

Chapter 11

Algeria

Economic overview

Algeria's business environment has undergone profound changes since the 1990s. The country's commitment to the market economy attributes great importance to the private sector. Algeria recorded a sustained growth rate, particularly during the 2000s (IMF, 2013a). In 1994, the value added by the private sector was only 46.5% of the national total, but this proportion has been rising. In 1998, the added value created by the private sector contributed over half of the national total (Gharbi, 2011). Although unemployment dropped from a rate of nearly 30% in 2000 to 10% in 2012, it still disproportionately affects young people (21.5%) and women (19.1%).

The Algerian economy weathered the global financial crisis of 2007-08 and the recession that followed fairly well. This is largely due to the low exposure of the Algerian economy to global financial markets, but also to prudent macroeconomic policies and sensible management of the country's oil and gas revenues. In 2011, real GDP grew by 2.6% and estimates suggest an increase of 3.3% in 2012 and 3.1% in 2013. This growth is mainly due to the non-oil economy, driven by the high level of public investment (IMF, 2013a).

However, expansionary fiscal policies have resulted in higher inflation, which rose to 8.9% in 2012 (up from 4.5% in 2011) and a wider public deficit of 6% of GDP in 2012 (up from 1.7% in 2011), although the deficit is thought to have declined again in 2013 (Table 11.1). The higher level of public spending is unlikely to be sustainable in the medium term given the instability of oil and gas revenues and their dependence on global markets. According to IMF estimates (2013a), erratic oil production in some countries of the region and a decrease in global demand should temporarily reduce growth in the region's oil-exporting countries.

Algeria continues to benefit from a favourable external position. Latest estimates suggest that the current account surplus for 2012 was around 5.9% of GDP (against 8.9% in 2011), while foreign exchange reserves were USD 193.9 billion (IMF Projections Article 4) and foreign direct investment inflows (FDI) totalled USD 1.5 billion in 2012 (against USD 2.6 billion in 2011, UNCTAD). However, FDI has been directed mainly toward the fuel sector, as mining products account for over 98% of exports. This lack of diversification makes the Algerian economy vulnerable to production shocks and changes in the demand for and prices of energy, which in turn affects the business climate and the ability of SMEs to develop and to create sustainable jobs.

Table 11.1. Algeria: Main macroeconomic indicators, 2008-13

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	171.5	137.6	161.8	198.8	209.3	215.7
GDP growth (real)	2	1.7	3.6	2.6	3.3	3.1
GDP per capita (current USD)	4 958	3 901	4 496	5 413	5 582	5 668
Current account balance (% of GDP)	20.1	0.3	7.5	8.9	5.9	1.8
General government primary net lending/borrowing (% of GDP)	8.8	-5.9	-0.8	-1.7	-5.9	-2.2
Unemployment, total (% of total labour force)	11.3	10.6	9.9	9.9	9.9	10
Inflation, consumer prices (annual average increase, %)	4.8	5.7	3.9	4.5	8.9	5
Foreign direct investment, net inflows (current USD, millions)	2 593	2 746.4	2 264	2 571	1 484	---
General government gross debt (% of GDP)	8.1	10.5	12.1	11.1	10.5	10.8

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Greater economic diversification is therefore necessary to correct macroeconomic imbalances and reduce unemployment. Although important steps have been taken in this direction, progress on economic reform should be accelerated in order to boost growth and attract FDI to sectors other than mining. In particular, FDI regulations, such as that limiting foreign investment to 49% of a given project or the prior approval requirement of the National Agency for Investment Development (ANDI), could be eased.

Business environment

As was already the case in 2008, the development of the non-oil private sector is still one of the government's priorities. In addition to the macroeconomic challenges described above, the Algerian business climate faces a multitude of challenges: a regulatory framework which is still not conducive to enterprise development, a judicial system that needs to be improved in terms of contract enforcement, a dysfunctional labour market, an underdeveloped financial market, and restricted access to the international market. In addition, the long years of protectionism in international trade and investment have led to a relatively low level of integration of the economy in global production chains.

Algeria ranks 153rd out of 189 economies in the IFC-World Bank's 2014 *Doing Business*, while the MENA region, on average, ranks 107th. In addition to Insolvency Regulation (60th), the main challenges Algeria still faces are Registering Property (176th), Paying Taxes (174th), and Starting a Business (164th). The World Economic Forum lists inefficient government bureaucracy, access to financing, and corruption as the three most common problem areas for doing business (World Economic Forum, 2014). Overall, Algeria ranks 100th out of 148 economies in the 2013-2014 Global Competitiveness Index, compared to 87th out of 142 in 2011-12.

Overview of the state of SMEs

The dominance of the hydrocarbon sector in the Algerian economy, together with the poor business environment, has stymied the development of entrepreneurship. From 2004 to 2009, there were an annual average of 0.4 limited liability companies established per 1 000 working-age residents, a density rate which is low in comparison with the MENA region's average rate for the same period (0.6 companies), which is itself very low compared with the rest of the world. However, Algeria's rate has improved slightly to reach 0.5 companies in 2012 (World Bank, Entrepreneurship Survey, 2012).

According to a survey conducted by the International Finance Corporation (2011), in 2009 there were 18.2 micro, small and medium enterprises per 1 000 people in Algeria, contributing a mere 13.9% to total employment. In comparison, during this same year there were 31 SMEs per 1 000 inhabitants on average for the 131 countries covered by the survey, and these SMEs represented more than one-third of total employment.

Since then, the government has started to actively promote SME creation. According to the Ministry of Industrial Development and Investment Promotion (MDIPI), which regularly publishes statistics on SMEs, 711 832 SMEs were registered in Algeria by the end of 2012 (of which 420 117 were legal entities). Of these, 180 000 were created between 2010 and 2013 (statistical information bulletins from the MDIPI). The total number of jobs created by SMEs was 1.8 million by the end of 2012, up from 1.6 million in 2010.

