

# **SMALL AND MEDIUM ENTERPRISES AS AN EFFECTIVE SECTOR FOR ECONOMIC DEVELOPMENT AND EMPLOYMENT CREATION IN ALGERIA**

**Asma Benzazoua Bouazza**

School of Management, Shanghai University, Shanghai, P.R. CHINA

benasma13@hotmail.com

## **Abstract**

*This paper examines 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.*

*Keywords: Algeria, economic development, employment generation, GDP, job creation, SMEs*

## **INTRODUCTION**

Small and medium-size enterprises (SMEs) are acknowledged globally for their unique contribution to economic development and creating employment opportunities. Both developed and developing countries realize that SMEs have become one of the key instruments to use to face economic and social problems and to achieve development objectives. Therefore, unsurprisingly, political strategists have frequently viewed SMEs as the “seeds” of economic revival.

For developing economies, SMEs are increasingly being recognized as productive drivers of economic growth and a major source of job creation. World Bank statistics (2012) have shown that SMEs in developing economies contribute to more than 60% of gross domestic product (GDP) and more than 70% of total employment.

Algeria is a developing country characterized by a minimally diversified economic structure. The country's economic activity suffers from a dominant hydrocarbons sector and high unemployment among the country's youth (approximately 21% per IMF, 2011). Non-oil exports remain marginal (approximately 3% of total exports) and the country's economic performance strongly depends on changes in oil prices. The oil sector generates more than 70% of the country's budgetary revenue and approximately 45% of the country's GDP.

Algeria's economic attention began to turn to the private sector, particularly on SMEs due to their major role in economic development and their ability to provide jobs. Since the opening of the Algerian economy and the progressive adoption of a market economy in the early 1990s, the SME sector has realized a net augmentation in numbers. Statistics from the Algerian Ministry of Industry, Small and Medium Enterprises and Investment Promotion indicate that the SME sector has ensured its increasingly important role in the national economic structure. By the end of 2013, Algeria's registered small- and medium-size enterprises exceeded 748,000, comprising 99% of the country's total enterprises.

The purpose of this paper is to investigate SMEs as a veritable tool for economic development and employment creation in Algeria. The study is guided by the following objectives:

1. To analyze the current status of the Algerian SME sector; and,
2. To demonstrate the contribution of SMEs to Algeria's economic development and employment.
3. To identify the major opportunities and challenges of SMEs in Algeria

To investigate the research goals, this study employs a qualitative method because of its significant advantages. This method is used to review the literature in an exploratory manner, analyze the current status of Algerian SMEs, identify major contributions of this sector to the country's economic growth and employment creation, and explain and comprehend the research findings.

This research investigates SMEs as a veritable tool in economic development and employment creation in Algeria. The findings indicate that SMEs remain too fragile and do not contribute effectively to the country's economic growth and employment. The study then highlights SMEs as an alternative player in Algeria's development instead of the hydrocarbon

sector, and suggests SMEs as a solution to the country's unemployment issue to create job opportunities and wealth and to reduce the country's reliance on international markets.

The remainder of this paper is structured as follows. Section 2 summarizes the theoretical and empirical evidence on SMEs' contribution to economic growth and employment. Section 3 discusses the current status of the Algerian SME sector and identifies its characteristics. Section 4 analyzes the contribution of SMEs to the country's employment and economic development. Section 5 focuses on the main opportunities and challenges of this sector. Finally, section 6 concludes and presents important recommendations.

## LITERATURE REVIEW

### Definition of an SME

SME has no standard definition. SMEs 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. Even within a country, the definition changes over time. Some common indicators employed in the various definitions include total assets, size of the labor force employed, and annual turnover and capital investments (Baenol, 1994). In addition, no single definition of SMEs exists among officials of multilateral development institutions because each thinks within the context of the official definition of his own institution (Gibson et al. 2008), as represented in Table 1.

Table 1. SME Definitions Used by Multilateral Institutions

| Institution (region or country) | Max of employee  | Max revenue or turnover | Max assets       |
|---------------------------------|--|-------------------------|------------------|
| EU                              | 10 - 250   | 40 million Euros        | -                |
| WB                              | 300  | 15,000,000\$            | 15,000,000\$     |
| IMF-IADB                        | 100  | 3,000,000\$             | -                |
| African Development Bank        | 50   | -                       | -                |
| Asian Development Bank          | No official definition. Uses only definitions of various national governments. |                         |                  |
| UNDP                            | 200  | -                       | -                |
| OECD                            | 20 - 500   | -                       | -                |
| Algeria                         | 10 - 250   | >20 million Euros       | -                |
| China                           | > 2000 employee  | 300 million Yuan        | 400 million Yuan |

### Contribution of SMEs to economic development: Theoretical perspective

The issue of whether SMEs are considered beneficial to economic development must be examined from several different perspectives.

