ملخص

#### Strengthening SMEs Competitiveness to Activate their Role in Achieving Economic Development in Algeria Renforcer la compétitivité des PME pour activer leur rôle dans la réalisation du développement économique en Algérie

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#### Abstract

This paper aims to highlight the role played by SMEs in economic development by enhancing their competitiveness. Small and medium enterprises are considered the main drivers of the economy. In view of the central role played by these institutions in term of job creation and reducing the average of unemployment, achieving growth, bringing direct foreign investment and participate broadly in the GDP, and economic development in general, Therefore, This has led to interest in enhancing the competitiveness of small and medium enterprises.

*Keywords:* Small and Medium Enterprises, Competitiveness, Economic Development, Algeria.

JEL classification: D02, D41, F63, O55.

تحدف هذه الورقة البحثية إلى إبراز الدور الذي تلعبه المؤسسات الصغيرة والمتوسطة في التنمية الاقتصادية من خلال تعزيز قدرتها التنافسية، حيث أصبحت هذه المؤسسات بمثابة المحرك الاساسي لعجلة التنمية في الاقتصاد، ونظرا للدور المحوري الذي تلعبه المؤسسات الصغيرة والمتوسطة من حيث خلق فرص العمل والحد من معدل البطالة وتحقيق النمو وتحقيق الاستثمار الأجنبي المباشر والمشاركة بشكل عام في الناتج المحلي الإجمالي والتنمية الاقتصادية بشكل عام ولذلك، أدى هذا إلى الاهتمام بتعزيز القدرة التنافسية للمؤسسات الصغيرة والمتوسطة. الكلمات المفتاحية: المؤسسات الصغيرة والمتوسطة، القدرة التنافسية المؤسسات الصغيرة والمتوسطة. تصنيف Jel: 305, D02, D41, F63, O55

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#### **Introduction:**

Small and medium size enterprises sector has become a key pillar in the equation of getting development and obtaining a satisfied rate of Economic growth. During the last 3 decades of the twentieth century, especially in the economy developed countries all attention has turned toward this sensible sector to lead the wheel of development and to bring new vitality to the worldwide economies. However, not just the developed countries who have put their eyes over this sector, also the developing countries like Algeria have provided sustainable efforts to take care of the SMEs. In fact, the statistics refer to stunned information belong to SMEs efficiency in term of job creation and reducing the average of unemployment, achieving growth, bringing direct foreign investment and participate broadly in the GDP, studies estimate that 90% of the world enterprises are SMEs ones and they are separated approximately over all the fields, This has led to interest in enhancing the competitiveness of small and medium enterprises through a combination of strategies to activate their role in achieving economic development in Algeria.

**Problematic:** In this paper we are trying to deal with following problematic: How can we enhance the competitiveness of small and medium enterprises in order to activate their role in achieving economic development in Algeria?

To get answer for this main problematic, We discussed the following important points:

- 1- Definition of SMEs, and Competitiveness;
- 2- Factors Affecting the Growth of SMEs in Algeria;
- 3- Framework for Addressing SMEs Challenges;
- 4- Strengthening SMEs Competitiveness;
- 5- The Role of SMEs in Economic Development in Algeria.
  - 1- Small and medium enterprises (definition and importance):

#### a. Definition of small and medium enterprises:

SMEs have no standard definition; they have been identified differently by various individuals and organizations, such that an enterprise that is considered small and medium in one country is viewed differently in another country. Some common indicators employed in the various definitions include total assets, size of the labor force employed, annual turnover and capital investment1.

Small to medium-sized enterprise defined in the Oxford English Dictionary as a company with no more than 500 employees2.

