

Assessing SMEs effectiveness in Diversifying sources of income and Activating economic diversification in Algeria

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Abstract: SMEs justified their recovery and strength as a permanent tool for the renewal of the economic fabric and local industrial development. Therefore, this study aims to highlight these enterprises as an important mechanism that diversifies sources of income and creates job opportunities in Algeria.

The results of the study concluded that there are some financing, marketing, and administrative challenges in addition to the weakness of the regulatory framework and the business climate, which led to blocking the path of its progress and development of its performance

Keywords: Small and medium enterprises; economic diversification; job creation; challenges of small and medium enterprises.

JEL Classification Codes : H03 ; F23 ; M23 ; D31

Introduction:

In recent years, small and medium enterprises have become the cornerstone of any strategy for social and economic development undertaken by countries, whether developed or developing. This interest is justified by the positive contribution of small and medium enterprises to growth through the creation of added value and job creation in an environment characterized by increased competitiveness in the context of globalization and trade liberalization. (Amar Amimer, 2022, p. 771)

Economic openness and the gradual entry into the market economy in recent years in Algeria led to a significant increase in several small and medium enterprises, while the available statistics indicate that these enterprises constitute the largest percentage in the economic fabric, as they represent more than 99% of the total enterprises active in Algeria contributes 09% of the total value added generated by all economic sectors (Mohamed, 2013, p. 2)

Encouraging the growth of small and medium enterprises in Algeria may contribute to the diversification of the productive fabric and the creation of permanent and continuous job opportunities, thus reaching the main goals of the country's strategy 2030. Unlike large enterprises, small and medium enterprises are able to respond to the needs of the economy faster due to their flexibility and ability to communicate. On the other hand, small versus large often represents the barrier taking into account the general business environment, access to strategic resources and export opportunities for small and medium enterprises (Rotar & All, 20) 19 (Rotar & All, 20). Job creation, and what are the challenges that impede the course of its activity? To answer this question, two hypotheses will be put forward:

First, small and medium-sized enterprises are an important tool for diversifying the Algerian economic fabric and creating employment opportunities.

Secondly, small and medium-sized enterprises in Algeria face several challenges. Objectives of the study:

Through this study, we aim to know the position of small and medium enterprises in the context of the macro economy and to evaluate the performance of small and medium enterprises in Algeria, as an important tool that affects the productive structure and its important role in creating job opportunities and reducing unemployment, as well as identifying the various challenges that prevent its development and sustainability.

Study Approach :

The quality of the study required relying on the descriptive approach in order to clarify the concept and importance of small and medium enterprises in the Algerian economy and the analytical approach by presenting available data and statistics on small and medium enterprises and interpreting them in order to reach the results.

Based on the foregoing, this study was divided into the following themes:

1. The role of small and medium enterprises in economic diversification
2. The impact of small and medium enterprises on job opportunities
3. The economic fabric of small and medium enterprises in Algeria

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1. The role of small and medium enterprises in economic diversification:

Small and medium enterprises are characterized by high flexibility in production and the ability to adapt to changes that may occur in the market, meaning that they are characterized by greater flexibility than large enterprises in facing fluctuations in various economic conditions, and these enterprises carry out their activities in a large number of economic fields, and this would help On the diversity of products, and thus works to meet the growing and endless needs of consumers in various sectors and the diversity of its work in the local markets to sell products unlike large institutions.

Despite the great importance of small and medium enterprises in developing countries, they suffer from internal and external problems and difficulties that impede their system and thus hinder the productivity of the sector.

The sectoral distribution of small enterprises usually follows a relatively stable pattern in most countries, as such enterprises tend to be concentrated in specific and labor-intensive industrial activities (Al-Quraishi, 2005, p. 181). The most important areas proposed for these enterprises are as follows:

Table 1. Table title

Traditional industries	Feeding industries	Service industries	Complementary industries
commerce	electrical engineering	Interfacial mineral histology	Clothing and knitting
marketing	Metallurgical chemistry electronics	Khashaybat Pottery Leather	Metal furniture
Tourist promotion, health, cleanliness, maintenance and repair	Textiles	Perfumery glassware and compounds	home furnishings
Carrying out and pursuing freelance professions	Packaging	Interfacial mineral histology	Tatten simple
commerce	Agricultural and animal foodstuffs	Khashaybat Pottery Leather	Houseware
marketing	Mining and packaging	Perfumery glassware and compounds	enlistment
Tourist promotion, health, cleanliness, maintenance and repair	Print	Interfacial mineral histology	Architectural supplements
Carrying out and pursuing freelance professions	electrical engineering	Khashaybat Pottery Leather	Appliances

Source: Abu Zeid, 2016, p. 191

Most statistics indicate that small and medium enterprises represent approximately 90% of the total enterprises in the world. Small and medium enterprises are considered the backbone of any successful economy, and the meaning of small and medium enterprises is originally local projects, but these institutions can also benefit from global opportunities in light of the increasing globalization and electronic commerce around the world. Small and medium-sized enterprises have an important role in the oil-producing countries as a result of the comprehensive economic strategy that these economies aim at diversifying away from the oil sector. Rather, they can be considered the locomotive of economic growth and employment with the increasing population. The impact of small and medium industries on diversification is summarized through:

- Achieving balance in the structure of national economic activity by providing a base of activities with high local content on which other sectors and activities can be based.

