

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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ALGERIAN SMEs AMIDST ECONOMIC REFORMS AND GOVERNMENT SUPPORT

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ABSTRACT

It is widely recognized that SMEs play an important role in nations' economies. Nowadays, in most of the world countries, SMEs seize a major proportion among all businesses, however, due to their comparative small size and low competitiveness, they show a vulnerability to economic changes while they are in continuous need for assistance. This paper tries to position Algerian SMEs within their broad influencing context and seeks to report on the support received from government and how they are affected by economic reforms. The socialist ideology adopted after the independence in 1962 focused establishing large corporations and tightly limited competition of private sector. The transition to the market economy in the after 1988 allowed for more recognition of the SMEs with multiple assistance programs aimed to regain the delay and make of SMEs an alternate to the failing public firms and the profit-seeking multinationals within nowadays rapidly globalizing world.

KEYWORDS

Algeria, Economy, Development, Government, SMEs.

INTRODUCTION

It is agreed among both economists and policy makers that SMEs can spur the process of decentralization at the inter and intra-regional levels, and may become an appropriate countervailing tool against the economic power of large firms (Quartey and Abor, 2010). Indisputably, the development of SMEs is seen as cornerstone to the achievement of economic and socioeconomic objectives, including the alleviation of poverty. More generally, SMEs are considered as essential driver for creating job, social cohesion, innovation and growth in both advanced industrialized countries, and emerging and developing economies. They represent the seeds of big businesses and the fuel of national economic engines. Their encouragement has proven to be an effective way of increasing productivity which results ultimately to a much better living standard, while it has been recognized during the G20 Summit held in Seoul that SMEs, especially in developing economies, could contribute more to the economies than they currently do (G20 Summit, 2010).

Interest in the important role of SME and their development process continue to be at the heart of policy debates across the world. Realities show that governments in the four corners of the world have undertaken initiatives to promote the growth of SMEs at all levels (Feeney and Riding, 2004). The United Nations Commission for Africa (UNECA) has indicated, in its 2010 report about the role of SME in maintaining sustainable development in North Africa, that the new challenges of SMEs in the region are centered towards the need for greater commitment by the state (UNECA, 2010). Authorities in Algeria have realized that entrepreneurship and innovation are the main vehicles for economic development and for achieving competitiveness in the globalized world markets (Merzouk 2009, Hanafi 2010 and Datoussaid 2011). The announcement made by the government on April 2010 to launch a presidential program for the creation of 200,000 SMEs (Hanafi, 2010) is just one example of this orientation.

This descriptive article seeks to look into three components of the broad context through which Algerian SMEs have evolved. The first relates to the economy of the country and stresses the move from planned to market economy and also highlights efforts to integrate the local economy. The second sheds light on the roles played by the state in developing SMEs through support and upgrading programs and infrastructure building; both of which are supposed to provide a plenty of opportunities for SMEs to grow through. The rest of this article structure goes as follows; reviewing the definition of Algerian SMEs will be highlighted in the first section. The second section focuses on the evolution of the institutional framework governing SMEs and the next one deals with the programs designed to upgrade them. The fourth section focuses on the regional and global partnership projects aimed to integrate the local economy while generating opportunities that SMEs can tap to be internationally competitive. In the fifth section we focus on infrastructures' building. Last two sections conclusion.

