

*Entrepreneurship in Algeria and The approach of diversify
The Reality Of Investment*

ريادة الأعمال في الجزائر ونهج التنوع - واقع الاستثمار

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Abstract: We've touched in this research paper to the subject of entrepreneurship and approach of diversification, where we use real statistical numbers of investment in Algeria during some previous years. Through certified data nationally and internationally, and then explained the industrial situation of SMEs and the problem of invention too, in addition to competitive standards in these institutions. And here we have consistently highlighted the perspectives of investment in the field, as well as the rich opportunities for entrepreneurial investment in most sectors. To conclude that the nature of investment in Algeria still retreating, compared with advancement components to rise with an economic system that creates sustainable development.

Keywords: entrepreneurship, diversification, investment, SMES, invention

(JEL) Classification : G33 ,C25.

مستخلص: لقد تطرقنا في هاته الورقة البحثية إلى موضوع المقاولاتية ومقاربة التنوع الاقتصادي، حيث استحضرننا واقع الاستثمار احصائيا في الجزائر خلال بعض السنوات الفارطة. وذلك من خلال بيانات احصائية مصادق عليها وطنيا ودوليا، ثم وضعنا الوضعية الصناعية للمؤسسات الصغيرة والمتوسطة ومشكلة الابتكار، اضافة الى مقاييس التنافسية في هاته المؤسسات.

ومن هنا سلطنا الضوء في الاخير على افق ومقاربة الاستثمار في ارض الواقع، وكذا الفرص الغنية للاستثمار في مختلف القطاعات مقاولاتيا. لنستنتج في الاخير ان طبيعة الاستثمار في الجزائر لا زالت متراجعة كثيرا مقارنة مع ما تمتلكه من مقومات للنهوض بنظام اقتصادي متنوع لخلق التنمية المستدامة.

الكلمات المفتاحية: المقاولاتية، التنوع الاقتصادي، الاستثمار، المؤسسات الصغيرة والمتوسطة، الابتكار.
تصنيف JEL : G33 ،C25.

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INTRODUCTION:

The results of several studies on entrepreneurship of the industrialized nations face the dynamics of the environment showed the involvement of that one in the process of change.

Several aspects of entrepreneurship are seen and reviewed depending on the turbulence environmental to preserve, for some, their sustainability and, for others, their development.

Indeed, adapting, and being reactive and even proactive became the new criteria of the competition in the era of globalization.

Internationalization is one of the responses to environmental changes but the use of this solution asks among other a possession of a capital appropriate to the requirements of the new business environment; these are the two concepts that we have chosen to deal with the problem on the nature of the future response of Algerian SMEs especially if we mention the importance of diversity as well.

To do this, we proceed first to the description according to the economic literature selected two concepts, namely the entrepreneurship in our economy and the approach of diversification with this model of investments activities, to determine some characteristics of Algerian entrepreneurship.

Entrepreneurship concepts is one of the most heavily traded terms in the economic field and distinctively.

And if the definitions of this concept are different from school to other, and a trend to other within the sociology of contracting organizations, there is an agreement in the book of (M.Thevenet, "La Culture d'Entreprise" that considering

that entrepreneurship is the unity of the productive social norms and customs and common beliefs between individuals of the same unit.

E.Jacques Leo Jack also define it as the culture of entrepreneurship is: "The way a thinking and behaviour, normally and traditionally with features and participations among the members of the Organization to teach gradually new members the view of accepting inside the entrepreneurship"

I. State of Industrial small and Medium-sized enterprises in Algeria

Job creation is intimately linked to the growth and entrepreneurship. The latter can not exist without the creation of new businesses. In Algeria, until the 1990s, the creation of companies fell in the public domain and mainly confined to areas considered non-strategic. From the middle of this decade, under the aegis of international financial institutions (**IMF and World Bank**), privatization of public enterprises, measures to support the private sector (investment codes promulgated in 2001 and 2006) and liberalization External Trade, were all factors that have favored the emergence of a business class that can be categorized in small rather than medium enterprises.