Ease of establishment and short recovery period for invested capital.

- Diversifying and providing what individuals and society need in terms of products or services.

- Employing the labor force and thus reducing the unemployment rate, and providing real job opportunities at a low cost to the national economy and to absorb semi-skilled or unskilled workers.

- Contribute to the development of other economic activities such as agriculture, food, trade, services and others.

- Contribute to achieving a policy of substituting comparative advantage imports with national products.

- An important factor for the development of rural areas, small towns and villages, and the reduction of migration to cities, and may even contribute to the achievement of migration

- The opposite, thus working to achieve the urban and spatial development strategy.

- It contributes significantly to raising investment and maximizing local savings.

- Characterized by independent management and flexibility in the face of economic fluctuations, and the ability to adapt to new changes.

Supporting policies of self-sufficiency, at least in some goods and services, reducing imports, improving exports, and actually contributing to supporting the national product and increasing local content (Al-Sheikh, 2017)

2. The impact of small and medium-sized enterprises (SMEs) on employment opportunities.

Small and medium enterprises represent one of the most important pillars of the economy in most countries of the world, and one of the most important areas for creating job opportunities, and they represent about 95% of the total enterprises in the vast majority of countries in the world, and they provide between 40% to 60% of the total job opportunities. Issued by the International Finance Corporation (IFC) that small and medium (official) enterprises contribute to 33% of the gross domestic product of developing economies, and they contribute up to 45% of job opportunities. These numbers rise significantly when adding small and medium enterprises In high-income countries, small and medium enterprises contribute to about 64% of the gross domestic product, and provide 62% of job opportunities (Alali, 2016), making them one of the most important economic tools that help create new job opportunities. Whether in developed or developing countries, it does not require large capital, and this is due to its small size.

One of the most important problems that developing countries suffer from, especially rentier ones, is the existence of unemployment. These countries are also characterized by rapid growth in population and labor force, and scarcity of capital. Therefore, small and medium enterprises can play a positive role in creating job positions.

In light of the worsening unemployment rates all over the world, interest in these establishments has increased by working to create more of them and provide a suitable environment for their growth and preservation from fading, as an important source for creating additional jobs at a time when large enterprises are beginning to dispense. For large numbers of employees in order to increase its profitability rates. From an operational perspective, he learns to:

- Maximizing employment opportunities: small enterprises can contribute an effective role towards increasing employment opportunities and overcoming the problem of unemployment, as they are labor-intensive projects.

- Combating the problem of unemployment and providing real productive job opportunities: These institutions are characterized by their high ability to provide opportunities, as the job opportunity cost generated in these institutions is a good way to stimulate self-employment and

private work. In addition, institutions need an appropriate or low capital cost to start the activity by investing in them

Providing job opportunities for semi-skilled and unskilled workers: These establishments not only contribute to providing real productive job opportunities, but also enjoy an additional advantage represented in their ability to employ semi-skilled and unskilled workers for two reasons. Capabilities and skills, which is the kind of training that large projects do not allow (Ahsan, 2013, pg. 15, 17). In other words, small projects often use

workers with relatively low skills, and with the passage of time these workers gain experience and turn into skilled workers, and the owner of the project often has limited administrative and organizational competence due to the small volume of production, and with the passage of time and the large activity of the project, the administrative and organizational competence grows for a wide sector of owners of small enterprises Those who form a basic base for carrying the burdens of development during its advanced stages, whether through the development of their small enterprises or the establishment of institutions

Kabeer (Abu Zeid, 2016, p. 43) Figure 1: The Role of Small and Medium Enterprises in Diversification and Job Creation .

3. The economic landscape of small and medium-sized enterprises (SMEs) in Algeria.

There is no definition generally accepted by organizations or researchers interested in SMEs. However, we will keep the legally stipulated definition proposed in Article 4 of the Law 01-18 December 2001 as this definition is based on quantitative and qualitative criteria namely the number, turnover, and annual balance sheet.