DEFINITION OF SMEs

No official definition of SMEs was used in Algeria before 2001. However, the definition of the National Office of Statistics (NOS), which takes in consideration the number of employees as only criterion, was used to certain extent. This definition recognizes SMEs as businesses producing goods and services and employing 1 to 250 workers (Atil, 2009). In 2001 Algeria has signed a partnership with the European Union. A new law guidance on SMEs has emerged soon and led to the adoption of the European definition of SMEs which was decided by the European Union in 1996. Under this definition, SMEs are defined as "any business producing goods and services and employing no more than 250 persons, with annual turnover not exceeding DZD 02 billion¹ or total balance sheet not exceeding DZD 500 million. This definition explicitly distinguishes between micro, small, and medium enterprises. *Micro enterprises*: are businesses employing 1 to 9 people with annual turnover less or equal to DZD20 million, or with total assets not exceeding DZD10 million. *Small enterprises*: are business employing 10 to 49 people with annual turnover less or equal to DZD200 million or with total assets not exceeding DZD100 million. *Medium enterprises*: are businesses employing 50 to 250 people with annual turnover between DZD 200 million and DZD 2 billion or with balance sheet total between DZD 100 and DZD 500 million

SMEs UNDER THE STATE'S MERCY: THE INSTITUTIONAL FRAMEWORK

Scholars use to look into the post independence development of Algerian SMEs from different perspectives. Authors like Gharbi (2011) et Benmessaoud (2009) focus on change of the government role in recognizing SMEs as the main component of private sector, while others like Ayad et Al. (2009) look to SMEs development as influenced by economic changes. Here, we combine both perspectives with special focus on economic reforms to better highlight the way through which SMEs evolved. Though main reforms have only started at the end of 1980s where Algeria witnessed a unique experience characterized by political, economic and social reforms underpinning transition to the open market, the beginning of the 1980s saw the appointment of a new president who started some reforms to develop the economy which was based on communism principles. There are three main phases in the implementation of economic reforms; the period of 1980s to 1994 saw the progressive implementation of many reforms but still within the planned economy and under the control of the government.

¹As for beginning July 2013, 1 US\$ = 79 DZD (Algerian Dinar)

The period of 1994 to 1997 saw the implementation of the structural adjustment plan under the assistance of international financial organizations. The post 1997 period (called also post - structural adjustment) saw greater willingness towards the market rules with more encouragement of private sector.

The independent Algeria had chosen to follow a planned economy. Private sector - which currently maintain a major part of SMEs (Khalil 2006)- was not recognized under this economic model for almost three decades while the hydrocarbons sector was the backbone of the economy. The scant attention given to SMEs can be summarized in the investment codes of 1962, 1966 which tried to give a greater role to the private sector to contribute to the economic development. The National Investment Commission (NIC) was established and assigned a role of issuing approvals for private investors and entrepreneurs. The two four-year plans (1970-1973 and 1974-1977), which framed a special program for the development of national industries, saw the creation of 594 SMEs. Despite this interest, SMEs were still considered as complement to the public sector. As result, private investors were usually concentrating in services and trade niches which didn't provide favorable and supportive environment due to the rough laws, heavy tax and the closure of foreign trade. The investment code of 1982 required private investors to go through a mandatory licensing procedure. A second code issued in 1988 allowed private investment to be engaged through a simple statement.

The fall in oil prices in 1986 with its severe economic repercussions, along with the fall of the communism in the end of 1980s led Algeria to opt for the market oriented economy and recognize the private sector as strategic catalyst for the development of the country. Starting from 1990s, Algeria initiated a process for opening up to the market economy. The first wave of reforms took place under the Structural Adjustment Program with the technical assistance and financial support of international organizations such as IMF, the World Bank, and the European Community. The investment code of 1993 granted significant benefits to private investments (tax exemptions, tariff reduction and improvement of credit rates) and for the first time the law on money and credit of 1990 gave equal interest to this sector as the public sector. Finally, in August 2001, a new law on investissement further allowed the creation of a single point in each of the 48 provinces of the country to fasten new businesses start up. The second wave of reforms targeted integration into the global economy, reform of the public sector, privatization process, reform of the financial sector including banks, building infrastructures, development of agriculture sector, promotion of national and international investment, improvement of the regulatory and institutional framework, and improvement of the corporate environment.