SMEs are defined differently from country to country. Based on the number of full time employees or the annual sales turnover and industry categories SMEs in Algeria is defined through Law 01/18 of 12 December 2001, which includes the guiding law for the promotion of small and medium enterprises as follows: A small and medium-sized enterprise, whatever its legal nature, is defined as a production enterprise of goods and / or services, operates from 1 to 250 persons, Does not exceed the Annual business number

of two billion (2) dinars or does not exceed the total annual revenue five hundred (500) million dinars, And meet the criteria for independence3. "

#### b. Challenges faced by SMEs

A number of studies have been performed on challenges faced by SMEs in developing countries as well as Algeria. Small and Medium Industries Development Plan (SMIDP) in its 2001-2005 report (SMIDEC, 2002) and SME Master plan (2012) identified many challenges faced both at the domestic and international levels. These challenges can be summarized as the following4 :

1- Innovation and technology adoption (low commercialization, poor technology uptake);

2- Human capital development (lack of job readiness of employees and effectiveness of training);

3- Access to financing (limited non-banking avenues, poor credit worthiness and lack of know how resources);

4- Market access(information barriers for exports, low marketing and branding);

5- Legal and regulatory environment (Licensing and permits issues, compliance to regulations); and infrastructure (trade clearance and facilitation system and low /infrequent trade volumes).

## c. Importance of small and medium enterprises:

Promoting (SMEs) have been one of the best strategies for achieving economic development. Many Arab countries have recognized the importance of small and medium-sized enterprises (SMEs), and have formulated policies to encourage, support, and fund there. The benefits of SMEs to any economy are easily noticeable, they include: contribution to an economy in terms of creation of jobs, development of skilled and semi-skilled workers, and developing and adapting appropriate technological approaches. This section discusses the developmental role of small and medium-sized enterprises (SMEs) in the Arab countries 5.

Well-managed and healthy SMEs are a source of employment opportunities and wealth creation. They can contribute to social stability and generate tax revenues. According to the International Finance Corporation (IFC), there is a positive relationship between a country's overall level of income and the number of SMEs per 1,000 people. The World Bank's Doing Business reports indicate that a healthy SME sector corresponds with a reduced level of informal or "black market" activities. 1 Support for SMEs usually aims to assist in the creation of employment opportunities in general and for the employment of marginal populations in particular. Statistics show that SMEs represent 90% of total companies in the vast majority of economies worldwide and provide 40-80% of total job opportunities in addition to contributing largely to GDPs of many countries. For example, SMEs constitute more than 99%1 of all non-agricultural private enterprises in Egypt and account for nearly three-quarters of new employment generation. for Kuwait, this sector constitutes approximately 90% of the private workforce, including labor and imported an estimated 45% of the labor force,

employment and national rates of less than 1%, in Lebanon, more than 95% of the total enterprises, contribute about 90% of the jobs. In the UAE, small and medium enterprises accounted about 94.3% of the economic projects in the country, and employs about 62% of the workforce and contributes around 75% of the GDP of the state. In addition, they account for 96% of the GDP in Yemen in 2005, and about 77%, 59%, 25% in Algeria, Palestine and Saudi Arabia, respectively, during the same year. It is often argued that the Governments should promote SMEs because of their greater economic benefits compared to the large firms in terms of job creation, efficiency and growth6.

#### d. The Role Of Small and Medium Enterprises in Economic Development:

The role of SMEs in developing countries including Algeria has been established. Such industries contribute immensely to economic development of a country in the following areas7:

## 1- Capacity Building

SMEs provide a platform for training of indigenous entrepreneurs, which drives the wealth creation process at all levels. It has even been established that SMEs is a nursery of entrepreneurship where individual creativity and innovation are the driving force. Therefore, they may be as the university where vast majority of entrepreneur receives training.

## 2- Employment Generation

SMEs have the capacity to generate employment as their mode of operations is more labor intensive. Their labor intensive nature is much higher than that of large enterprises. It has also been observed that more jobs per unit of investment capital and per unit energy consumed are created worldwide by SMEs than large scale enterprises (Venkatarman, 1984). They have therefore helped in solving the problem of unemployment in many countries.

#### **3-** Promoting Growth

In like manner, SMEs by its nature are such that they are involved in primary and secondary economic activities that depend heavily on locally sourced materials. As such they achieve high value added operations which is a key role in the growth and development of any economy.

# 4- Industrial Dispersal

SMEs could easily be located in rural areas because they can survive on rudimentary industrial infrastructure consequently they serve as major facilitators for industrial dispersal and rural development and thus have the capacity to stem rural-urban conjuration.