### ***Theory of economies of scale***

The theory of scale economies emphasizes that large-scale firms enjoy advantages derived from their economies of scale in production; thereby, the resultant increase in the share of large-scale firms is estimated to drive economic progress. According to this classical thinking, only large firms can meet the requirements of scale efficiency and, thus, outperform small firms. Therefore, the theory of economies of scale enables us to hypothesize that SMEs cannot grow and their future role is expected to decrease.

### ***Theory of economic development (Schumpeter, 1934)***

From a completely different viewpoint, Schumpeter (1934) emphasized a feature of large firms with respect to raising capital, and predicted that this would replace entrepreneurial functions during economic development. However, he highlighted the role of entrepreneurship in economic development and defined an entrepreneur as an individual who innovates and asserts his role as the prime cause of economic development achieved through innovation.

### **Contribution of SMEs to economic development, employment generation, and job creation: Empirical evidence**

Scholars argued that the value of the small business sector is recognized in economies throughout the world. The sector's contribution to growth, job creation, and social progress is highly valued and small businesses are regarded as essential formula to successfully achieving economic growth.

### ***SMEs and economic development***

Substantial work has been done to evaluate the roles that SMEs play in driving economic development. The evidence suggests that SMEs are vital to economic health in both high-income and low-income economies throughout the world.

Pursuant to Schreyer (1996), SMEs are important to almost all economies throughout the world, particularly those in developing countries and, more specifically, those facing major employment and income distribution challenges. Viewed in "static terms," SMEs contribute to output and to the creation of "decent" jobs, whereas in "dynamic terms," they are a nursery for larger firms of the future, contribute directly and often significantly to aggregate savings and investment, and are involved in the development of appropriate technology.

Vilceanu (1999) stated that most successful SMEs in developing countries have graduated from the micro-enterprise category. Additionally, most large firms have graduated from the SME category. Berry et al. (2000) noted that Taiwan, the most successful developing

country in the past 50 years, is built on a dynamic SME sector and that Japan was the most successful industrial country for decades and relied heavily on SMEs. UNIDO (2000) estimated that SMEs represent more than 90% of private businesses and contribute to more than 50% of GDP in most African countries.

As Romijn (2001) noted, SMEs become the main micro-economic pawns in the new context of a revolution of knowledge that entails passing from an economy dominated by physical, tangible resources to an economy dominated by knowledge. An entrepreneurial spirit, intense interpersonal relations, and pronounced group cohesion, flexibility, and organizational dynamism are defining elements for an economy and company based on knowledge, and are traditionally found in small, dynamic entities. Therefore, significant harmonization exists between a small company and an economy based on knowledge.

Another important aspect is the fact that, SMEs generate the technical innovation applicable in the economy. Many jobs come from innovation and new discoveries are the result of new entrepreneurial adventures. Almeida (2004) performed empirical research on the avant-garde industries in the United States during a ten-year period (1994–2004), found that SMEs play a unique, active, and critical role in the innovation process through their ability to invent in new technological spaces and improve high technology information networks.

According to Harvie (2008), SMEs are important across East Asian economies, whereas the dynamic role that SMEs play varies widely between the various countries. In Singapore, even though SMEs are not as significant in terms of numbers and employment, they are important because they provide a flexible, skilled production base that attracts larger multinational corporations (MNCs). In addition, the contribution of SMEs to exports also varies widely. SMEs are relatively more export oriented in China, Korea, and Taiwan than they are in Japan, Indonesia, Thailand, Malaysia, and Singapore.

Cravoy et al. (2009) noted that SMEs play a vital role in promoting economic growth and creating employment, and they have fueled social development in a constantly changing economic environment. SMEs are flexible and have significant capacity to adjust, encouraged by low dimensions and rapid decision making. Their relative closeness to the market makes it easy for them to adapt to consumers' requirements and demands. SMEs also assist in regional development and export market expansion.

A study by Leegwater et al. (2009) explored the role of micro, small, and medium enterprises in the growth of per capita income by using an expanded database for firms in the formal manufacturing sector in 60 countries with fewer than 10, 20, 100, or 250 employees. The study employed regression analysis and found evidence of a causal relationship between economic growth and the diffusion of medium-size or smaller firms (250 employees or less).

However, the study found only a limited correlative or causal connection between growth and the prevalence of small or micro firms with fewer than 10, 20, or 100 employees.