It seems important before continuing our analysis on SMEs to give its definition as defined in Algerian regulations. Thus, the 01-18 law of 21 December 2001 on the orientation law for the promotion of SMEs defines it as: "any company producing goods and / or services:

- Employing 01-250 people
- Whose annual turnover does not exceed 2 billion dinars or whose annual balance

- sheet total does not exceed 500 million dinars and that meets the criteria of independence. "

By criteria of independence, this Act means the company whose capital is not owned 25% or more by one or more other companies do not meet the definition of SMEs.

A survey 1 conducted by the National Statistics Office (ONS) in 2011 identified 934,250 economic entities existing at national level. These entities are mainly concentrated in the urban areas (over 83%) in the private sector (almost 98%) and recently (over 78% were created in 2011). The majority of these companies were born of public measures to help the creation of companies set up from the 2000s, privatization of public enterprises or partnership with foreign companies including *grenfield brown field IDE* .

Table 1: Evolution of the number of companies by sector

	1995	2000	2004	2011
Industry	36285	43721	46991	95445
Building	16010	18674	72869	9117
Services	183461	224385	102841	829688
Including Commerce	127234	157392	37954	515700
Total	235756(100%)	286780(100%)	182701(100%)	934250(100%)

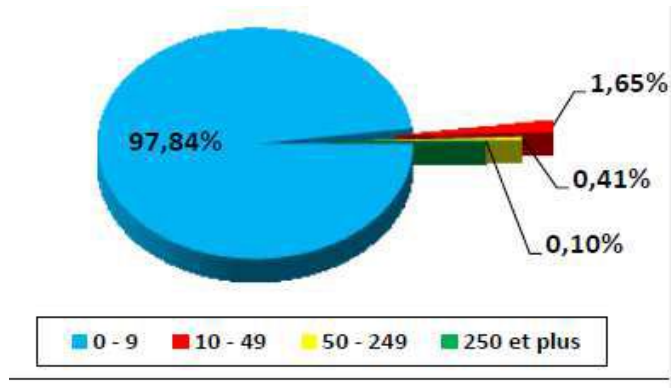
Source: Data from the Ministry of SMEs and crafts, CNAS

(National Social Insurance Fund) and ONS

The breakdown of these enterprises by sector shows their predominance in services and for all years subject to analysis. Services (provided to households and businesses) experienced strong growth during the second half of 2000, driven by

food services and those related to the development of telecommunications and Health.

Graph 1: Distribution of enterprises by slices of staff



Source: Data from the National Statistics Office (NSO), 2011²

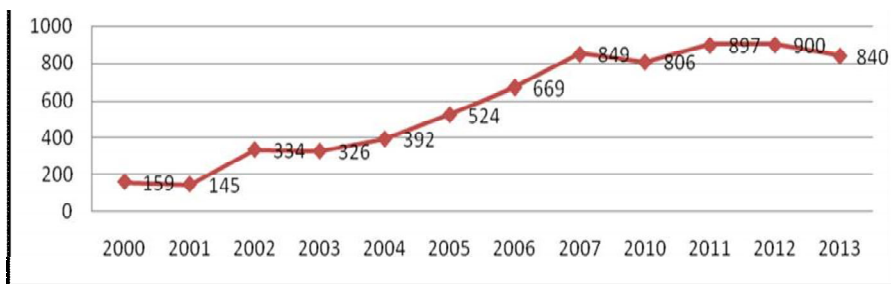
2. The Invention:

The invention is the installation of science, the contribution in knowledge building, and documenting of ideas. Innovation means the transfer of patents to product or service and delivered to the hands of the Consumer so that its utilization and the value of cash for the benefit and cash income to ensure the continuation of the steering wheel invention and innovation.

The annual report of the world organization mentioned that Algeria submitted 840 patents (Graph 2) a number less than some Arab countries such as Morocco who recorded more than 1100 patent while Egypt registered more than 2000 invention, And Tunisia with a weak number about 550 patents. On the other hand, Other Maghreb countries were absent and not mentioned in the annual report of the organization like the debilitating Libya in war.