The vast majority of SMEs in Algeria are small, with 96% of SMEs created in 2012 classified as micro enterprises, 3.5% as small and 0.5% as medium-sized. In 2012, SMEs

in Algeria were mainly operating in the service sector (48.6%), in construction (33.8%) and to a lesser degree in manufacturing (16%).

Box 11.1. Definition of SMEs in Algeria

Law 01-18 of December 2001 defines small and medium enterprises as enterprises producing goods or services and which:

- Employ between 1 and 250 employees (micro: 1-9, medium: 50-250);
- Earn annual revenues not exceeding DZD 2 billion (Algerian dinars, approximately EUR 25 million). Micro enterprises have annual revenues below DZD 20 million (EUR 250 000) and medium enterprises earn annual revenues of between DZD 200 million and DZD 2 billion (between EUR 250 000 and EUR 25 million);
- Report a year-end statement not exceeding DZD 500 million dinars (approximately EUR 6.4 million). For micro enterprises, this figure is below DZD 10 million (approx. EUR 130 000), and for medium enterprises it ranges between DZD 100 and DZD 500 million (between EUR 130 000 and EUR 6.4 million);
- Meet the independence criterion.

Assessment results

The results of the 2013 assessment indicate that over the past five years, Algeria has made significant efforts and allocated considerable resources to promoting entrepreneurship and supporting SMEs. Its performance has improved in a number of policy dimensions, going from lower scores at level 2 on most key indicators in the 2008 assessment to scores close to level 3 or just above level 3 in the 2013 assessment (Figure 11.1). These results indicate that Algeria has already established a large number of building blocks towards the deployment of a proactive policy in favour of SMEs, although there are still gaps in the policy framework, especially with regard to institutional co-ordination and strategic direction.

Policy making is largely based on a top-down approach. The government pursues with determination its objectives of promoting economic development and diversification, as defined in the Five-Year Economic Plan (2010-14). These objectives include reinforcing the capacity of private companies to generate added value and create jobs in the non-oil and gas sectors. The government responded to the challenge of transforming a largely planned economy dominated by the state into a more open and market-oriented economy by creating a number of state-controlled institutions that are each responsible for addressing a specific issue, and by allocating significant resources through dedicated funds and support programmes.

However, this approach has a number of limitations, particularly in the SME policy area. The increase in the number of institutions with mandates covering SME policy development (there are at least eight public agencies operating at central level in the SME policy area), either directly or indirectly, raises complex issues in terms of programme co-ordination, project selection and the dissemination of information to potential beneficiaries. State agencies have only limited information on the needs of private enterprises. Funds supporting new entrepreneurs and newly established enterprises provide grants or interest rate subsidies

without rigorous selection mechanisms. This may lead to the extension of funding to projects with poor economic prospects, and may delay the development of a market-based banking and financial sector.

Algeria has undertaken important steps to promote foreign trade, including the signing of co-operation and trade agreements with other MED economies, and the facilitation of access to regulatory and market information on foreign trade.

Finally, the assessment shows that a number of important SME policies and initiatives exist. However, data on their implementation, efficiency and impact remain very limited, which makes it impossible to know whether follow-up is sufficient.

The following sections present a basic overview of the results Algeria obtained in the 2013 assessment. The assessed dimensions were grouped into five broad areas pertaining to SME policies:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Creating an operational environment favourable to SMEs (dimensions 2 and 4);
- Facilitating the access of SMEs to finance, and improving the legal and commercial environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Improving SME Competitiveness (dimensions 5, 7, 8, 9 and 10).

Figure 11.1. **Algeria: 2013 assessment scores**

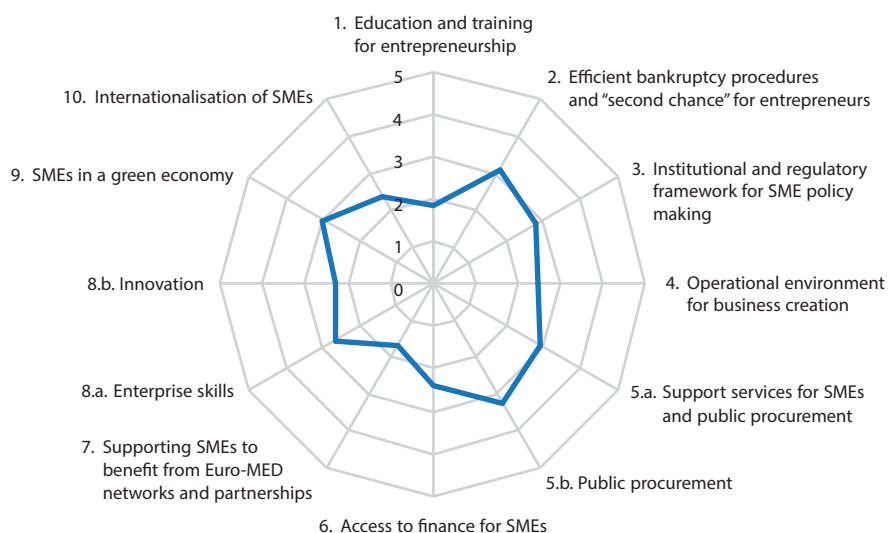


Figure 11.2 shows results comparable for both the 2008 and 2013 assessments.

Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Algeria's institutional framework for SME policy making has evolved significantly since the 2008 assessment. SME policy has been placed under the remit of a single ministry, the MDIPI, while in the past the portfolio was split between the Ministry of Industry and Investment, which is in charge of managing the country's ambitious investment plan, and the Ministry of Small and Medium-Sized Enterprises. The reconfiguration of the institutional framework aimed at improving policy co-ordination and at better integrating SMEs into the country's development strategy. The 2010-14 Five-Year Economic Plan has elevated private sector development as one of the country's key priorities, together with public investment in infrastructure, housing and social services, with the aim of reducing reliance on the hydrocarbon sector and diversifying the country's economic structure.

