

## *The small and medium-sized enterprises sector after Law No. 17/02: Has it achieved economic diversification in Algeria?*

قطاع المؤسسات الصغيرة والمتوسطة بعد القانون رقم 02/17: هل حقق التنوع

الاقتصادي في الجزائر؟

**Khellil Khaled<sup>1</sup>, Loucif Kamilia<sup>2</sup>**

<sup>1</sup>COFIFAS Laboratory, Oum El Bouaghi University, Algeria,

khelil.khaled@univ-oeb.dz

<sup>2</sup>INIF Laboratory, Oum El Bouaghi University, Algeria,

Kamilia.loucif@univ-oeb.dz

### **Abstract:**

This study explores the current development of small and medium-sized enterprises (SMEs) in Algeria from 2018 to 2022 and investigates the contribution of these businesses to economic diversification since the Issuance of laws No. 01/18 and No. 17/02 depending on data from the General Directorate of Customs and the Ministry of Industry and Pharmaceutical Production to analyze the effectiveness of these businesses in reducing Algeria's reliance on oil revenues using descriptive and analytical techniques.

Our study's findings show that Algeria's SMEs are too vulnerable and ineffective at contributing to the country's economic diversification, and the country's production structure is still heavily centered on the oil industry, and we conclude this research with a set of suggestions that will help the SMEs sector on the short and long run.

**Keywords:** Small and Medium-sized Enterprises; Economic Diversification; Algeria.

**Jel Classification Codes :**Q32, Q37

### **الملخص:**

تبحث هذه الدراسة في تطور المؤسسات الصغيرة والمتوسطة في الجزائر من 2018 إلى 2022 وفي مساهمة هذه المؤسسات في التنوع الاقتصادي منذ صدور القانونين 18/01 و 02/17 بناء على بيانات المديرية العامة للجمارك ووزارة الصناعة والإنتاج الصيدلاني لتحليل فاعلية هذه الشركات في الحد من اعتماد الجزائر على عائدات النفط باستخدام الأساليب الوصفية والتحليلية.

تظهر نتائج دراستنا أن قطاع المؤسسات الصغيرة والمتوسطة في الجزائر هش للغاية وغير فعال في المساهمة في التنوع الاقتصادي للبلاد ، ولا يزال هيكل الإنتاج في البلاد مركز بشكل كبير في صناعة النفط ، وفي الأخير نقدم مجموعة من الاقتراحات التي ستساعد القطاع على المدى القصير والطويل.

**الكلمات مفتاحية:** المؤسسات الصغيرة والمتوسطة، التنوع الاقتصادي، الجزائر.

**تصنيف JEL: Q32, Q37**

## **1. Introduction:**

SMEs are recognized for their distinctive contribution to economic growth and the creation of job opportunities on a worldwide scale. Both industrialized and developing nations are aware that SMEs have evolved into one of the most crucial instruments for tackling economic and social problems and accomplishing development objectives, therefore, it should come as no surprise that political strategists typically consider SMEs as the beginnings of economic recovery.

According to recent data from the World Bank, it has been observed that small and medium-sized enterprises (SMEs) in developing economies play an essential part in the economy, accounting for over 60% of the gross domestic product (GDP) and more than 70% of total employment. In recent years, there has been a growing recognition of the productive impact of SMEs on economic growth and their substantial contribution to job creation.

Algeria is a country in development with a narrowly diversified economy, the country's economic activity is hampered by a mostly hydrocarbons industry and high young unemployment rates, non-oil exports remain negligible (about 2% of total exports), and the country's economic performance is significantly influenced by shifts in oil prices, more than 90% of the nation's budgetary income and almost 45% of its GDP are produced by the oil industry.

Due to their significant contribution to economic growth and capacity to create jobs, SMEs, in particular, have come to the economic attention of Algeria, The SME sector has seen a net increase in size ever since Algeria's economy was opened up and a market economy was gradually adopted in the early 1990s, according to statistics provided by the Algerian Ministry of Industry and Pharmaceutical Production, the SME sector has secured its place as a key player in the country's economic system. Algeria will have more than 1359803 small and medium-sized businesses registered by the end of 2022, making up 99% of all businesses in the nation.