Note of the Graph (2) mentioned below that the number of patents in Algeria is weak as it did not exceed during 13 years with 6841 applications, and it means the weak of productive capacities of intellectual property in Algeria, and that despite the efforts of the party of the Government in order to encourage scientific research through increasing the number of research laboratories.

Graph 2: shows patent applications in Algeria 2000-2013



Source: prepared by the two researchers based on the statistics of the WIPO, 2015

The distribution of firms by annual sales shows that nearly 8.6% of the companies activating in the industry have an annual figure lower than twenty (20) million dinars and those with a turnover greater than two (2) billion dinars represent only 0.4% of companies. Within this activity,

Table No. 2: Distribution of industrial companies according to turnover

Turnovers in industry (million dinars)	Number of companies	Of total enterprises	On total industry	Includin g Manufa cture industry
<20million DA	80029	8.60%	83.80%	78992

20-2000000000 DA	1 3047	1.70%	1 3.2%	11747
> 200 million DA	1946	0.2%	2.03%	1297
> 2milliads	423	0.05%	4 0.4%	300

Source: Ibid.

Table 3: Mortality private corporations SMEs

Companies with a turnover below 20 million dinars represent almost 84% of the total of this class, while only 0.4% has annual revenues exceeding 2 billion Dinars. Within this last installment, it is, however, industrial companies occupying first place with a rate of 44% of companies, followed by construction and services.

	Secteurs d'Activité	2011	2012	Ecart	
				Nbre	Part en%
I	Agriculture et pêche	66	55	-11	0,68
II	Hydrocarbures, Energie,	22	19	-3	0,24
III	BTPH	3 512	3 004	-508	37,32
IV	Industries manufacturières	1 113	944	-169	11,73
V	Services	4 476	4 028	-448	50,04
	Total Général	9 189	8 050	-1139	100

Source: Ministry of Industry

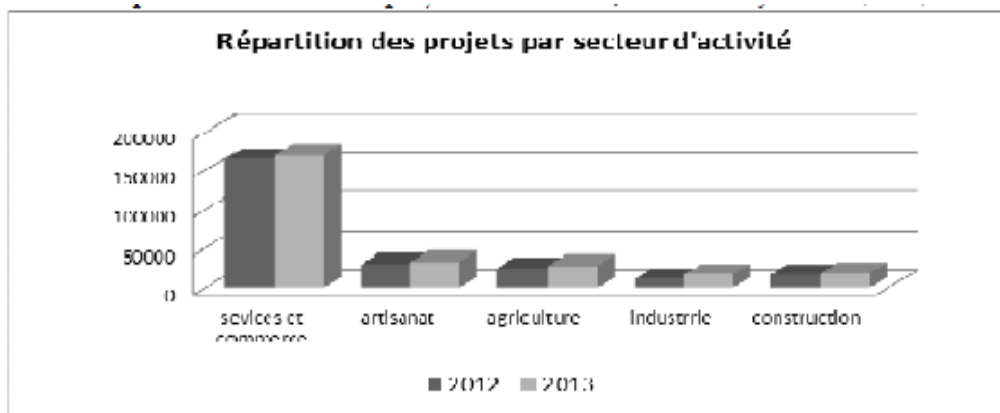
3. The determinants of investment:

it goes without saying that the recall settings for major investment which lies in our view are as follows:

The desire to investment, investment prospects, the circumstances surrounding the investment, economic policies, the rate of interest, political stability. The patent is the right to entrust any grants for patents. Generally, ensure the patent owner the right to decide the method of (or the possibility of) using of others to his invention. In return, the right to allow the patent owner to the public Technical information concerning the invention in the patent document published and remains the question lies in what kind of protection afforded by a patent?

The owner of the patent has the exclusive right to prevent others from exploiting the invention protected by the patent or stop this exploitation. In other words, ensure that the protection afforded by the patent do not enable the exploitation of the invention for commercial purposes or even used or distributed or imported or sold without the patent owner's consent.

