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The Reality of Small and Medium-Sized Enterprises in Algeria and Their Role in Achieving Economic Development

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Abstract:
Entrepreneurship and Small and Medium-Sized Enterprises (SMEs) have received increasing attention from governments and researchers over the past decades due to their pivotal role in promoting economic growth, reducing unemployment, and achieving sustainable development. SMEs are considered one of the main pillars of modern economies because of their significant contribution to job creation, fostering innovation, and diversifying the productive base. Recognizing their importance, the Algerian authorities have devoted greater attention to developing this sector by adopting policies and programs aimed at supporting SMEs and encouraging investment in them. Within this context, this study seeks to assess the current state of small and medium-sized enterprises in Algeria by analyzing the evolution of their number and examining the main economic activities in which they operate, thereby highlighting their role and contribution to supporting the national economy.
Keywords: Small and Medium-Sized Enterprises (SMEs), Economic Development, Algeria

Introduction

During the first decades following independence, the Algerian economy was dominated by large enterprises and the public sector under a development model based on heavy industries and a centrally planned economy. Within this framework, small and medium-sized enterprises (SMEs) were regarded merely as auxiliary units serving large enterprises. However, this perception began to change in the late 1980s with the transition toward a market economy and the renewed recognition of the private sector. Consequently, a series of economic reforms were introduced, strengthening the position of SMEs. As a result, increasing attention has been devoted to these enterprises as one of the fundamental pillars of economic and social development, given their proven ability to create employment opportunities, promote investment, and contribute to economic growth.

Research Problem

What is the current state of small and medium-sized enterprises in Algeria, and to what extent have they contributed to achieving economic development during the period 2019–2022?

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Objectives of the Study

To identify the conceptual framework of small and medium-sized enterprises, their characteristics, and their economic significance.

To examine the current status of SMEs in Algeria during the period 2019–2022.

To analyze the evolution in the number of SMEs, their growth indicators, and their contribution to economic development.

Significance of the Study

The significance of this study lies in its attempt to assess the current situation of small and medium-sized enterprises in Algeria and to examine the conditions surrounding their emergence and development amid the growing recognition of their importance as one of the key drivers of economic development. To achieve this objective, the study addresses the subject through two main aspects: a theoretical aspect that presents the conceptual framework, and an empirical aspect that analyzes the reality of SMEs and their role in economic development, as follows:

Defining the concept of small and medium-sized enterprises.

Examining the current state of small and medium-sized enterprises in Algeria.

1. Small and Medium-Sized Enterprises

1.1 Definition of Small and Medium-Sized Enterprises

Despite the importance of small and medium-sized enterprises, there is no universally accepted definition, as the concept varies according to countries' economic and social characteristics as well as their levels of development. Nevertheless, many international organizations, in addition to Algeria, have sought to establish official definitions for SMEs based on specific criteria. The most significant of these definitions are summarized in the following table.

Table (01): Definition of Small and Medium-Sized Enterprises Adopted in Algeria

Definition	Organization/Program	Year
An SME is any legally independent enterprise employing fewer than 500 employees and having an annual turnover of less than 15 million Algerian Dinars (DZD).	Small and Medium-Sized Enterprise Development Program	– 1974 1977
Any establishment employing fewer than 200 employees and generating an annual turnover of less than 10 million Algerian Dinars (DZD).	National Enterprise for the Development of Light Industries	1983
Any small or medium-sized production unit operating under autonomous management, whether organized as a private or public enterprise.	National Symposium on the Development of Mountainous Regions	1988
SMEs are defined according to three criteria: • Employ 1 to 250 employees. •	Framework Law on the Promotion of Small and	2001

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Annual turnover does not exceed 2 billion Algerian Dinars (DZD). • Enjoy financial independence.	Medium-Sized Enterprises	

Source: Prepared by the researchers.

All the above definitions remain incomplete, as they do not clearly distinguish between small enterprises on the one hand and medium-sized enterprises on the other. This prompted the Algerian legislator, represented by the Ministry of Small and Medium-Sized Enterprises, to enact Law No. 17-02 of 11 Rabi' al-Thani 1438 AH, corresponding to January 10, 2017, containing the Framework Law for the Development of Small and Medium-Sized Enterprises. This law filled the existing legal gap. Accordingly, Articles 8, 9, and 10 define these enterprises as follows:

Medium-sized enterprise: A medium-sized enterprise is defined as an enterprise employing between fifty (50) and two hundred and fifty (250) persons, with an annual turnover ranging from four hundred (400) million Algerian dinars to four (4) billion Algerian dinars, or an annual balance sheet total ranging from two hundred (200) million Algerian dinars to one (1) billion Algerian dinars.

