

**RESEARCH ARTICLE**

## **The Role of Investment in the Small and Medium Enterprises Sector in Developing the Tourism Sector in Algeria**

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### **Abstract:**

This research paper aims to highlight the importance of investing in small and medium enterprises through their contribution to the national economy, the development of the tourism sector in Algeria, and the creation of new job opportunities, as well as highlighting the various obstacles that limit their effectiveness. It has been found that the main obstacle is the problem of financing, as the state seeks to support and encourage investment in these institutions through the establishment of many supporting structures and the issuance of laws in line with the reforms targeted by the state in light of its transformation into a market economy. However, these institutions have not yet achieved their desired goals due to many obstacles that limit their effectiveness and profitability. The small and medium enterprises sector contributes to stimulating and increasing investment in order to drive development and revitalize the tourism sector in Algeria. To achieve the desired goals of reviving Algerian tourism, Algeria has adopted several plans to promote this sector, the most important of which is the Tourism Development Master Plan (SDAT), which allows the creation of high-quality base facilities and tourist centers.

**Keywords:** small and medium enterprises, tourism sector, national economy, investment support institutions, investment.

**JEL Classification Codes:** L26, L83, E60, G28, E22

### **1. Introduction**

Interest in small and medium enterprises has increased recently in both developed and developing countries due to their important role in economic development, including stimulating and developing the tourism sector. They are considered one of the mechanisms to reduce unemployment and enhance national prosperity. Algeria, like other countries, seeks to achieve development and self-sufficiency. Algeria possesses enormous tourism potential that helps it achieve advanced global positions in the tourism sector. Therefore, it has recently tried to encourage this sector to develop it as an effective alternative to creating wealth outside the hydrocarbon sector.

Given the importance of investment in small and medium enterprises in developing the tourism sector, this study will examine this type of enterprise and its contribution to Algeria's tourism sector through the following problem: What is the role of investment in small and medium enterprises and its contribution to stimulating the tourism sector, and what are the mechanisms to support it?

#### **Study Hypotheses:**

To begin this study and answer the proposed problem, we assume the following:

- **Hypothesis 1:** Algeria is concerned with supporting investment in small and medium enterprises due to their importance in increasing the national economy.
- **Hypothesis 2:** Algeria has enormous tourism potential due to its vast area

and regional diversity, which necessitates its exploitation through effective policies to develop the tourism sector, which is one of the important economic sectors.

- **Hypothesis 3:** Developing the tourism sector requires the coordination and interconnection of different sectors, granting investment in the small and medium enterprises sector to implement projects that strengthen the country's tourism infrastructure.

**Study Methodology:** The descriptive-analytical method was adopted to identify and thoroughly study the problem.

## 2. The Nature of Small and Medium Enterprises in Algeria

### 2.1 Definition of Small and Medium Enterprises

There is no unified definition of small and medium enterprises, as definitions vary from country to country due to each country's perspective on the nature and role of SMEs, as well as the criteria used to define them. Enterprises considered small in developed countries may be considered large in developing countries. Even within a single country, multiple definitions may exist. Different criteria have been adopted to define SMEs, including "number of employees, capital, sales and revenue, production, technology used, and energy consumption," but the most common criterion is the number of employees. There is also variation in the upper and lower limits: for example, Germany does not exceed 49 employees, England 200, and Japan 300. (Allam & Kasab, 2017, p. 3) In Algeria, small and medium enterprises are defined according to Law 17-02: Law No. 17-02 dated 11 Rabi' al-Thani 1438 (10 January 2017), which includes the guiding law for promoting SMEs. Article 5 defines SMEs, regardless of their legal nature, as enterprises producing goods and/or services, employing 1 to 250 persons, with annual turnover not exceeding four (4) billion Algerian dinars, or total annual revenue not exceeding one (1) billion Algerian dinars, and meeting the criteria of independence, meaning that no more than 25% of their capital is owned by another

enterprise or group of enterprises that do not meet the SME definition.

### 2.2 Advantages of Small and Medium Enterprises

SMEs are distinguished from other enterprises by several characteristics that have made them a focus for researchers and policymakers, summarized as follows: (Qettal & Azaizya, 2017, p. 4)

- **Predictable profits:** By determining and analyzing expected sales based on past experience, allowing for profit forecasting.
- **Owner knowledge of enterprise activities:** Due to their management of the enterprise and expertise in the field.
- **Direct communication lines between owners and employees:** Ensuring rapid guidance and effective supervision.
- **Job satisfaction:** Owners can create a good working environment and meet employees' needs through direct contact.
- **Ability to establish clear relationships with consumers:** Allowing understanding of consumer needs and striving to satisfy them.
- **Centralized decision-making:** All decisions are made by the owners or managers, which ensures speed, reduces bureaucracy, and positively affects opportunity investment and problem-solving.