Graph 3: Distribution of projects of ANSEJ ANGEM by sector (2012)



Source: Ministry of Industry data

4. Macroeconomic factors of competitiveness of Algerian SMES

The debate on competitiveness is not yet closed. But what do we mean by the term ‘Competitiveness’?

Who says competitive, said competition, and this can be across a company, to a region and even nations.

Originally, the concept of competitiveness is reserved for the company referring to its internal functioning and the relations it maintains with the outside world, on the other hand. In this context the competitiveness matches several definitions:

"The capacity available to a company at a particular time to resist its competitor. Competitiveness is a potentiality which is characterized by an advantage over competitors in its market. Profitability or productivity is partial measures of a whole much broader called competitiveness. »

(Price water house Cooper’s development, 2002).

Theory of the Growth of the Firm

In her book, *The Theory of the Growth of the Firm*, Edith Penrose (1959) offered some strong principles governing the growth of firms and the rate at which firms can grow successfully. She claimed that firms are a bundle of internal and external resources that help a firm to grow and to realize a competitive advantage.

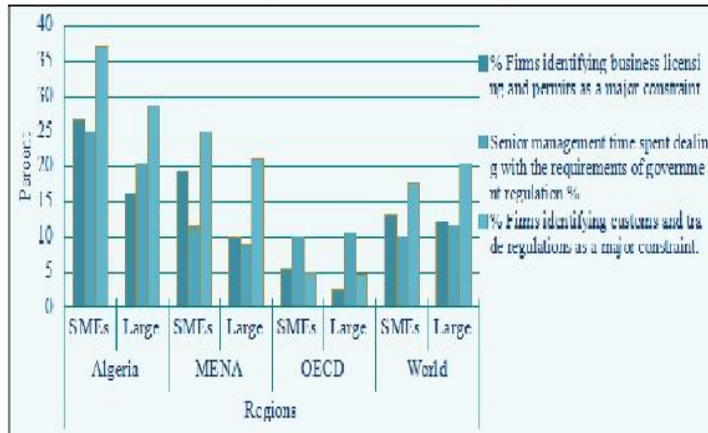
According to Penrose, firm size is incidental to the growth process, whereas firm growth is determined by the effective and innovative managerial resources within the firm. She further explained that the availability of top

managerial and technical talent serves as an engine to a firm's growth. Penrose has also suggested that ignorance of these factors results in failure and loss of competitive advantage.

Empirical Evidence on the Factors Affecting the Growth of SMEs

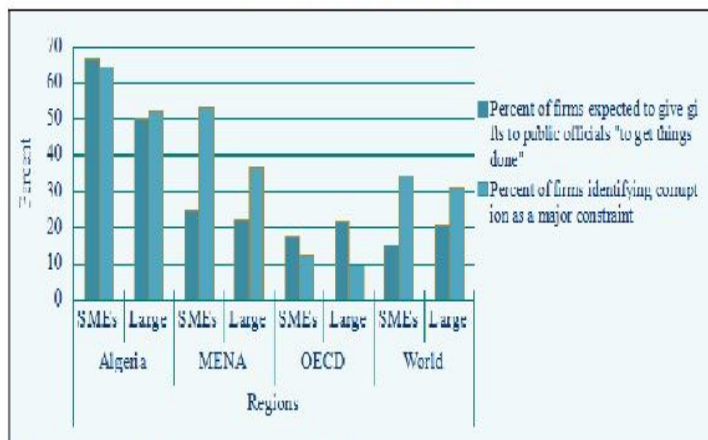
Scholars have used different approaches to identify the factors affecting the growth of small firms, however there is considerable variation in the results of previous researches. According to Coad (2007), the growth of small firms is a particularly erratic phenomenon. Entry rates of new firms are high; however, a large number of these entrants can be expected to go bankrupt within a few years. Bartelsman et al. (2005) analyze the post-entry performance of new firms in seven OECD countries, their results reveal that about 20-40 percent of entering firms fail within the first two years, while only about 40-50 percent survive beyond the seventh year. One of the reasons they do not survive is that they face several obstacles over time. Empirical studies on factors affecting the growth of SMEs can be roughly divided into two groups: internal factors of the firm and external factors that are beyond the SMEs' control.²

