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Law and Development: An Analysis of the Current Situation and Future Prospects of Small and Medium Enterprises in Algeria

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Abstract:
Due to the recent economic transformation witnessed globally, many countries have changed their policies and shifted towards supporting small and medium-sized enterprises (SMEs), recognizing their importance. The success of certain experiences in this regard demonstrates the effectiveness of this type of institution in boosting the economy.
Like other countries, Algeria has focused on the SME sector, especially after the oil crisis, and has worked on strengthening and developing it through several measures and mechanisms. This shows the considerable efforts of the Algerian legislator, who has issued many laws and regulations to support SMEs in terms of organization and effective operation, as well as addressing the challenges and obstacles they face, aiming to establish a sector with a strong and organized infrastructure.
Keywords: small and medium enterprises; Algerian legislation; challenges; economic development.

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1. INTRODUCTION

In recent years, the world has witnessed significant transformations across various domains—social, scientific, technological, and particularly economic. These changes have been marked by increasing openness and globalization of the global economy, especially with the emergence of economic blocs at both regional and international levels. As a result, there has been a growing focus on economic institutions in general, and small and medium-sized enterprises (SMEs) in particular.

Given their crucial role, SMEs are considered a fundamental driver of national economies. They hold a strategic position in the economic landscape, as they often represent the foundational nucleus around which many large industrial enterprises have developed. These large institutions initially emerged from SMEs, gradually expanding in scope and diversifying their production. Accordingly, larger entities have increasingly recognized the significant contributions of SMEs, particularly in their ability to foster both economic and social development. This includes generating employment, reducing unemployment, and helping to move away from reliance on hydrocarbons as the sole source of national income.

Consequently, SMEs constitute a cornerstone of economic development, serving as a primary indicator of progress and growth within any given society. This recognition has led many governments to adopt programs and policies aimed at supporting and promoting these enterprises. Algeria is among the countries that have placed growing emphasis on the SME sector, initiating numerous legislative and regulatory measures. Through these legal instruments, the Algerian legislature has sought to implement mechanisms aimed at upgrading and enhancing SME performance—particularly in light of the country's ambition to diversify its exports and reduce its dependence on the volatile hydrocarbon sector.

In this context, the following central question arises: To what extent has the Algerian legislature succeeded in formulating an effective legal policy for the regulation of the SME sector?

To address this question, the research will be structured as follows:

- **Section One**: A conceptual overview of small and medium-sized enterprises
- **Section Two**: The current state of the SME sector in Algeria

2. A Conceptual Approach to Small and Medium-Sized Enterprises

There is no doubt that small and medium-sized enterprises (SMEs) have garnered significant attention from countries across the development spectrum—both developed and developing—owing to their substantial contribution to citizens' economic well-being. In recent years, many nations have intensified their efforts to provide dignified economic conditions for their populations. In this regard, Algeria has expressed its growing interest in the SME sector through the enactment of dedicated legislation aimed at regulating and organizing its operations.

Therefore, a proper understanding of the conceptual foundations of SMEs necessarily involves a discussion of the key elements that shape their definition and legal framework.

2.1 The Concept of Small and Medium-Sized Enterprises

In light of their crucial role in national economies, numerous attempts have been made to define SMEs. However, these efforts have faced several challenges stemming from differences in economic philosophies and management models adopted by various countries—whether developed or developing. As a result, definitions of SMEs vary widely and are based on diverse criteria.

a. Definition of Small and Medium-Sized Enterprises

According to the United Nations Industrial Development Organization (UNIDO), small and medium-sized enterprises are very small units engaged in the production and distribution of goods and services. They typically consist of self-employed individuals working independently in urban areas of developing countries. Some rely on family labor, while others may hire workers or craftsmen. Most of these enterprises operate with minimal or no fixed capital, utilize low-level skills, generate irregular income, and provide unstable employment.

In contrast, French legislation, under Law No. 04/01 of 1978, defines

SMEs as enterprises whose annual turnover does not exceed 100 million francs—a threshold later increased to 200 million francs by the 1984 decree—and whose workforce does not exceed 500 employees.

In the United States, the definition of small and medium-sized enterprises (SMEs) was adopted by the Federal Reserve in 1953. According to this definition, an SME is an enterprise that is independently owned and managed, holds a certain market share, and employs no more than 500 workers.