3.1 Characteristics of small and medium enterprises in Algeria

Small and medium-sized enterprises, regardless of their legal status, are defined as a company that produces goods and services, and employs whom

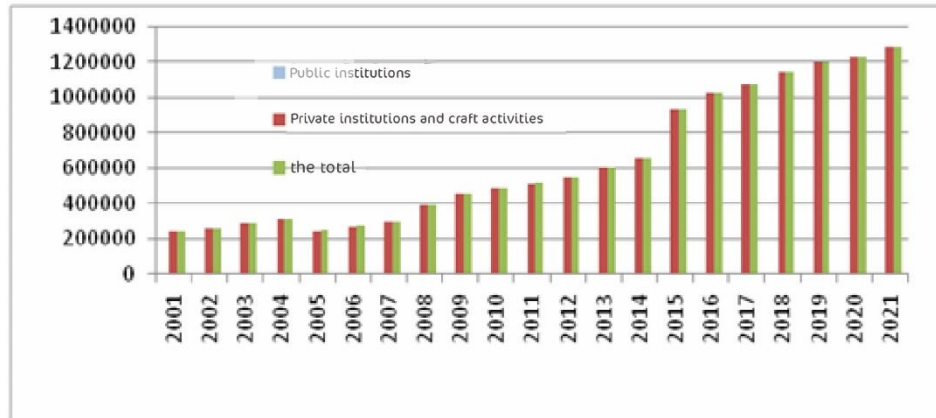
1 to 250 people, whose annual turnover does not exceed two billion Algerian dinars, and that the debt does not exceed the total annual budget of 500 million dinars, while respecting the criterion of independence. The latter means that the capital or voting rights must not be retained (Tahraoui & Bouyacoub, 2008, p. 115) In this context, definitions can be given through the following table:

Table 2. Characteristics of Small and Medium-Sized Enterprises

Enterprises	Number of Employees	Business Number (Dinars)	Total General Budget (Dinars)
Medium-sized Enterprises	50 to 250 employees	More than 400 million Less than 200 million	More than 200 million and less than 1 billion
Small Enterprises	10 to 49 employees	Less than 400 million	Less than 200 million
Small Enterprises	1 to 9 employees	Less than 40 million	Less than 20 million

Source: Oussaid, 2016, p. 23

The national fabric of small and medium enterprises witnessed a development through the emergence of the private sector, which doubled over the years. The table below shows that public small and medium enterprises represent only a small part of the total number of these enterprises, that is, an average, while small private enterprises represent the vast majority. As the gap between the two sectors is increasing as a result of the increase in the private sector, this is what the following table shows:



Source: Ministère de L'industrie , 2022

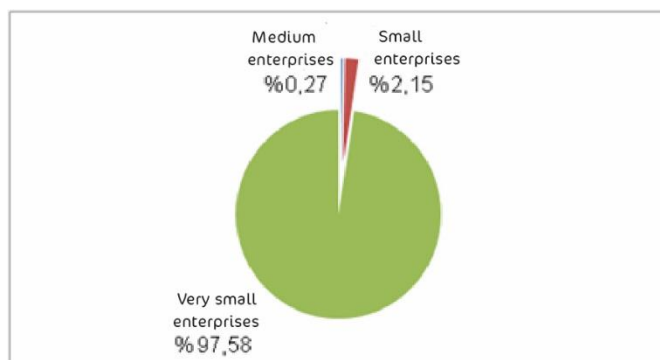
The reason for the doubling of the number of small and medium private enterprises is due to the economic policy adopted by the state

Through many incentive measures represented in the establishment of supportive and funded programs for the advancement of this sector and activating its performance in the national economy. Despite this, the establishment of enterprises in Algeria is still far from international standards, so that the national average for small and medium enterprises is about 27 small and medium enterprises per year. All community cases (in the north, district

(Ministère de L'industrie, 2022, p. 5 (Central, South) per 1,000 inhabitants, which remains insufficient

- Distribution of small and medium enterprises according to size

Very small enterprises (the labor force with less than 10 employees) dominate the economic fabric at a rate of 7.79%, followed by small enterprises at a rate of 51.2%, and medium enterprises at a rate of 27.0%.

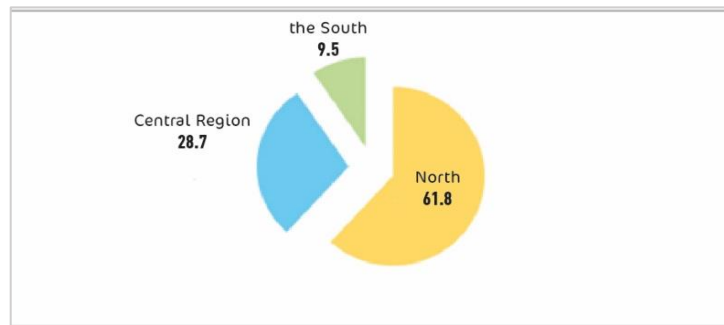


Source: Ministère de L'industrie , 2022

The increase in the number of very small enterprises has made the economic fabric very weak, especially in the face of international competition, as well as the inability of young people to satisfy the national market and think of exporting abroad.

Spatial distribution of small and medium enterprises

The analysis of the spatial distribution of these institutions is considered one of the important sites in order to identify the problems related to the location, business creation, as well as job creation, in addition to some activities that affect this, such as transportation and services. This is explained by the figure in 2018 across the various poles of the country.