Figure 5: Bureaucracy Challenges affecting the growth of SME in Algeria, with a Comparison versus MENA,OECD and the World Average



Source: Performed by author based on data from World Bank Enterprises Surveys;

Figure 6: Corruption Challenge Affecting the growth of SME in Algeria, with a Comparison Versus MENA,OECD and the World



Source: Performed by author based on data from World Bank Enterprises Surveys;

5. Investment appraisal for the years 2002-2015 (Updated March 2016)

These next statistical tables reports investment projects during the 2002-2015 period consist of live information from the database of the ANDI refined and corrected in the light of canceled projects.

Summary of the declared investment projects Period

Investment projects	Number of projects	%	AMOUNT	%	JOB	%
Domestic investments	59 563	98,88%	9 100 521	78,64%	904 762	87,50%
Foreigninvestments	676	1,12%	2 471 691	21,36%	129 254	12,50%
TOTAL GENERAL	60 239	100%	11 572 213	100%	1 034 016	100%

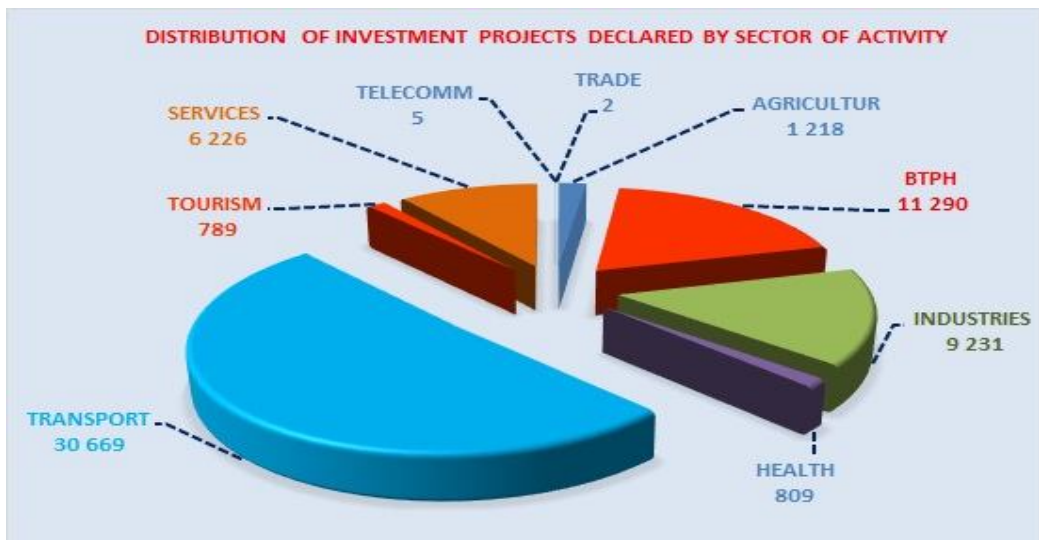
Source: database of the ANDI

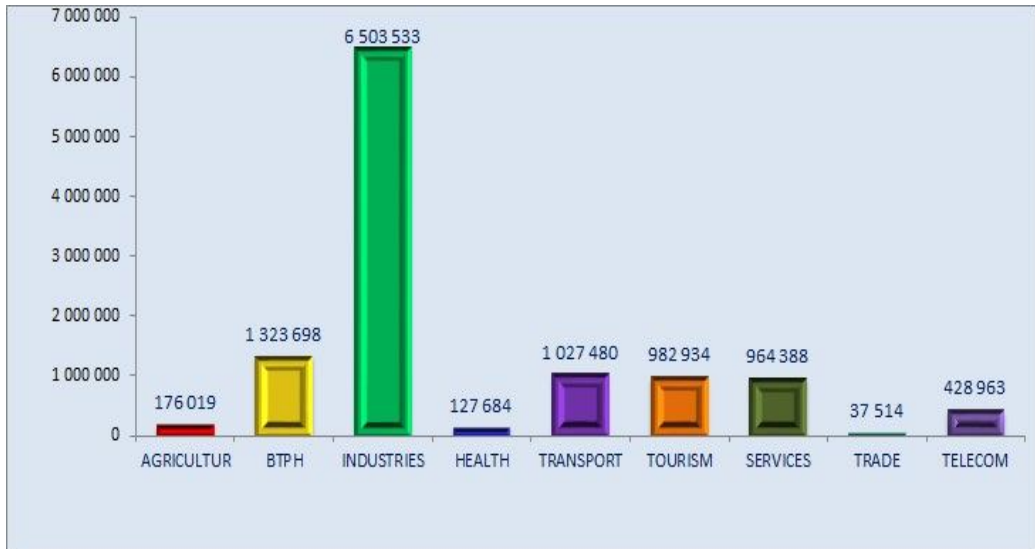
By sector of activity Period

BUSINESS SEGMENT INCLUDES	Number of projects	%	AMOUNT	%	JOB	%
AGRICULTUR	1 218	2,02%	176 019	1,52%	52 366	5,06%
BTPH	11 290	18,74%	1 323 698	11,44%	245 911	23,78%
INDUSTRIES	9 231	15,32%	6 503 533	56,20%	388 219	37,54%
HEALTH	809	1,34%	127 684	1,10%	19 105	1,85%
TRANSPORT	30 669	50,91%	1 027 480	8,88%	158 016	15,28%
TOURISM	789	1,31%	982 934	8,49%	54 862	5,31%
SERVICES	6 226	10,34%	964 388	8,33%	107 089	10,36%
TRADE	2	0,00%	37 514	0,32%	4 100	0,40%
TELECOM	5	0,01%	428 963	3,71%	4 348	0,42%
TOTAL	60 239	100%	11 572 213	100%	1 034 016	100%

Source: database of the ANDI

In This Phase we wanted to go directly to the term of diversity, and how should this way of planning can put the lines under the real opportunities and the natural and rich sources of activity in our country. In fact the usual multi sectors that can be reached in this phase are completely ready to host super interactive entrepreneurship methods, in order to create the sustainable development that we always seek.





