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Challenges of Startups in Algeria: Support and Financing Mechanisms

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Abstract
Governments' interest in small and medium-sized enterprises has increased in recognition of their pivotal and fundamental role in economic development. This interest is not limited to developed countries but also extends to developing nations, due to their importance in driving growth to keep pace with economic developments on the one hand, and diversifying income sources on the other, given their presence across most sectors. Nevertheless, they require various types of support, with financial support considered the foundation.

In the case of Algeria, after independence it undertook a series of economic reforms and repeatedly established support bodies, including those related to financial support. However, this faces challenges arising from several factors: some are shared with most countries worldwide, such as financial particularities regarding information asymmetry between these enterprises and financing institutions; while others are specific to Algerian startups, such as the narrowness of financing sources, especially those that help reduce the effects of information asymmetry like institutions requiring equity participation. Added to this are the weak characteristics of startups, particularly their limited control over technology, which is essential for attracting specialized financing institutions.

Keywords: *Financial support, Support structures, Startups, Algeria.*

Introduction
The increasing role of large enterprises has dominated economic thought for long periods, granting them a significant and distinguished position in political decisions in all countries. This position is attributed to the role they play in providing an industrial base and infrastructure, in addition to being a fundamental pillar for achieving economic and social development. Nevertheless, as a result of the numerous and diverse crises experienced by nations, and the financial and economic liberalization witnessed worldwide, ideas, strategies, and development plans have changed. Greater attention has consequently been directed toward small and medium-sized enterprises (SMEs), as they are considered the most effective and strongest alternative to overcome many economic problems and a tool for achieving development. This is due to their exceptional capacity to increase production, their innovative abilities in

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creating employment opportunities, reducing unemployment rates, and increasing exports, as well as their rapid adaptability to economic changes. Moreover, these enterprises are characterized by relatively low financing costs.

Like many other countries, Algeria has sought since its independence to stimulate growth and achieve comprehensive development, while adapting to its available resources. With the failure of the large-enterprise strategy, attention shifted to the SME sector through measures such as the enactment of the Monetary and Credit Law, the establishment of a Ministry for Small and Medium Enterprises, and the creation of specialized government bodies to provide financial support and accompany these enterprises at all stages. Despite these plans and strategies, the sector continues to face numerous problems and difficulties, most notably the issue of financing. In order to overcome many of the obstacles encountered by such enterprises, particularly at the start of projects in relation to financing and management, several initiatives emerged beginning in the 1960s, including what became known as business incubators. These incubators proved to provide a platform for nurturing business ventures, and the idea gained significant traction during the 1990s thanks to the crucial role they played in supporting startups that require guidance, advice, and venture capital to finance their activities and transform their ideas into reality. Business incubators have since become a growing phenomenon, recognized globally as one of the most important tools for fostering entrepreneurship and developing startups.

Thus, the question that arises is: how are small and medium-sized enterprises (SMEs) financed in Algeria, and what are the main mechanisms supporting them?

Research Methodology

This study relies on the descriptive-analytical method, achieved through a theoretical presentation of the key concepts of small and medium-sized enterprises (SMEs) in Algeria, alongside utilizing the descriptive-analytical method to evaluate their financing success mechanisms and analyze the results in order to shed light on the subject and bring it closer to a practical reality.

To cover all aspects of the research comprehensively, it is divided into four sections:

Section One: The theoretical framework of startups and medium-sized enterprises and their characteristics

1. Theoretical Concepts of Small and Medium-Sized Enterprises: Small and medium-sized enterprises (SMEs) play a vital role in the economic field; however, they have not yet received a unified definition, which is attributable to the differing practical perspectives from which the enterprise is viewed (1).

Conceptually, a startup is defined as a newly launched small business. The term emerged immediately after World War II with the inception of venture capital firms, and its usage subsequently spread widely. The French dictionary defines startups as young, innovative enterprises operating within the modern technology sector.

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Meanwhile, Paul Graham defined it as a company designed to grow fast; being newly founded does not inherently make a company a startup, nor is it necessary for startups to operate in the technology sector (2).