When reviewing the Algerian legislator's approach to defining SMEs, it is worth noting that there was no legally established definition from the country's independence until 2001 [1].

despite several earlier attempts. The first official definition was introduced through the **2001 Framework Law on the Promotion of Small and Medium-Sized Enterprises**[2], which laid out the legal and structural basis for such enterprises, particularly in Articles 4 through 7.[3]

Article 4 defines SMEs as enterprises engaged in the production of goods or services, employing between 1 and 250 persons, with an annual turnover not exceeding two billion Algerian dinars, or total annual assets not exceeding 500 million Algerian dinars. Additionally, such enterprises must meet the criterion of independence.[4]

The subsequent article classifies **medium-sized enterprises** as those employing between 50 and 250 persons, with an annual turnover ranging between 200 million and two billion Algerian dinars, or total annual assets ranging between 100 million and 500 million Algerian dinars.[5]

From this legal framework, it is clear that the Algerian legislator relies on two **quantitative criteria**—number of employees and annual turnover—as well as a **qualitative criterion**, namely the independence of the enterprise. This legal definition is largely consistent with that adopted by the **European Union in 1996**, which classifies enterprises as follows[6]:

- **Micro-enterprises**: Enterprises employing fewer than 10 individuals.
- **Small enterprises**: Independent enterprises employing fewer than 50 individuals, with an annual turnover not exceeding 7 million euros

and an annual balance sheet total not exceeding 5 million euros.

- **Medium-sized enterprises**: Independent enterprises employing fewer than 250 individuals, with an annual turnover not exceeding 40 million euros and a balance sheet total not exceeding 27 million euros.

The definition adopted for SMEs is based on the approval of the Ministry of Industry and Mines, which is the current authority overseeing the SME sector. This definition is included in the new guiding law for the development of SMEs, **Law No :17/02** which encompasses all organizational and legal frameworks governing these enterprises. The law aims to define SMEs and establish the support measures and mechanisms for their establishment, growth, and sustainability.

Article 5 of the law defines SMEs, regardless of their legal status, as enterprises engaged in the production of goods and/or services, employing between one and 250 people, with an annual turnover not exceeding four billion Algerian dinars, or annual assets not exceeding one billion Algerian dinars, while meeting the criterion of independence.[7]

Article 8 further defines medium-sized enterprises as those employing between 50 and 250 people, with an annual turnover ranging from 400 million to four billion Algerian dinars, or total annual assets ranging from 200 million to one billion Algerian dinars.[8]

b. Characteristics of Small and Medium-Sized Enterprises

Small and medium-sized enterprises are characterized by several features that distinguish them from other types of enterprises, making them the preferred choice for many. These characteristics include:

- **Ease of Establishment**: There is a higher demand for small and medium-sized enterprises compared to larger ones[9], mainly due to the lower capital requirements for starting these businesses. SMEs tend to rely solely on self-financing, typically through personal savings, to meet specific needs in various sectors of economic activity. This is particularly suitable for developing countries.
- **Low Capital Requirements**: SMEs are distinguished by the relatively low capital needed to establish them, which is in line with

the limited savings of their investors. This characteristic encourages entrepreneurs to establish such projects without the need for external participation[10].

- **Small Size**: The small size of small and medium-sized enterprises (SMEs) enables them to be highly flexible and adaptable to both national and international economic conditions, particularly in the face of ongoing changes. Moreover, their small capital requirements facilitate the financing process.
- **Innovation and Creativity**: Despite the challenges faced by SMEs, there is widespread acceptance of innovation within these enterprises, as it is considered the key to reinventing long-term business opportunities. Innovation also strengthens their ability to compete with larger enterprises in resource development. SMEs are exposed to innovation and modernization more frequently than large enterprises because individuals working on new ideas often turn to SMEs, finding direct incentives to work within them.
- **High Flexibility**: SMEs are characterized by their remarkable flexibility, as they possess a significant ability to adapt to external environments. They can adjust their production levels to meet future market demands.

2.2 Foundations of Small and Medium-Sized Enterprises

The SME sector is diverse, encompassing many different forms and types depending on the criteria used for classification. These are outlined as follows:

a. Classification of Small and Medium-Sized Enterprises by Legal Form

The legal form of SMEs corresponds to the nature of the prevailing economic system. In liberal systems, private ownership predominates, while in directed economies, state intervention is significant, with public and cooperative ownership models prevailing, and individual ownership appearing in limited sectors such as agriculture and services.

- **Cooperatives**: Cooperatives are voluntary associations established by a group of individuals to meet the members' needs for goods and services at the lowest possible cost.