Hu (2010) used a data-set of both developed and developing economies to examine the contribution of the SME sector to economic growth. He used data covering thirty-seven countries from the 1960s to the 1990s, his empirical results supported the hypothesis that small businesses are beneficial to economic prosperity. In addition, the study highlighted considerable diversity in terms of SME contribution patterns. In the pursuit of economic growth, SMEs in high-income economies generally exploit entrepreneurship, whereas in less-developed economies they tend to drive the job-creation function.

### ***SMEs and job generation***

A growing body of empirical literature supports the fact that SMEs are important contributors to total employment and job creation in developed and developing economies.

Birch (1979) provided early evidence that supported the notion that SMEs are the primary engines of job growth. His findings showed that 81.5% of all net new jobs in the United States during 1969–1976 were created by firms with 100 or fewer employees.

Kirchhoff and Phillips (1988) examined the contribution of small and large firms to U.S. job growth and found that firms with fewer than 100 employees are the major sources of net new job creation. In contrast, firms with more than 1,000 employees provided only 13 percent% of all new jobs despite having a 37% share of employment.

OECD (2004) estimated that SMEs account for 60 to 70% of jobs in most OECD countries, with a particularly large share in Italy and Japan and a relatively smaller share in the United States. Throughout , SMEs account for a disproportionately large share of new jobs, particularly in countries that have displayed a strong employment record.

A recent research by Ayyagari, Demirguc-Kunt, and Maksimovic (2011) showed that SMEs are the largest contributors to total job creation across developing countries and have the largest share of employment, accounting for 71% of jobs in the region. Not only do SMEs employ the largest number of people, they also generate most new jobs.

According to Berrios and Markus (2013), small and medium-sized enterprises (five to 250 employees) generate a large share of jobs in industrialized countries. Moreover, these jobs are with existing companies and with newly created firms, particularly those that grow rapidly in the first years of operation.

The International Labor Organization (ILO) and the German Agency for International Cooperation (GIZ) recently published a study titled, “Is Small Still Beautiful?” (2013). A literature review of recent empirical evidence on the contribution of SMEs to employment creation

examined almost 50 studies. The review concluded that SMEs provide two-thirds of all formal jobs in developing countries in Africa, Asia, and Latin America, and 80% in low-income countries, primarily Sub-Saharan Africa. Similarly, more important than holding the majority of jobs in low-income and emerging economies, SMEs make a key contribution to net job creation, particularly smaller and young firms.

From these studies, we conclude that SMEs are the key driver of economic growth and employment generation in both developed and developing economies. Moreover, SMEs make a significant contribution to exports generation, technology assimilation, skills development, and innovation stimulation. Even such contributions vary among different countries and regions.

### STATUS OF ALGERIA'S SME SECTOR

Since the opening of the Algerian economy in the early 1990s and the progressive adoption of a market economy, a net augmentation in the number of SMEs has been recently recorded. Statistics from ONS (2013) indicate that the SME sector has ensured an increasingly important role in the national economic structure. By the end of 2013, Algeria registered more than 748,000 SMEs, comprising 99% of the country's total enterprises.

#### 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 (Table 2).

Table 2. Definition of SMEs in Algeria.

| Enterprises | Employee | Turnover (dinars)      | Total assets(dinars) |
|-------------|----------|------------------------|----------------------|
| Micro       | 1-9      | < 20 million           | < 10 million         |
| Small       | 10-49    | < 200 million          | < 100 million        |
| Medium      | 50-250   | 200 million- 2 billion | 100 - 500 million    |

Source : Algeria's Ministry of Industry, Small and Medium Enterprise and Investment Promotion.

*1 US\$ = 84 DZD (Algerian Dinar)*

## Evolution of Algerian SMEs

Statistics published by the Ministry of Industry, Small and Medium Enterprise and Investment Promotion (see Table 3) indicate a net augmentation in the number of SMEs, demonstrating exerted effort by the Algerian government to promote this sector. As Table 3 illustrates, an indicator of the growth in SME creation is positive, whereas the number of SMEs increased from 245,348 in 2001 to 342,788 enterprises by 2005, equivalent to almost 100,000 newly created SMEs in five years. These efforts continued in the second half of the decade (2006–2013), during which time the number of SMEs doubled from the first stage to the second stage.

However, the indicator “Density of SMEs / 1000 inhabitants” calculated in Table 3 clearly clarifies that SMEs are poorly represented in the national economy. Indeed, a density of 18 SMEs per 1,000 inhabitants is far lower than that of OECD countries that record an average density of 45 SMEs per 1,000 inhabitants.