It is evident from the foregoing that there is no fixed and definitive definition by which a business can be determined as small or medium-sized. This determination may be legal, based on capital and ownership structure, or it may depend on asset size, sales volume, or the number of employees. Whatever the criterion, it remains open to debate and varies from one enterprise to another and from one time period to another. An industrial enterprise may appear large compared to its competitor, yet small in terms of assets and sales compared to a business in another industry. At times, an enterprise may be small in terms of its workforce while large in its assets or sales, or vice versa.

Characteristics of Small and Medium-Sized Enterprises (SMEs)

Small and medium-sized enterprises possess several characteristics and advantages expected from establishing and setting up such businesses, which can be summarized as follows:

- **Size:** Size represents a significant characteristic of SMEs, as management and owners may deem it necessary for the organization to remain small or medium-sized and not expand into other scales.
- **Ease of Formation:** Formation requirements are usually characterized by simplicity, ease, clarity, and precision. Individual or small collective incentives are sufficient to launch small businesses that subsequently evolve into medium-sized companies and organizations (3).
- **Managerial Independence:** Administrative decisions in these enterprises are typically concentrated in the person of the owner, as the owner and the manager are often the same individual. This imparts flexibility and personal attention from the owner, facilitating the leadership of these enterprises and the definition of the objectives the project aims to achieve (4).
- **Low Capital Requirements:** SMEs are distinguished by relatively low capital requirements, both in terms of establishment and operational capacity. That is, we observe a low capital-to-labor ratio due to their reliance on a labor-intensive approach (5).

As for marketing characteristics, the most important of which are (6):

- All marketing activities fall under the manager's responsibilities;
- Marketing strategies and plans are random and unmethodical;
- Proximity to external environmental elements relies on personal communication;
- The information system is narrow in scope and uncodified;
- The scope for innovation is broad and accessible;

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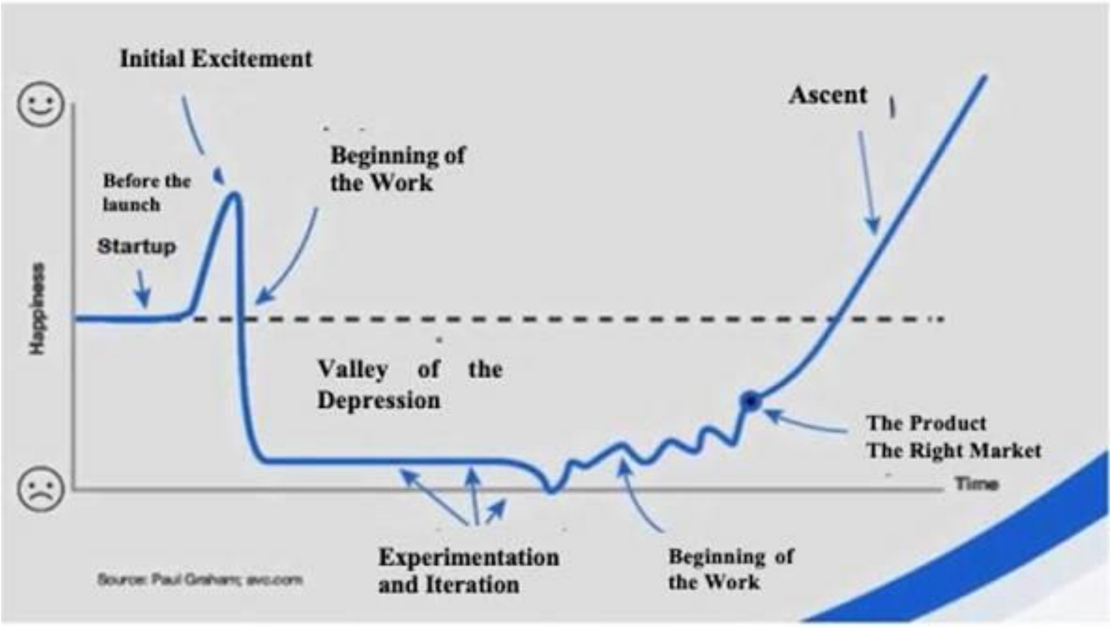
- A flat organizational structure.

Section Two: The Life Cycle of Startups

Based on the definition provided above, one might imagine that what characterizes startups is continuous growth; however, the reality is quite different. These enterprises frequently encounter obstacles, go through difficult stages, and experience severe variability before finding their way to the top, which can be illustrated through the following curve (7):

Figure 01: Startup Curve



Source: Adapted from Paul Graham (Startup Happiness Curve).