#### 5- Backward and Forward Linkages

Most SMEs output serves as intermediate or semi-processed goods of large scale firms. By this, they generate mutual industrial linkages between local producers of raw materials and large industrial concerns. F. Technological/Industrial Development SMEs have shortterm gestation period and high potentials for quick yield on investment. They provide promising alternatives for countries that desire the fast option of industrial development. This is possible in most cases because the technology in use is less complex and can be handled and manipulated by the entrepreneurs.

# 6- Technological Acquisition

Small-scale industries provide opportunities for the development of local skills and technology acquisition through adaptation. The "Aba made good syndrome" a concept adopted by the part of Nigeria is a clear manifestation of such technological acquisition and this gives impetus to rapid development in the economy.

# 7- Poverty Alleviation

SMEs play a vital role in reducing poverty and inequality among citizenry. This is not unconnected to the affordable and relatively low capital requirement for its establishment. It also engages both skilled and unskilled workforce thereby creating a means of livelihood. This is an important role in any economic development process.

# 2- The Role of SMEs in Economic Development in Algeria:

# a. The reality of SMEs in Algeria:

Attention has been given to the small and medium enterprises sector in Algeria since 1995, Since the conclusion of the agreement with the International Monetary Fund, In order to initiate the structural adjustment programs, in which the State gave ample scope to support the growth and promotion of these institutions. Table 1 shows the evolution of SMEs number from 2010 until 2016.

The	2010	2011	2012	2013	2014	2015	2016
year Nature of SME's							
Private institution	369319	391761	407779	441964	482130	520875	555346
Public institution	557	572	561	547	544	532	390
Total	369876	392333	408340	442511	482674	521407	555736

# Table 1: Evolution of SMEs number in Algeria

**Source:** Statistical publications issued by the Ministry of Industry and SMEs and promotion of investment.

The table shows the evolution of the number of small and medium enterprises in Algeria, especially in recent years.

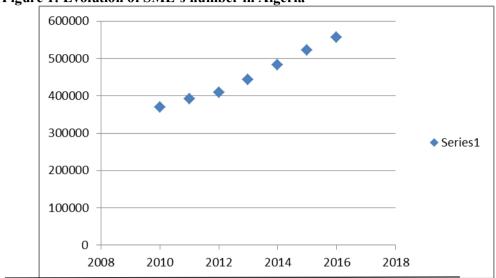


Figure 1: Evolution of SME's number in Algeria

Source: Prepared by researchers based on the data table (1) and Excel program

## b. The contribution of SMEs in the GDP outside the hydrocarbons sector:

Table 2: The contribution of SMEs in the GDP outside the hydrocarbons sector(2010-2013)

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Years	2010	2011	2012	2013
Private sector	4681,68	5137,46	5813,02	6741,19
Public sector	827,53	923,34	793,38	893,24
Total	5509,21	6060,8	6606,4	7634.43

Value: billion Algerian dinars

**Source:** Statistical publications issued by the Ministry of Industry and SMEs and promotion of investment.

The table shows an increase in the contribution of SMEs to GDP outside the hydrocarbons sector during the period 2010-2013, the GDP rising from 5509.21 in 2010 to 7634.43 in 2013. The private sector contributes more than the public sector, which reveals the importance of the private sector in achieving economic growth through the promotion SMEs.

## c. The contribution of SMEs in exports (outside hydrocarbons)

Hydrocarbons is the most important Algerian exports, Therefore, Algeria has worked to encourage exports outside hydrocarbons by supporting SMEs.

	Value: million dollars			
	2015		2016	
Total products				
	Value	%	Value	%
Mineral fertilizers	419,44	21,30	477,68	26,82
Oils and other products	524,88	26,66	388,18	21,80
from the distillation of				
tars				
Ammonia anhydrous	477,02	24,23	323,92	18,19
Cane sugar or of beet	149,85	7,61	231,65	13,01
Phosphate calcium	95,29	4,84	77,99	4,38
Dates	34,7	1,76	37,52	2,11
Hydrocarbons cyclic	52,05	2,64	36,32	2,04
Acyclic alcohols	29,28	1,49	26,38	1,48
Hydrogen, rare gas	27,28	1,39	24,39	1,37
Wires, cables and other	1,79	0,09	19,19	1,08
insulated conductors				
S/Total	1811,58	92,01	1634,22	92,26
Total	1969	100,00	1781	100,00