Accordingly, we will strive to address the following query through our research: "Have small and medium enterprises succeeded in diversifying the economy in light of Algeria's orientation towards a market economy and interest in this sector through Laws No. 01/18 and 17/02?"

The following goals serve as the study's guidance:

- To assess the state of the SME sector in Algeria today;
- To illustrate how SMEs have helped Algeria's economy diversify;
- To determine the main SMEs' prospects and difficulties in Algeria.

This study uses a qualitative approach to analyze the study's objectives due to its considerable benefits. This approach is used to explain and interpret the study results, examine the current situation of Algerian SMEs, pinpoint the sector's key contributions to the nation's economic diversification, and conduct an exploratory review of literature.

The rest of this presentation is organized as follows:

- Section 2 outlines the theoretical aspect relating SMEs and economic diversification;
- Section 3 addresses the current situation of the Algerian SME sector and its contribution to the diversification of the economy;
- The primary prospects and difficulties facing this industry are the topic of Section 4;
- Section 6 concludes the paper and offers some crucial suggestions.

## **2. STUDY OF CONCEPTS:**

### **2.1 The concept of economic diversification:**

The phrase "process of deepening economic and social cohesion and integration" is used to describe the idea of economic diversification, which is defined as "that process that provides ample room for consolidating sound foundations for the establishment of a mixed economic system that is characterized by diversity, that is stable and efficient, that includes the principles and objectives of deepening economic and social cohesion and integration, and plays a pivotal and positive role in the development process".(Muhammed Miloud & Fateh, 2020, p. 142)

Economic diversification can also be defined as "the process that refers to the dependence on a growing number of inputs that contribute to the production of outputs, and also it can be expressed as diversifying export markets or revenue streams away from domestic economic activity (i.e., income from foreign investment) or diversify sources of public revenue.(Moussa & Kamel , 2016, p. 135)

According to another definition, economic diversification is the process of "minimizing reliance on a single resource improving the industrial and agricultural basis and developing a productive base which entails constructing a strong national economy with a tendency toward sectoral self-sufficiency",as stated in the definition above economic diversification is "a process designed to diversify the patterns of manufacturing and establish new revenue-generating industries reducing total reliance on the earnings of the economy's primary sector while opening up new markets with higher added value and the potential to create more lucrative employment opportunities for the workforce",this will result in a greater growth rate in the long run.(Sabagh, 2020, p. 69)

Many benefits can arise from a more diversified economy, the most important of which is that the economy becomes less exposed to external shocks, increased commercial gains, higher rates of capital production, and more conducive to regional integration, and the importance of economic diversification is also evident through the benefits that are achieved thanks to it. Which is no less important than the previous one, we can summarize it in the following points:(Lopez-Calix, 2020, pp. 43-45)

- Maintaining macroeconomic stability

The high concentration of exports is similar to the high financial and external instability, which prevents an orderly and sustainable acceleration of growth. Accordingly, depending on a diverse export base would result in more stable earnings., and thus the stability of the overall economy.

- Establishing the potential for job creation:

It is known that mining and oil activities are capital-intensive activities and their impact on employment is low, which prevents them from absorbing the demographic development in these economies. On the other hand, diversification of exports (such as agro-food exports) provides greater potential for creating skilled and unskilled jobs.

- Promoting the benefits of the connections between export diversification, economic expansion, and foreign direct investment.

To achieve this, there are at least three channels worth mentioning:

- Opening up to international trade, which allows for an effective redistribution of production factors from low-productivity firms to high-productivity firms, thus increasing total productivity;
- The entry of multinational corporations increases competition in the input and output markets of the host economy;
- The presence of foreign companies encourages the transfer of knowledge and technology to local companies and thus increases their productivity

As a result of the importance of economic diversification, which is reflected in the reality of countries when applied in general, it is necessary to know the indicators that show the extent of the diversification of the economy or not, if it becomes clear through these indicators when applied to any economy and it turns out that it is a unilateral economy, then the necessary steps must be taken to achieve economic diversification to acquire the aforementioned effects that it leaves on the reality of the economy. But if it turns out to be a diversified economy, the continuity of its diversification must be preserved and its roots should be consolidated deeper so that its effects will be reflected on the economy and be more robust. Among the indicators of economic diversification in a country, we find:(Abdessamed, 2019, pp. 14-15)

- The rate and degree of structural change, as indicated by the percentage of the contribution of different sectors to the gross domestic product, in addition to the change in the contribution of these sectors over time.
- The ratio of non-oil exports to total exports, and the components of non-oil exports; Its continuous rise indicates an increase in economic diversification.
- The evolution of total employment as a whole by sector, and it is clear that this measure should reflect and reinforce the changes in the sectoral composition of the GDP.
- The change in the relative contribution of the public sector and the private sector to the GDP, and is an important indicator because economic diversification implies an increase in the contribution of the private sector to the GDP.

