The Reality of Financing Startups in Algeria Through Provided Support Mechanisms

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Abstract:

This study aims to explore the reality of startups in Algeria according to the support mechanisms offered by the state. The research paper relies on a descriptive analytical approach to describe the variables of the study and analyze and interpret the reality of these enterprises. The findings indicate that the concept of startups in Algeria is relatively new. The Algerian legislator has not provided a definition for startups but has instead outlined related criteria without restricting these enterprises' activities to the technological and innovative fields.

There is a significant lack of media and advertising concerning startups, given that this type of enterprise is still in the stages of definition and establishment. The researcher recommends the need to develop and diversify the various mechanisms and support devices for young people, such as business incubators and nurseries, and to link universities with economic institutions. Furthermore, the role of scientific research laboratories in developing entrepreneurial thinking and benefiting from Arab and global ideas, methods, and models specialized in accompanying and establishing micro-enterprises should be activated.

Keywords: Startups; Economic Development; Algeria.

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1. Introduction:

The majority of startups face challenges and difficulties that limit their importance, hinder their growth and development, and lead to their failure, especially in the first years of their establishment. These challenges include a lack of experience and skills, a lack of strategic planning, marketing and competition problems, and, most importantly, financing issues.

Like many countries worldwide, Algeria has emphasized entrepreneurship in this type of enterprise by implementing a strategy based on granting financial and tax privileges to young people wishing to undertake their own entrepreneurial ventures, along with providing support through business incubators and nurseries. It is observed that the proportion of university graduates engaging in establishing small enterprises is minimal compared to other countries, with most seeking more stable employment opportunities despite the increasing unemployment rate and the growing number of university graduates each year.

This calls for attention from all parties to focus on this segment as the future entrepreneurs' nucleus, providing the elements and requirements for innovative thought and evolutionary behavior. Consequently, we aim to establish successful entrepreneurial projects by university graduates and enhance the national economy, keeping pace with successful countries in the field of entrepreneurship.

The following question arises from the above:

- What is the reality of financing startups in Algeria through the provided support mechanisms?

To address this issue, we will attempt to answer the following questions:

- What is meant by startups?
- What are the main sources of financing for these enterprises?
- What is the reality of startups in Algeria?

1.1 Research Hypotheses:

- Startups face numerous obstacles and challenges, which Algeria has addressed through a range of measures.
- Financing is considered the most significant challenge faced by startups in Algeria.

1.2 Significance of the Research:

The importance of this study lies in highlighting the role of startups in achieving economic development through the support mechanisms provided. This is achieved by their ability to generate added value, create job opportunities, contribute to increasing the Gross Domestic Product (GDP), and achieve economic diversification beyond the reliance on oil revenues.

1.3 Research Objectives:

This study aims to identify the most important measures and actions taken by Algeria to develop startups and achieve economic diversity, and to understand the reality of startups in Algeria.

1.4 Research Methodology:

The descriptive analytical approach was used in conducting this research, which allows for the description of research variables, analysis, and interpretation of the reality of startups in Algeria following all the measures and actions taken to develop this type of enterprises.

2. Previous Studies:

- ***Mansouri Ben Ayad, Mustafa (2021):*** This study aimed to examine the role of support bodies and employment of university graduates within the framework of entrepreneurship through the support and establishment of startups. It recommended the inclusion of educational materials focused on freelancing and establishing startups, as this study is considered one of the best means to achieve economic recovery.
- ***Boualrihan et al. (2021):*** This study aimed to highlight the importance of venture capital in financing startups as an alternative to traditional financing. It also identified FINALEP as one of the main venture capital firms, highlighting its effective role in supporting various enterprises in general and startups in particular.
- ***Ben Fadel, Tafer (2020):*** This study addressed the various challenges faced by the startup sector during the recent crisis imposed by the COVID-19 pandemic and explored the overall measures and policies globally implemented to help counter these challenges.
- ***Bournane, Souli (2020):*** This study emphasized the need to focus on startups as they are among the companies characterized by rapid growth. It also pointed to the mechanisms adopted by Algeria to reduce unemployment rates and ease the transition costs to a market economy, including the National Agency for Microcredit Management.
- ***Mfrom (2020):*** This study aimed to highlight Algeria's recent focus on supporting young entrepreneurs in establishing startups and involving them in the economic development process in Algeria. It concluded that the ecosystem for startups in Algeria does not provide sufficient support and guidance necessary for the success of these types of enterprises.