INITIATIVES TO SUPPORT AND UPGRADE SMEs: A CONTINUOUS NURTURING PROCESS

Algerian government showed more interest and determination about reforming the economy and opening up its markets. This situation led to SMEs development being at the top of policy makers' agendas (Maaradj, 2009). The cash abundance and the huge revenues received after the increase of the oil price during the last years (more than \$205 billion in December 2012) are helping the government in its commitment to the development and the strengthening of the SMEs sector. These revenues are reported by IMF (2006) as being used in the improvement of the overall business climate.

Various initiatives have been formulated to speed up the development of SMEs and upgrade their competitiveness. Reforms were undertaken to facilitate business creation and improve the environment within which businesses operate. This includes; simplifying business registration procedures, revising commercial code, providing tax relief for businesses, amendment relative to legislation on land access and development of industrial zones in order to facilitate investments. Hence, A National Investment Agency aimed at facilitating the creation of companies was established and specific measures were taken to encourage the creation of SMEs, including; launching a program of modernization for industrial enterprises, establishing investment and guarantee funds, reducing the number of documents required to start up a business, reducing the cost of land, real estate transactions and the time needed for reviewing cases, and enhancing conditions of issuing building permits (ADB, 2011).

The First Upgrading Program was introduced by the United Nations Industrial Development Organization (UNIDO) in collaboration with the Ministry of Industry and Restructuring in 1998. It was tailored to the specific needs of Algerian manufacturing and meant for improving competitiveness and supporting the industrial restructuring process. It included the upgrading and improvement of 48 Algerian companies. Starting from January 2000, a monitoring program was implemented by the Algerian authorities to improve the competitiveness of 1000 SMEs for the period 2000 – 2006, help them maintain their market shares and go international. The Fund for Promotion and Industrial Competitiveness (FPCI) was used to finance projects related to the promotion of the competitiveness.

Euro Development Program for SMEs (EDPME) extends in two phases with the first phase from 2002 to 2007. It was funded by the European Commission and the Ministry of SMEs and Craftsmanship under the Euro-Mediterranean partnership, the amount allocated to this program exceeds 60 million Euro. The objective of the program is to significantly improve the competitiveness of SMEs according to international standards of management. Here SMEs are classified into three types, survival SMEs, growing SMEs and those in incompetitive situation. The last category is consistent with the visions and practices of this program and are the most. Three different strategies were followed in this program; A strategy of penetrating that means operating throughout all the country, in all sub-sectors and all business functions. An expansion strategy through extensive prospection for companies, and a building strategy through follow-up actions and support. 445 SMEs were supported during the first phase while the second phase focuses on upgrading craftwork and service enterprises in terms of ICT.

The National Program for Upgrading SMEs is a complementary program initiated by the Ministry of SMEs and Craftsmanship. It takes in account SMEs as defined in the 2001 law Guidance; including those small enterprises (with less than 20 employees) which were neglected by the previous programs. This program was officially launched in 2007 for a period of six years with the aim of upgrading 6000 SMEs. One billion dinars per year was allocated to this program while the National Agency for Development of SMEs (ANDPME) was established by the government to manage it. This program aims to assist SMEs during the upgrading process, it also aims to develop the capacity of the assisting associations and professional organizations to better understand the concept of upgrading. The focus is on the following areas: Sectoral operations (analysis by industry), regional activities (identification of priority actions by wilaya) actions related to the creation of conducive institutional environment of the SMEs, and finally actions for the benefit of SMEs themselves.

Support to ICT skills program, commonly known as SMEs II program, is a new support program signed between the Ministry of Small Business and Craftsmanship and the European Commission and launched 2009. This new program continues the previous works but in a more targeted way. Indeed, this program, which runs over a period of 4 years, aims to support 150-200 SMEs operating in high value-added sectors such as food industry, building materials, mechanical engineering, metal processing, chemical and pharmaceutical industry as well as electricity, electronics and ICT. His program is also intended to enable SMEs regain the domestic market and expand internationally through opportunities offered by regional and international agreements. The program includes three components: (i) direct support to SMEs /SMIs in selected areas (general upgrading, upgrading in terms of quality and skillful usage of ICT), (ii) support to the supporting institutions (Ministry of SMEs and its agencies and departments, and organizations representing SME), (iii) support for the establishment of a quality system, including the structures in charge of standardization, metrology, accreditation, inspection and certification as well as support for technical centers. The total amount is €44 million, with a contribution of 40 million Euros from Europe, 3 million from the Algerian side and one (1) million from the beneficiary SMEs.