First Stage: This stage begins before the startup's launch, where an individual or a group of individuals proposes a prototype for an innovative, new, or even unconventional idea. During this stage, deep research is conducted, thoroughly studying the idea, the market, and the behavior and tastes of the target consumer to ensure its practical feasibility, development, and future sustainability. They also search for funding sources; funding in the early stages is typically self-financed, with the possibility of obtaining some government assistance.

Second Stage (The Launch Stage): In this stage, the first generation of the product or service is introduced, in which it is unknown. Perhaps the most difficult challenge an entrepreneur faces in this phase is finding someone to practically adopt the idea and provide financial support. Entrepreneurs typically resort to what is known as FFF (Friends, Family, Fools). Friends and family are often the primary source the entrepreneur turns to for funding, or financing can be obtained from "fools"—individuals who are willing to gamble with their money, so to speak, especially at the

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beginning when the degree of risk is high. At this stage, the product requires a lot of promotion, carries a high price, and the media begins advertising it.

Third Stage (An Early Stage of Takeoff and Growth): In this stage, the product reaches its peak and enthusiasm is high, after which the offering spreads. During this phase, activity can expand beyond its original innovators, and negative pressure begins as the number of those offering the product increases. Consequently, failure starts to appear, or other obstacles emerge that may push the curve downward.

Fourth Stage (Sliding into the Valley): Despite venture capitalists continuing to fund the project, it continues to decline until it reaches a phase that can be called the "Valley of Sadness" or the "Valley of Death." This leads to the project exiting the market if not remedied, especially since growth rates in this stage are very low.

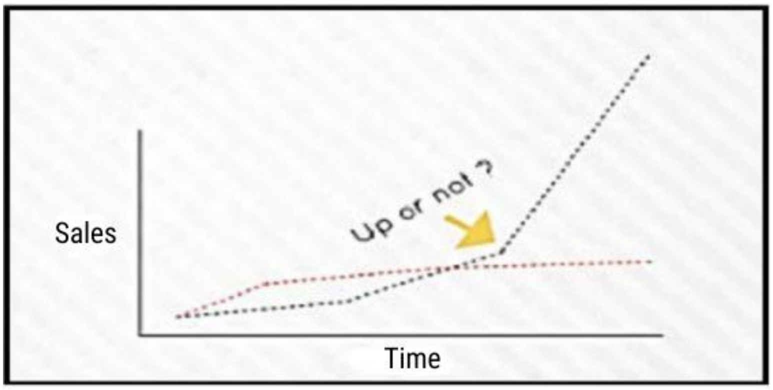
Fifth Stage (Climbing the Slope): In this stage, the entrepreneur continues to introduce modifications to the product and launch improved versions. Consequently, the startup begins to recover thanks to the applied strategies and the team's acquired experience. The second generation of the product is launched, its price is adjusted, and it is marketed on a broader scale.

Sixth Stage (High Growth Stage): In this stage, the product is finalized, exits the experimentation and testing phase, and is introduced to the target market. The startup begins steady growth, and the curve turns upward as an estimated 20% to 30% of the target audience adopts the new innovation. This marks the beginning of the economies of scale phase and the generation of massive profits.

The Difference Between a Startup and a Traditional Enterprise

Being a startup is a temporary state. Either due to the failure to achieve the business model, thus the startup fails or disappears; or because it succeeds and is absorbed, or transforms into a nearly classical or traditional enterprise. And the transition from a startup to a large company expresses the moment in which "growth" decides the future of the startup, as illustrated in the following figure:

Figure (02): The Lifecycle Curve of a Startup and a Traditional Enterprise



Source: *Dis, c'est quoi une start-up? (21 March 2016), 1001startups.fr/dis-cest-quoi-une-start-up/, accessed on 24/12/2025 at 12:55.*

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The figure above illustrates the difference between the growth path of a startup and a traditional enterprise, where the black line represents the growth path of a startup, while the red line represents the growth path of a traditional enterprise. Therefore, the most important element that creates the difference between the startup and the traditional enterprise is high growth, and the points of difference can be summarized as follows:

1. There may be a similarity in the lifecycle of a traditional enterprise, which passes through launch, growth, and maturity stages before entering a decline phase, whereas startups experience a series of unpredictable fluctuations and advancements between the launch and growth stages; once they reach maturity, they continue to rise and grow.