Source: Ministère de L'industrie , 2022, p. 12

The above figure shows us that the fabric of small and medium enterprises suffers from an uneven geographical distribution in the various regions of the country, as most of these enterprises are concentrated by 8.16% in the north, i.e. 894 882 enterprises. This disparity is explained by the low population density and the lack of an infrastructure that is supposed to allow With the development of economic activity in the less dense regions, which amounted to 108 068 establishments, and the central region 283 416 establishments (Kadi, 2013, p. 6). The uneven distribution in small and medium enterprises across the country creates a problem with regard to employment as a result of the high labor supply at the level of demand, which constitutes an imbalance in the labor market.

As for the sectoral distribution of small and medium enterprises. Figures show us that most of them are concentrated in the services sector.

Table 2. Sectoral distribution of small and medium-sized enterprises for the years 2020-2021

	2020	Percentage	2021	Percentage	development
Agriculture	7690	0,62	8010	0,62	4,16
Energy and Mines	3115	0,25	3243	0,25	4,11
Construction and Public Works	193965	15,76	199331	15,50	2,77
Industry	106121	8,62	109991	8,55	3,65
Services	625999	50,85	662185	51,48	53,82
Crafts	288724	23,45	303605	23,60	5,15
Total	1231073	100	1 286 365	100	100

Source: Ministere de L'industrie , 2022, p. 14

Looking at the table figures, it is evident that more than half of small and medium-sized enterprises are active in the services sector, with a percentage exceeding 50%. The remaining portion is distributed across other sectors. It's important to note that the small sector contributes by a relatively low percentage, representing only 15.65% of the total, which confirms the hesitation of investors to move towards this sector. (Al-Rahman and Barashin, 2018, page 226).

2.3. Aid plans and investment incentives

The state has tried to promote entrepreneurial activity to help small and medium enterprises to fully perform their role, and to facilitate young people's access to financial means (Dahmoun, 2021, p. 5).

- Algiers Stock Exchange

The Algiers Stock Exchange has a market dedicated to small and medium enterprises, created in 2012 by COSOB Regulation No. 12-01 of January 12, 2012 amending and supplementing Regulation No. 97-03 of November 18, 1997 relating to the general organization. from the stock exchange. (Published in Gazette No. 41 of July 15, 2012). 12 There is only one small and medium company in this market, which is AOM Invest Spa, which specializes in operating tourism projects.

Despite this possibility offered to small and medium enterprises to use the direct financing method through the Algiers Stock Exchange, the results show that Algerian small and medium enterprises are registered with the same logic as small and medium enterprises on a global scale, knowing that the latter have a preference for traditional banking products when it comes to resorting to financing abroad.

In addition, it should be noted that the IPO for small and medium enterprises is subject to a set of conditions. On the one hand, these conditions constitute a first obstacle for small and medium enterprises to enter the stock market, and on the other hand, the Algerian financial market has many limits, knowing that even its main market includes only 5 institutions.

Algerian banks

They are the main sources of financing for small and medium enterprises. Indeed, the stagnation of the Algerian financial market has prompted small and medium-sized companies to turn to bank financing. As a result, traditional banking products are the main support for the establishment and financing of small and medium enterprises.

Although banks are the main actors seeking financing for SMEs, there are only 21 banks in Algeria and 8 financial institutions. Of the twenty Algerian banks, 13 are private and 8 are public banks. Of the 8 financial institutions, 7 are general-purpose financial institutions and 1 is a specific-purpose financial institution. Small and medium enterprises can use many financing tools through different banks and financial institutions, and among these tools, we can distinguish between:

- Investment credit: to set up a business,
- Operational credit: to finance the activities of small and medium enterprises,
- Leasing

Documentary credit: for the import of machinery and raw materials,

Cash facilities.

Banks are the engine of financing small and medium enterprises through their various products, which are in high demand.

(chaban & Hamoudi, 2019, pp. 53-45).

- The most important assistance mechanisms for small and medium companies

Aid and support programs for small and medium enterprises have contributed significantly to the establishment of new businesses and the development of their activities. These devices were created during the 1990s, but it is only after the 2000s that we really see their contribution.

A group of loans granted by agencies that are not distributed over many sectors of activity, with the difference in the percentage of loans granted from one sector to another.

- A breakdown of funded projects according to the ANADE sector (Ex ENSEJ) for the year 2021

According to Figure No. (05), the services sector is considered the most attractive sector for project leaders with the support of the National Agency for Industrial Development since the launch of this system (110,355 projects), followed by the agricultural sector with 59,894 projects, then the goods transport sector with the financing of 56,824 projects.

Table 3. Presentation of Mechanisms for Assisting Small and Medium-sized Enterprises (SMEs) Establishment in Algeria.