Source: database of the ANDI

Then there is a question that no one can avoid to put the light on the real field of activities, which includes the participation of the foreigners and the foreign parts in our local investment system specially in the presence of the law of 51% / 49% than been judged many times by very known experts.

At this level, we have some documented statistics that shows numbers and percentages for what already asked.

Projects involving foreigners

REGION	Number of projects	AMOUNT	JOB
EUROPE	377	898 192	76 709
Dont UE	274	563 346	39 939
ASIE	68	119 506	8 607
AMERIQUES	16	65 636	3 346
PAYS ARABES	200	1 267 592	37 842
AFRIQUE	1	27 799	400
AUSTRALIE	1	2 974	264
MULTINATIONALITE	13	89 992	2 086
TOTAL	676	2 471 691	129 254

Source : ANDI Date base

6. Reasons to invest in Algeria :

Attractive investment opportunities

- 51.5 billion dollars of imports in 2015 (during first 9 months of the year) .
- 262 billion of public investment for the period 2015-2019.
- Promising sectors with matured projects.

Particular assests

Availability of important natural resources:

- 18th largest oil producer
- 12th largest oil exporter

- 15th place in world oil proven reserves
- 3rd producer and 5th exporter of gas
- 3rd supplier of natural gas in the European Union
- 7th place in the world in terms of proven gas resources
- 4th total energy supplier to the European Union
- 4th economic power in the Arab world as the Arab Organization for Investment Guarantee
- 2nd largest holder of foreign exchange reserves after Saudi Arabia
- 3rd largest holder of gold reserves in the MENA region after Saudi Arabia and Lebanon
- The less indebted of the 20 countries in the MENA region
- Solar potential: - 3000 hours of sunshine per year
- Other mineral resources: phosphate, zinc, iron, gold, uranium, tungsten, kaolin, silicon ... etc.