Table 3. Evolution of SMEs in Algeria

| Year | Number of SMEs | of SMEs Growth Rate | Density of SMEs / 1000 inhabitant | Contribution of SMEs to total employment% | Un-employment rate % |
|------|----------------|---------------------|-----------------------------------|---|----------------------|
| 2001 | 245348         | -                   | 8                                 | 10.26                                     | 27.3                 |
| 2002 | 261853         | 6,73                | 8                                 | 8.94                                      | 23.7                 |
| 2003 | 288587         | 10,2                | 9                                 | 13.66                                     | 20                   |
| 2004 | 312959         | 8,45                | 10                                | 13.64                                     | 17.7                 |
| 2005 | 342788         | 9,53                | 10                                | 14.4                                      | 15.3                 |
| 2006 | 376767         | 9,91                | 11                                | 14.2                                      | 12.3                 |
| 2007 | 410959         | 9,08                | 12                                | 15.77                                     | 13.8                 |
| 2008 | 519526         | 26,41               | 15                                | 16.85                                     | 11.3                 |
| 2009 | 570838         | 9.88                | 16                                | 17.42                                     | 10.2                 |
| 2010 | 607297         | 6,4                 | 17                                | 16.7                                      | 10                   |
| 2011 | 659309         | 6                   | 17.35                             | 18  | 10                   |
| 2012 | 711832         | 7.97                | 18.73                             | 18.2                                      | 10                   |
| 2013 | 748000         | 5.08                | 18.78                             | 18.4                                      | 9,8                  |

Source: Based on data from ONS and the Algerian ministry of industry, SME and investment promotion.

## Characteristics of Algerian SMEs

Algerian SMEs exhibit the following specific characteristics that distinguish them from large firms.

- **Algerian SMEs are dominated by private enterprises:** The Algerian SME sector is dominated by private enterprises. According to the Algerian Ministry of Industry, SME and Investment Promotion. By the end of 2012, 99.92% of all SMEs were private and the



remaining 0.08% were public. These percentages indicate that job and wealth creation in the Algerian SME sector are based on—and rely on—private SMEs.

- **Algerian SMEs are dominated by micro-enterprise types:** The SME sector in Algeria is dominated by micro-sized enterprises. According to the Algerian national office of statistics (ONS), at the end of 2012, 97.84% of all SMEs were micro enterprises that employ nine or fewer individuals. The remaining 2.16% were small and medium enterprises. These statistics indicate that the Algerian economy is based on the fabric of micro enterprises in terms of number and relies on such enterprises to absorb unemployment on the one hand and to create wealth on the other hand.
- **Algerian SMEs are concentrated in north Algeria:** In Algeria, a disparity exists in the spatial distribution of SMEs, with a higher concentration recorded in the north, followed by the highlands, and finally the greater south.
- **Algerian SMEs are concentrated in the service and construction sectors:** Algerian SMEs have a strong presence in the service sector (particularly transport) and account for nearly half of all SMEs, followed by the building, construction, and hydraulic sector at 33.85% SMEs (building in particular). The manufacturing sector comprises 16.07% of all SMEs, and the agriculture and energy sectors account for only 1.09% and 0.49%, respectively, of total SME activity.

## **CONTRIBUTION OF SMES TO THE ALGERIAN ECONOMY**

SMEs are considered as an engine of growth, innovation, and job creation in both developed and developing economies. Almost all large companies began as an SME. Microsoft began with two individuals in a small garage in North America. Google was started by two young men who had a good idea.

SMEs are a source of development for talent and creation, and are considered an ideal place to develop, create, and innovate. Several studies stated that the number of inventions created by SMEs were more than double those created by large organizations. This fact emphasizes the important role played by this effective sector. The following points identify the key contributions of SMEs to the Algerian economy.

### **Contribution of SMEs to the country's total employment**

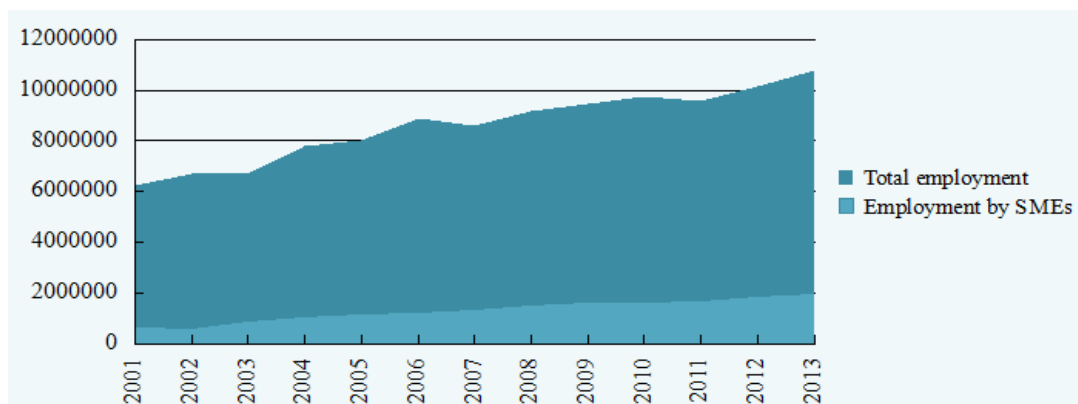
SMEs play a leading role in the job creation process and absorb a large proportion of the workforce at several levels, thus contributing to the alleviation of unemployment and ensuring the sustainability of the economic development process.