2. Furthermore, a startup targets a massive market, unlike traditional enterprises.

3. Despite the high risks associated with startups, investors choose to invest in this type of enterprise by balancing the potential for massive returns if the project succeeds, whereas for traditional enterprises, investors target markets with lower uncertainty to achieve standard profits.

4. In addition to differences in financing sources, startups rely on angel investors, venture capitalists, or venture capital funds due to banks' reluctance to finance such high-risk projects, whereas traditional enterprises secure funding through bank loans or government grants (8).

Section Three: Financing Mechanisms for Small and Medium-Sized Enterprises

The supporting structures for small and medium-sized enterprises are represented in (9):

The National Agency for Youth Employment (ANSEJ)

The National Agency for Support and Employment of Youth is a public body established in 1996, tasked with encouraging and providing mentorship for the creation of such enterprises. This agency targets unemployed youth aged 19 to 35 who hold ideas and projects that enable them to establish businesses. The agency ensures the support process throughout the stages of business creation and expansion, and it also handles projects whose total cost does not exceed 10 million Algerian Dinars. Support procedures include providing financial assistance, reducing bank interest rates, and assisting in securing financing (10).

Table (01): Number of projects funded by ANSEJ by activity sector until the first half of 2019

Activity Sector	**Funded Projects**	**Percentage**
Services	239513	33.05%
Craft Industries	79069	11.34%
Agriculture	130629	73.18%
Hydraulics	1509	0.22%

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Fishing	2260	0.32%
Refrigerated Transport	23295	3.34%
Freight Transport	73432	10.53%
Passenger Transport	29173	4.18%
Industry	61117	8.76%
Public Works	47474	6.81%
Liberal Professions	12033	1.73%
Maintenance	7047	1.01%
Total	697551	100%

Source: Ahmed Haidouchi, Amer Zemmar (2017-2018), p. 25.

The National Agency for Management of Micro-Credit (ANGEM)

This fund was established pursuant to Executive Decree No. 04-16 dated January 22, 2004. It specializes in guaranteeing the loans granted by commercial banks and financial institutions affiliated with the fund, at a rate of 85 percent of the debts and their interest in the event of the failure of the financed project. Furthermore, it plays a major role in the creation of small and medium-sized enterprises, serving as an important source of financing (11).

The National Unemployment Insurance Fund (CNAC)

The National Unemployment Insurance Fund manages the support scheme for the creation and expansion of activities dedicated to unemployed youth aged 30 to 50 years who lost their jobs for economic reasons. The maximum project cost does not exceed 10 million DZD. Furthermore, the scheme accompanies entrepreneurs through all project stages and the development of the business plan, and provides financial assistance, including the reduction of bank interest rates and assistance in obtaining bank financing (70 percent of the total project cost) (12).

Table (02): Number of projects funded by CNAC by activity sector until the end of the first half of 2019

Activity Sector	**Number of Funded Projects**	**Impact on Employment**
Services	268	659
Craft Industries	339	871
Agriculture	707	1698
Hydraulics	4	8
Fishing	15	45
Freight Transport	2	2
Passenger Transport	1	3
Industry	196	555
Public Works	84	234

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Liberal Professions	53	111
Maintenance	12	35
Total	1681	4221

Source: Ahmed Haidouchi, Amer Zemmar (2017-2018), p. 27.

The Ministry of Small and Medium Enterprises

Within the framework of developing the small and medium-sized enterprises sector, Algeria established in 1991 a delegate ministry in charge of this type of enterprise, which later transformed into a full ministry pursuant to Decree No. 94-211 dated July 11, 2000. Furthermore, pursuant to the government reshuffle decided on May 28, 2010, the Ministry of Industry, Small and Medium Enterprises and Investment Promotion was established to support and accompany the creation and development of small and medium-sized enterprises (13).