## 3. Government Agencies and Investment Support Institutions in Algeria

To promote and support the financial environment of SMEs, the Algerian government, in addition to enacting legislative texts and rules within economic and financial policy, established financing agencies and created programs and mechanisms to meet the needs of these enterprises, including creating a ministry dedicated to such projects. Statistics indicate the growth of this sector and its importance in driving development (Dahmouni, 2015/2016, p. 101). These agencies include:

### 3.1 Algerian Investment Promotion Agency (AAPI)

A public administrative institution with legal personality and financial independence, under the supervision of the Prime Minister, supporting and assisting national and foreign investors in implementing investment projects. Previously called the “National Investment Promotion Agency,” its role includes:

- Promoting and valuing investment in Algeria and abroad, liaising with Algerian diplomatic and consular missions.
- Informing and raising awareness among business communities.
- Managing the investor digital platform.
- Registering and processing investment files.
- Accompanying investors in completing procedures related to their investments.
- Managing benefits, including those for projects declared or registered before Law 22-18.
- Monitoring the progress of investment projects.

<https://aapi.dz/ar/presentation-de-laapi-ar>

### **3.2 National Agency for Support and Development of Entrepreneurship (NESDA)**

A special government agency under the Ministry of Knowledge Economy and Startups and Microenterprises. NESDA manages an economic approach aimed at supporting project holders to establish and expand micro-enterprises in goods and services production to create sustainable wealth and jobs. The agency focuses on: <https://www.nesda.dz/>

- **Training:** Promoting entrepreneurial thinking among youth through training courses with partners, within entrepreneurship development centers.
- **Support:** Assisting project holders throughout all stages from conception to startup and beyond.
- **Financing:** Providing financial support through various funding methods with partners from the public banking sector, as well as tax advantages according to current legislation.

### **3.3 National Unemployment Insurance Fund (CNAC)**

Established in 1994 as a public social security institution under the Ministry of Labor, Employment, and Social Security, it mitigates social impacts resulting from worker layoffs under structural adjustment plans.

[https://www.cnac.dz/site\\_cnac](https://www.cnac.dz/site_cnac)

### **3.4 Agency for the Development of Small and Medium Enterprises and Promotion of Innovation (ADPMEPI)**

Established under Executive Decree No. 18-170 of 26 June 2018, amended by Decree No. 25-331 of 22 November 2020, it implements SME development policies in creation, growth, and sustainability in coordination with relevant sectors.

<https://www.industrie.gov.dz/adpmepi/>

## **4. Tourism Sector in Algeria**

### **4.1 Definition of Tourism**

According to the United Nations Conference on International Travel and Tourism, tourism is “a social and human phenomenon involving an individual’s movement from their permanent residence to another place for a temporary period of no less than 24 hours and no more than 12 months, for recreational, therapeutic, or historical purposes.” Tourism includes domestic and international tourism. The World Tourism Organization defines it as “the set of activities people engage in while traveling and staying in places outside their usual environment for leisure or business purposes.” (Qara, 2011/2012, p. 87)

### **4.2 Tourism Foundations**

Tourism is based on a set of foundations, integrated to enable effective activity in tourism economics: (Houtia, p. 389)

- **Tourist demand:** The total expected number of visitors to a tourist area, reflecting individual desires that may be material or moral, expressed in travel behavior.
- **Tourist supply:** The resources offered by a tourist area, including natural, historical, or industrial attractions and related goods and services.
- **Tourism product:** The service experience of the visitor from departure

to return, including planning, investment in facilities, and marketing.

#### 4.3 Tourism Characteristics

Tourism aims to utilize available natural and human resources such as beaches, moderate climate, mountains, religious, historical, and archaeological sites, and is similar to other economic activities exploiting natural resources. Key characteristics include:

- Tourism is an expanding economic activity in terms of income and consumption, generating employment.
- Tourism is affected by travel costs, service prices, and individual income levels.
- Tourism products (attractions) only generate revenue through tourism.
- International tourism is an export product subject to instability due to external factors, price and income elasticity, and seasonality. (Qara, 2011/2012, pp. 89-91)

#### 4.4 Tourism Potential in Algeria

Algeria possesses enormous tourism potential due to its vast area and diverse regions, requiring effective policies to develop tourism. As the largest African country by area (2,381,471 km<sup>2</sup>), with a 1,660 km coastline and over 40 million people, it has cultural, urban, human, biological, and natural diversity unique in the Mediterranean and North Africa. Tourism types include:

- **Recreational tourism:** Entertainment is the main purpose, supported by beaches, forests, and deserts.
- **Beach tourism:** Algerian coasts attract local and international tourists for summer, with key beaches in Oran, Mostaganem, Algiers, Tipaza, Jijel, Annaba, Skikda, Boumerdes, Bejaia, and Tizi Ouzou.
- **Therapeutic tourism:** Algeria has over 200 officially registered springs and baths dating to Roman times, with therapeutic benefits, especially for skin and joint conditions, including seawater treatment in Sidi Fredj, sand therapy in the desert, and cave therapies such as the Krif Cave in Khenchela. (Bray, 2020, p. 13)

### 5. Contribution of Algerian SMEs to Reviving the Tourism Sector

#### 5.1 Importance and Role of SMEs in the National Economy

The legal framework concerning SMEs has enhanced their development in numbers and sectors, contributing to the national economy through employment, added value, and prominence in foreign trade. (Ismail & Jadidn, 2014, p. 133) Key contributions include:

- **Employment:** SMEs help reduce unemployment, especially in developing countries, by creating job opportunities and producing skilled labor.
- **Export development:** With proper support, SMEs can produce goods and services competitive with imports, improving trade balance through increased exports and reduced imports.
- **Mobilizing savings:** SMEs attract savings and convert them into investments, increasing GDP and economic growth, especially given their size and accessibility to small investors. (Mbani, 2017, p. 26)
- **Regional development balance:** SMEs' geographical distribution helps absorb unemployment in rural areas, reduce rural-to-urban migration, improve living standards, raise industrial awareness, and strengthen agriculture-industry links. (Bukhari, 2016/2017, p. 134)

#### 5.2 Contribution of SMEs to Developing Tourism Infrastructure

Algerian small and medium enterprises face major challenges in light of the market's international openness, which requires them to strengthen their production and marketing capacities in the face of fierce competition they may encounter from foreign companies. The tourism sector appears as a means to attract investments and foreign capital to be employed in this sector, and small and medium enterprises play an effective role in utilizing these funds in projects that benefit Algerian tourism, such as service projects like hotels.

Although Algeria occupies a strategic tourist location and possesses abundant resources,

wealth, and numerous tourist attractions, its tourism sector remains neglected due to the Algerian economy's reliance on oil revenues and the lack of will and search for an alternative to oil rents.

The delay in tourism in Algeria is a result of the lag that characterizes all other sectors because all products from different sectors serve the tourism sector, making this sector a mirror reflecting the state of the national economy. Despite Algeria possessing all the requirements for advancing the tourism sector, many obstacles prevent this, including inflation, exorbitant price increases, lack of tourism services, absence of regulatory frameworks for the sector, and the poor condition of the transport sector.

Tourism activities are carried out through economic enterprises, including small and medium enterprises, which seek to offer tourism products directly through travel and tourism agencies, restaurants, and hotels, or indirectly through transport and communications services. However, the contribution of Algerian small and medium enterprises remains limited due to their nature (capital, size), as developmental activities and projects require substantial financing, which these enterprises lack in Algeria, negatively affecting Algeria's tourism position compared to its neighbors, Tunisia and Morocco, which are considered major tourist hubs.

To meet tourists' needs, a set of basic conditions must be provided during their journey, including restaurants, hotels, recreational centers, transportation means, etc. Accordingly, tourists must rely on intermediaries to facilitate their tourism needs, which are managed by a group of tourism enterprises offering various tourism products consumed by visitors. These tourism enterprises are diverse and include specialized small and medium enterprises. (Yasser & Abed Zakaria, 2020, pp. 10-11)

To achieve the desired goals of reviving Algerian tourism, Algeria has adopted several plans to promote this sector, the most important being the Tourism Development Master Plan (SDAT), which allows the creation of high-quality base facilities and

tourist centers, including the construction of more airports and hotels, especially in desert areas rich in famous tourist attractions. Considering tourism as the new driver of sustainable development in modern economies by contributing to wealth creation and reducing unemployment through projects that attract labor and generate substantial revenue, Algeria seeks to follow the experience of neighboring countries that have recorded great successes in revitalizing the tourism sector to give a new dimension to Algeria's tourism sector in line with its tourism potential.