Since then the resources allocated to supporting private sector development, and particularly entrepreneurship promotion in the SME sector, have increased significantly, with new instruments and institutions being established.

SME policy implementation is delegated to a number of government agencies, each one with a specific mandate and action plan. The most relevant are the National Agency for the Development of Small and Medium-Sized Enterprises (ANDPME) and the National Agency for Investment Development (ANDI).

In addition to the mandates related to the provision of information and support services to SMEs, ANDPME has since 2010 been in charge of implementing the newly established National Upgrading Programme (*programme national de mise à niveau, MAN*), with a budget of DZD 386 billion (USD 5 billion or EUR 3.6 billion) over the 2010-14 period. The programme's objective was to upgrade 20 000 enterprises by 2014, 4 000 per year over the 2010-14 period. However, the programme's implementation has been well behind schedule, with less than one thousand enterprises assisted and only DZD 5 billion disbursed in the first two years of operation.

The 2009 presidential programme also issued guidelines providing for the creation of 200 000 companies between 2010 and 2014. This objective will certainly be met in 2014, according to statistics published by the MDIPI, since more than 180 000 SMEs were created between 2010 and 2013. However, it should be noted that during the period from January 2011 to the middle of 2013, only 73.8% of SMEs created or reactivated were legal entities (the other 26% being individuals or artisans). Another programme funded by the European Commission and other international donors, PME II, focuses on supporting companies with high export potential. PME II is also experiencing weak demand for services from local enterprises.

ANDI manages a number of facilities providing fiscal incentives to support investment plans, including those endorsed by the National Investment Commission. Forty-eight regional investment funds were established at the *wilayas* level (provincial administrative units) to take equity stakes in local SMEs and to provide lease financing lines.

A number of other government agencies, operating under the Ministry of Labour, Employment and Social Security, and the Ministry of Commerce, also contribute to promoting entrepreneurship and supporting small enterprises (as indicated in Table 11.2). Finally, other institutions supporting the access of SMEs to external funding are mentioned in detail in the section devoted to them.

Table 11.2. Algerian institutions involved in the promotion of SMEs and their respective roles

Institutions	Roles
Ministry of Industrial Development and Investment Promotion (MDIPI)	<ul style="list-style-type: none"> Defining enterprise promotion and development policies. Dictating measures meant to improve the business environment. Outlining the action plans that will be implemented by its branches (listed below).
National Agency for the Development of Small and Medium-Sized Enterprises (ANDPME)	<p>Main Tasks:</p> <ul style="list-style-type: none"> Implementing the sectoral strategy for SME promotion and development. Implementing and following up on the national SME upgrading programme. Promoting expertise and consulting for the benefit of SMEs. Following the SME population by tracking their creation, cessation of activity, and changes in activity. Conducting regular sectoral studies and reports on economics trends. Collecting, exploiting, and disseminating specific information related to SME areas of activity.
National Agency for Intermediation and Land Regulation (ANIREF)	<p>Main Tasks:</p> <ul style="list-style-type: none"> Creating new industrial areas. Providing land through private treaties signed via the CALPIREFs. Implementing a price enhancement policy specific to each region. Improving the attractiveness of the country's regions by creating and rehabilitating industrial areas.
National Agency for Investment Development (ANDI)	<p>Main Tasks:</p> <ul style="list-style-type: none"> Promoting investment and the distribution of benefits accrued from it.
The Credit Guarantee Fund (FGAR)	<p>Main Tasks:</p> <ul style="list-style-type: none"> Facilitating the access of SMEs to bank financing for start-up or activity extension projects by granting credit guarantees to banks, in order to complete the financial package. SME-creation or development investments that fall outside the scope of the various existing schemes (ANGEM, ANSEJ, CNAC).
Ministry of Finance	<p>Providing access to financing through the creation of funds and investment funds (listed below). Customs facilitation.</p>
The Investment Credit Guarantee Fund for SMEs (CGCI-PME)	<p>Main Tasks:</p> <ul style="list-style-type: none"> Supporting SME creation and development by facilitating their access to credit. Covering the risks attached to the investment loans granted to SMEs. Covering insolvency risks incurred by banks on loans granted to SMEs. Complementing the other schemes aiming at providing bank financing support to SMEs, established by the FGAR and the Mutual Guarantee Fund (<i>Fonds de caution mutuelle</i>).
The Mutual Guarantee Fund for Risks/Credits to Young Entrepreneurs	<p>Main Tasks:</p> <ul style="list-style-type: none"> Further strengthening the willingness of banks to take risks in the financing of companies created under the ANSEJ schemes.
The Mutual Guarantee Fund for Microcredits	<p>Main Tasks:</p> <ul style="list-style-type: none"> Banks and financial institutions affiliated with the fund grant microcredits to beneficiaries who have obtained the aid of the National Agency for Microcredit Management, the ANGEM.
The Mutual Credit Fund for the Investment Risks/Credits of Unemployed Entrepreneurs between 35 and 50 Years Old	<p>Main Tasks:</p> <ul style="list-style-type: none"> Further strengthening the willingness of banks to take risks in the financing of companies created under CNAC schemes.

Table 11.2. **Algerian Institutions Involved in the promotion of SMEs and their respective roles** (*continued*)

Institutions	Roles
Ministry of Labour, Employment, and Social Security	<ul style="list-style-type: none"> Increasing employment through support for business creation. Participating in financing entrepreneurship projects through its branches (see below).
National Agency for the Support of Youth Employment (ANSEJ)	Main Tasks: <ul style="list-style-type: none"> Helping and encouraging young entrepreneurs in the creation of SMEs.
National Agency for Micro-Credit Management – Micro enterprise Creation Support (ANGEM)	Main Tasks: <ul style="list-style-type: none"> Creating microbusinesses, home-based activity and self-employment.
The National Unemployment Benefit Fund (CNAC)	Main Tasks: <ul style="list-style-type: none"> Helping and encouraging unemployed people in creating microbusinesses and in becoming self-employed.
Ministry of Commerce	<ul style="list-style-type: none"> Developing policies facilitating access to the global market.
Algerian Agency for Export Promotion (AAPEX)	Main Tasks: <ul style="list-style-type: none"> Promoting SME exports.