 Table 3: Main Products exported outside the hydrocarbons sector 2015-2016

 Value: million dollars

**Source:** Statistical publications issued by the Ministry of Industry and SMEs and promotion of investment.

The above table represents the range of products exported outside the hydrocarbons sector, which consists mainly of:

- 2- Semi-finished products account for 4.5% of total exports, equivalent to 1.3 billion \$.
- 3- Food commodities accounted for 1.13%, equivalent to 327 million\$.
- 4- Raw goods accounted for 0.29%, or 84 million \$.
- 5- Industrial equipment and non-food consumer goods, respectively, by 0.18%, 0.06%.

#### d. Contribution of SMEs to the provision of jobs:

SMEs are the most important economic tools that help to create new jobs, The various official statistics in Algeria show that this type of institution is considered the effective means of reducing unemployment.

Years	Private sector	Public sector	Total
2010	1577030	48656	1625686
2011	1676111	48086	1724197
2012	1800742	47375	1848117
2013	1953636	48256	2001892
2014	2110665	46567	2157232
2015	2327293	43727	2371020
2016	2511674	29024	2540698

Table 4: Development of job positions for the SME sector in Algeria (2010-2016)

**Source:** Statistical publications issued by the Ministry of Industry and SMEs and promotion of investment.

From the previous table, we notice that the period from 2010 to 2016 in which employment positions have been increasing, it moved from 1625686 jobs in 2010 to 2540698 jobs in 2016, this confirms the effective role of the SMEs in reducing unemployment.

#### e. Contribution of SMEs to the added value:

In addition to the contribution of SMEs to increase the GDP, and raise the levels of employment, and increase exports, It contributed to the increase of added value.

Table 5: Contribution of SMEs to added value in Algeria during the period 2010-
2013

		Value: billion Algerian dinars		
Years	2010	2011	2012	2013
Private sector	4450,76	4895,82	5553,31	6463,18
Public sector	340,56	528,51	588,44	675,01
Total	4791,32	5424,33	6141,75	7138,19

**Source:** Statistical publications issued by the Ministry of Industry and SMEs and promotion of investment.

The table shows an increase in value added, from 4791.32 billion Algerian dinars in 2010 to 7138.19 billion Algerian dinars in 2013, We also noted that the private sector is the largest contributor.

## 3- Business Environmental factors Affecting the Growth of SMEs in Algeria:

Environmental factors affecting the growth of small and medium enterprises in Algeria are as follows8:

#### a. Unfair Competition from the Non-official Sector :

SMEs in developing countries suffer more than large firms from many policy and institutional constraints arising from imperfect markets, and, as a consequence, they benefit disproportionately from reforms. Unfair competition arising from the low cost of doing business in the informal sector is a serious challenge for a significant section of SMEs, especially small sellers and producers. According to a report by the Algerian Governing Council (2011), the informal sector in Algeria is composed of SMEs. Its share in the Algerian economy is estimated between 45/50 percent

#### b. Access to Industrial Real Estate :

Access to industrial real estate is continuously mentioned by Algerian entrepreneurs as serious challenge to the development of SMEs. There is a large unsatisfied demand for industrial land, yet, around half plot is unused, either because it belongs to the Algerian authorities or because private owners are holding onto it for speculative, The market is not unified, with a large price differential between publicly and privately owned land that supports speculation and corruption. Consequently, Algerian entrepreneurs complaining about a lack of access to industrial land are often referring to different things.

#### c. Bureaucracy:

The Algerian SMEs face serious difficulties in developing administrative and operational procedures to deal with the requirements of government regulations, such as costly and timely procedures to obtain licenses and permits, register property, and move collateral.

#### d. Corruption:

In particular, Algerian SMEs significantly stand out in the degree to which they identify corruption as a heavy challenge compared to large firms. For instance, senior managers of SMEs are more likely to report that informal payments to public officials are required "to get things done".

#### e. Tax System:

High tax rates reduce firms' internal sources of financing. In some developing countries, including Algeria, SMEs are discouraged from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating.