- **Public Enterprises**: Public enterprises belong to the state sector and are characterized by substantial financial resources. They benefit from various legal, administrative, and tax exemptions and are subject to a system of supervision and oversight.
- **Private Enterprises**: These are enterprises governed by private law and can generally be categorized into two types: sole proprietorships and partnerships.

b. Classification of Small and Medium-Sized Enterprises by Nature of Orientation

Small and medium-sized enterprises are classified according to this criterion as follows[11]:

- **Family-Owned Enterprises**: These enterprises are established with the contribution of family members and are characterized by their reliance on family labor. They often operate from a family home, producing traditional goods for the market in limited quantities or producing parts of a product for a factory located within the same region, as part of what is known as subcontracting. This model is prevalent in industrial countries such as Japan and Switzerland. In developing countries, these enterprises often rely on the textile sector.
- **Traditional Enterprises**: This type of enterprise employs family labor and produces traditional products or parts for a factory with which they have a commercial contract. These enterprises may also hire wage workers and can operate from a location separate from the family home, such as a small workshop. This distinguishes them from the first type of enterprises.
- **Developed and Semi-Developed Small and Medium-Sized Enterprises**: These enterprises use modern industrial technology and techniques, whether in terms of expansion, efficient organization of labor, or production of standardized products that meet modern industrial standards and contemporary consumer needs.

3. The Reality of the Small and Medium-Sized Enterprises (SMEs) Sector in Algeria

The Small and Medium-Sized Enterprises (SMEs) sector is a crucial and influential component in any society, due to its contribution to both economic and social development. This significance has led Algerian public authorities to reform and develop this sector, recognizing its importance and effectiveness in national economies. The gradual evolution of SMEs has gone through several successive historical stages, yet challenges continue to hinder their progress, prompting efforts to tackle various obstacles they face.

3.1 Challenges Faced by Small and Medium-Sized Enterprises

Despite the crucial role SMEs play, they face several challenges that limit their contribution to the development process. These challenges can be summarized in the following key areas:

a. Issues Related to Financing and Industrial Land

- **Financing Challenges:** Access to financing remains one of the most significant issues for SMEs. It is a genuine problem and continues to be one of the most complex and challenging factors. Despite measures taken by the Algerian government[12], such as reducing interest rates in 2002, the establishment of an Investment Support Fund with a capital of 201 billion Algerian dinars, and the creation of a Guarantee Fund for SMEs with a capital of 30 billion Algerian dinars, the issue of financing persists. Several factors contribute to the financing problem, including:
- **Limited private capital** and reliance on family and friends for funding, which often proves inadequate.
- **High risks** associated with informal lending markets, such as extremely high interest rates, collateral requirements, and repayment conditions.
- **Difficulties in obtaining loans from commercial banks** due to the high perceived risks and issues with collateral, in addition to unfavorable interest rates and repayment terms that do not align

with the nature of SME activities.

- **Challenges in financial markets** and the stock exchange, including difficulties in issuing and trading shares.
- **Financial management problems** and difficulties in estimating financial needs.
- **Delays in repayment, bad debts, and an increase in deferred sales.**

➢ **Industrial Land Issues:** New investors face significant challenges related to acquiring land designated for establishing enterprises. This situation forces them to freeze part of their capital as they search for suitable locations and necessary buildings for their projects. In many developing countries, governments do not undertake the establishment of industrial zones that meet the needs of small investors. Furthermore, other challenges arise due to the lack of infrastructure and basic facilities. As a result, the issue of industrial land remains a significant barrier to the realization of many economic projects.

b. Tax and Legal Issues

➢ **Tax Issues:**

Small and medium-sized enterprises (SMEs) face significant tax-related challenges due to the high rates of taxation and the use of presumptive assessments for their profits. There is often an inclination to overestimate these profits due to doubts regarding the accuracy of the data provided in their tax returns. As a result, these enterprises may reach a point where they are unable to pay their taxes, creating a new obstacle, especially when seeking external financing.[13]

➢ **Legal Issues:**

The legal challenge stems from the lack of a unified law that defines small and medium-sized enterprises, regulates their operations, and provides them with the necessary facilitative measures for financing and obtaining licenses. Additionally, the procedures for establishing such enterprises are complex, and obtaining the required official licenses is difficult. SMEs also face the problem of multiple regulatory bodies overseeing their operations, such as economic, health, social security, tax, and customs authorities. The lack of coordination among these agencies further complicates the management of these businesses.