The National Agency for Investment Promotion (ANDI)

The National Agency for Investment Promotion is a government institution responsible for facilitating, promoting, and supporting investment and the creation of enterprises through incentive mechanisms. Established within the framework of the initial reforms undertaken in Algeria during the 1990s and tasked with investment, the agency has witnessed developments aimed at adapting to the country's changing economic and social conditions. This government institution, originally called the Agency for Investment Promotion, Support, and Monitoring from 1993 to 2000 and later becoming the National Agency for Investment Development, was entrusted with the mission of facilitating, promoting, and accompanying investment. The agency is authorized to carry out all enterprise establishment procedures and facilitate the implementation of investment projects, whether for expansion or restructuring, whereby the investor benefits from a reduction in imposed customs duties (14).

Section Four: Risks Facing Small and Medium-Sized Enterprises

Small and medium-sized enterprises in various countries are exposed to several risks that limit their mobility and act as a barrier to their growth and development. Therefore, through this section, we will attempt to present the most prominent risks facing small and medium-sized enterprises and their impact on commercial banks (15).

Business Risks: Refers to the variability of operating profit, due to reasons related to the nature or conditions of the activity practiced by the enterprise. Business risks vary from one industry to another and from one enterprise to another within the same sector (16).

Extinction Risk: Small and medium-sized enterprises are usually start-ups, and the fundamental risk they encounter is their rapid exposure to extinction, given the daily collapses they face compared to their large counterparts.

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Marketing Risks: Represented by a sharp and unexpected drop in product prices, causing financial losses for the enterprise, in addition to the difficulty these enterprises face in adapting to market prices and the weakness of prior marketing studies.

Technological Development Risks: Related to the speed of renewal and technological development, which are considered to have a negative impact on the activity of small and medium-sized enterprises. For example, a project's use of outdated technology may yield a moderate profit, unlike the use of modern technology within the limits of its capabilities.

Exchange Rate Volatility and Regulatory Instability Risks: Regarding exchange rate volatility, enterprises that rely on imported inputs are particularly exposed to this risk. As for regulatory instability, it is mainly associated with sovereign decisions, binding legislation, and mandatory regulations. Fundamental changes in the existing framework may impose restrictions that limit the operational flexibility of these enterprises.

Risks of Dependence on the Banking System and Loan Inflation: Small and medium-sized enterprises may face the risk of loan inflation due to changes in interest rates, as the cost of the loan is inversely related to the size of the project. In addition, these enterprises may encounter the risk of dependence on the banking system, which affects the conduct of their activities and makes them subject to the conditions, requirements, and decision-making control imposed by the bank.

Management Risks: These risks arise when decision-making responsibility and all administrative tasks are concentrated in a single manager. This is compounded by a lack of managerial capabilities and skills among those running the enterprise, along with a failure to apply sound management methods and procedures in conducting business operations (17).

Conclusion

Support institutions and structures have diversified ever since the authorities approved economic reforms aimed at overcoming the difficult economic situation, enacting a vast set of legislation to establish these supporting structures and institutions and to permit support for previously existing ones. This is because this sector requires accompaniment and support, particularly financial support, given its unique characteristics. However, it can be said that:

The absence of a unified definition for small and medium-sized enterprises is primarily due to the differences in the criteria adopted for their classification, as developing countries prefer to use quantitative criteria (such as the number of workers and capital), whereas developed countries rely on qualitative criteria (such as independence and market share).

Furthermore, the problem of financing is considered one of the foremost challenges facing small and medium-sized enterprises, despite their small capital size. Since every financing source possesses distinct characteristics that may render it suitable, enterprise owners bear the responsibility of selecting the most appropriate financing sources and constructing a financing structure that achieves balance within the financial structure.

On this basis, the most prominent recommendations derived from this research are as follows:

- Encouraging small and medium-sized enterprises and providing them with a supportive legal and economic environment across various regions of the country.
- Enhancing integration and linkage between small and medium-sized industries on the one hand, and large enterprises on the other.
- Diversifying financing sources to suit the situation of small and medium-sized enterprises, with a specific focus on financial institutions that contribute to equity capital.
- Providing advantages and incentives to encourage small and medium-sized enterprises, enhance their performance, increase their number, and upgrade them to acquire a competitive advantage as a prerequisite.
- Improving the managerial, technical, and marketing capabilities of small and medium-sized enterprises to enable them to compete in the global environment.

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