Economic diversification is associated with a wide range of important drivers that play an important role in the success or failure of the economic diversification process. In this context, the United Nations report on economic diversification shows six categories of drivers that affect the diversification process, namely: economic reforms, macroeconomic variables, structural factors, foreign direct investment, economic determinants, and infrastructure. The following table shows these drivers and their impact on the national economy:

**Table 01: Economic diversification drivers and their impact on the economy**

The driver	Its impact on the economy
Trade liberalization and access to finance	Positive; Trade liberalization and export diversification have an impact on intensive margins and extensive margins
Macroeconomic variables: the real exchange rate, inflation, terms of trade, and preferential market access.	Positive; preferential access to the markets has a direct impact on the intensive and extensive margins
Net foreign direct investment flows as a percentage of GDP	Positive; export value reliance on some products will increase the intensive margin focus
Investment as a percentage of GDP	Positive
Structural factors: country population, human capital, and education	Positive; The quality of institutions and education and the increase in population have positive effects on the economy.
Economic determinants: income and productivity	Positive.
Infrastructure	Positive; good infrastructure leads to increased diversification in intensive margins and extensive margins, once you control the individual's share of GDP, this means that infrastructure is still an important driver of diversification;

**Source:**(UNFCCC, Secretariat, 2016, p. 18)

## **2.2 Classification of economic diversification policies:**

Economic diversification takes the following two divisions:(Ben Mouaffek, 2019, p. 29)

- **Horizontal diversification:**

Horizontal diversification refers to the distribution of investment in instruments of the same category, such as the oil sector, for example.

- **Vertical diversification:**

Vertical diversification refers to the spread of investment throughout various industries, like agriculture, manufacturing, and services, as well as among various tool types, including stocks and bonds.

### **2.3 Economic Diversification Strategies:**

There are many strategies by which economic diversification can be achieved in a country, namely: sectoral strategy, product-based growth strategy, extensive margin development strategy, and intensive margin development strategy, where: (Lopez-Calix, 2020, p. 09)

- **Sectoral strategy:**

Preference for sectors exporting non-oil and non-mining products with higher added value.

- **Product-Based Growth Strategy:**

Exporting experimental non-oil and non-mining products with higher added value.

- **Extensive margin development strategy:**

Increasing the export of currently produced non-oil and non-mining goods to new markets.

- **Intensive margin development strategy:**

Increasing the export of modern non-oil and non-mining goods.

### **2.4 The concept of small and medium-sized businesses:**

According to the European Union, a medium-sized industry is an enterprise that employs less than 250 workers, has a turnover of more than 50 million euros, and/or total assets of more than 43 million euros. As for the small industry, it is an establishment that employs less than 50 workers, its sales volume does not exceed 10 million euros, and its total assets also do not exceed 10 million euros. Whereas, a mini-industry is defined as any establishment that employs less than 10 workers, whose sales volume does not exceed 2 million euros, and whose total assets do not exceed 2 million euros. (John, 2009, p. 15)

According to the United Nations International Development Organization, there are two types of definitions for small and medium industries. The first is for developing countries, in which a medium industry means that establishment that employs between 20 and 99 workers, while a small industry is that establishment that employs between 5 and 19 workers, while a mini-industry is referred to as every establishment that employs less than 5 workers, as for the second definition, it is specific to industrialized countries, in which a medium industry is defined as every establishment that employs between 100 and 499 workers, while a small industry is defined as every establishment that employs less than 99 workers. As for mini-industries, they do not exist in industrialized countries, according to the aforementioned organization. (John, 2009, pp. 15-16)