3. Theoretical Concepts of Startups:

3.1. Definition of a Startup:

Defining the concept of startups is essential for any researcher in this field or subject for analysis, as well as for policymakers in developmental policies to facilitate the redesigning of developmental programs and the formulation of strategic plans due to the multiplicity of concepts of startups.

A startup is defined as a company with a short operational history, usually newly established, and in the phase of growth and market exploration. This term has become globally widespread after the dot-com bubble. Founders design startups to develop scalable business models effectively. (Bouchaour, 2018, p. 420).

Paul Graham, in his famous article on growth, defined it as a company designed to grow rapidly. Being newly founded does not make a company a startup in itself, nor is it necessary for startups to be in the technology sector or funded by venture capital or investors.

The only thing that matters is growth, and everything else associated with startups follows growth. A startup is a newly established business created by entrepreneurs or a group aiming to develop a unique product or service for the market. Traditional startups tend to have limited operations at inception and start with an initial investment from the founders or their relatives.

They are characterized by high uncertainty and risk in exchange for potential strong and rapid growth, with the possibility of significant profits if they do not succeed. Steve Blank defined it as a temporary organization in search of a business model that can grow, be profitable on a repeatable and scalable basis. It tests different business models, discovers its environment, and gradually adapts. A startup must work to make its project successful quickly with an impact on the market it intends to enter immediately.

It represents an idea and vision embodied by the project worker and operates in an often unstable market to propose a new product or service. Neil Blumenthal defined it as a company working to find a solution to a problem that is not clear how to solve, and it is not guaranteed that this solution will succeed. (A group of researchers, 2020, p. 536).

Therefore, startups can be defined as enterprises aiming to market and launch a new or innovative product or service targeting a large market, regardless of the company's size, sector, or field of activity, characterized by high certainty and risk in exchange for achieving strong and rapid growth with the potential for substantial profits in case of failure. (Bouchaour, 2018, p. 420).

3.2 The Life Cycle of a Startup

The life cycle of a startup goes through the following stages: (Hannachi, Boufenghour, 2021, pp. 174-175)

- **First, the idea formation stage:**

Where the idea of establishing a project is proposed through market research and consumer behavior analysis, attempting to implement and develop it in the future, and planning its transformation and selecting the appropriate method for it.

- **Second, the launch phase:**

Where the product or service is launched for the first time, being unknown, with the difficulty of finding suitable funding sources. Entrepreneurs often turn to family, and here the product is priced high and needs promotion.

- **Third, the growth phase:**

The product grows and reaches its peak, the supply increases, and the activity expands to other parties that produce it with the same or better characteristics, which threatens its position and starts the product's decline and failure.

- **Fourth, the disappearance phase:**

Where the product continues to decline until it disappears, potentially leading to its market exit, necessitating the introduction of appropriate modifications by following organized strategies and attempting to relaunch it and gain the necessary experience. Here, the second phase of the product begins, where its price is adjusted, and it is marketed more rapidly.

- **Fifth, the increasing growth phase:**

Here, the product has developed significantly and surpassed the experimental phase, and the company begins to grow. The targeted consumers have adopted the new innovation, starting the profit-making phase and large-scale production. (Hannachi, Boufenghour, 2021, pp. 174-175).