The Multi-faceted program is a very ambitious and challenging program announced by the government in 2010 and aims to upgrade 20.000 others SMEs over a 5 years period. This new upgrading program is run by National Agency for Development of SMEs (ANDPME) and will cost 386 DZD billion (around 4 billion Euros). If successfully completed, SMEs sector in Algeria will be able to add more to the economy in the short term and compete in regional and global levels while boosting exports outside the hydrocarbons sector. Generally, this program target SMEs themselves and the environment surrounding them.

INTEGRATION OF THE ECONOMY: OPPORTUNITIES TO TAP INTERNATIONAL MARKETS

Since the end of 1980s, efforts were intensified to foster regional and international cooperation and diversify trade with the external world. Therefore, many cooperation projects were signed including; the Arab Maghreb Union (AMU), Arab Free Trade Area (GAFTA), New Partnership for Africa's Development (NEPAD), and the process is ongoing to join the World Trade Organization (WTO). These projects are not only assumed to lead to an economic recovery but also to boost the development of local SMEs through opportunities to accede into new markets while learning from the increasing world competitive environment. SMEs will have real opportunities to tap these markets. First time-export and labor intensive enterprises may chose to export to neighbouring AMU countries and also sell ethnic products to the wide GAFTA zone until they develop their competitive advantages; necessary to compete globally. Capital intensive and high competitive SMEs face real opportunity to tap the European market.

In line with the shift towards the market economy and the encouragement made for SMEs and private sector in general that started at the end of 1980, a trade agreement called *Arab Maghreb Union (AMU)* was signed in 1989 between five North African countries namely Algeria, Libya, Mauritania, Morocco, and Tunisia. This agreement targeted economic integration and future political unity and has set a plan for a common market by 2000 somewhat similar to the European Union model. The progress toward its real implementation was slow though many cooperative agreements were concluded in areas of customs, taxation, and central banking. The AMU formation in late 1980s made the Algerian policy maker obliged to further release obstacles already impeding the development of SMEs. It was estimated that AMU integration would allow specialization to stimulate economic development and growth and also yield the bargaining power needed for negotiating with other countries and trading blocs (Hanafi, 2010). First cooperation between Algeria and Europe goes back to 1969 when an agreement - essentially commercial - was signed for a period of five years. In 2001, an *Association Agreement with the European Union* was concluded, however, a wider association agreement between the two parties was signed in 2005 replacing earlier cooperation agreements and aiming to establish a free trade zone while constituting the framework for political, economic and scientific cooperation within the Euro-Mediterranean Partnership. In its trade component, the agreement dictates a tariff reduction scheme which is expected to lead eventually to the free movement of goods between Algeria and the EU by 2017. This partnership is supposed to help Algerian SMEs gain profit from low labour cost and lower environmental and social restrictions to compete with their European counterparts (Calza et al., 2010).

One ambitious program designed to support SMEs under this partnership is the MEDA program which is the principal instrument of economic and financial cooperation in the Euro-Mediterranean Partnership. It was launched in 1996 (MEDA I) and amended in 2000 (MEDA II). It allows the European Union (EU) to provide financial and technical assistance to the countries of the southern Mediterranean. This program aims to achieve four objectives; 1) strengthening political stability and democracy; 2) taking into account human capital and cultural dimensions; 3) supporting economic transition in southern Mediterranean countries and; 4) establishing an Euro-Mediterranean free trade Area and developing economic and social cooperation with special focus on SMEs and creating jobs; opening markets; encouragement of private investment, upgrading of economic infrastructure including financial and tax systems and creating an environment conducive to faster growth. In the period between 2002 and 2007 alone, 445 Algerian enterprises have benefited from this program whose allocated 57 Euros² to Algerian SMEs.