Small enterprise: A small enterprise is defined as an enterprise employing between ten (10) and forty-nine (49) persons, with an annual turnover not exceeding four hundred (400) million Algerian dinars, or an annual balance sheet total not exceeding two hundred (200) million Algerian dinars.

Micro-enterprise: A micro-enterprise is defined as an enterprise employing from one (1) to nine (9) persons, with an annual turnover not exceeding forty (40) million Algerian dinars, or an annual balance sheet total not exceeding twenty (20) million Algerian dinars.

2.1 Types of Small and Medium-Sized Enterprises

Small and medium-sized enterprises (SMEs) may be classified according to several criteria, as follows:

According to legal form:

Sole proprietorships: Owned by a single individual or a family. The owner manages the business and bears full responsibility for its outcomes.

Partnerships and corporations: Established by two or more persons contributing to the capital. These include partnerships and joint-stock companies.

Cooperative enterprises: Established through the cooperation of a group of individuals to provide goods or services, with profits distributed among the members.

Public enterprises: Owned by the State and subject to its management and supervision.

According to economic activity:

Agricultural enterprises: Engage in activities related to agriculture and natural resources.

Industrial enterprises: Specialize in transforming raw materials into finished products.

Service enterprises: Operate in sectors such as transportation, trade, banking, telecommunications, healthcare, education, and other service activities.

According to size:

Micro-enterprises.

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Small enterprises.
Medium-sized enterprises.

3.1 Characteristics of Small and Medium-Sized Enterprises

Small and medium-sized enterprises possess several characteristics that distinguish them from other types of enterprises, the most important of which are:

Ease of establishment and low capital requirements: They are relatively easy to establish, require limited investment, and rely more heavily on labor.

Flexibility and rapid adaptability: Their small size and simple organizational structure enable them to respond quickly to economic changes and market demands.

Efficiency in meeting customer needs: Their close proximity to customers allows them to identify and respond to customer needs rapidly and effectively.

Limited geographical scope: Their activities are generally concentrated in local markets, although they may expand when favorable conditions arise.

Innovation capability: They are often able to adopt new ideas and improve products and services quickly despite limited financial resources.

Centralized management and efficient communication: Their simple administrative structure concentrates decision-making in the hands of the owner, while facilitating rapid internal communication.

Weak strategic planning: They often rely on short-term planning, which may limit their ability to achieve a sustainable competitive advantage.

High failure rates: They face considerable risks, particularly during their early years, due to limited managerial experience, inadequate financing, and shortages of qualified personnel.

Specialization and linkages with large enterprises: They usually specialize in a specific product or activity and often maintain relationships with large enterprises through subcontracting, outsourcing, or franchising arrangements.

2. The Situation of Small and Medium-Sized Enterprises in Algeria

To assess the current situation of small and medium-sized enterprises in Algeria, the main statistical indicators reflecting their development during the period 2019–2022 will be presented and analyzed, as 2022 represents the latest year for which complete and officially published data are available.

2.1 Number of Small and Medium-Sized Enterprises by Legal Form and Size

The following table presents the number of small and medium-sized enterprises between 2019 and 2022.

Table (02): Number of Small and Medium-Sized Enterprises (2019–2022)

2022	2021	2020	2019	years
80.531	57.129	43.558	57.642	Newly established enterprises
19.179	12.675	17.297	20550	Deregistered (closed) enterprises

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61.352	44.454	26.261	37.092	Net increase
1.359.803	1.286.365	1.231.073	1.193.339	Total number of SMEs
%5.71	%4.49	%3.16	-	Growth rate of the total number

Source: Prepared by the authors based on the statistical bulletins of the Algerian Ministry of Industry and Mines, Issues Nos. 34, 36, 38, 40, and 42.

The table shows a steady increase in the number of Small and Medium-sized Enterprises (SMEs) during the period 2019–2022, with an overall growth of 13.95%. Although the number of newly established enterprises declined by 24.43% in 2020 due to the COVID-19 pandemic, it increased by 31.15% in 2021 and by 40.96% in 2022. Conversely, the number of deregistered enterprises decreased by 15.83% and 26.72% in 2020 and 2021, respectively, before rising by 51.31% in 2022, while remaining lower than the number of newly established enterprises. Moreover, the overall growth rate of SMEs increased from 3.16% in 2020 to 4.49% in 2021 and 5.71% in 2022, reflecting the continued expansion of the sector, supported by government measures encouraging investment.

Table (03): Number of Small and Medium-sized Enterprises (2019–2022) by Legal Form

2022	**2021**	**2020**	**2019**	Years
1.359.580 762.769 596.811	**1.286.140** 720.495 565.645	**1.230.844** 541.461 689.383	**1.193.096** 671.267 521.829	Private Enterprises Legal Entities Natural Persons
223 223	**225** 225	**229** 229	**243** 243	Public Enterprises Legal Entities
1.359.803	**1.286.365**	**1.231.073**	**1.193.339**	Grand Total

Source: Prepared by the researchers based on the Statistical Information Bulletins of the Ministry of Industry and Mines, Nos. (36, 38, 40, and 42).