Economic stability

• GDP: The value of Algeria's Gross Domestic Product (GDP) reached 17,731 billion AD (221 billion US dollars) in 2014, against 16,570 billion AD (196 billion US dollars) in 2013.

• GDP per capita: \$ 5,460.1 billion in 2014 against \$ 5,474.9 billion in 2013

• Real GDP growth rate: 4% in 2014 against 2.8% in 2013 (Source ONS)

• The real growth rate of non-hydrocarbon GDP is 5.5% in 2014, compared to 7.1% in 2013.

• External Debt: \$ 3.666 billion in 2014 compared with \$ 30 billion in 2001.

- Foreign exchange reserves: \$ 185.273 billion in 2014 against \$ 194 billion in 2013.

Ambitious policies of development and sectorial strategies

The new industrial revival policy highlighting 12 strategic sectors, namely the steel and metalworking, hydraulic binders, electrical and household appliances, industrial chemistry, mechanics and automotive, pharmaceutical production, aerospace, construction and ship repair, advanced technology, food processing, textiles and clothing, leather and timber products, wood and furniture industry as well as outsourcing.

- the Master Plan for Tourism Development.
- Agricultural and Rural Renewal Programme.
- a Renewable Energy Program (solar, thermal and wind) for the production of **22 000Mw** by 2030.
- Development Plan of the Fishing and Aquaculture Activities by 2025.

Access to regional markets

- Geostrategic position allowing proximity to the European, African and Arab markets.
- 7 border markets (**Tunisia - Libya - Niger - Mali - Morocco - Western Sahara - Mauritania**)
- Membership in the agreement of the Arab Free Trade Area

- Signature in perspective of the Association Agreement with the European Union
- Membership in perspective in the World Trade Organization.
- Functional and modern infrastructure in conformity with international standards
- **Roads: 112,039 km** of roads and highways (**40th** network World, **3rd** in Africa) including **29,573 km** of national roads.
- **Airports: 36** airports, including **16** international.
- **Railways: 3,973 km** of km of railways which a tiny part is electrified. In 2016/2017 horizon, the length of the rail network will be **6,000 km**
- **Ports: 45** maritime infrastructure including **11 commercial ports**, **two** oil ports, **31 fishing** ports, **one** (01) marina and **2,200** maritime traffic lights.

Transportation:

- One (01) Metro in Algiers with a length of **9.5 km** with three extensions with a total length of **9.4 Km** in progress.
- **tramways** (Algiers, Oran and Constantine), and **04** **underway** of realization (Ouargla, Sidi Bel Abbes, Sétif).
- **A qualified, young and competitive labour force**
- **5.5%** of GDP to education
- **6.24%** of the state operating budget for higher education
- **86%** literacy rate
- **63.6%** of the Algerian population training age annually
- **96%** of school enrollment

- 1.5 million students, including **35,000** registered in doctoral training and **90000** in technical areas.
- **2 500 000** graduates since 1962, from **97** universities, **10** university centers, **20** national schools, **7** normal schools, **12** preparatory schools
- Almost **643,700** enrolled in vocational and temporary education which **200,000** (average) graduates from **1213** establishments (institutes and centers).

And competitive production factors costs

- Energy:

- **Natural gas: 0.21 to 0.40 Euros / therm**

- **Electricity: 1 to 4 euro cents / kWh on average**

- **Salary: 180-900 euros** (the minimum wage is set at **180 euros**)

- **Gasoline super 0.20 euros / L Gas Oil 0.16 euros / L**

Incentives for investment

- Important tax incentives, up to **10 years of exemption**, depending on the location and size of the project.