3.3 Characteristics of a Startup

Startups are characterized by basing their business operations on pioneering ideas and smartly and modernly following market needs. Among the most important characteristics, we will mention the following: (Bournane, Souli, 2020, p. 133)

- ✓ **Newly Established:** Meaning they are newly founded and derive their name from their novelty, facing two options: either to develop and prosper into a successful standalone company offering new products needed by the markets or to close their doors and accept the loss.
- ✓ **Companies with an Opportunity for Gradual and Increasing Growth:** One of the defining features of a company is its rapid growth potential and generating revenue much faster than the costs required for operation. In other words, a startup is a company that can quickly elevate its commercial operations, i.e., increase production and sales without increasing costs, resulting in a significantly growing profit margin. This means that startups are not necessarily limited to lower profits because they are small; on the contrary, they are capable of generating very large profits.
- ✓ **Technology-Related Companies That Mainly Rely on It:** These companies are characterized by conducting their business operations based on pioneering ideas and satisfying market needs in a smart and modern way. Startup founders rely on technology for growth and progress and find

funding through online platforms and by winning assistance and support from business incubators.

- ✓ **Companies That Require Low Costs:** The meaning of a startup includes that it requires very small costs compared to the profits it obtains, which usually come quickly and somewhat unexpectedly. (Bournane, Souli, 2020, p. 133).

As for the characteristics that are considered weaknesses for these enterprises, we mention:

- ✓ Limited ability to choose and formulate a work strategy;
- ✓ Their inability to form an effective distribution network due to their limited and weak capabilities;
- ✓ Difficulty in accessing financial resources for several reasons, the most prominent of which are the weak financial structure and lack of guarantees;
- ✓ They cannot benefit from economies of scale due to their small size, as lowering production costs by increasing volume is achieved by distributing fixed costs over a larger number of production units. (Sebti, 2009, pp. 133-134)

3.4 The Importance of Startups

Over the last two decades, startups have gained significant importance in the global economy due to their impact on various economic indicators. The importance of startups manifests in: (Bouzerb, Khawaled, 2021, p. 362)

- ➢ **Job Creation and Unemployment Reduction:**

Startups significantly contribute to job creation within the community. The rapid growth opportunities characteristic of these companies enable them to generate employment opportunities.

Numerous global studies have validated this role, with a study by the Kauffman Foundation highlighting startups' importance in job creation, showing that startups created 5 million jobs annually during 1992-2005, a level four times higher than that of companies of any other age group.

- ➢ **Increase in Goods and Services Production:**

Startups, due to their disproportionately high technology relative to their size, lead to an increase in goods and services production. A 2017 report by the Economic Studies Center at the U.S. Bureau of Statistics found that highly productive companies are young, recent establishments, contributing disproportionately to the growth of goods and services.

- ➢ **Positive Impact on Society:**

Since a startup can stimulate creativity in society, it contributes to changing societal values and creating a new mindset, aligning people with new responsibilities for their work and career development.

Opening New Markets: Startups create new markets or completely transform old markets through competition by offering products that change the global economy. Often, new technologies create new opportunities that startups can capitalize on, thereby creating immense value compared to mature companies, which supports and drives economic development.

- **Promoting Scientific Research:**

Startups can significantly contribute to research and development as they often deal with high technology and knowledge-based services. The R&D team in a startup acts as an innovator, maintaining the company's growth, and contributes well to the practical orientation or research work in universities, institutes, and other educational institutions. Consequently, startups can encourage students or researchers to implement their ideas by working in startups. (Bouzerb, Khawaled, 2021, p. 362)

4. Objectives and Characteristics of Startup Financing

The financing process for startups is characterized by a set of features that qualify it to achieve the planned objectives desired from establishing this type of enterprise.

4.2 Objectives of Startup Financing

Financing for enterprises, in general, and startups, in particular, has several objectives, highlighting the importance and role of microfinance in initiating economic and social development movements, including:

- ✓ Providing the necessary liquidity for the investment project by supplying the required equipment; facilitating various cash and financial audits among different economic agents to ensure resource availability, especially between financial institutions and other economic agents;
- ✓ Covering part of the investment project costs;
- ✓ The commercial financing industry requires parties that manage risks (banks) and regulate them (agents insuring against default and guaranteeing accounts);
- ✓ Stimulating the economy, improving production, increasing productivity, and achieving global standards;
- ✓ Enhancing the export capabilities of enterprises through their support and financing;
- ✓ Assisting in expansion and opening new units or production lines for these enterprises, increasing their activity size, and thereby increasing employment;
- ✓ Supporting production;
- ✓ Enabling enterprises, especially startups, to acquire modern equipment, machinery, and facilities given their limited financial capabilities and inability to borrow from banks, also contributing to the acquisition of foreign currency;
- ✓ Minimizing indebtedness;