3.2 Challenges Facing SMEs

a. Global Trade and Global Communication

Technological and communication advancements have brought significant changes to business organizations' approaches.[14]

In particular, economic blocs and alliances between countries have become a feature of globalization. In this context, countries worldwide have sought to expand the scope of international trade and make it truly global. This was achieved through the establishment of the General Agreement on Tariffs and Trade (GATT), which was replaced in 1995 by the World Trade Organization (WTO). The WTO aims to create an internationally competitive trade environment based on economic efficiency, enabling the full utilization of global resources, continuous production, and trade in goods and services.

This leads to the optimal use of those resources while ensuring environmental protection and supporting the means necessary to achieve this goal. Consequently, it guarantees the expansion of production, the creation of new patterns for international labor division, and the increase in global trade, which in turn maximizes global national income and raises living standards through higher real income rates. It also ensures appropriate protection for the international market, making it operate in a suitable environment that accommodates various levels of development, while striving to involve developing and less-developed countries in international trade in a better manner.

On the other hand, technological changes in the fields of communication, transportation, information exchange, modern technologies, and satellite systems have narrowed the distances between countries, transforming the world into a small village where geographical and cultural distances have almost disappeared. Businesses and companies now operate in a highly competitive global environment, where a product launched in one country is simultaneously available in all global markets, whether through satellite TV, satellite systems, or the internet.

b. The Information Revolution and Competitive Ability

The information revolution has brought about real changes on a global scale, as it has been able to eliminate both time and space, opening vast horizons for the movement of capital, services, and qualified labor within a new environment. In this environment, data processing, information production, and value creation have become significant areas of organized human activity.

In general, adapting to these new changes imposed by economic globalization presents major challenges for small and medium-sized enterprises (SMEs). These enterprises are required to align with and adapt to these conditions by increasingly relying on information technology and advanced tools to expand and develop their services in line with the future needs of their clients. This adaptation occurs within the limited material resources and human capabilities available to them.

Furthermore, enterprises with special privileges are those capable of achieving technological leadership in their field, thus enabling them to negotiate higher prices for their products. On the other hand, competition forces SMEs to continually reduce their profits, wages, and labor standards to remain competitive.

Good manufacturing practices and adherence to specifications and quality standards have become increasingly important. This requires a skilled and highly motivated workforce along the value chain. This also means ensuring greater barriers to market entry for most small and medium-sized enterprises (SMEs) globally, with these barriers being particularly higher in developing and less-developed countries. Additionally, it indicates the need to improve the technological modernization opportunities for a selected group of SMEs.

4. CONCLUSION

In conclusion, we acknowledge that Algeria has undergone economic changes in line with the current international situation. These changes have allowed for the restoration of the role of private enterprises and recognized the significant role they play. Algeria has encouraged the establishment of small and medium-sized enterprises (SMEs), considering them as a stepping stone for large projects and a complementary part of the economy. SMEs represent the backbone of the private sector.

This has been translated through the issuance of several laws and regulations, as the Algerian government has adopted various policies and strategies aimed at promoting and supporting SMEs. These policies include developmental programs designed to address and reform the challenges and obstacles faced by SMEs, hindering their growth and the achievement of their goals. The government has also provided a range of incentives during the establishment and expansion phases, offering tax and customs policies tailored to the needs of SMEs, thus improving their performance and ensuring their sustainability amid regional and international transformations. The significant role SMEs can play in driving growth, development, and economic progress is evident through the historical stages they have passed. However, despite all the efforts made, this sector remains fragile and in need of new methods and approaches to fully activate its role and advance the national economy.

To ensure the topic is addressed comprehensively, including its sensitive aspects, we have reached the following conclusions:

- SMEs are a significant qualitative leap with their inclusion in Algerian law.
- SMEs have several characteristics and advantages, granting them importance at both the economic and social levels.
- SMEs face various challenges and problems.
- The Algerian legislator has classified SMEs based on the number of employees, turnover, and a qualitative criterion of autonomy.

Based on this, we recommend the following:

- Developing laws to regulate and manage the operations of SMEs.

- Organizing conferences and seminars to discuss the importance and effectiveness of SMEs.
- The need to train competencies responsible for the SME sector.
- Simplifying administrative and legal procedures for the establishment of SMEs.
- Ensuring SMEs keep up with current developments to improve their activities and operations.

5. Endnotes

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