Test 1	ANSEJ	ANGEM	CNAC
Main provisions	1996	2004	2004
	The loan (PNR) has not been repaid (28% to 92% of the project cost). - 07% bank financing. - Interest rate bonus up to 0.01%.	Without an initial contribution (in the case of purchasing raw materials): - Dual or triple financing. - Interest rate bonus up to 0.01%.	- Unpaid loan (PNR) 28% to 92% of the project cost. - Bank financing at 07%. - Interest rate bonus up to 0.01%.
Type of assistance.	Construction and expansion.	Purchase of equipment and raw materials.	Construction and expansion.
Project lifespan.	35-19	+18	55-3
Personal contribution required.	1 to 2% of the project cost.	Without an initial contribution. 1 to 2% of the cost.	1 to 2% of the project cost.
Maximum project cost.	10 million DZD.	- 100,000 DZD for purchasing raw materials. - 1,000,000 DZD for acquiring equipment and small machinery.	10 million DZD.
Authority body.	Ministry of Very Small Enterprises, Startups, and Knowledge Economy (since May 2020).	Ministry of National Solidarity, Family, and Women's Status.	Ministry of Labor, Employment, and Social Security.
Other benefits.	tax benefits and quasi-fiscal benefits.		

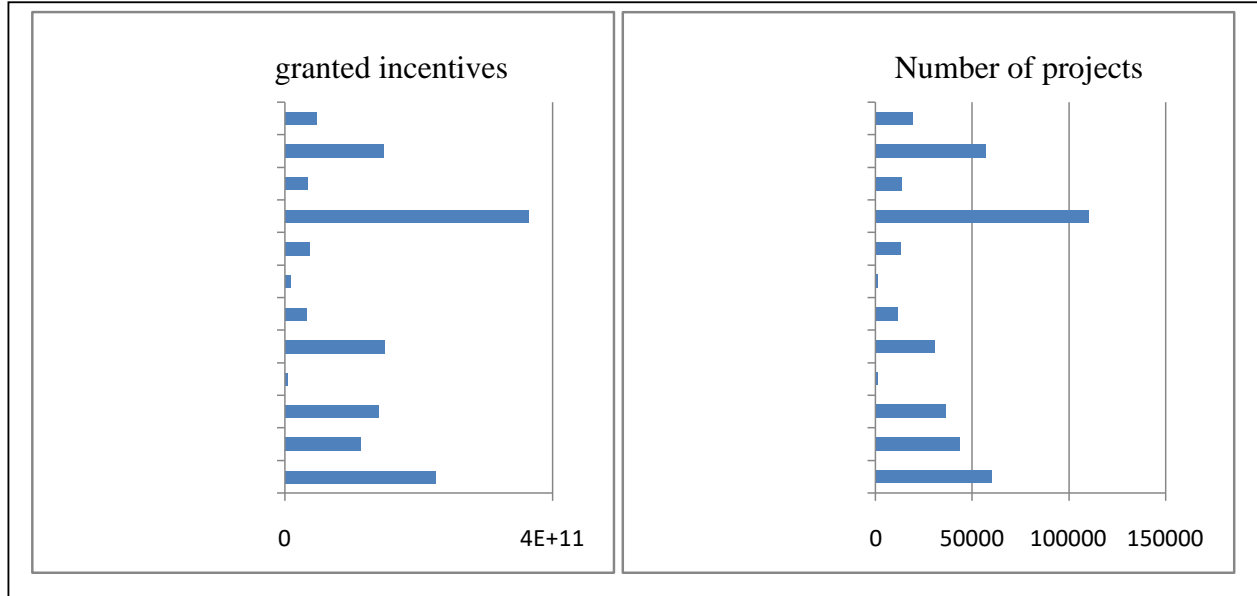
Source: Mezieche, 2020

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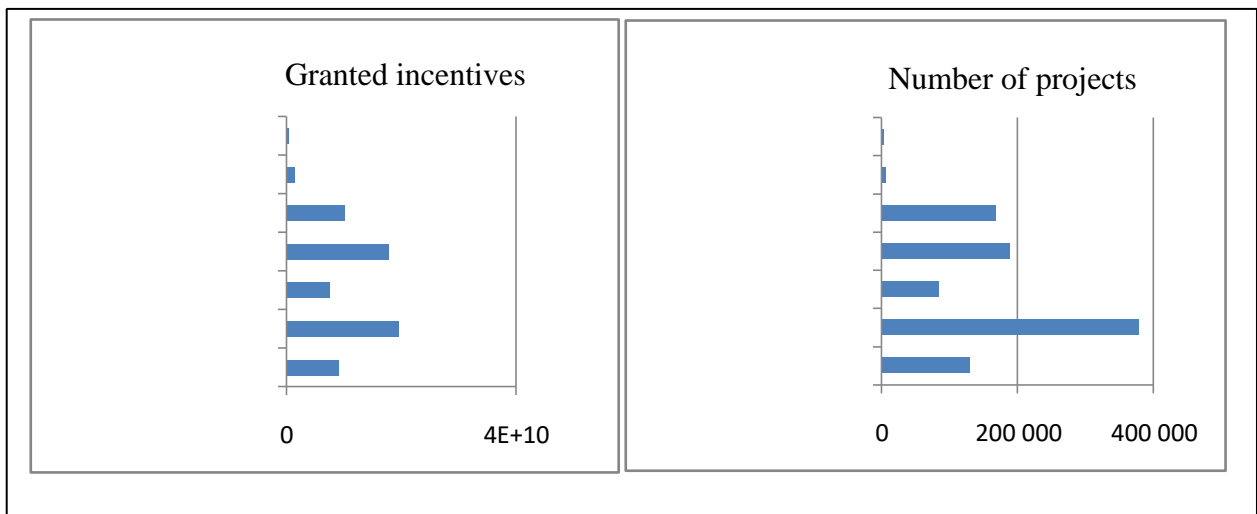
of this system (110,355 projects), followed by the agricultural sector with 59,894 projects, then the goods transport sector with the financing of 56,824 projects.