- ✓ Activating the partnership system through Islamic financing;
- ✓ Working on funding activities related to training and teaching to enhance efficiency and effectiveness for qualifying this type of enterprise;
- ✓ Assisting startups away from environmental pressures during the launch phase through the mechanism of business incubators.

4.2. Characteristics of Startup Financing

Startup financing is distinguished by several characteristics that can affect the stance of both the financing parties and those managing the startups. The most important of these characteristics include:

- **Scarcity of Capital:** A prevalent phenomenon in most developing countries, where most fields in which startups are active are characterized by labor intensity and the use of simple production tools.
- **Constant Need for Financing**: The need for financing is one of the main features of startups, as seen in some economies despite the existence of laws and procedures encouraging how to finance these enterprises.
- **Ability to Continue Financing for Enterprises**: There is a general agreement that the best practices in enterprise financing are distinguished not only by their ability to reach the largest number of the target group but also by their financial sustainability.
- **Lack of Trust in Startup Managers:** Trust is one of the most critical factors governing the financing institutions' dealings with their clients. The trust element between the financing institution and the client is a result of several indicators, the most important being the client's creditworthiness, determined through financial statements, liquidity size, the project's reliance on loans, the project's production capacity, legal form, credit reputation of the managers, and the level of management.
- **Lack of Sufficient Guarantees for Providing Financing to Startups:** Startups typically have a low volume of capital assets, which usually represent the guarantees relied upon by financing institutions when lending. The financing needs of a startup often exceed the value of these assets due to the project's need for working capital.
- **Startups' Lack of Experience in Banking Transactions Fundamentals:** Experience and knowledge of banking transactions' fundamentals are distinctive elements of large enterprises, which facilitate dealings with banks. Most startups lack this element due to the limited capabilities of their managers and the inability to hire specialized expertise in this field.
- **Difficulty in Preparing Feasibility Studies:** Due to the high cost of preparing these studies and the unavailability of product data, evaluating project feasibility studies has become a fundamental element relied upon by financing institutions when granting credit.
- **Inappropriateness of Loans Requested by Startups with Banking Operations:** These enterprises often require long and medium-term loans

for their establishment, while commercial banks prefer to grant short-term loans.

- **High Cost of Financing:** Startups usually resort to financing institutions to complete their financial needs. Despite states offering facilitated credit lines (from their resources or those of international or regional organizations) to startups, these are not sufficient and do not cover some of the enterprise's needs, typically limited to financing fixed assets.

Furthermore, among its characteristics is a high debt ratio compared to the assets of the enterprise and the intervention of financing institutions imposing guardianship on the micro-enterprise. (Bournane, Souli, 2020, pp. 134-136).

5. Perspectives on Startup Financing

Sources of financing for startups have varied between those that have been part of commercial activities for a long time and those newly emerged due to the needs of the age. Below, we will discuss the sources of financing for startups from different angles.

5.1Financing Startups from the Perspective of Economic Development Financing

5.1.1 From the perspective of economic development financing:

Based on the classification of economic development financing, we can distinguish between two types of financing sources, one local and the other foreign.

- Local financing sources come from national voluntary savings, both individual and institutional. When public and private savings are insufficient to meet the required financing, other local means include taxation, public loans, and monetary issuance.
- Foreign financing sources: Some countries rely on foreign resources to finance the startup sector to meet their financing needs. These additional external funds may take the form of direct foreign investment from individuals, bodies, or institutions, or in the form of financial aid, grants, and facilities.

5.1.2 From the perspective of corporate finance:

It refers to the composition of an enterprise's liabilities, whether related to debt or equity, i.e., all budget resources used by the enterprise to finance the investment cycle or the operational cycle.