Source: Government and independent assessments.

Given the number of government institutions involved in SME support, policy co-ordination between the various institutions remains a major issue due to the lack of a comprehensive medium-term SME development strategy supported by short-term action plans. The assessment shows that policy co-ordination is currently provided by the Office of the Prime Minister through *ad hoc* inter-ministerial councils. At the institutional level, the National Council for Investment, chaired by the Prime Minister, is responsible for co-ordinating the country's investment strategy, while a separate national council supervises the implementation of the Upgrading Programme. Policy co-ordination between institutions that are not under the remit of the MDIPI remains weak.

In spite of the very significant budget allocation and the number support programmes, there are no mechanisms in place to systematically monitor the implementation and the impact of these programmes and to exchange good practices among institutions.

While there are clear indications that the government is determined to increase the role of the private sector in the economy and to promote SME activities, particularly in industrial sectors, the top-down approach and the central role assigned to public agencies have thus far not proven very productive.

In spite of all the government programmes to support Algerian SMEs mentioned above, SME development remains negatively affected by structural factors related mostly to the overregulated business environment, the lack of competitiveness of local suppliers *vis-à-vis* imports, and distorted price incentives that favour trading activities over manufacturing. Unless these distorting factors are addressed, it is unlikely that government SME support schemes alone, no matter how generous they are, will be sufficient to drive economic growth in Algeria.

Legislative simplification and regulatory reform

Until recently, private enterprise activity in Algeria has been constrained by strict regulations, resulting from several decades of state economic planning that assigned a prominent role in the economy to state enterprises. Over the last decade the government

has started a process of progressive but cautious liberalisation. Compared with the situation in 2008, the government has stepped up actions in the area of regulatory review and administrative simplification. Algeria is currently still in the early phases of establishing a regulatory reform programme. Several work groups and inter-ministerial committees have been established.

In particular, since 2007, a working group has been looking at improving the country's performance in the IFC-World Bank *Doing Business* reviews and has elaborated an overall strategy for regulatory reform. As mentioned above, Algeria currently ranks in the lower quartile, with the exclusion of the indicators related to investor protection and the insolvency procedure, where it ranks around average. A second committee is looking at the improvement of the overall business climate as part of the tripartite commission that includes representatives from the government, employers and trade unions. The government faces co-ordination issues, due to the lack of a multi-year regulatory strategy and clear mandates for administrative simplification. However the commission's work has started to produce results, with a number of incremental reforms concerning enterprise registration, approval of investment projects and customs operations.

Public-private consultations

The last five years have witnessed significant progress in the development and reinforcement of public-private dialogue. Formal consultations on broad economic issues take place in the Tripartite Council, bringing together government institutions, private sector organisations, business associations and trade unions. The assessment shows that a working group for SME Development (which is still at an early operational stage), including private sector organisations and independent experts, has been established and has presented its recommendations. However, it is not yet known whether or not the government has followed these recommendations. Private sector representatives are also members of the steering committee of the National Upgrading Programme. However, all the policy levers remain under public sector control, and it is difficult for private sector organisations to exert an influence in the absence of clear strategic direction and comprehensive information on the status of the programme's implementation.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

Since 2008, Algeria has made some progress in improving its operational business environment. A major initiative was the extension of its network of one-stop shops. In 2010, measures were taken to reinforce the role of the one-stop shops managed by the National Agency for Investment Development (*Agence nationale du développement de l'investissement*) throughout the 48 *wilayas* of the country. However, the one-stop shops have, for the moment, only limited decision-making capacity, and act mainly as single initial contact points. In the area of business registration, while efforts were also made to reduce minimum capital requirements to 28.6% of income per capita, there is still room for improvement regarding the official costs of obtaining a registration certificate and the number of steps required to obtain mandatory company identification numbers.

Online registration services

There is an online business registration system in Algeria, although it is accessible only to notaries. Since 2013, notaries can go online on the portal of the National Council of the Commercial Register (*Conseil national du registre du commerce*, CNRC), on behalf of their investor clients, to reserve a company name, insert summaries of Articles of Incorporation and publish the registration in the Official Bulletin of Legal Announcements (Boal). The online registration process is operational and in the process of being extended. Entrepreneurs can download business creation forms from the websites of the CNRC and the National Agency for Investment Development. In addition, the introduction of a single identification number and exploitation of the synergies existing between the different institutions involved in the registration process would further facilitate the establishment and use of online services.

Bankruptcy procedures and second chance

Algeria's Code of Commerce (order 75-79) of 1975 establishes bankruptcy procedures, but, according to the assessment, their implementation remains very limited. The 2013 *Doing Business* report shows that the process of closing a business in Algeria is relatively speedy and inexpensive and creditors recover 41% of their investment, which is well below the OECD average of 70% but above all other MED economies except Israel and Tunisia.

Algeria has a relatively efficient system for resolving insolvency. However, according to the assessment, Algerian courts are not generally trained in matters related to the reorganisation of enterprises and therefore often opt for liquidation, which can lead to the closure of businesses that could have survived bankruptcy. Therefore, Algeria could benefit from capacity-building programmes for judges dealing with insolvency, such as those being undertaken by Egypt with the assistance of the International Finance Corporation (IFC).

Facilitating SME access to finance and improving the legal and business environment

Since the 2008 assessment, Algeria has made significant progress in the area of access to financing, in particular by improving the legal and regulatory framework of the credit information bureaus. However, despite these improvements, SMEs still suffer from a structural lack of access to external financing. The bank credit market remains underdeveloped due to excessive regulation, and to the domination of state financial institutions operating in conditions that are not based on the market, which, in turn, hampers competition among commercial banks.