The *Great Arab Free Trade Area (GAFTA)*, which is supposed to be the cornerstone towards the economic integration among Arab nations, has been in force since 1998 to support efforts towards the establishment of an Arab common market targeting intra-regional free trade and economic unity. A 10% reduction in customs fees is to be implemented each year as well as the gradual elimination of trade barriers. Currently 18 of the 22 Arab League states signed on to this agreement with Algeria joining it in 2005. In March 2001, member countries have decided to speed up the liberalisation process, therefore, the elimination of most tariffs among the GAFTA members was enforced starting from January 2005, but this does not apply to all goods. According to Abedini and Péridy (2008) The economic benefits expected from this integration for each country are numerous and well-known. This includes the increase of intra-regional trade due to the removal of trade barriers, improve production efficiency via exploitation of comparative advantages and scale economies, increase of competitiveness among firms from different countries, and achieve economic growth. According to ALGEX (2013), exports of non-hydrocarbons to GAFTA have increased by 21% in 2012 and imports decreased by 7%. SMEs seized good share of the total export to GAFTA, hence, this positive impact allows them to exploit opportunities from neighbouring countries and take advantage of cultural similarities shared along the GAFTA zone.

New Partnership for Africa's Development (NEPAD) is an economic program introduced by African Union in 2001 and aims to provide a comprehensive vision and policy framework for boosting economic co-operation and integration among African nations. Many projects are being established under this program and Algeria appears as one of the key players for the achievement of many of these projects including the Trans-Saharan Highway that connects six countries (Algeria, Tunisia, Niger, Mali, Chad and Nigeria), the 1,200 km-long Trans-Maghreb Highway linking Tunisia to Morocco which was completed few years ago, and the optical fibre cable project between Abuja (Nigeria) and the Beni Saf Port (Algeria), passing through Niger, the Algeria-Nigeria pipeline project. Talks to join *World Trade Organization* have started in 1987. Since then, ten rounds of negotiations with the organization and 93 meetings with 21 countries were achieved up to the end of June 2010. Despite the long lasting negotiation process, authorities in Algeria say that we are not in the hurry to join the organization, The accession to the (WTO) will consolidate the ongoing economic reforms, lead to better integration into the global economy and open new markets to SMEs to go through. However it also poses threats to the economy since most of the businesses are not armed with the necessary competencies and capabilities to compete with multinational firms. As a matter of fact, this is one reason why desire of the government to secure and conclude terms that safeguard the economic interests of the country.

BUILDING INFRASTRUCTURES: ANOTHER PUSH TO STRENGTHENING SMEs

A part from the aforementioned public agencies to provide financial support to SMEs, efforts are also done for the development of a foundation in information and communication technology (ICT). The technology center Sidi Abdallah, which was developed under the ICT Development Support Project, was launched in cooperation with the World Bank and comprises three technology parks. A cyber park was also established, along with a "Technobridge Incubator" in the technology park to support start-up of new companies and innovative SMEs and while provide development support to the Ecole Centrale des Postes et Télécommunications and the Institut National des Télécommunications (INT) to deliver courses on cyber entrepreneurship and ICT management. The aim is to increase wealth through promoting competitiveness and innovation culture in both small and large businesses (MEPI, 2009).

It was announced in January 2013 that a Technology Transfer Office (TTO) will be established soon with the support of World Intellectual Property Organization (WIPO). This office will operate as facilitator of technology transfer into the country and regulate mechanisms for the protection of intellectual property. In this context, the National Institute of productivity and industrial development (INPED) will be equipped with appropriate means. Similarly, it is expected in the short term the creation of two business schools for the training of senior business executives, a national school of industrial economy and a higher institute of logistics (ISLA). Aims of the government are also to strengthen national capacity of consulting and engineering, modernize the structures of management training; including the creation of specialized centers for training and development of business managers and develop the SMEs incubators (MoF website).