Sometimes, startup financing takes the form of government support in various most important forms:

- ✓ Granting tax, quasi-tax, and customs exemptions.
- ✓ Providing technical assistance and consultation by specialists in the field of support and assistance to enterprises qualified by the supervisory authority.
- ✓ Offering long and medium-term loans to finance investments and short-term loans to finance operations. (Bournane, Souli, 2020, pp. 134–136).

5.2 Sources of Startup Financing from the Perspective of Islamic Finance

Among the most significant problems faced by new projects, which limit their inclination towards investment, is the issue of the costs of bank financing represented in predetermined interests, other official legal costs, and unofficial and illegal costs. These have become an additional expense in most developing countries, including Algeria, increasing as the mechanisms of economic corruption and lack of transparency evolve.

This limits the wide societal segment's inclination towards bank financing, especially those looking to establish enterprises, due to the perception of an inability to achieve returns covering loan services and recovering guarantees. On the other hand, banks' financing decisions depend on the presence of guarantees typically available to these enterprises' owners in the form required by banks. Islamic financing is defined as "providing tangible or cash wealth with the intention of profiting from its owner to another person who manages and disposes of it in exchange for a return permitted by Sharia laws." (Qahf, 1998, p.12).

6. The Financing Dilemma of Startups Between the Obstacles of Financing Institutions and the Requirements of Financial Needs

While the level of development and improvement of startups and their sector's activities and the quality of distribution mechanisms are important, the size of financing through capital is also of greater importance. Therefore, the financial challenge faced by these enterprises is imposed by the characteristics of these enterprises and their specific financial needs on one hand, and the extent of their collision with financing institutions providing capital on the other hand.

6.1 Reasons for the Financing Problem from the Perspective of Financing Institutions

Representatives of financing institutions believe that among the reasons for the financing problem for smaller enterprises primarily lies in the lack of sufficient guarantees for financing these enterprises, especially since this type usually features a lower volume of capital assets, which financing institutions typically consider when granting credit. Among the reasons also include:

- **Lack of Experience:** Referring to experience in banking transactions fundamentals, which is one of the characteristics of large enterprises, and moreover, their inability to employ specialized expertise in this field due to the lack of accounting records.
- **Lack of Trust:** In those managing these enterprises, a fundamental element for several indicators, the most important being the customer's creditworthiness, determined through financial statements, production capacity, liquidity, and the customer's credit reputation.

- **Inappropriateness of the Requested Loans:** Banks usually prefer to grant short-term financing, while these enterprises often request long-term loans for establishment purposes.
- **Limited Marketing**: Affecting the speed of the turnover of invested funds in the enterprise and thereby non-repayment of loans.

6.2. Reasons for the Financing Problem from the Perspective of Enterprise Managers

Owners of smaller enterprises believe that the reasons for the financing problem facing their enterprises relate both to the financing-providing institution and to the characteristics of the enterprise itself. Among these problems are the high debt ratio compared to the assets of the enterprise, which is considered important especially when studying the need of a startup to obtain financing during operation or expansion since the assets of the enterprise do not provide sufficient guarantee for obtaining new financing to continue production, especially since banks adhere to a specific ratio of indebtedness compared to capital.

Additionally, the problem of high financing costs used to cover the needs of the enterprise is due to the focus of support programs for these enterprises typically on financing fixed assets. Sometimes, financing institutions intervene by imposing guardianship on these enterprises in the absence of trust, resorting to monitoring the implementation and to providing financial and technical advice occasionally, which the enterprise owner usually does not accept, preferring to manage all operations of the enterprise. This is one of the reasons many of these enterprise owners are deterred from dealing with financing institutions. (Abu Redwan, 2006, pp. 629-631).

7. Innovative Methods in Startup Financing

Here, the term "innovative methods" refers to those new to developing countries, as these methods or techniques have been long adopted in many developed countries but remained limited or unused in many developing nations. We will discuss leasing, venture capital, equity rights exploitation, financing, guarantee, and credit evaluation as auxiliary mechanisms to increase the possibility of obtaining financing compatible with their characteristics.