According to the World Bank, the small industry is defined as every establishment whose number of workers does not exceed 50, and its total

assets and total sales do not exceed \$3 million, while the medium industry is that whose total assets and total sales do not exceed \$15 million and the number of its workers does not exceed about 300 workers.(IFC Advisory Services, 2009, p. 10)

As for the Algerian legislator, it is every institution producing goods and/or services, whatever its legal nature, that employs from 1 to 250 people, and its annual turnover does not exceed 2 billion dinars, or its total annual revenue does not exceed 500 million dinars. It also has independence so that its capital is not owned by 25 percent or more by another institution or group of institutions.(The Official Gazette of the Algerian Republic, 2017, p. 05)

### **2.5 Characteristics of small and medium enterprises:**

Small and medium enterprises play an important role in the economies of countries through the characteristics that distinguish them from other institutions to meet the challenges of economic changes, as they are considered one of the pillars of the development process. These characteristics can be summarized as follows:(Alaa & Muhamed, 2018, pp. 104-106)

- **High flexibility:**

Small and medium businesses have high flexibility and the ability to change, this is an advantage that big businesses do not have. Because they have a less administrative and organizational apparatus that makes them have a greater ability to sense and predict risks and errors and address them.

- **Appropriate ownership patterns:**

As the capital is lower in these types of industries, this increases the demand in those who have low savings for such projects due to their low cost compared to large projects.

- **The relatively low capital costs:**

The small project is distinguished by the fact that its investments are limited, and its fixed and variable asset costs are generally modest, creating jobs there is less expensive than doing so in huge sectors. the small project seeks a quick turnover of capital, that is, the recovery of funds in the shortest possible time.

- **The ease of establishment:**

Small and medium enterprises derive the element of ease in their establishment from the low capital requirements, as it is based primarily on attracting and activating the savings of people to achieve a benefit through which it meets local needs in various types of economic activity, and this

is what Commensurate with developing countries as a result of the lack of savings due to low income.

- The wide geographical spread:

Small and medium enterprises are distinguished by their wide geographical spread, which makes them cover different regions and large numbers of residents, due to the low costs of their establishment on the one hand and its limited production on the other hand, which is often the consumers of this production within the framework and borders of the project's residence area, which necessitates meeting the needs of the local community by establishing more of these projects.

- Providing integrated experience to employees:

One of the most important advantages of these institutions is that they allow their employees to carry out various tasks in short periods. As the tasks and responsibilities of the workers in the small project vary, so their experience and knowledge expand.

- Innovation :

Small projects are the main source of new ideas and inventions, as many patents belong to individuals, most of whom work on small projects, it should be noted that the projects run by the owners are subject to renewal and modernization more than the public institutions because the workers who work to create new ideas affect their profit directly which means more incentive to work effectively.

- The modest level of technology used:

Small projects are characterized by limited technology and modernization requirements in comparison with large projects, due to the owner of the small project's limited financial resources and the technology employed is often not relatively advanced and the workers' expertise depends on the simplicity of the instruments employed, which in turn depends on local capabilities.

### **3. Results and discussions:**

#### **3.1 The Reality of small and medium-sized Enterprises in Algeria:**

Law No. 01/18 of 12/12/2001, which includes the directive law for the promotion of small and medium enterprises, is a decisive turning point in the history of small industries; Where it defines the legal and regulatory framework in which small and medium industries are active, as well as measures to assist and promote them. However, to remove the obstacles that were facing the establishment and development of small and medium industries and push them towards achieving development and strengthening economic diversification plans, Law No. 01/18 has been reviewed By issuing a new law on 10/01/2017, which is Law No. 17/02,

which includes the directive law for the development of small and medium enterprises, as this law aims to define small and medium industries and define support measures and mechanisms allocated to them concerning the establishment, development, and sustainability. (The Official Gazette of the Algerian Republic, 2017, pp. 04-05)

Article 11 of Law 17/02 indicated that if an establishment is classified in a specific category according to the number of its workers and in another category, according to its total turnover, priority is given to the criterion of turnover to classify it, article 12 of the same law indicated that when an establishment record at the closing date of its accounting revenue a difference or differences in relation to the limit or limits mentioned above this does not make it gain or lose the status of the small and medium industry unless this situation continues for two (02) consecutive financial years, and according to article 15 of Law 17/02 measures of assistance and support for the promotion of small and medium industries, the subject of this law, aimed primarily at: (The Official Gazette of the Algerian Republic, 2017, pp. 06-07)