In terms of exportation, OPTIMEXPORT, which is a program to consolidate export capacity of Algerian SMEs, was established in 2007 in collaboration with French development Agency. This program provides international commerce information to SMEs, train them about techniques of selling internationally, and accompany them in their conquest of foreign markets. Furthermore, Three export consortiums were launched in 2012 with the collaboration of United Nations Industrial Development Organization (UNIDO) to enable SMEs food industry SMEs export their products especially to Europe, and MENA region. According to the ministry of Finance, new actions will be implemented soon to modernize customs department in order to facilitate international trading (MoF website).

The national Agency for Research and Technologic Development (ANVREDET) is the national innovation agency whose objective, beside working with universities' incubators, is to distribute subsidies to inventors and promote all sort of efficient partnership enterprises, between universities, and research labs. In addition, two new bodies were born in 2010 to assist SMEs; National Center for Outsourcing Development and SMEs National Observatory. The role of the latter is more in assisting the government with proposals about the development of SMEs and monitoring the overall environment of SMEs.

ASSESSING THE SITUATION: REVIEW OF THE LITERATURE

The realities of increased globalization and competitiveness in international markets during the last decade pushed towards more assistance in favor of SMEs sector in order to decrease public spending and lower dependence to the less-efficient government companies. Hence, authorities have allocated huge budgets, multiplied initiatives, created funds, and continued reforms related to the institutional framework; all aimed to develop SMEs. GDP growth was positive during the last decade, with much of this growth being driven from hydrocarbons and agriculture, and also from the dynamism of sectors that largely depend on government spending such as service and construction. However, progress in leaving the planned economy and creating a conducive market economy has been running slow. For instance, private banking system is underdeveloped and usually government agencies in Algeria are the most important supporting financial

²European Institute of Research at: <http://www.medeia.be/en/countries/algeria/eu-algeria-relations/>

entities for SME, therefore, the effectiveness of their programs in supporting SME development is mixed and not encouraging (Emine, 2012). Significant progress was achieved since the start of these reforms with the emergence of a more dynamic private sector and successful stabilization of financial and economic indicators such as positive economic growth and low inflation (Hanafi, 2010). However, despite some progress in improving the business environment, significant impediments to economic development and entrepreneurial activity still persist (heritage, 2013). The Euro Mediterranean Enterprise Policy Assessment made by European Commission (2008), reports that Algeria has shown a average strength of institutional framework for enterprise policy compared to other arab mediterranean countries.

After more than two decades of reforms and support, private sector is still under-developed and SMEs face various issues especially; high mortality rate, high tax rate, less effective trainings, average quality of infrastructures, and lack of innovation. These issues can be further depicted by the very low share in terms of export, therefore, the economy continues to be dependent on the hydrocarbons sector which alone generates more than 95% of total exports. This signifies that, despite the growth of SMEs sector, its contribution to the economy is not yet up to the expectations. It also implies that resumption of growth outside this sector remains a serious challenge for algerian authorities which seems to have focussed on increasing the number of the enterprises in order to create more jobs in the short term instead of supporting the existing SMEs and strengthening their competitiveness in both local and international levels (Ayad et al., 2009). It has been reported that the number of the benefiting enterprises at the end of some upgrading programs is far less than what had been precendently announced in the beginning like in the case of the first upgrading program which ended in 2006 (Azouaou, 2009) and also some of the ongoing programs where - according to the National Association of Algerian consultants' vice president - the number of the upgraded SMEs at the end of the 5 years term in 2014 will be around 2000 rather than 20.000 enterprises; that is just 10%³. According to him, two reasons lie behind this failure; the first is that the National Agency for Development of SMEs (ANDPME) doesn't have enough managerial capacity and funds to upgrade all the scheduled enterprises due to the under-estimated cost of upgrading, whereas the second reason has more to do with the lack of enthusiasm from enterprises' owners themselves due to complexity in the upgrading procedures.