7.1 Financing Through Equity

- **Venture Capital:** Venture capital firms are financial companies that provide liquidity to enterprises and involve many risks. Equity capital is employed by a financial intermediary specialized in high-risk private projects, characterized by a strong growth potential but not immediately guaranteeing income or capital recovery on a set date, hoping for a high surplus value in the relatively distant future when this enterprise’s share is sold after several years. The use of this financing method aims to:

- Provide financing for new or high-risk projects with high growth and return potentials, making venture capital a way to finance enterprises unable to raise funds through public stock issuances or debt markets typically due to the high risks associated with their operations.
- Address the special needs of investment financing and overcome the insufficiency of capital supply on favorable terms to financial institutions. Among the active institutions in this method, we mention:
  - ❖ **SOFINANCE Company:** A financial institution established on April 4, 2000, and approved by the Bank of Algeria on January 9, 2001, with a capital of 5 billion DZD. Its goal is investment, participation, employment, in addition to supporting and revitalizing the national economy. Despite the attention to venture capital companies in Algeria, their contribution to financing ranges between 10 and 35%, which seems very low compared to their counterparts in developing countries. Its scope of work is limited to manufacturing industries such as food products, agricultural product storage, packaging materials, and clothing industry. SOFINANCE's tasks focus on supporting and assisting enterprises in their qualification and development by guiding them in restructuring their financial and strategic frameworks and providing all suitable financing opportunities from capital, medium-term loans, and leasing. (Dhiab, Hammana, 2016, p. 178–179).
  - ❖ **FINALEP Company:** Can be considered a pioneer and dean of venture capital in Algeria, established in 1991 with its headquarters in Staoueli, Algeria. It was founded as a financial institution with a capital of 73.75 million DZD by four shareholders: Local Development Bank at 40%, Algerian Popular Credit at 20%, French Development Fund at 28.74%, and European Investment Bank at 11.26%. Its creation aimed to assist small and medium enterprises in solving financing problems. FINALEP will be further discussed in the practical chapter. (Boualrayhan et al., 2021, p. 336).

7.2 Financing Through Leasing

This type of financing, which has recently become a trend for projects to lease factory equipment and machinery, extends to almost all fixed assets. This financing method involves not owning the assets but making an annual lease payment and, in some cases, an initial payment. Financing through leasing takes several forms: (Boukhata, Khengani, 2012-2013, pp. 38-39)

- ❖ **Sale and Leaseback:** The institution owning lands and equipment sells these assets to financial institutions under the condition that an agreement is signed between them for the institution to lease this asset and keep it for a specific period. Notably, the selling institution receives the sale value from the purchasing institution immediately, and at the same time, it retains the sold asset for use.

The process followed in paying the lease resembles repaying a mortgage loan; in the first case, the selling institution pays equal installments at consecutive times to the purchasing institution, totaling the asset's purchase value plus a specific investment return, while in the second case, the borrowing institution repays the loan in equal installments at equal intervals plus a suitable return for the loan.

- **Operational Leasing:** Defined as a commercial system that realizes the benefit of the capital asset, including leasing the service in general, equipment, and its maintenance services. Among these equipment are computers, cars, and trucks, where the asset is leased for a somewhat specific time period to a number of lessees, allowing the asset to be recovered for leasing again to another lessee at a rental value that varies depending on the circumstances and copy machines leasing. It's noted that the lessee resorts to operational leasing when the established institution needs machinery and equipment for a short time.
- **Financial Leasing:** This is a type of leasing that does not include maintenance services and cannot be canceled by the lessee. It requires the full payment of the asset's value. The financial leasing process involves the following steps:
  - The institution selects the asset it needs to use and negotiates with the manufacturer or supplier on the purchase value and delivery terms.
  - Then, the company contacts a bank and agrees that the bank will purchase the asset from the supplier and lease it directly to the institution. In this way, the institution obtains the asset and pays rent to the bank in equal installments over successive periods. The leasing institution has the option to renew the lease of the asset again at a reduced rent, but the institution cannot cancel the original contract before paying all its obligations.