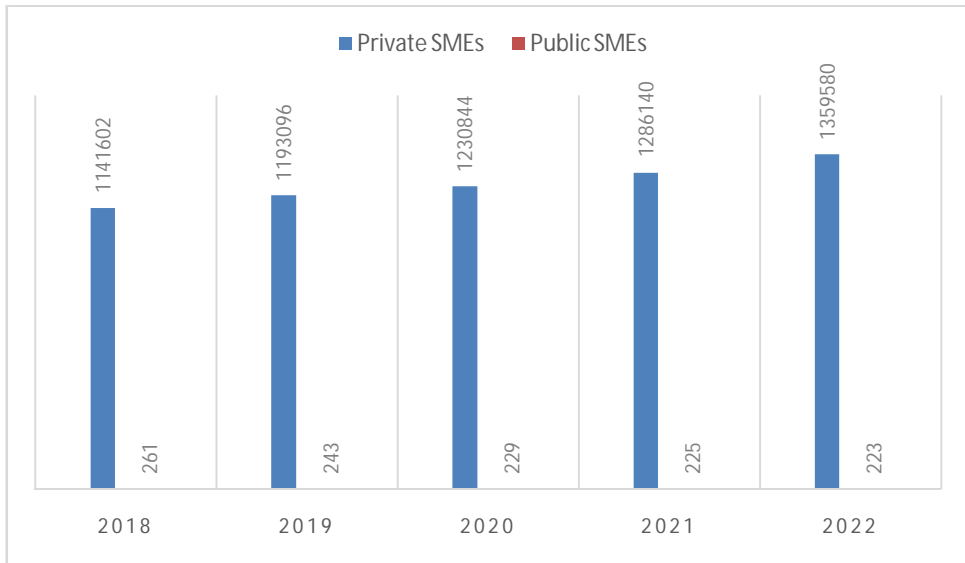
- Disseminate and promote the distribution of industrial, commercial, legal, economic, financial, vocational, and technological information related to small and medium industries;
- Encouraging every initiative that facilitates access to real estate for small and medium industries;
- Work to put in place tax systems adapted to small and medium industries;
- Encouraging and consolidating entrepreneurial culture, as well as modern technologies and innovation in small and medium industries;
- Facilitating the access of small and medium-sized industries to financial tools and services appropriate to their needs;
- Encouragement of professional associations, dealing exchanges, and associations;
- Strengthening coordination between establishment and support agencies for small and medium industries at the central and local levels;

With regard to the establishment and development of small and medium industries, Articles 17, 18, and 19 of Law 17/02 provide for the establishment of a public body of a special nature called "the agency" in the text, charged with implementing measures to assist and support small and medium industries in the field of establishment, development, and sustainability. Including improving quality and quality, promoting innovation, and strengthening the management skills and capabilities of small and medium industries; Where the operations of supporting and

assisting small and medium industries, as well as the expenses of running the agency, are financed through the special allocation account No. 124/302, entitled "The National Fund for the Rehabilitation of Small and Medium Enterprises, Support for Investment and Promotion of Industrial Competitiveness".

There is no doubt that the directive laws related to the promotion and development of small and medium enterprises (laws of 2001 and 2017) had a significant impact on the growth and development of the number of small and medium industries, as the following figure shows the development of the number of small and medium industries in Algeria during the period between 2018 and 2022:

**Figure 1. Algeria's small and medium-sized businesses' development from 2018 to 2022**



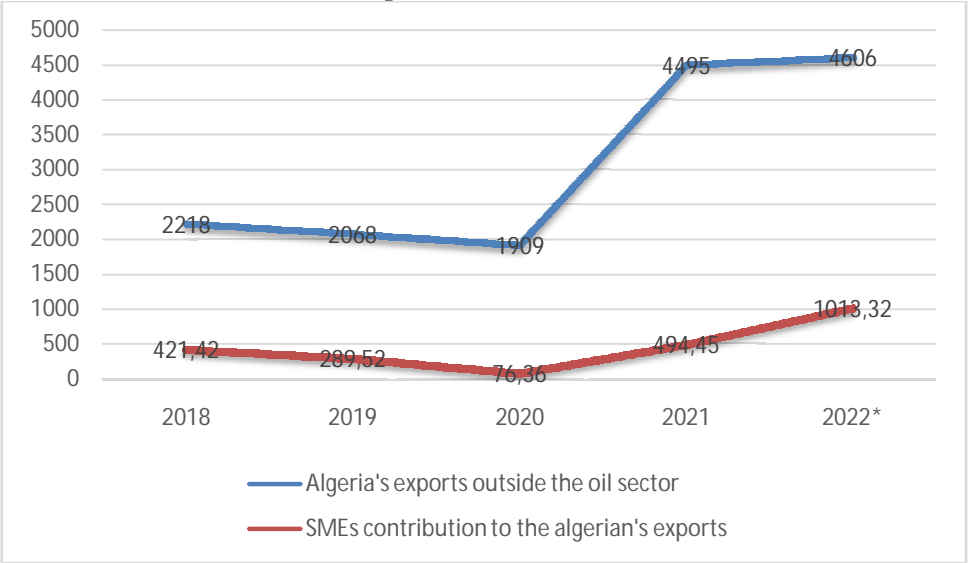
**Source:** (The Ministry of Industry and Pharmaceutical Production, 2018-2022, pp. 06-09)

We note from the graph that the number of small and medium industries witnessed continuous growth during the period taken as a sample for the study, at an average annual rate close to 3% as the year 2019 witnessed the registration of 1193339, which represents an increase of 4.5 percent compared to the number of industries registered in the year 2018, this increase was followed by another increase in the number of small and medium-sized private industries registered during the year 2020, when 1231073 establishments were registered, an increase of approximately 3.16 percent compared to the number of industries registered in 2019, and the number of small and medium industries continued to grow during the years 2021 and 2022, when an increase rate

of approximately 4.49 and 5.71 percent in this order was recorded, we also notice from the chart that the number of public small and medium industries that were registered during the period from 2018 to 2022 is constantly decreasing and their number is very small, not exceeding 300 enterprises compared to the number of private small and medium industries that were registered during the same period, and this is mainly due to the trend that The state adopted it at the beginning of the nineties, relying more on the private sector as a main engine to push the wheel of economic development and promote economic diversification plans.

**3.2 The role of small and medium industries in increasing non-hydrocarbon exports during the period 2018-2022:**

**Figure 2. Exports of Algeria and SMEs outside the hydrocarbon sector during the period 2018-2022**



**Source: (General Directorate of Customs, 2018-2022, pp. 14-15)**

It is worth noting that the above figure represents the exports of the Algerian state as a whole outside the hydrocarbon sector, based on the data collected from the publications of the Bank of Algeria and the General Directorate of Customs. According to the same source, determining the value of the contribution of small and medium enterprises to Algeria's exports outside the oil sector is difficult due to the lack of Disclosure and transparency in these institutions, and not announcing its financial statements.

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

We note from the above chart that Algeria's exports outside the hydrocarbon sector amounted to 2218 million US dollars during the year 2018, and the value of the contribution of small and medium enterprises to these exports amounted to 421.42 million US dollars, or 19 percent. And in 2019, Algeria's exports outside the oil sector decreased and recorded 2068 million US dollars compared to the previous year, and the contribution of small and medium-sized enterprises in it was about 289.52 million US dollars or 14 percent. This decrease is due to the austerity policy adopted by Algeria in 2016 due to the collapse of fuel prices in the international market and its gradual expansion of the list of materials prohibited from import, and this affected negatively and directly the Algerian state's non-hydrocarbon exports, especially the SMEs and their ability to export, which we notice in the values that have continued to decline since 2016.

This decline continued in 2020 to reach 1909 million US dollars out of Algeria's total exports, which is estimated at 21925 million US dollars, and the share of small and medium enterprises was only 76.36 million US dollars, or 4 percent of Algeria's non-fuel exports, this is due to the comprehensive closure caused by the Covid-19, And the consequent economic damage that affected the Algerian economy in general and the SMEs in particular.