Most developing countries in general and Algeria in particular suffer from various forms of unemployment, such as disguised unemployment attributable to rapid population growth. According to ONS (2012), the Algerian population is increasing by an average of 500,000 people per year, causing an average increase in the Algerian workforce of 300,000 per year.

Most Algerian economic experts agree on the inability of large enterprises to create enough jobs to absorb the country's prevailing unemployment or to cover the growing number of individuals entering the workforce each year. This situation indicates the important role of SMEs in solving the unemployment problem.

Figure 1 shows the increasing contribution of SMEs to total employment, with a share that increased from slightly more than 639,000 jobs in 2001 to more than 1.985 million jobs in 2013. However, that improvement should not hide the fact that SMEs' contribution rate to total employment is still weak (Table 3), at 18.4% in 2013. Such a proportion is far from the proportion for SMEs in other developing countries. This phenomenon is explained as follows. First, in Algeria, the state remains the first employer and it holds the difficulties of transitioning to the private sector, which is still in its embryonic stage. Second, more than 80% of SMEs' sector activities are concentrated in areas with the weakest job creation rate, such as the service and construction sectors. In contrast, other sectors have higher job creation rates, such as manufacturing, tourism, and agriculture. Third, Algerian SMEs are primarily micro enterprises comprising 97% of the total corporate fabric, and their ability to generate new jobs is limited.

Figure 1 SMEs contribution to employment (2001- 2013)



Source: Performed by author based on data from ONS and ministry of SME

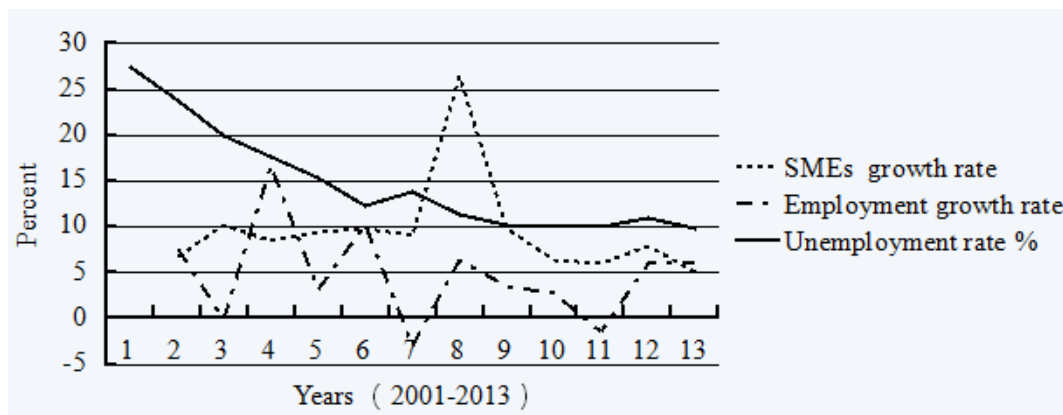
To clarify the relationship between the number of SMEs and job creation, we calculate SMEs' growth rate and employment growth rate as indicators of SMEs performance in terms of job creation. As Figure 2 illustrates, from 2001 to 2013, the behavioral trend is similar for both

employment and SME variables. This linear effect clearly explains the importance of entrepreneurship in the job creation process. However, this evolution is marked by the following two distinct phases.

During the first phase (2001–2007), employment growth peaked, which can be explained by the enactment of a law related to SMEs in 2001 and augmentation of the job supply by private enterprises.

The second phase (2007–2013) indicates the opposite effect, with the greater proliferation of SMEs explained by the eligibility of these companies in terms of the expansion capabilities of their existing projects under ENSEJ (The National Agency for Support to Youth Employment) and CNAC (the National Fund for Unemployment Insurance) devices, on the one hand, and the creation of numerous SMEs in the building, construction, and hydraulic sectors that launched to stimulate and support growth (2002/2004 and 2005/2009), on the other hand. Moreover, during this period, a recession with respect to job creation was recorded that was caused by the elimination of quasi-fiscal benefits.