And other additional benefits:

- Partial or total reimbursement of expenses related to infrastructure works within the framework of derogatory scheme
- Reduction in employers' contribution to social security for the recruitment of young job seekers
- The concession of land by mutual agreement, over periods of **33 years renewable** and giving rise to the same property rights arising from sales

- Discounts on the price of the rental fee on the land and property acquired within the framework of the realization of the investment
- Tax exemptions throughout the life of the project for exporting projects.
- Temporary Exemption for **5 years**, of companies benefits tax (IBS), Global Income tax(IRG) and Tax on the turnover and 3%bonus of the interest rate on bank loans granted to investments in certain activities within the steel and metal industrial sectors, the hydraulic binders and Electrical Appliances, Industrial chemistry, mechanics and automotive Pharmaceuticals, aerospace, shipbuilding and repair, advanced technology, food processing, textiles and clothing, leather and derivatives, wood and furniture industry.
- Exemption from VAT, customs duties, taxes having equivalent effect or any other charge for the equipment needed for investment by industrial companies in the field of research and development.
- Reduction of **50%**, companies benefits tax (IBS) or Global Income tax(IRG),in common law for individuals and legal entities, activating and fiscally domiciled in the wilayas of **Illizi, Tindouf, Tamanrasset and Adrar**, and this for a period of **05 years** from the January 1, 2015.
- Support by the Public Treasury Administration, of the bank interest for investments made by industrial companies for the acquisition of technology and mastery to enhance the industrial integration rate of their products and competitiveness.
- Extension until 31 December 2019, of the application of reduced rate of customs duty on acquisitions of equipment and furnishings not produced

locally by hotel standards and within the scope of modernization and upgrading under the "**Quality Plan Tourism Algeria**" -The list of equipment and furnishings concerned is determined by the interministerial order of March 2, 2014.

- Reduction of charges of contribution to social security (recruitment of young jobseekers)
 - North: **56%to 80%**
 - Highlands and South: **72% to 90%**

Opportunities for financing through public banks

- Interest rate **3.5%**
- Bonus of **2%** which can range to **4.5%** (in tourism projects in the South)
- A network of **29 banks** and financial institutions, including:
 - * **14 private** and **6 public** and **9 financial** institutions
 - * **7 373 100** billion dinars of credit to the economy
- The existence of Leasing Companies
- Availability of investment funds
- FNI shareholding to **34%** in major projects
- **05** Investment Funds covering the whole territory up to **49%** participation in the capital of SMEs
- Possibilities for the use of financial institutions guarantees: Guarantees Fund Credits Investment FGAR

An intensified protection and international arbitration agreements

- Adherence to international conventions for the protection of investors, related the guarantees and international arbitration;
- Signature of 48 agreements and bilateral agreements on the promotion and reciprocal protection of investments.

Conclusion & Recommendations

Conclusion:

The study founds through analyzing the previous information several results, including:

- Our SMEs (Small And Medium-Sized Enterprises) shows a medium level of activities and shows slow development comparing the present possibilities and the entrepreneurial plans of the government institutions like ANSEJ, ANGEM, FGAR, Etc....
- The Absence Of the fact of invention and innovation in the recent small projects, and even in the planning mode and the intercultural management.
- Both of investment & competitiveness rates are not promising, either the local preventative or the foreign SMEs as the previous statistical
- Algeria has a huge Investment appraisal that shows an unique environment for the most perfect results ever can be reached.
- Lately our country shows definitely a lot of attractive investment's opportunities including assets, development policies, sectorial strategies, transportation, and the economic stability.

Recommendations:

In the light of the results of the present study the study recommends the following:

- In the case of activity of the SMEs and in order to improve the main role of entrepreneurship, we strongly suggest a new way and vision to pursuit and guide the young inventions, and to react positively with them. So we can start a new wave of good small projects that can really create the diversity we looking for.
- Encourage and support the human capital as the only way to develop the standard of invention and innovation starting with the entrepreneurial institutions in universities.
- The investment must conditionally be raised and supported with every way, because the economy now need it attached to the principal axe of diversity to make benefits of the entire right appraisal using the availability of all the opportunities.

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