Private enterprises accounted for more than 99.98% of the total number of SMEs, while public enterprises represented no more than 0.02% throughout the study period. The number of private enterprises operating as legal entities increased from 671,267 in 2019 to 762,769 in 2022, representing an increase of approximately 13.63%. Likewise, the number of private enterprises owned by natural persons rose from 521,829 to 596,811, corresponding to a growth rate of approximately 14.37%. In contrast, the number of public enterprises declined from 243 in 2019 to 223 in 2022, a decrease of approximately 8.23%, reflecting the continued limited contribution of the public sector to the SME landscape compared with the private sector.

Table (04): Distribution of Newly Established Small and Medium-sized Enterprises (2020–2022) by Size

2022	**2021**	**2020**	Years
72.318	53.952	36.632	Micro Enterprises

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982	1.188	952	Small Enterprises
138	152	150	Medium-sized Enterprises
73.438	55.292	37.734	Total

Source: Prepared by the researchers based on the Statistical Information Bulletins of the Ministry of Industry and Mines, Nos. (36, 38, 40, and 42).

The table shows the dominance of micro-enterprises among newly established enterprises in Algeria during the period 2020–2022. Their share increased from 97.08% to 98.47%, while the share of small enterprises declined from 2.52% to 1.34%, and that of medium-sized enterprises fell from 0.40% to 0.19%. This reflects an investment trend favoring the establishment of micro-enterprises, alongside the continued limited creation of larger enterprises.

2.2 Geographical Distribution of Small and Medium-Sized Enterprises

Regarding the geographical distribution of private small and medium-sized enterprises (legal entities) across Algeria, the northern region accounted for the largest share, estimated at 70%, followed by the High Plateaus with 22%, while the Greater South represented 8%.

Table (05): Geographical Distribution of Private Small and Medium-Sized Enterprises (2019–2022)

2021	**2021**	**2020**	**2019**	**Year**
945.153	894.882	856.779	830.438	North
300.745	283.416	270.736	262.340	High Plateaus
113.905	108.068	103.558	100.561	Greater South
1 359 803	1.286.365	1.231.071	1.193.339	Total

Source: Prepared by the researchers based on the Information Bulletins of the Ministry of Industry and Mines, Issues No. (36, 38, 40, and 42).

As for the density of small and medium-sized enterprises, it increased from 27 enterprises per 1,000 inhabitants in 2019 and 2020 to 28 enterprises in 2021, and then to 30 enterprises in 2022. The northern region recorded the highest density, with 34 enterprises per 1,000 inhabitants in 2022, compared to 26 in the Greater South and 23 in the High Plateaus.

3.2 The Role of Small and Medium-Sized Enterprises in Algeria

Contribution of Small and Medium-Sized Enterprises to Employment in Algeria

Small and medium-sized enterprises play a pivotal role in creating employment opportunities and reducing unemployment. Employment within these enterprises has shown continuous growth from one year to the next. The following table illustrates the evolution of employment in SMEs during the period 2019–2022.

Table (06): Contribution of Small and Medium-Sized Enterprises to Employment (2019–2022)

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Total	Public Enterprises	Total	Employees	Category	Year	
2.885.654	21.085	2.864.566	1.193.096	1.671.473	Number	**2019**
100	0,73	99,27	41,35	57,92	**%**	
2.989.516	20.898	2.968.618	1.230.844	1.737.774	Number	**2020**
100	0,70	99,30	41,17	58,13	**%**	
3,60	-0,89	3,63	3,16	3,97	Growth Rate (%)	
3.134.968	20.108	3.114.860	1.286.140	1.828.720	Number	**2021**
100	0,64	99,36	41,03	58,33	**%**	
4,87	-3,78	4,93	4,49	5,23	Growth Rate (%)	
3.307.821	19.608	3.288.213	1.359.580	1.928.633	Number	**2022**
100	0,59	99,41	41,10	58,31	%	
5,46	5,51	5,57	5,71	5,46	Growth Rate (%)	

Source: Prepared by the researchers based on the Information Bulletins of the Ministry of Industry and Mines, Issues No. (36, 38, 40, and 42).

The table indicates that employees constituted the largest share of the workforce in small and medium-sized enterprises, accounting for approximately 58% of total employment during the period 2019–2022, compared with around 41% for employers. Meanwhile, the contribution of public enterprises remained limited, declining from 0.73% to 0.59% in 2022. Overall employment increased at growth rates of 3.60% in 2020, 4.87% in 2021, and 5.46% in 2022. This growth can be attributed to the increasing number of SMEs, the recovery in enterprise creation following the COVID-19 pandemic, and government measures aimed at supporting investment and promoting entrepreneurship.