#### f. Access to Finance:

Despite their vital role in building a competitive private sector and contributing significantly to employment growth, SMEs are facing more challenges in accessing

financial resources. In Algeria, financial constraints are high for both SMEs and large firms, but SMEs are particularly constrained by gaps in the financial system, such as high interests' rate, high collateral requirements, and lack of experience with financial intermediaries.

#### g. Human Resources Capacities:

Human resources in developing countries in general and in Algeria in particular are weak in terms of market research, marketing strategies, innovation, and financial management. The workforce engaged in SMEs in Algeria suffers from poor training and a low level of skills.

#### 4-Internal Factors Affecting the Growth of SMEs in Algeria:

Internal factors affecting the growth of small and medium enterprises in Algeria are as follows9:

#### a. Caractéristiques of Entrepreneurs :

One of the main differences between small and large companies is the dominant role that the entrepreneurs play in the development of SMEs. Based on their powerful and influential position in their firms, entrepreneur's subjective worldviews greatly affect their firms choice of strategic direction, and therefore will affect the firm growth. Furthermore, the entrepreneur's characteristics such as age, gender, motivation, experience, educational background, risk-taking propensity, preference for innovation, mindset, and personality can have a big influence on the firm's performance and success, and the growth of the SMEs can be hugely dependent on him.

#### b. Management Capacities:

SMEs in developing countries in general and in Algeria at particular lack the managerial skills and connections to effectively conduct their business and to deal with the cumbersome legal and regulatory framework. We can analyze the managerial challenges affecting the development of SMEs in Algeria according the following factors: 6- Lack of Managerial Skills;

- 7- Weak Managerial Structure, and
- 8- Lack of Management Training.

#### c. Marketing Skills:

Another important factor contributing to success or failure of SMEs is marketing skills. There is extensive evidence to prove that marketing plays a significant role in the success of SMEs. Marketing is also one of the biggest challenges SMEs face in their business operations. SMEs in Algeria are weak in terms of market research and have inadequate marketing skills because most Algerian SMEs are owned and managed by one person. Such entrepreneurs take care of all the managerial functions of the enterprise and lack the time and funds to invest in research to establish their target market or identify customer trends.

#### d. Technological Capacities:

Among the major challenges facing the development of SMEs in Algeria is the huge lack of technological capabilities, which is the key to developing the competency of SME owners and managers. Technological capacities are considered as tools for strengthening the competitiveness of SMEs, By improving their technological capabilities, SMEs can largely improve their production abilities and profitability: the latter can be improved in several ways, such as through R&D spending, technology and knowhow agreements with domestic and foreign firm.

#### **5-Framework for Addressing SMEs Challenges:**

Below is the suggested framework to help minimize the challenges faced by SMEs in their growth10:

#### a. Developing country specific strategies:

The development of an effective SME finance strategy for an individual country should ideally be based on a comprehensive diagnostic of its SME finance gap and the quality of its SME finance architecture.

#### b. Developing a supporting legal and regulatory framework :

An effective legal and regulatory framework promotes competition by avoiding overly restrictive licensing requirements and allows international and regional banks with better SME lending tools to enter the market. Competition among financial sector players can be promoted further by introducing technological platforms in key areas, facilitating a variety of financial products and services, driving down the costs of financial access, and reaching previously untapped markets.

#### c. Strengthening the financial infrastructure :

Establishing a solid financial infrastructure (auditing and accounting standards, credit registries/bureaus, collateral, and insolvency regimes) should be a priority in financial development. The aim should be to develop a comprehensive credit reporting system that covers both personal and commercial credit information, and help lenders better manage credit risk and extend access to credit. Some countries, have introduced SME rating agencies as an additional institution designed to provide more information to prospective lenders.

Moreover, a well-functioning collateral regime characterized by a wide range of allowable collaterals (immovable and movables), the establishment of clear priority rankings of claims over collateral, efficient collateral registries making priority interests publicly known, and effective enforcement of collateral in the case of default can further enhance risk acceptability of SME customers for financial institutions.