Figure 2 SMEs performance in terms of job creation



Source: Performed by author based on data from ONS and ministry of SME/SMI

With respect to job creation, SMEs are considered effective actors in the job creation process; however, Algerian SMEs employ only 18.4% of a total active population in which unemployment remains high, particularly among youth. Therefore, we state that Algerian SMEs are still too fragile and do not contribute effectively to generating employment.

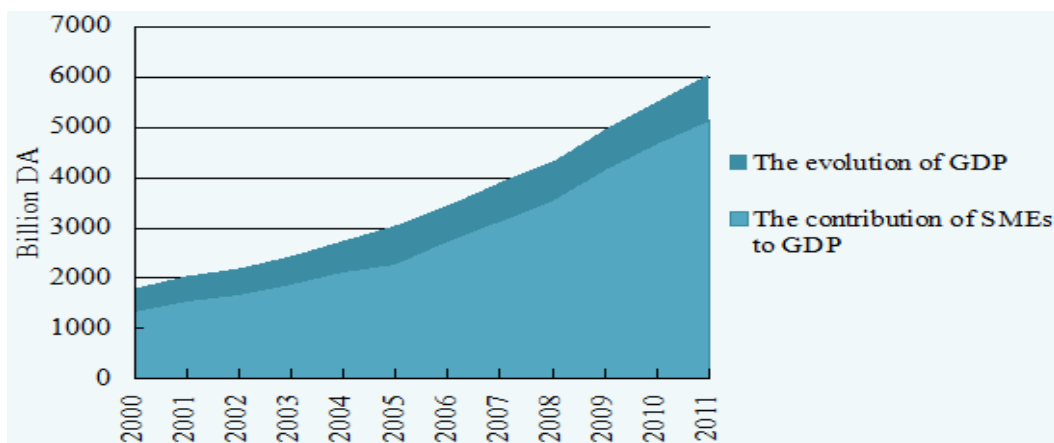
### Contribution of SMEs to the country's GDP

SMEs are sources of wealth creation, contribute to social stability, and generate tax revenues. According to the International Finance Corporation (IFC), a positive relationship exists between

a country's overall level of income and the number of SMEs per 1,000 individuals. Additionally, because SMEs are able to efficiently resettle activities in remote areas, they are effective tools for the significant enhancement of local wealth and act as instruments in the merging and integration of domestic regions.

Figure 3 shows that Algeria's GDP (excluding hydrocarbon sector) continues to increase with significant participation from SMEs. The contribution rate was 74% in 2000 and increased to 84.77% in 2011, which is equivalent to a total contribution of 5,137.46 billion dinars. This amount underlies the importance of this sector, particularly in light of the economic reforms conducted to activate its contribution to the country's development. However this rate declines to 40% if we consider SMEs contribution to total GDP (the oil sector generates approximately 45% of Algeria's GDP).

Figure 3 Contribution of SMEs to GDP excluding hydrocarbon (2000 - 2011)



Source: Performed by author based on data from ONS and ministry of SME/SMI

### Contribution of SMEs to the Algeria's exports

By the end of 2012, Non-oil exports totaled US\$2.18 billion, or less than 3% of total export value. This percentage declines to 1.1% if we subtract exports by Sonatrach (oil) and Fertial (ammonia).

Excluding oil, four large companies achieved 83% of these exports. Sonatrach exported \$935 million of products derived from oil in 2012, against \$481 million for Fertial (ammonia). Somiphost (phosphates) and Cevital (sugar) are the other two major exporters. The remaining 17% of the country's exports, is shared by micro, small, and medium companies that is equivalent to only 0.51% of the country's total exports. In other words, the SME sector is far from participating significantly in the country's total exports.

## **OPPORTUNITIES AND CHALLENGES OF THE SME SECTOR IN ALGERIA**

### **Opportunities**

Arguably, governments should promote SMEs because of their higher economic benefits in terms of job creation, efficiency, and growth. The following major driving forces strengthen SMEs in Algeria:

- SMEs support and strengthen the role of the private sector in economic activity. SMEs constitute approximately 99% of all enterprises and contribute to more than 80% of the total added value in Algeria.
- SMEs make significant contributions to the national economy. Contribute to 40% of Algeria's GDP and are effective tools for accelerating non-hydrocarbon exports, generating tax revenues, and stimulating innovation.
- SMEs are an effective solution to reduce unemployment and have a significant ability to provide job opportunities to a broad range of the Algerian labor force, unlike large corporations. SMEs are involved in labor-intensive activities.
- SMEs assist in ensuring social and political stability and provide job opportunities to groups that lack the financial or academic capabilities to positively participate in economic activity.