Sources of external finance for SMEs

Bank lending was not significantly affected during the global financial crisis, largely due to the limited integration of domestic banking and financial institutions in the global financial system. The economy recorded a slight expansion of credit activity between 2008 and 2012, with domestic credit to the private sector increasing from 13.2% to 14.3% of GDP (see section on Access to Financing for details). But this level of financial development is very low compared to both international norms and the other MED economies. In particular, the contribution of private banks in Algeria to enterprise lending remains marginal as state banks represented more than 90% of the credit granted in 2012.¹ Regarding the financing of SMEs, available statistics do not indicate what percentage of loans was granted by banks, whether private or public, to SMEs.

As in the 2008 assessment, credit guarantee schemes in Algeria are funded by either public institutions and state banks or by foreign donors such as the EU. The Investment Credit Guarantee Fund for SMEs (CGGI-PME) has facilitated, since 2001, the access of SMEs to investment credits. A 2013 government circular plans to increase the resources of this fund, as well as to reinforce its regional structures and improve its sector-specific analytical capacities. Other credit guarantee schemes in place in Algeria are the SME Guarantee Fund (FGAR), which facilitates the creation and expansion of SMEs, and the Mutual Fund Guarantee Risks/Credits for Young Entrepreneurs, established in 2003 by the National Agency for the Support of Youth Employment (ANSEJ). According to the assessment, these guarantee funds do not have performance self-assessment mechanisms. No clear governance structures that would separate the different actors involved in the decision to grant the requested guarantees could be found for these funds.

In comparison with the 2008 assessment, some improvements were witnessed in leasing activities. Although a legal framework has been in place since 1996, it is only recently that this activity has started to emerge, and it remains a marginal tool for SME financing. According to estimates, the penetration rate of leasing activities has not yet reached 1%, a comparatively weak rate with respect to other countries such as Morocco (6%) and Tunisia (8%). Nevertheless, the number of lessors increased from 1 to 10 between 1990 and 2010, and reached 14 in 2014. The leasing sector is composed of leasing departments in banks with units for SMEs, and of specialised leasing agencies. On the regulatory level, some incentives were established for leasing institutions, including tax and value-added tax exemptions (*Loi de Finances* 2008). Leasing activities in Algeria are supervised by the central bank.

Microfinance institutions in Algeria are state institutions, while in the other economies in the MED region NGOs or independent financial institutions manage microfinance activities. The sector has, however, witnessed some progress since the 2008 assessment, especially from the point of view of its territorial coverage. There is now a microfinance office in each province for each of the three main actors in the microfinance sector. One of them, ANSEJ, the most important microfinance institution, offers microloans to the young unemployed between 19 and 35 years old. Between 1996 and 2012, ANSEJ financed 223 437 projects that created a total of 564 721 jobs, well below the number of jobs expected to be created by these projects. The proportion of women in these projects is only 10%. ANGEM, another specialised government agency, gave microcredits to almost half a million clients, with 60% of them women. The CNAC, the National Unemployment Benefit Fund, also offers microloans to the unemployed but only if state banks participate in the loans. The percentage of women that received loans from CNAC is only 6.7%. Therefore, the microfinance institutions described here remain financed by the state, and this without any specific legal and regulatory framework, a situation that not only prevents the sector from expanding, but also inhibits the expansion of the range of products offered.

Other sources of external finance for SMEs, such as venture capital, business angels, and capital markets are underdeveloped in Algeria, despite some progress since the last assessment in 2008. Specific legislation for venture capital/private equity/investment funds has been in place in Algeria since 2009. However, this legislation is not fully in line with good practices: for instance, the law governing investment funds sets the minimum capital for entry at a very high level, and fails to distinguish between investment funds and asset management companies. However, the assessment reveals that a draft law is under preparation to formalise the difference between the two types of institution.

Overall, the number of investment funds increased from two to six between 2008 and 2013. So far, due to the stringent legal framework, the impact of these funds on SME financing

has remained marginal. Moreover, capital markets in Algeria remain underdeveloped as stock market capitalisation represents only 0.1% of GDP. A market sub-sector for SMEs was created in 2012, but it requires businesses to introduce 10% of the capital distributed over a minimum of 50 stakeholders.

Legal and regulatory environment

Concerning the legal and regulatory environment, Algeria has also witnessed fairly significant progress. Notably, credit information services have improved considerably compared to the last assessment. Since 2012, borrowers have had the right to access their data as defined by a regulation of the Public Credit Information Bureau (*Centrale des Risques*), and the minimum threshold for loans to be included in the database has been eliminated. Credit information services are available to both financial institutions and individuals, including negative credit information. However, no more than two years of historical data is available, which limits the capacity to analyse borrower profiles. Moreover, the coverage of the credit information bureau is only around 2.4% of adults, compared to an average of 8.3% for MENA economies and 15.2% for OECD countries (*Doing Business*, 2014).

Algeria has also made some progress in the area of property registration, but there is still a non-negligible fraction of the country that is not yet covered. Regarding movable assets, a registry is now in place, whereas it was non-existent in 2008. However, the assessment shows that it is not yet fully operational, and that information is not easily accessible. Furthermore, the type of moveable asset that can be used as collateral needs to be broadened, and the law that establishes the rights and responsibilities of the parties needs to be clarified.

Despite the improvements mentioned above, there is still some progress to be made to improve SMEs' access to external financing. The lack of information about the financial status of entrepreneurs and enterprises, the lack of appropriate guarantees based on operational asset registries, and the weak legal rights of creditors remain responsible for the very high collateral and provisioning requirements demanded by banks. More flexible requirements only apply to loans below EUR 20 000, mostly because of state support mechanisms (ANDI, ANSEJ, etc).

Financial literacy

The level of financial literacy remains very low in Algeria. According to the IMF survey on access to finance (IMF, 2013b), only 48 households in 1 000 have a deposit account in a commercial bank, while the average for developing countries is 539 accounts and the average for OECD member countries is 1 560 accounts. According to the assessment, the government has launched no significant initiatives to improve the level of financial literacy among entrepreneurs.