7.3 Islamic Financing Modes

Commercial banks conduct loan operations against a predetermined usurious interest. In contrast, Islamic banks utilize funds through various legitimate financing modes suitable for all activities, whether commercial, industrial, agricultural, etc. Financing activity is one of the most important activities in Islamic banks, and there are several Islamic financing modes, including:

- **Murabaha:** Murabaha selling is one of the legitimate sales and a financing channel in Islamic banks. It involves buying and selling with deferred payment and a predetermined profit margin. The banks are required to own the commodity before selling it, and the price and profit margin must be equal.
- **Mudarabah**: Mudaraba is one of the most important forms of investing money in Islamic jurisprudence. It is a partnership between capital owners and investment experts, where Islamic banks provide all the

capital for the operation, while the client's responsibility is limited to practical expertise, administrative effort, and profit distribution.

- **Musharakah**: This is a financing method where two or more partners contribute joint funds to agricultural, commercial, industrial, or service operations, and the profit is distributed among them as agreed upon in advance, while the loss is distributed according to each partner's capital share only.
- **Salam**: Salam (forward sale) means selling a specified item in liability for an immediate price, meaning paying the price of a specified commodity now to be received later.
- **Istisna**: Known as a contract with a manufacturer to produce a specified item, it is among the sales contracts, i.e., between the buyer and the seller, where the latter, upon the buyer's request, manufactures or acquires a specified good to be delivered at a future date, with the manufacturing material and labor cost borne by the manufacturer.
- **Leasing**: A bilateral contract that allows transferring the right of use of a specified asset to another person for an agreed period, meaning allowing the lessee to use the lessor's assets in exchange for rental payment.
- **Qard Hasan:** A benevolent loan without any banking interest, where the bank provides a specified amount of money to an individual or one of its clients, and the borrower commits to repaying the borrowed amount at a fixed and predetermined date.

7.4 Agencies:

Several agencies finance startups, including:

- **The National Agency for Entrepreneurship Support and Development (ANADE):**

Established in September 1996 as a government entity with a special character, legal personality, and financial independence under the supervision of the Minister of Labor, Employment, Youth, and Social Security.

It aims to encourage and support young people with investment ideas through establishing enterprises and offering various incentives and facilities such as tax aids (exemption from VAT, customs duty reduction, free aids), reception, guidance, training, financial aids (interest-free loan, interest rate reduction at the agency with 51 branches across all provinces (https://milleformations.com)

The agency relies on two types of financing, regardless of the chosen financing, the cost of the financed investment does not exceed ten million dinars:

7.4.1- Tripartite Financing: This financing type involves a combination of the project owner (personal contribution), the agency (interest-free loan), and the bank (loan).

7.4.2- Bipartite Financing: In this type, there are only two parties in the financing process, represented in the project owner's personal contribution and an interest-free loan granted by the agency.

- **The National Unemployment Insurance Fund (Caisse Nationale d'Assurance Chômage, CNAC):**

The National Unemployment Insurance Fund was established by Executive Decree No. 94-188 dated 26 Muharram 1415 corresponding to July 6, 1994, implementing Legislative Decree No. 94-11 dated May 26, 1994, (Executive Decree No. 188/94 dated July 06, 1994, which includes the statutes for the establishment of the National Fund for Unemployment Insurance, Official Gazette of Algeria, Article 1, Issue 44, July 07, 1994, p. 6).

The fund has legal personality and financial independence, and since its establishment in 1994 as a public social security institution under the guardianship of the Minister in charge of Social Security, the fund has gone through several phases dedicated to taking care of the new tasks entrusted by the public authorities, including the legal compensation system for unemployment starting from the year 1994. (https://www.cnac.dz)

The National Unemployment Insurance Fund finances various activities such as production and services, except for resale without product transformation, and all the new activities in the sectors of agriculture, fishing, and irrigation, where its financing involves three parties: the unemployed, the agency, and one of the banks.