### **Challenges**

SMEs in Algeria face several challenges that could hamper their development and affect their ability to create more jobs. These challenges are summarized as follows.

- The Algerian private sector in general and SMEs in particular face cumbersome business environment challenges that affect their development, such as regulatory obstacles, lack of access to industrial real estate, informality, poor quality financial statements, and weak human resource capacities.
- Moreover, these SMEs face several internal challenges that affect their growth and that are a major cause of their failure, such as poor management competences, lack of skilled managers, deficiencies in marketing strategies, weak R&D and weak technological capacities.

## **CONCLUSION AND RECOMMENDATIONS**

SMEs are recognized globally for their unique contributions to economic development through GDP growth, job creation, innovations, tax revenue, export generation, and stimulation of other economic activities. These activities indicate that the SME sector is the backbone of all developed and developing economies. Thus, the development of the SME sector is of

paramount importance for any country irrespective of its level of development. Having understood this fact, successive governments in Algeria have taken various steps to promote this vital sector since the 1990s. Our analysis shows that the Algerian SME sector contributes to 40% of the country's GDP and employs only 18.4% of the active population. However unemployment remains high, particularly among young Algerians.

The results of our research show that SMEs in Algeria remain too fragile and fail to contribute effectively to the creation of employment. Although Algeria has managed to diversify its economy, this diversification is still very weak with the productive fabric remaining largely concentrated in the hydrocarbon sector. Moreover the labor-intensive SME sector remains underdeveloped.

As a result of findings from this study, the following recommendations are made. The Algerian government should make further efforts to create a meaningful and comprehensive policy to improve the country's business environment, which is still not conducive to the private sector. Also extra efforts should undertaken progressively to upgrade and promote the sector. Without sustained strong growth in other sectors, the dependence on world oil prices and the discontent over high youth unemployment could persist. The sector that show promise in achieving the country's goals is the SME sector. Thus, the establishment of more SMEs in effective sectors such ; tourism, manufacturing, and agriculture could result in job opportunities, higher wealth, and a reduction in the country's reliance on international markets.

*Tourism sector:* Algeria has significant potential in the tourism sector on the seaside and in the Sahara. Thus, the establishment of extensive, well-organized hotels and restaurants is crucial for the development of this sector.

*Manufacturing sector:* Algeria also has significant potential in the manufacturing sector because the country enjoys low-cost energy constituents (gas, fuel, and electricity); industrial gas is 22 times cheaper than the European average, electricity is six times cheaper than in the EU, and the labor force is abundant and cheap.

*Agriculture sector:* Algeria has significant opportunities in the agriculture sector because the country enjoys an ideal geographic location and good climate. The call for the establishment of extensive, well-organized SMEs is crucial for arboriculture, growing olives, animal breeding, and cereal production. In addition, the fishing sector offers genuine potential.

SMEs could make significant contributions to economic growth and to solving the youth unemployment problem in Algeria because such enterprises play a major role in the job creation process. However, more efforts are required from both the Algerian government and SME owners and managers to develop this vital sector.