In the year 2021, we notice a significant recovery in Algerian non-hydrocarbon exports, which amounted to 4495 million US dollars compared to 2020, and 11 percent was the share of SMEs in it, with a value of 494.45 million US dollars, and this recovery continued in the year 2022, recording the largest value of non-fuel exports at 4606 million US dollars, of which the share of small and medium enterprises was 1013.32 million US dollars, or 22 percent, which is the largest percentage recorded by Algeria during these years. this is due to the rise in oil prices in this period for several reasons, the most important of which is the start of the Russian-Ukrainian war, and this reflected positively on the state's general spending policy and the easing of import restrictions, which contributed to the SMEs achieving the largest participation rate in Algeria's non-oil exports during one year.

Despite the increase recorded throughout the study period in the number of SMEs and their contribution to Algeria's exports outside the oil

sector, small and medium industries remain far from the aspirations of the Algerian state to diversify the economy given the size of the financial and technical capabilities and legislative frameworks devoted to this sector to get the Algerian economy out of dependence on a single resource.

#### **4. Challenges and prospects facing Algeria's SME sector:**

##### **4.1 Prospects:**

Governments may want to support SMEs because of their potential for greater economic development, efficiency, and job creation, the following main factors support SMEs in Algeria:

- SMEs boost and support the private sector's participation in economic activity, in Algeria, SMEs account for about 99% of all businesses and produce more than 80% of all added value.
- SMEs contribute significantly to the national economy, and they are an efficient mechanism for increasing non-hydrocarbon exports, producing tax revenues, and encouraging innovation, they account for 40% of Algeria's GDP.
- Unlike major industries, SMEs have a strong capacity to offer work chances to a variety of Algeria's labor population, this makes them an efficient means of reducing unemployment, the activities that SMEs engage in are labor-intensive.
- SMEs help to maintain social and political stability and give work chances to underrepresented groups that lack the resources or educational credentials to actively engage in the economy.

##### **4.2 Challenges:**

SMEs in Algeria encounter several difficulties that could impede their growth and limit their capacity to contribute to the economy, the following is a summary of these difficulties:

- Regulatory barriers, lack of access to industrial real estate, informality, bad financial statements, and inadequate human resource capacities are only a few of the difficult business environment issues that the Algerian private sector, and SMEs in particular, must contend with and which have an impact on their development.
- Additionally, many SMEs have many internal difficulties that hinder their development and play a significant role in their failure, including bad management abilities, a lack of qualified managers, weaknesses in marketing plans, insufficient research and development, and inadequate technical capabilities.
- The difficulty of obtaining external financing due to the requirements of difficult procedures and guarantees, as well as the inadequacy of the terms of loans requested by small and medium industries with banking

operations, as they often need long and medium-term financing while banks prefer to grant short term loans, in addition to the problem of the asymmetry of information that emerges severely when it comes to financing small and medium industries, due to the lack of information of the financier about the financial and technical status of these industries, which increases the risks of financing them.

## **5. CONCLUSION AND SUGGESTIONS:**

The study's primary goal was to assess the role that the SMEs sector would play in diversifying Algeria's economy away from the hydrocarbon industry between 2018 and 2022 as a result of laws No. 01/18 and No. 17/02 and to examine the Algerian government's strategy for doing so.

SMEs are acknowledged worldwide for their distinctive role in fostering economic progress, encompassing GDP expansion, employment generation, pioneering advancements, tax contributions, export generation, and stimulation of broader economic endeavors. These endeavors highlight the indispensable nature of the SME sector, serving as the foundation for both advanced and emerging economies. Consequently, nurturing the growth of the SME sector holds immense significance for any nation, regardless of its developmental stage. Recognizing this, successive Algerian governments have implemented diverse measures to foster and uplift this critical sector since the 1990s.

Finally, our research produced a set of conclusions that could be expressed as follows:

- Economic diversification means distributing investments to a large and diverse number of industries to create new job positions, increase the level of the gross domestic product, and diversify exports.
- Small and medium industries are distinguished by many characteristics, perhaps the most prominent of which are: ease of establishment, local ownership pattern, detailed knowledge of customers and the market, strong relationship with society, flexibility of management, and ease of activities. Its importance in achieving economic development and promoting economic diversification plans is derived from its aforementioned characteristics; It contributes to increasing the gross domestic product, diversifying and developing exports, and generating new job opportunities.
- As the number of small and medium-sized businesses increased from year to year between 2018 and 2022, demonstrating the state's interest in this industry and the significant amount of funding provided to these institutions, the census of these businesses in 2022 totaled 1359803 small and medium-sized, private and public institutions, up from 1141863 institutions in 2018;

- Since their share of non-oil exports in Algeria during the study period did not exceed 2,2% of total exports, small and medium-sized businesses' contribution to diversifying the country's economy is very low, necessitating an extensive review of how this sector is run.