Promoting a culture of entrepreneurship and skills development

As described above, Algeria's institutional framework offers considerable incentives for business start-ups, particularly for young people and the unemployed. Three agencies (ANSEJ, CNAC and ANDI) have been set up to allocate public resources and to promote business development. These agencies support entrepreneurs using the public resources at their disposal. At the same time, the formal education system has not demonstrated the same dynamism. Entrepreneurial learning is not yet regarded as a core competence in education programmes. However, the reform of the education system in 2008 and the

reform of vocational training have created instruments such as the Partnership Council for Vocational Training and the National Curriculum Board. These boards, which include representatives from various socio-economic sectors, could act as levers for the development and implementation of a national strategy for lifelong entrepreneurial learning.²

The low rate of business creation in Algeria in relation to its population size may be due, among other factors, to insufficient access to entrepreneurial learning instruction throughout the country.

While, in theory, the policy framework and funding mechanisms for entrepreneurial learning are in place, in practice weaknesses can be identified in the fields of national education, vocational training, and higher education. Lower and Secondary Education levels (ISCED 2) completely ignore entrepreneurial learning, while Upper Secondary Education (ISCED 3) continues to disregard entrepreneurial learning as a core competence. While there is a growing awareness of the entrepreneurial learning dimension in higher education, it is not yet integrated systematically into courses of study.

Informal initiatives promoting entrepreneurship by employers and professional associations, working together with universities and schools, are diversifying and, in some cases, becoming more regular and long term. Co-operation between universities and businesses is developing very slowly, and holds the potential for fostering the exchange of good practices.

The analysis of workplace training needs and its organisation are also provided for by public policy. Algeria has sufficient budgetary instruments to promote workplace training. For example, a National Office for the Development of Continuous Training (ONDEFOC), which will promote continuous training, and at least two special funds financed by the treasury have been created. These funds are the National Fund for Apprenticeship and Continuous Training (FNAC) and the Fund for Information and Communications Technology (FOTIC), a fund for start-ups in the information and communications technology sector. Because of these public funds, training opportunities are relatively widely available both in the public and private sectors.

These programmes are systematically offered by ANSEJ and CNAC to anyone intending to set up a business. They relate primarily to financing, market research, relations with banks and account management.

In general, workplace training is strongly encouraged by the public authorities through the established funds. There are strong incentives for lifelong training, as businesses are required to invest at least 2% of their annual wage bill in training and apprenticeship, failing which they are obliged to pay the difference (unexpended funds) to the FNAC.

It is without a doubt in the area of female entrepreneurship that there have been the most remarkable developments in recent years. Programmes on business start-ups and training aimed specifically at women have enjoyed great success. Nevertheless, they remain highly segmented and are not yet part of a public policy on female entrepreneurship.

There are still many weaknesses, most notably in the access of small businesses to information, relations between universities and businesses, training in exports and sustainable development, and the dissemination of good practices.

In general, the weaknesses in the Algerian institutional framework for promoting entrepreneurship lie in its fragmentation and in the inadequate co-ordination of sectoral public policies. In addition, the public funds that have been mobilised are not tailored to small businesses, which do not always have information about the opportunities available. The budgetary instruments are often also impeded by administrative and bureaucratic procedures.

Enhancing SME competitiveness

Business information and services

The policy framework for business support services has improved since 2008, as the Algerian government has significantly increased public funding for enterprise support with the launching of an ambitious National Upgrading Programme in 2010 (*Programme de Mise à Niveau*) and a number of other schemes supporting SMEs, such as the Programme PME II, launched in 2011. According to the assessment, a range of business support services is provided, and specialised technical centres offering expertise and feasibility studies in areas such as packaging, agro-business and metal transformation are already in place. However, there are no personalised services and little internal competition among the service providers. Information about business support service providers in Algeria can be found on different websites, but there is no central database available online.

Regarding start-up support services, only slight improvements have been made since 2008, as these services do not yet reach all regions and are not well structured and diverse, despite the existence of public institutions, such as ANSEJ, which work in all 48 *wilayas*. Five university incubators are at the pilot stage and a technology park is under construction following a 2011 government decision, while four technology and ICT-oriented business incubators are operational. However, statistical bulletins by the MDIPI reveal that these services are not yet effectively contributing to the creation of new start-ups, or at least not as much as was expected.

Algeria has generally made some progress in the area of enterprise access to economic and legal information compared to 2008. The statistical SME information bulletin, published by the MDIPI, provides extensive statistical information about the SME landscape and the support services in place. It is distributed twice a year, and brings together statistics from various national sources. Additional practical information can be found on the websites of the ANDPME, ANDI and CNRC. However, a single interactive information portal is still not available, which would make it easier for companies to access regularly updated information in all the relevant areas of activity.

Public procurement

The 2013 assessment indicates that the public procurement system in Algeria is relatively open to the participation of SMEs in public tenders. For instance, a decree regulating public markets, issued in 2012, specifically encourages reserving 20% of public contracts for micro enterprises. The same decree stipulates the mandatory publication of information on public procurement in official bulletins and in at least two national newspapers. Regarding e-procurement solutions, there is limited information available in electronic format.

Algeria has established a Guarantee Scheme for Public Procurement (CGMP) to deal with late payments for public contracts. This institution covers the government bill in case of late payment. In 2012, the CGMP has delivered 2 800 guarantees totalling DZD 81 million (EUR 7.6 million). In addition, 647 private SMEs have benefited from this service.

The country has introduced a range of discriminatory measures concerning foreign-based companies competing for public tenders, as market access conditions are sometimes determined by bilateral agreements or on a case-by-case basis. According to the Algerian Public Market Code of 2010, international investors are required to partner with an Algerian enterprise, which has to own the majority of the capital (i.e. at least 51%). In addition, the

Algerian government has the right to publish tenders only for Algerian enterprises and apply a preferential margin of 25% for Algerian applicants. Such measures limit the participation of foreign companies in the local economy, and thus reduce the positive effect they could have.