Source: Ministere de L'industrie , 2022

- A breakdown of the funded projects according to the sector of activity on the ENGEM shelf for the year 2021

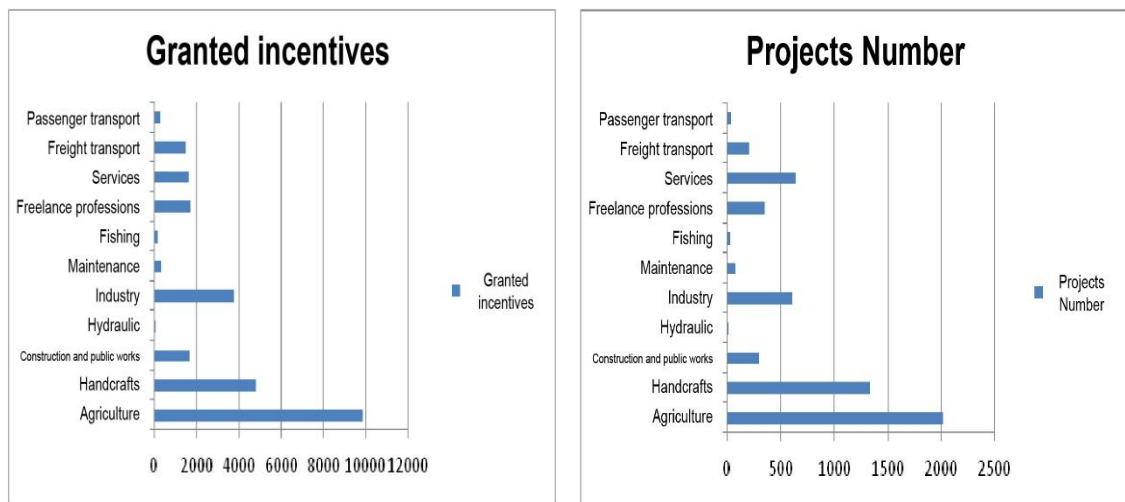
By sector of activity, (very small industries), services, crafts, and agriculture are the sectors that benefited from the majority of loans granted by ENGEM, accounting for about 19% of the total.



Source: Ministere de L'industrie , 2022

A breakdown of funded projects by sector of activity on the CNAC shelf for the year 2021

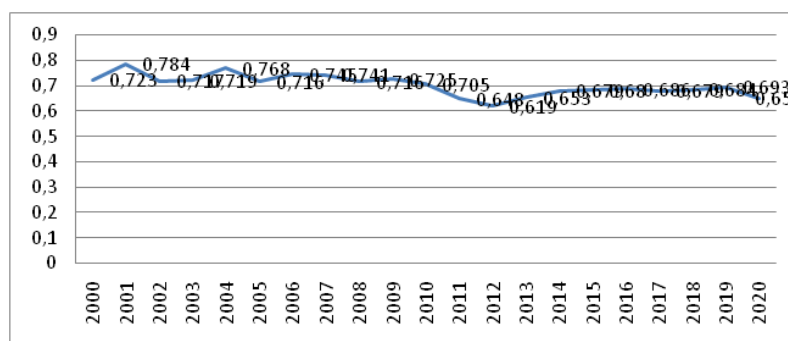
Most of the projects funded within the framework of CNAC for the year 2021 are projects related to agriculture, handicrafts, and the industrial sector, which indicates the agency’s tendency to provide loans to productive sectors that have the ability to diversify and sustain the economy.