Based on the study's findings, the subsequent recommendations are provided:

- The Algerian government has to work more to develop a comprehensive and effective business policy since the business climate in the nation is still not favorable to the private sector. Additionally, additional initiatives should be made gradually to advance and promote the industry, without consistent strong growth in other industries, the reliance on global oil prices could continue. The SME sector has the most potential for fulfilling the nation's objectives. Therefore, the development of more SMEs in productive industries like tourism, manufacturing, and agriculture might lead to job possibilities, increased wealth, and a decrease in the dependency of the nation on foreign markets.
- Agriculture: Due to its favorable geographic position and ideal temperature, Algeria offers a lot of chances in the agriculture industry. For the production of cereal, producing olives, raising animals, and arboriculture, it is essential that large, well-organized SMEs be established. The fishing industry also has a lot of promise.
- Tourism: Algeria's coastal and Saharan regions provide a lot of promise for the industry. Therefore, the development of this industry depends on the construction of large, efficient hotels and restaurants.
- Manufacturing: Algeria has significant potential as a manufacturer due to its access to cheap energy resources (gas, fuel, and electricity); industrial gas is 22 times less expensive than the average price in Europe, and electricity is six times less expensive than in the EU, and labor costs are both low and plentiful.
- Due to their considerable role in job creation, SMEs in Algeria have the potential to significantly contribute to economic growth and are the solution to the country's young unemployment issue. To expand this crucial industry, more work is needed from the Algerian government as well as SME owners and managers.

## **6. Bibliography:**

- **Books:**

-Alaa, A., & Muhamed, A. (2018). *Entrepreneurship and small projects*. Alexandria, Egypt: University Education House.

-John, O. (2009). *Entrepreneurship in Sub-Saharan Africa: A Strategic Management Perspective*. Indiana, Bloomington, United States of America: AuthorHouse.

-Lopez-Calix, J. R. (2020). *Leveraging Export Diversification in Fragile Countries*. World Bank Publications.

• **Articles in a scientific journal:**

-Abdessamed , S. (2019). Economic diversification to counter oil shocks in the Algerian economy: An applied study of the diversification model - Hrishman Hervandel –. *Contemporary Economic Researches*, 02(02), 01-22.

-Moussa, B., & Kamel , R. (2016). Economic diversification as a strategic option to achieve sustainable development in oil-producing countries: the case of Arab oil-exporting countries. *Algerian review of economic development*, 03(05), 133-152.

-Muhammed Miloud, Q., & Fateh, J. (2020). Economic diversification as a strategy for the independence of public expenditure policy in light of oil price changes - Algeria case study for the period: 2001-2017. *Journal of North African Economics*, 16(02), 139-150.

-Sabagh, R. (2020). Economic diversification: Algeria's post-oil strategy. *REVIEW OF ECONOMIC PAPERS*, 04(01), 67-81.

• **Government reports:**

-The General Directorate of Customs. (2018-2022). *Periodic Reports of Algeria's Foreign Trade Statistics*. Directorate of Studies and Foresight.

-The Ministry of Industry and Pharmaceutical Production. (2018-2022). *SMEs Statistical Information Bulletins 34 to 42*. General Directorate for Strategic Intelligence, Studies and Information Systems.

-The Official Gazette of the Algerian Republic. (2017, January 11). The directive law for the promotion of small and medium-sized enterprises. Algeria: The General Secretariat of the Government.

• **A conference paper:**

-IFC Advisory Services. (2009). *The SME Banking Knowledge Guide*. Washington, D.C: The World Bank.

-UNFCCC, S. (2016). The concept of economic diversification in the context of response measures. *Bonn Climate Change Conference - May 2016*. Bonn: United Nations.

• **University theses:**

-Ben Mouaffek , Z. (2019). The strategy of diversification of the Algerian economy in light of contemporary economic changes. *Doctoral Dissertation*. Djelfa, Algeria: Ziane Achour University of Djelfa.