- **The National Agency for Micro-Credit Management (Agence Nationale de Gestion du Micro-crédit, ANGEM)**

The establishment of the National Agency for Micro-Credit Management was decreed by Executive Decree No. 04-14 dated January 22, 2004; where Article 1 of the decree explicitly states:

- In accordance with the provisions of Article 7 of the Presidential Decree dated January 22, 2004, related to the micro-credit device, a special-character entity governed by this decree, called the National Agency for Micro-Credit Management, is established.

It is a special-character body placed under the supervision of the Ministry of National Solidarity, Family, and Women's Affairs. To perform its assigned tasks, the agency adopted a decentralized organizational model, comprising six (6) central structures (4 directorates and 2 cells), ten (10) regional directorates, and forty-nine (49) provincial directorates including two in Algiers, supported by 548 accompanying cells at every district level.

The functional link between the central directorate and local branches (provincial agencies represented in the regional branch) oversees about five (5) provincial directorates and plays a role in coordination, reinforcement, and activity monitoring. This organizational form is suitable for implementing local work, reducing the time for making quick and appropriate decisions. (https://www.angem.dz)

7.5 Startup Financing Fund

The official launch of this fund took place during the National Conference for Startups, held at the International Conference Center in Algiers, resulting from collaboration between the Ministry Delegated for the Knowledge Economy and Startups, Sonatrach, the Local Development Bank (BDL), the Algerian Popular Credit (CPA), the Foreign Bank, the National Algerian Bank (BNA), the National Fund for Savings and Providence (CNEP-Bank), with an initial amount of twenty (20) million dollars. This fund relies on a financing mechanism based on investing in capital rather than on different traditional financing mechanisms based on loans.

Although the fund is financed by the state, it remains open to the private sector and foreign companies willing to contribute financially. (Boulghob, 2021, p. 197)

8. Conclusion:

In this research, we explored the concept of financing, focusing specifically on the financing of startups. It became evident that every enterprise or economic project relies on a fixed capital yet faces potential deficits, necessitating financing to cover these shortfalls. Banks and financial institutions are deemed the most suitable sources for financing various enterprises in general, and startups in particular, which are considered key components in national programs for economic and social development. Therefore, these enterprises have a defined entity and should be supported with financing, at least with the necessary technological expertise, and provided with the machinery and equipment that should be leased or owned by the owners of the small enterprises.

From this study, we have obtained a series of results, including:

- The novelty of the startup concept in Algeria;
- The Algerian legislator did not provide a definition for startups, but rather relied on mentioning criteria related to them only, without limiting their activities to the technological and innovative field;
- A lack of media and advertising regarding startups, given that this type of enterprise is still in the phase of definition and establishment;
- Some business incubators are far from urban areas;

- Technological backwardness and failure to keep up with developments in the global business environment, such as electronic payment and e-commerce.

9. Research Recommendations:

- It is essential to focus on enhancing startups as a fundamental means of creating better economic growth and a business ecosystem;
- Valuing and utilizing scientific research to develop mechanisms for startups and improve their products; Continuous coordination between entities providing regulatory, technical, and financial services to support startups;
- Startups need innovative methods to attract and retain top talent;
- The necessity to develop and diversify various mechanisms and devices for youth support, such as business incubators and nurseries, linking universities with economic institutions, and activating the role of scientific research laboratories in developing entrepreneurial thinking;
- Fair distribution of projects nationwide in general and in the M'sila province in particular;
- Encouraging female entrepreneurship by working to sensitize this group to entrepreneurial thinking;
- Benefiting from ideas, methods, and models from Arab and global entities specialized in supporting and establishing small enterprises;
- Simplifying administrative procedures by government bodies supporting startups and by banks to allow a larger number of enterprises to benefit from financing, reducing the problems they face at the start of their investment projects. Additionally, ensuring effective support in the project completion process, especially in the first years of activity, offering support and assistance in management, administration, and accounting to gain experience and the ability to continue and innovate, aiming to reduce the problems of project failures.

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