Source: Ministere de L’industrie , 2022, p.31

3. The role of small and medium enterprises in the Algerian economy

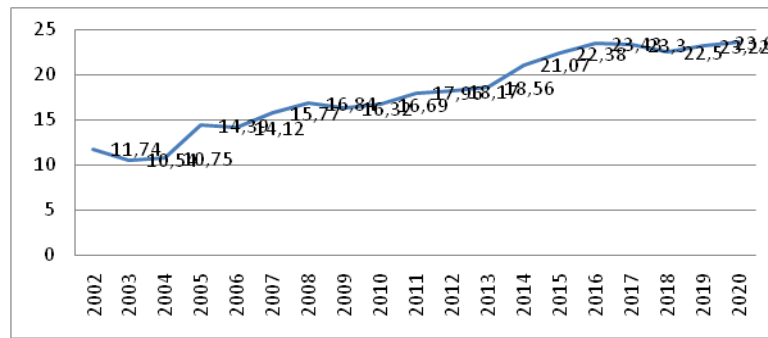
The average contribution of small and medium enterprises to the non-oil GDP in Algeria was 51.86%, which indicates the importance of these enterprises in the sectoral diversification of the economy. However, they witnessed a decrease during the period 2000-2020 by 7 points, and this is what we notice in the following table:



Source: ONS, 2022

These results show the importance of small and medium enterprises in the non-oil GDP in Algeria, which makes the state make more efforts to push investors and put facilities in order to better exploit and multiply projects and small and medium enterprises, especially in the productive sectors instead of services.

Due to the significant increase in the number of these establishments, they obtained a relatively large number of jobs. The figure below shows the share of employment during the period 2003-2020.



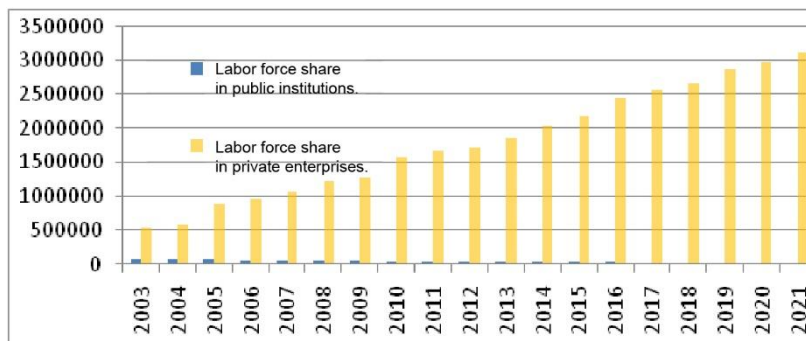
Source: Ministere de L'industrie , 2022

We notice from the figure that the percentage of small and medium enterprises' contribution to total employment increased slowly during the period 2002-2020, when the average employment rate reached 71%, as this percentage is very weak. In addition, this improvement in the levels of employment throughout this period does not hide the fact that the rate of participation of this institution in the volume of employment is quite far from the distance if it is compared to developed and even developing countries, which gives this phenomenon several explanations:

The first explanation: The state is still the main operator, and this is due to the difficulties in switching to the private sector, as it is still in the first stage.

The second explanation: Investments are concentrated around sectors in which job creation is low, such as trade and services, compared to other productive sectors that are higher, such as manufacturing, agriculture and tourism.

The third explanation: It is related to the specificity and nature of the type of small and medium enterprises, most of which are small and of a family nature, and whose ability to create new jobs is limited (Kadi, 2013, p. 10). As for the distribution of employment in the legal sector, the following figure shows it:



Source: Ministere de L'industrie , 2022

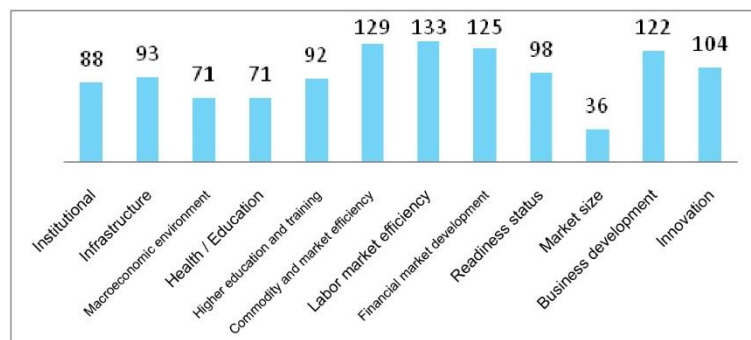
We notice through the figure that the percentage of employment in small and medium enterprises is concentrated in the private sector, but this sector is still funded by the state through its institutions, which we explained previously. It should also be noted that the percentage of employment in this sector is through aid contracts by the state. That is, the private sector does not create job opportunities as a result of the added value it creates and the productivity of these institutions only, but rather through aid from the state indirectly. With regard to the share of workers in the public sector, it has witnessed a decline as a result of a continuous decrease in the number of its institutions, which contributes to the increase in unemployment rates.

Finance is considered one of the most important problems facing small and medium industries, because banks usually see that the level of risks associated with lending to these industries is greater than the risks associated with lending to large industries, and this is due to the inability of small industries to exploit the credit granted well, in addition to the failure of these industries Submission of profit and loss accounts to banks at appropriate times, or not at all. Small industries often complain that banks take too long to process credit transactions, causing them losses. Among the reasons for the delay in providing credit to these industries is the lack of guarantees required by banks (Al-Quraishi, 2005, p. 189) Figure 11: Problems of financing small and medium enterprises.