Furthermore, it is worthy of note that Algerian SMEs didn't take full advantage of the partnership projects concluded since the opening of the economy. Through employing synthetic control methods, Hosny (2012) found that Algeria's trade with nine GAFTA countries - which cover more than 96 % of Algeria's pre-treatment trade- would have been better if Algeria had signed the agreement in 1998. This scenario is likely to be repeated with WTO. In the same context, the UN's (2008) report on private sector's institutional response to NEPAD indicates that participation of the private sector in most NEPAD projects and programmes has been limited. The MENA-OECD Working Group on SMEs and Entrepreneurship (2011a) confirm that the limited development of entrepreneurship and small businesses in MENA is explained by at least three reasons: First, high barriers to doing business, particularly for smaller firms (e.g., high taxes, rigid labor laws, corruption, unfair competition, and complex licenses); second, cultural norms in which young graduates consider entrepreneurial activity less attractive compared to working in the public sector where a better job security is provided; last, low participation of women in entrepreneurial activity. However, this last factor is not relevant for Algeria because female self-employment reached 30.6% (O'Sullivan, 2011).

It is clear that an important role has been done by the state so far to develop SMEs but without much success. This may be attributed to the nature of business climate which is not conducive to the flourishing of SMEs. In its 2006 country report about Algeria, IMF indicated that business climate is not supportive for SMEs to operate. Business taxes system, financial services (access to credit), and enforcement contracts registering property are the main areas that needs enhancement. The same report indicated that compared to the neighbouring countries, the gap in business climate is wider in labor-intensive SMEs and in the tax burden. Furthermore, in the "Doing Business Classification" issued by the World Bank Algeria was ranked 150 in 2012 and 152 in 2013⁴. The main weaknesses has to do with the unstable regulatory framework. However, according to the World Economic Forum (WEF) 2010, the most problematic factors for doing business in Algeria are: access to financing, inefficient government bureaucracy, corruption, inadequately educated workforce, and tax rates⁵. This situation would impede the development of SMEs and private sector in general, and undermine their role in the growth of the country's economy.

A disagreement exists between the government and the forum of business leaders in terms of reforms, strategies and means of work. The first wants to create an environment conducive to upgrade the businesses. while the latter think it is question of resources first, i.e ensure material investments (equipment) and human capital necessary for any upgrade. The forum calls for a general upgrading of the economic system and criticizes the archaic attitudes and the stagnating situation of the banking system (Azouaou, 2009). This view was recently summarized by Mr Bensaci - the of president of National Advisory Council (CNC) for SMEs - when he declared to the media that "there should be a suitable environment if we want to strongly develop our SMEs"⁶.

CONCLUSION

SMEs in Algeria have shown a high vulnerability to the economic conditions. Although Algeria has managed to diversify its economy, this diversification is still very low with the productive fabric remains largely concentrated in oil and gas industry and the labor-intensive SME sector is under-developed (IMF, 2006). Therefore, the creation of a meaningful and comprehensive policy that addresses all the issues facing SMEs must be rapidly put in place, while taking in consideration cooperation with professional organizations and trade union associations. The focus should be on deepening and further expanding measures of support benefiting the private sector such as: reduction of taxes and other costs, further facilitation of financing, fighting against fraud, and strengthening competitiveness. In same time, more efforts and focus is needed to enable SMEs to develop links between GLCs and MNCs, comply with international standards, adopt new technologies and develop innovative capabilities. Financial sector modernization should be accelerated and the establishment of private banks should be allowed urgently in order to create competitiveness. Public banks also need to be upgraded in order to serve the economy. IMF (2012) recommends that they should continue modernizing their risk information and assessment operating systems, particularly to ensure that new incentives to grant loans to SMEs will not create additional default risks.

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