Innovation

Since 2008, Algeria has achieved progress in many aspects of innovation promotion policies. Since 2010, innovation promotion has been the responsibility of the National Business Upgrading Programme. The government has yet to adopt a national innovation strategy. Recently, the MDIPI developed a new industrial strategy, and a draft law on innovation promotion and the creation of a local agency in charge of monitoring innovation measures was presented to the government. The industrial strategy is still under discussion and no official measures have been initiated yet. At present, there is no single institution dedicated to the promotion of innovation. Scattered measures have been taken by the MDIPI, the Ministry of Information and Communication Technologies, and the Ministry of Higher Education and Scientific Research, which developed a draft law on research promotion in enterprises for 2014-18.

Since 2008, Algeria has established a number of innovation support mechanisms involving the private sector, universities and research centres. These initiatives include: the new centres for technology and innovation support created in 2010 within universities by the National Algerian Institute for Intellectual Property and the World Organisation for Intellectual Property; 34 national research programmes established by the Ministry of Higher Education; 2 577 research projects selected and launched in 2011; a network for R&D in the ICT sector that gathers universities, research centres and economic actors in the field. The Sidi Abdallah innovation incubator is operational and incubating three projects. It has defined another 20 projects for the future. Five new regional incubators will soon be developed. The cyber park of Sidi Abdallah expanded its activities in 2013 to Oran and Batna.

Financial support for innovation promotion has increased remarkably. There are measures to fund innovation promotion, including: a national programme for technological start-ups launched by the National Agency for SME Development in 2013; the Multilateral Support Programme for the Creation of Innovative Enterprises in the Mediterranean Region (PACEIM); the Fund for the Promotion of Industrial Competitiveness (*fonds de promotion de la compétitivité industrielle*), which since 2012 has allocated DZD 1 million (approx. EUR 9 400) to finance the innovation-related activities of the Upgrading Programme and the government's annual initiative to grant a national prize to the best innovative SME. As for indirect funding mechanisms implemented in 2012, the National Fund for Investment and the listing of SMEs on the stock market are expected to have an indirect impact on promoting innovation.

Green economy

Algeria's policy framework contains several laws to protect the environment and promote sustainable development and renewable energy. These laws are complemented by two National Action Plans for the Environment and Sustainable Development, with a budget of DZD 500 million (EUR 4.7 million), which focus on the preservation and sustainable use of biodiversity, soil degradation, water management and the stabilisation of greenhouse gas emissions. However, despite some existing market-based pricing mechanisms, the regulatory approach Algeria has taken to change the behaviour of businesses appears to be restrictive rather than supportive, as it limits the activities of enterprises (European Commission, 2012).

Expertise and training for SMEs in areas such as energy auditing and security are made available through various public institutions, such as the Algerian Institute of Renewable Energy and Energy Efficiency (IARD) and the Research Institute for Sustainable Development (IRDD). Furthermore, there were 110 national research projects on renewable energy in 2011 but remain to be further developed and assessed. However, the commitment of private institutions, such as chambers of commerce, NGOs and private service providers, remains limited.

The participation of SMEs is still at an early stage with only 75 enterprises being certified with ISO 14001, a series of specific requirements for the establishment of an environmental management system in 2012 applied by the National Centre of Cleaner Production Technologies. However, further certification and standardisation measures are planned within its SME Upgrading Programme, with the stated objective of bringing 1 000 businesses to mandatory certification of their products in accordance with Algerian standards.

Export promotion

Algeria has a number of bilateral trade and co-operation agreements with MED economies, including the relatively recent Preferential Trade Agreement between Algeria and Tunisia, signed in Tunis on 4 December 2008 and ratified in 2010, and the Commercial Co-operation Agreements between Algeria and PA of November 2010 and October 2012. In reducing barriers to international trade, these agreements are important for the development of SMEs. As described in Chapters 7 and 10, SMEs that are successful in integrating into the export market tend to record higher rates of job creation, to offer higher wages and to be more innovative. However, Algeria also needs to develop the export sector itself, notably by diversifying its economy, since the range of exported products is still very limited.

Algeria also has a number of platforms for disseminating relevant information on foreign markets, including regulatory information. These include the Algerian Company of Export Guarantees (CAGEX), the Algerian Agency for the Promotion of Foreign Trade (ALGEX), the Office of Promotion of Foreign Trade (PROMEX), and the Algerian Chamber of Commerce and Industry (CACI). However, there is no one-stop shop facilitating access to all this information in a single platform.

In the area of foreign trade promotion through facilitated procedures, Algeria is developing a new customs code stipulating the legalisation of the electronic transmission of documents. Under this new code, in the specific case of the Port of Algiers, import and export procedures are to be computerised. However, the non-recognition of electronic signatures by Algerian regulations makes it unfeasible to implement this plan.

Euro-MED co-operation

Algeria has no measures to promote the development of Euro-MED enterprise linkages and business support services, apart from its participation in the MED-Alliance within the Euro-MED Invest initiative, an EU programme that ended in 2011.

The way forward

The results of the 2013 assessment indicate that Algeria has made significant progress in its SME support policies. To continue this progress, Algeria should first solve its problems of policy co-ordination and efficiency, before further extending the scope of its policy instruments and allocating additional resources to the promotion of entrepreneurship and the development of SMEs.

The first step should be a thorough diagnosis of existing constraints on and opportunities for the development of private enterprises. To do this, Algeria should conduct a detailed impact analysis of the business environment and a review of mechanisms creating market distortions that are likely to send the wrong signals to potential and existing entrepreneurs. For example, one of the main factors discouraging entrepreneurial activity, despite substantial financial incentives, is the attractiveness of relatively more secure employment in the public sector, whereas an entrepreneur would only be covered by the social security net.

