algerian exports in the period (2010-2021)

Exports/Years	2010	2011	2012	2013	2014	2015	
Energy	56143	71662	70571	63662	58362	33081	
Foods	305	357	314	402	323	239	
Raw Materials	165	162	167	108	110	105	
Semi-manufactured Materials	1089	1495	1519	1608	2350	1685	

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Agricultural Equipments	0	0	0	0	2	0	
Industrial Equipments	27	36	30	25	15	17	
Consumer Goods	33	16	18	18	10	11	
Total Exports	57762	73802	72620	65823	61172	35138	
Exports/Years	2016	2017	2018	2019	2020	2021	2022*
Energy	27917	33203	38897	33224	20016	34058	27028
Foods	327	349	373	408	437	576	163
Raw Materials	84	73	93	96	71	182	129
Semi-manufactured Materials	1299	1410	1626	1445	1287	3486	2742
Agricultural Equipments	0	0	0	0	0	1	1
Industrial Equipments	53	78	90	83	77	188	25
Consumer Goods	18	20	35	36	37	63	80
Total Exports	29698	35132	41115	35312	21925	38553	30169

Source: Prepared by the researchers based on: (Bank of Algeria, 2010-2022, p. 28) (* temporary data)

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