Under the Tourism Development Master Plan, a structured and sustainable approach must be built to provide tourism activities with clarity and vision necessary to establish a tourism-based economy as an alternative to finite and non-renewable resources. In terms of objectives, current legislation reaffirms the state's will to preserve the environment, improve living conditions, and enhance the natural and cultural environment to strengthen national tourism heritage. This plan has a triple impact at three levels: macroeconomics (employment, growth, investments), other social sectors (agriculture, crafts, culture, services, transport, construction, public works, industry, jobs, income, currencies, etc.), and economic openness and external trade. If this program achieves its objectives, tourism will become an alternative resource to hydrocarbons by the end of this century. Hence, national awareness of tourism development as a driver of economic and social development requires a strategic reference framework and vision for 2030, based on the objectives outlined in this plan. The Tourism Development Plan, SDAT, is a component of SNAT 2025, provided for in Law 02-01 dated December 12, 2001, related to land use planning and sustainable development. Tourism is not a branch or sector of activity; it is a young industry combining tourism promotion and environmental protection, with the state's slogan in this plan being: "Tourism is no longer a choice; it is a necessity." (Yasser & Abed Zakaria, 2020, p. 15)

### 5.3. Problems Facing Small and Medium Enterprises in Investment

- **Financial problems:** The financing problem affects SMEs, as they are forced to purchase on credit from some traders to obtain their needs at relatively high prices, resort to intermediaries in raw material markets at high prices, and subcontract with large companies to supply inputs and market products at a lower price, reducing the profitability rate of the activity compared to what it would be if SMEs had adequate financial resources. (Othmaniya, 2015/2016, p. 42)  
This problem intensifies due to Algeria's lack of specialized financial institutions dealing with such enterprises, and when available, they have limited financial capacity, not to mention the difficult conditions for providing funds to small-sized enterprises. (Mizani, 2016/2017, p. 147)
- **Administrative rigidity:** Administrative procedures require full attention to ensure compliance with related policies, legislation, and systems. These procedures form an interface between the government and project owners, as enterprise activity requires rapid administrative response in both organization and execution, especially for SMEs characterized by dynamism. (Trashi, January 2015, p. 12)
- **Supply problems:** Algerian SMEs suffer from reliance on imported materials, as the lack of raw materials and spare parts leads to imports and therefore higher costs. Dependence on the national market for expensive industrial equipment also affects production costs. Using old or used machines negatively affects both the quality and quantity of products. (Jabbari & Derbouch, 2017, p. 314)

### 5.4. Measures of Assistance and Support to Promote Investment in SMEs

- Dissemination and promotion of industrial, commercial, legal, economic, financial, professional, and technological information related to SMEs.
- Encouraging initiatives facilitating SMEs' access to property.
- Establishing tax systems adapted to SMEs.
- Promoting entrepreneurial culture, modern technology, and innovation in SMEs.
- Facilitating SMEs' access to appropriate financial tools and services.
- Encouraging professional associations, subcontracting exchanges, and clusters, and enhancing coordination between SME support and establishment agencies at central and local levels. (Law 17-02, 2017)

### 5.5. Addressing Investment Obstacles for SMEs in Algeria

Algeria should benefit from successful international experiences in developing SMEs and emulate them to overcome sector challenges. The government must work within the following framework: (Jabbari & Derbouch, 2017, p. 315)

- Improving the business environment by simplifying market entry and exit procedures, such as electronic remote registration systems, ensuring stable and clear laws, and improving infrastructure.
- Reducing tax burdens and encouraging innovative technology enterprises through tax exemptions.
- Encouraging participation in public government tenders and allocating a portion of total contracts for SMEs.
- Banks providing non-financial services to SMEs, such as strategic planning training, enhancing competitiveness, and investment services.
- Developing innovative financing tools such as Islamic financing and leasing, and activating financial markets for SMEs.

### 6. Conclusion:

Investment in SMEs represents an important source for stimulating the tourism sector in Algeria, achieving economic and social development, and contributing to industrial integration. Accordingly, the Algerian government has supported and encouraged investment in these enterprises. The most significant challenge facing SMEs in investment is financing. Investments in these enterprises are supported through programs, mechanisms, and government agencies addressing their needs and development, along with laws and regulations within economic policy.

The main findings of the study can be summarized as follows:

- Investment in SMEs plays an effective role in the national economy by creating added value and providing employment opportunities.
- Algeria, like other countries, seeks to promote and develop the SME sector and revitalize the tourism sector through government agencies and investment support institutions.
- The delay in tourism in Algeria is a result of the lag in all other sectors, as all products from various sectors serve the tourism sector.
- Algeria has adopted several plans to promote this sector, most notably the Tourism Development Master Plan (SDAT), which enables the creation of high-quality base facilities and tourist centers.
- Administrative rigidity is an obstacle for SMEs, which are characterized by dynamism.
- Lack of raw materials and spare parts forces SMEs to import, raising production costs.

#### **Proposals:**

- Algeria should consider successful international experiences in supporting and developing the tourism sector.
- Establish funds specifically for financing investment projects such as hotels, recreational centers, and attractions drawing the largest number of visitors.

- Banks, in coordination with investment support mechanisms, should provide financing facilities for SMEs to ensure their continuity, development, and tourism promotion in Algeria.
- Develop and activate investment support institutions for SMEs and impose oversight on them.
- Encourage foreign investment and provide facilities to attract capital to Algeria's tourism sector.

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