Contribution of Small and Medium-Sized Enterprises to the National Economy

Contribution of Small and Medium-Sized Enterprises to Value Added

Small and medium-sized enterprises occupy a prominent position in the national economy. This is reflected in their substantial presence within the business fabric, accounting for more than 90% of all enterprises, as well as in their significant contribution to value added.

Table (07): Contribution of Small and Medium-Sized Enterprises to Value Added (2019–2021)

2021		**2020**		**2019**		**years**	
Percentage (%)	Value	Percentage (%)	Value	Percentage (%)	Value		
12.13	1426,61	12.233	1299,9	12,66	1449,22	Public Sector	Value Added (VA)
87.87	10334,13	87.767	9326,55	87,34	10001,3	Private Sector	
100	11760,74	100	10626,46	100	11450,6	Total	

Source: Prepared by the researchers based on the statistics of the Ministry of Industry and Mines, 2023, Issue No. 42, p. 35.

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The table shows the dominance of the private sector in the value added generated by small and medium-sized enterprises (SMEs). During the period 2019–2021, the private sector contributed between 87.34% and 87.87% of the total value added, compared with a contribution ranging from 12.66% to 12.13% by the public sector. The value added declined in 2020 due to the repercussions of the COVID-19 pandemic, before improving in 2021 with the resumption of economic activity, confirming the leading role of the private sector in supporting economic growth.

✓ Contribution of Small and Medium-Sized Enterprises to Foreign Trade

The Algerian government has adopted policies aimed at promoting non-hydrocarbon exports by strengthening the role of small and medium-sized enterprises (SMEs), given their contribution to export diversification, foreign exchange earnings, improvement of the balance of payments, and support for the national economy. The following table presents the performance of hydrocarbon exports and the relationship between the growth in the number of SMEs and the development of non-hydrocarbon exports.

Table (08): Relationship between the Growth of Small and Medium-Sized Enterprises and the Development of Non-Hydrocarbon Exports

2022	**2021**	**2020**	**2019**	**Years**	
1 359 803	1.286.365	1.231.071	1.193.339	Number of SMEs	
4,34	4,50	1,91	2,07	Non-hydrocarbon exports	Exports (Billion USD)
42,58	34,06	20,02	33,24	Hydrocarbon exports	

Source: Prepared by the researchers based on the annual reports of the Bank of Algeria and the statistical publications of the Ministry of Industry and Mines (various issues).

It can be observed that throughout the period 2019–2022, hydrocarbons continued to dominate Algeria's total exports despite the continuous increase in the number of small and medium-sized enterprises. Meanwhile, non-hydrocarbon exports recorded a noticeable improvement, increasing from approximately USD 4.5 billion in 2021 to around USD 5.4 billion in 2022. Nevertheless, the contribution of SMEs to foreign trade remained limited, indicating that the growth in the number of these enterprises was not directly reflected in higher non-hydrocarbon exports. This highlights the persistent challenges faced by SMEs in accessing international markets.

Conclusion

This study concluded that small and medium-sized enterprises (SMEs) constitute a fundamental pillar of the Algerian economy, given their significant contribution to the creation of new businesses, job generation, value-added production, and the promotion of economic activity.

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The findings revealed that the SME sector experienced continuous growth throughout the study period, despite the decline recorded in 2020 due to the repercussions of the COVID-19 pandemic. The sector subsequently regained positive growth rates in 2021 and 2022, demonstrating its ability to adapt to changing economic conditions.

The study also showed that micro-enterprises account for the largest share of the total number of enterprises, while economic activity remains concentrated in the northern regions of the country. Moreover, the private sector continues to dominate both value-added generation and employment. However, the contribution of SMEs to non-hydrocarbon exports remains below the desired level, highlighting the need to strengthen their competitiveness and improve their access to international markets.

In light of the findings, the following recommendations are proposed:

Continue simplifying administrative procedures and expanding digitalization to facilitate business creation and provide effective support to enterprises.

Expand financing mechanisms, particularly for innovative enterprises and start-ups.

Strengthen training and business support programs in the fields of management, innovation, marketing, and export development.

Encourage SMEs to integrate into value chains and enhance their competitive capabilities.

Support investment in the High Plateaus and Southern provinces to achieve a more balanced geographical distribution of enterprises.

Finally, the development of small and medium-sized enterprises remains one of the most important strategic options for achieving economic diversification, creating wealth and employment opportunities, and promoting sustainable economic growth in Algeria.

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