The state has established a set of structures to support and assist the establishment of small and medium enterprises in order to reduce their financial constraints, as these structures were able to help relatively small and medium enterprises to overcome financial obstacles, however, the plurality of these structures and their efforts in terms of financing the establishment and expansion of existing projects, and in terms of guarantees remain Insufficient because there are few relatively modern guarantee mechanisms whose role should be improved in facilitating access to the Algerian banking market for small and medium enterprises and strengthening this important locomotive of the Algerian economy (Zirek & Zghib, 2016, pp. 17 18).

- The difficulty of the general climate in which the private sector institutions operate in general and small and medium enterprises in particular.

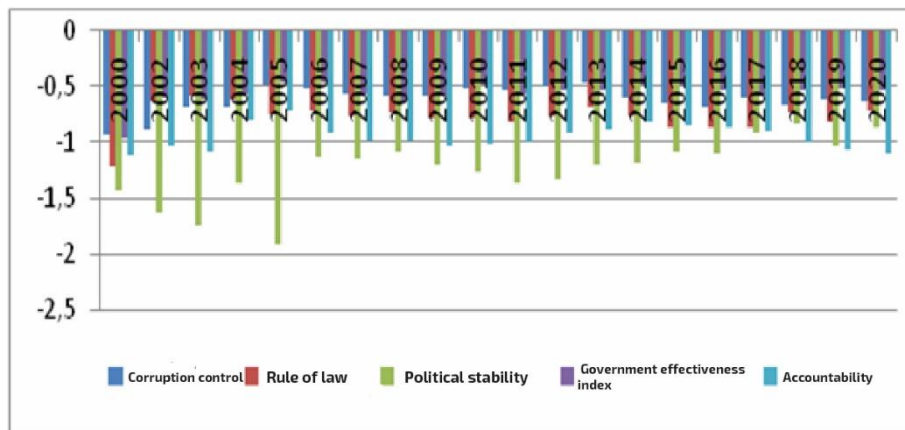
He presented us with the Global Competitiveness Index Report for 2017/2018, which included 14,000 business leaders from among 137 competitive countries for Algeria, as the forum was based on 114 indicators that were classified from 12 categories. As follows :



Source: Ministère de l'industrie, 2017-2018

By observing a classification, the indicator reveals to us that the country's environment is very weak compared to 137 countries, and it also reveals to us the need for urgent reforms by these groups. Although the country has made extensive efforts to reform and increase investments to improve its competitiveness, it still lags behind in many areas, and its competitiveness has not changed over the previous years, according to the Global Competitiveness Index.

In addition to the previous challenges, corruption is among the main difficulties that these institutions face in Algeria.



Source: The globaleconomy.com, 2023

We note through the numbers of Figure No. that all indicators of government effectiveness throughout the study period (2000-2020) are negative, which indicates the poor performance the country is witnessing. Fighting corruption in Algeria requires real political will for change and reform, and that the government should take long-term measures in establishing transparent, accountable and prosecuted institutions.

Conclusion :

Small and medium enterprises appear as an important mechanism for diversifying the economy and stimulating job opportunities, due to its strength in creating diversity that it creates at the level of the productive fabric, in addition to its great flexibility that makes it adapt to serious activities. However, Algerian enterprises remain somewhat weak in the current circumstances and face several challenges that It may hinder its activity and continuity, which is reflected in the diversification of sources of income and employment in the country.

Study suggestions :

- First and foremost, a greater degree of transparency and clarity at all levels, and a greater degree of accountability. In conclusion, the profound changes that the country needs require economists and politicians who are diverse in building a new model that will guarantee stability.

- Facilitating the entry of small and medium-sized companies into the market and making the stock exchange a means of financing small and medium enterprises: In addition to the financing problems that small and medium enterprises suffer from, we do not forget that banks suffer from financial and liquidity pressures, and therefore the stock exchange plays an accompanying role in order to reduce pressure on banks. This is on the one hand, and considering that the stock market is a market that includes both sellers and buyers of shares and bonds, it may help parties that have a financial surplus to help small and medium enterprises that need capital, provided that they are stock companies, and this is what eliminates the financing problem on the other hand. It maintains the continuity of institutions and their workers, as well as the creation of new job opportunities

- Stimulating the establishment of companies in Algeria: When the production company announces its intention to open or close the production site, the question must be asked about the impact of this decision on the economy, especially on employment, and similarly, the public authorities must take several options for investment programs, and it is important To base its decisions on measuring the overall economic impact of the various projects.

new Horizons

There are a lot of opportunities for important studies at all levels about the complex relationships shown in the theoretical side of the study, using various standard models. Small and medium-sized enterprises and their impact on economic diversification and employment in various regions of the country, given that the geographical distribution has an impact on small and medium-sized enterprises, and also to carry out the process of comparison between our country and the group of countries that succeeded in this field.

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