#### d. Effective government support mechanisms :

In all cases, government interventions should be carefully designed and better evaluated with a view to accurately measure their achievements in terms of outreach and leverage. Partial credit guarantee schemes should remain an important form of intervention. Key guiding principles on such schemes should contain guidelines on eligibility criteria, coverage ratios, scalable credit approval mechanism, fees, payment rules, use of collateral/down-payment, and equity ratios, among other parameters.

# e. Building reliable data sources for SME finance :

An effective data collection framework at the national level should include efforts to standardize the definition of SMEs, centralize the collection of supply-side data by the central bank/banking supervisors and other financial supervisors, and survey SMEs in order to identify and quantify underserved SME segments. Demographic data on SMEs by number of employees, turnover, and asset size should be available and help normalize access to data. Computerized business registries would further facilitate the data gathering process and would serve as an important first step for firms joining the formal sector. Annual business and financial reports can provide important measures over time on the size and trends of the SME sector

# **6-Strengthening SMEs Competitiveness:**

# a. Definition of competitiveness :

According to in the Oxford English Dictionary competitiveness is the quality of comparing well with rival traders in terms of pricing11.

Competitiveness can be defined as the ability to provide products and services as or more effectively and efficiently than the relevant competitors. In the traded sector, this means sustained success in international markets without protection or subsidies 12.

# b. Competitiveness Strategies:

The ability of SMEs to create, access and commercialize new knowledge on global markets is fundamental to their sustained competitiveness. This point identifies some of the principle strategies SMEs have pursued on their own, including13:

- The innovation strategy, in which SMEs try to appropriate returns from their knowledge base (which may or may not involve own investments in R&D).
- The information technology strategy, which makes innovative uses of information technology in order to reduce SME costs and increase productivity.
- The niche strategy, in which SMEs choose to become sophisticated global players in a narrow product line.
- The network strategy, in which SMEs work and co-operate with other firms, be they SMEs or large enterprises in order to improve their ability to access and absorb innovations.
- The cluster strategy, in which SMEs locate in close proximity with competitors in order to take advantage of knowledge spill-overs, especially in the early stages of the industrial lifecycle.
- The foreign direct investment strategy, in which SMEs exploit firm-specific ownership advantages abroad.

# • Strengthening SME Competitiveness in Transition and Developing Countries:

- The competitiveness is embodied in the characteristics of the firm; namely14,
- The current efficiency and effectiveness of the use of resources;
- The willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest);
- The ability to innovate to improve technology and organization and thus improve efficiency and effectiveness.

The following SME development lessons seem to hold true, independent of region and level of development among countries15:

- Peace and stability is a key requirement for the development of SMEs and for attracting foreign investment. Studies show that war and crime are main deterrents of private investment, in particular for foreign investors.
- SME development requires a crosscutting strategy, (i.e. its success depends on the ability of governments to implement sound macroeconomic policies, the capability of stakeholders to develop conducive microeconomic business environments, and the ability of SMEs to implement competitive operating practices and business strategies). Good policies come in clusters. Thus, SME development strategy must be integrated into the broader national development strategy and/or poverty reduction and growth strategy of transition and developing countries.
- Dialogue and partnerships between the stakeholders is essential (public sector, private sector and civil society) Dialogue and partnership foster ownership of SME strategies, engender16s them more implementable (by better addressing SME needs), politically more credible, and more sustainable.
- Investments in physical infrastructure and business services and the implementation capacity of policy makers, local level administrators and support structures determine success. Access and integration of SMEs into local, national, regional and global markets require substantial investments in sustainable physical infrastructure development and business service delivery to SMEs in all areas, including those that are rural and/or remote. Continued dialogue and partnerships between stakeholders into implementation and review of supportive measures, particularly, those related to capacity building in institutions at all levels, yields improved outcomes.
- Enhancing women's ability to participate in SME development should be taken into account at every stage and level, as women account for an important share of private sector activity and contribute most to poverty reduction.

# **Conclusion :**

SMEs are considered the main engine of the economic development process, its plays a pivotal role in building a competitive private sector and contributing significantly to employment creation, and participation in the GDP, and economic development in general. This has led to interest in enhancing the competitiveness of small and medium enterprises through the efficiency and effectiveness of the use of resources, the willingness to invest, the ability to innovate to improve technology and organization and thus improve efficiency and effectiveness.

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