The diagnosis should lead to the development of a comprehensive multi-year strategy for SME development, conceived in collaboration with all stakeholders related to SMEs, including entrepreneurs and private sector development experts. The strategy should set a medium-term vision, objectives, and a set of quantitative and measurable targets. In addition, it is necessary to define the instruments for achieving these objectives, combining horizontal measures aiming at improving the business climate with targeted measures to support businesses. The strategy should include a mechanism for monitoring and reporting programmes, as well as dedicated tools for assessing their impact. Such a strategy should be well structured, providing a platform for policy co-ordination and utilising indications from the private sector to counterbalance the current top-down approach to policy making in Algeria.

The strategy should offer the opportunity to integrate and further develop actions in previously neglected areas. For instance, support to innovative SMEs has been relatively limited. In particular, there is a need to extend and upgrade incubation facilities and to support the establishment of networks offering dynamic SMEs opportunities to develop business projects jointly with larger companies, technical laboratories and foreign partners.

Regarding access to funding, Algeria's priority should be to set up market mechanisms and to reduce the premiums granted by public financial institutions on non-market terms so as to increase the competitiveness of the banking sector. Public and private banks could also improve their ability to conduct risk analyses before granting loans. Finally, in view of the low financial literacy rates, another priority would be to develop an action plan that would aim to educate entrepreneurs about existing financial products and their use.

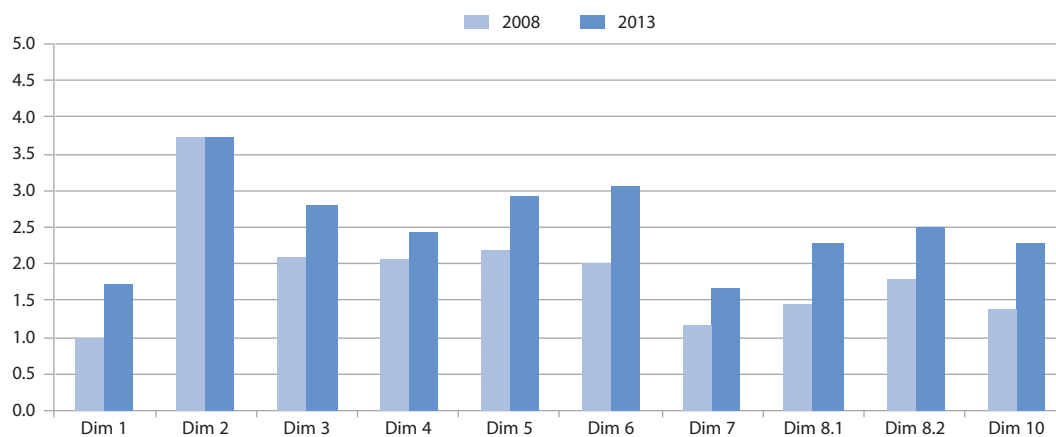
Business development services are numerous in Algeria. However, there is no evaluation of these services and their effectiveness. It is therefore essential not to introduce new services without having first conducted an evaluation of existing ones.

Entrepreneurial learning remains weak, and obstacles must be overcome in the three components of the educational system. First of all, entrepreneurial learning should be established by the National Curriculum Board as a core competence in courses of study at two levels of the national educational system (ISCED 2 and ISCED 3). The vocational training system is already reasonably open to this issue. The role of the Partnership Council should be reinforced in order to update training nomenclatures with a view to including a needs analysis in the areas of entrepreneurial learning and training. In higher education, changes should be introduced in the university governance system, with the appointment of representatives from the business community on management bodies

as well as on educational and academic bodies. Training-needs analysis and workplace training also constitute key elements in promoting entrepreneurship and competitiveness among businesses. The instruments already in place are assets, but they must be made more accessible for small businesses by simplifying procedures and eligibility criteria. The arrangements for access to these incentives often make them redundant and ineffective. For this reason a Small Business Act-type legal framework, dedicated specifically to small businesses, should be introduced.

A number of key measures, such as the definition of a multi-year strategy for export promotion, with clear targets and co-ordination mechanisms, could further develop the exchanges of Algerian SMEs with other MED economies. Moreover, Algeria could benefit from the introduction of a one-stop shop to facilitate access to information on foreign trade, including regulatory information. Finally, new schemes could ensure the recognition of electronic signatures in Algerian regulations so as to facilitate imports and exports and reduce the time and transaction costs of foreign trade operations.

Figure 11.2. Algeria: assessment results 2008 and 2013



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women’s entrepreneurship; **DIM 2:** Efficient bankruptcy procedures and “second chance” for entrepreneurs; **DIM 3:** Institutional and regulatory framework for SME policy making; **DIM 4:** Operational environment for business creation; **DIM 5:** Support services for SMEs; **DIM 6:** Access to finance for SMEs; **DIM 7:** Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1:** Enterprise skills; **DIM 8.2:** Enterprise innovation; **DIM 9:** SMEs in a green economy; **DIM 10:** Internationalisation of SMEs.

Source: Government and independent assessments.

Notes

1. According to the Bank of Algeria, in 2011 the public banking sector consisted of six banks that accounted for 89% of total banking sector assets, 83% of the national banking system and 70% of net banking income. Meanwhile, the private banking sector was composed of more than 14 banks with foreign capital, comprising subsidiaries or branches of international banks.
2. The Partnership Council for Vocational Training was established by the Framework Law on Vocational Training in 2008, and created in 2009. “This Council is to contribute to the development of the training programmes and profiles required by the labour market. It also contributes to the consolidation of national nomenclature of specialties, and facilitates dialogue and regular and ongoing consultation between all stakeholders and partners in the system of vocational training.” “Its potential lies in its composition. The Council is composed of representatives of socio-economic sectors, corporate bodies promoting entrepreneurship, employment, and investment, as well as employers’ associations and trade unions.”

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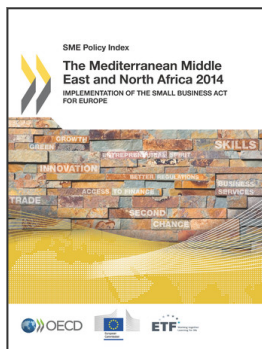
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