## REFERENCES

- Algerian ministry of industry ,SME and investment promotion; Statistical Information Bulletin of SMEs ( various years)
- Almeida P. (2004).Small Firms and Innovation, Business Dynamics, Entrepreneurship, and the Macroeconomy in the 21st Century. Conference Proceedings March 26, 2004. U.S. Small Business Administration Office of Advocacy and The Ewing Marion Kauffman Foundation.
- Anthony leegwater et al (2008 ). The role of micro ,small and medium enterprises in economic growth : A cross country regression analysis. The IRIS Center, University Research Corporation International U.S. Agency for International Development.
- Ayyagari, Demirguc-Kunt, and Maksimovic (2011).Small vs. Young Firms across the World: Contribution to Job Creation, Employment and Growth. Policy Research Working Paper 5631.The World Bank Development Research Group Finance and Private Sector Development Team 2011.
- Bhaskaran, S.(2006). Incremental Innovation and Business Performance- Small and Medium-size Food Enterprises in a Concentrated Industry Environment: Journal of Small Business Management,44(1),64-80.
- Brahiti A., (2008).Policies for the Promotion and Development of SMEs and Upgrading: assets and challenges “ experience of Algeria”, Experts Meeting, 8-10 March , ECA-NA, Rabat.
- Birch, David L.(1987). Job Creation in America: How Our Smallest Companies Put the Most People to Work, Free Press, New York.
- Charles Harvie,(2008)Regional Integration in Asia and the Contribution of SMEs – a Review of the Key Issues and Policy Imperatives. International Economics Studies Vol. 34, No. 1 (New Issue), Spring & Summer 2009 pp. 19-44.
- Christina.E Bannier, Sabrina Zahn (2014).SMEs' Growth Heterogeneity - Evidence from Regional Developments. International Journal of Business Administration ,Vol. 5, No. 2; 2014.
- Javed Qureshi ,Gobind M. Herani(2011).The Role of Small and Medium-size Enterprises (SMEs) in the Socio-economic Stability of Karachi.Indus Journal of Management & Social Sciences, 4(2):30- 44(Spring 2011).
- International Finance Corporation (2014). Micro, Small and Medium Enterprises Country Indicators, Washington DC.
- Ismaila Bolarinwa Kadiri (2012). Small and Medium Scale Enterprises and Employment Generation in Nigeria: The Role of Finance ,Kuwait Chapter of Arabian Journal of Business and Management Review Vol. 1, No.9; May 2012.
- Jonathan Emenike et al. (2013),Small Scale Enterprises, Poverty Alleviation and Job Creation in Nigeria: Lessons from Burnt Bricklayers in Benue State. Journal of Economics and Sustainable Development
- Kadi Mohamed.(2013).Relation Entre PME et Emploi en Algérie : Quelle Réalité ?11&12 March 2013 ; setif ,Algeria 9th International Academic Conference.
- Kirchhoff, Bruce and Bruce Phillips,(1988).The Effect of Firm Formation and Growth on Job Creation in theUnited States, Journal of Business Venturing 3, 1988, 261-272.
- Ludovica Ioana, Nicoleta Raluca (2011). The Role of SMEs in Modern Economy, Economia Seria Management ,Volume 14, Issue 1, 2011,EL Classification: L11, L16.
- Mario Berrios , Markus Pilgrim (2013). SMEs and job creation: is small still beautiful?. International Labor Organisation ,ILO's Small Enterprises Unit.
- Ming-Wen Hu. (2010). SMEs and economic growth :entrepreneurship or employment. ICIC Express Letters ICIC International ©2010 ISSN 1881-803X. Volume 4, Number 6(A), December 2010.
- Muritala Taiwo, Awolaja Ayodeji ,Bako Yusuf (2012). Impact of Small and Medium Enterprises on Economic Growth and Development, American Journal of Business and Management Vol. 1, No. 1, 2012, 18–22

Mukole Kongolo,(2010). Job creation versus job shedding and the role of SMEs in economic development, African Journal of Business Management Vol. 4(11), pp. 2288-2295.

National Office of Statistics (ONS). (2012). Economic indicators from 2000 to 2011.

OECD conference of ministers responsible for small and medium sized enterprises (2004). Promoting entrepreneurship and innovative SMEs in global economy: towards a more responsible and inclusive globalisation . Istanbul, Turkey 3-5 June 2004.

Peter McConaghy.(2013). Supporting job creation and innovation through MSME development in MENA. March 2013 ,Number 88 World Bank Quick Notes Series.

Romijn Henny (2001). Technology support for small industry in developing countries-A review of concepts and project practices” Oxford Development Studies, 29 (1): 57-76.

Sahar Nasr,Ahmed Rostom.(2013).SME Contributions to Employment, Job Creation, and Growth in the Arab World. Policy Research Working Paper 6682. The World Bank ,Middle East and North Africa Region Financial and Private Sector Development Unit, October 2013.

Schreyer, P. (1996).“SMEs and Employment Creation:Overview of Selected Quantitative Studies in OECD Member Countries”, OECD Science, Technology and Industry Working Papers, 1996/04, OECD Publishing. <http://dx.doi.org/10.1787/374052760815>.

Schumpeter, J.A.(1934). The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle.Journal of Comparative Research in Anthropology and Sociology, Volume 3, Number 2, Winter 2012.

Tom Gibson, H. J. van der Vaart (2008). “Defining SMEs: A Less Imperfect Way of Defining and Small Medium Enterprises in Developing Countries”.

UNIDO (2006), Productivity enhancement and equitable development: Challenges for SME Development. United Nation Industrial Development Organization; Vienna, 2006. Available on: [http://www.unido.org/fileadmin/user\\_media/Publications/Pub\\_free/Productivity\\_enhancement\\_and\\_equitable\\_development.pdf](http://www.unido.org/fileadmin/user_media/Publications/Pub_free/Productivity_enhancement_and_equitable_development.pdf)

Wei Li.(2012),Small and medium enterprises - the source of China’s economic miracle - and their financing challenges. China express, issue3.

World Bank. (2013). IFC jobs study : assessing private sector contributions to job creation and poverty reduction. Washington, DC: World Bank Group.

Z. J. Acs, ed.(1996). Small Firms and Economic Growth, Edward Elgar, Cheltenham, 1996.