

The role of the business climate in promoting Algerian Start-Ups -An analytical study-

دور مناخ الأعمال في ترقية المؤسسات الناشئة في الجزائر -دراسة تحليلية-

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Abstract:

The purpose of this research is to evaluate Algeria's business climate and its impact on the development and promotion of small and Start-Ups. This is accomplished by analyzing Algeria's position in relation to a set of indicators issued by international bodies and institutions, which are used to assess the level of development and suitability of the components of the business climate in order to attract investors and measure the degree of change in improvement or decline. This study addressed the issue of the Algerian economy's ability to provide an appropriate business environment for the success of Start-Ups, as well as to help them grow and sustain themselves. The study concluded that, despite efforts to improve Algeria's ranking in the indicators for evaluating the business performance environment throughout the study period, the investment environment in Algeria did not live up to the required level, which calls for re-creating the business environment in a way that allows providing an attractive investment environment for investors to embody its small investments and Start-Ups.

Keywords: Business Climate; Business Climate Indicators; Start-Ups; Algeria.

JEL Classification Codes: L21, O43.

ملخص:

تهدف هذه الدراسة إلى تقييم مناخ الأعمال في الجزائر ومدى انعكاسه على تطور وترقية المؤسسات الصغيرة والناشئة. وذلك من خلال تحليل موقع الجزائر وفق مجموعة مختارة من المؤشرات التي تصدرها هيئات ومؤسسات دولية تستخدم في تقييم مدى تطور وملاءمة مكونات مناخ الأعمال لتشجيع المستثمرين وقياس درجة تغيرها بالتحسن أو التراجع. وقد عالجت هذه الدراسة إشكالية مفادها مدى مقدرة الاقتصاد الجزائري على توفير بيئة الأعمال المناسبة لإنجاح الشركات الناشئة ومساعدتها على النمو والاستمرارية. ومن خلال الدراسة تم التوصل إلى أن البيئة الاستثمارية في الجزائر ورغم الجهود المبذولة لتحسين ترتيب الجزائر في مؤشرات تقييم بيئة أداء الأعمال طيلة فترة الدراسة لم ترقى إلى المستوى المطلوب، ما يستدعي إعادة تهيئة بيئة الأعمال بالشكل الذي يسمح بتوفير بيئة استثمارية جاذبة للمستثمرين لتجسيده مشاريعه المصغرة والناشئة.

كلمات مفتاحية: مناخ الأعمال، مؤشرات مناخ الأعمال، المؤسسات الناشئة، الجزائر

تصنيفات JEL : L21 ، O43.

INTRODUCTION:

The interest in Start-Ups has grown, and they have played an important role in economic activity at both the developed and developing levels. Their significance stems from the fact that they are newly established companies with innovative ideas and the potential for rapid growth and transformation into successful major corporations in record time. As a result, it is a source of interest for investors and entrepreneurs, as numerous studies in various countries have shown that Start-Ups contribute to increased GDP growth, intensifying the industrial fabric, creating jobs, and supporting economic, social, and scientific and technological development. Algeria, like other countries, has placed a high value on Start-Ups as a strategic alternative to the challenges and difficulties that have befallen the country as a result of the drop in oil prices. As decision-makers' interest in Start-Ups has grown to the point of creating a Ministry of Start-Ups and a Ministry delegated for incubators, this demonstrates their recognition of Start-Ups' ability to create added value and achieve the desired economic goals of economic diversification away from oil price fluctuations. Adopting this method, however, necessitates addressing some hurdles, providing constant accompaniment, and identifying appropriate ways to support these institutions. Their success is frequently dependent on the suitability of the corporate environment, as well as the support and encouragement of individuals who have creative ideas, preparations, and capacities to put them into action on the ground. However, the business climate in Algeria has always been considered difficult and discouraging for the establishment and development of institutions for a variety of reasons, including bureaucracy, the complexity and multiplicity of administrative procedures that are not followed by the deadlines for their implementation, heavy taxes, difficulty obtaining adequate financing, and obtaining industrial property, all of which are factors that affect the pace of institutional tabulation. And, in particular, Start-Ups, which are the most influenced by the business climate due to their limited capacities in comparison to established economic institutions.

Study problem:

The problem of this study can be formulated in the following main question:

To what extent does Algeria's business climate promote Start-Ups, and what effect does it have on their development?

The following sub-questions fall under this problem:

- ❖ Is Algeria's business climate conducive to the creation and development of Start-Ups?
- ❖ To what extent does Algeria's economic climate influence the attractiveness of investment in Start-Ups, and what are the solutions?

Study Hypothesis:

This study proceeds from the following main hypotheses:

The business climate in Algeria is suitable and free from all obstacles and helps the development of Start-Ups and their success on the ground

Study objectives:

By addressing the analysis of the business performance environment in Algeria based on some indicators issued by international organizations and bodies for arranging and evaluating the performance of countries, which necessarily reflects on the performance of institutions, this study aims to clarify the reality of the business climate that attracts investment, as well as the development of Start-Ups in Algeria. The study also highlighted the most significant

barriers and difficulties in the work environment of Start-Ups, as well as making several recommendations to help promote this sector in Algeria.

Study approach:

To achieve the study's objectives and answer the problem posed, the descriptive and analytical method was used, which is based on an accurate descriptive and analytical study of the study's axes.

1- Business climate: concept and components:

1-1 business climate concept

There are numerous definitions of the concept of business climate, the most prominent of which are as follows:

According to the World Bank, it is "a set of special factors that determine the form of opportunities and incentives that allow investment institutions to work in an orderly and safe manner, to create job opportunities, and to reduce business costs, and accordingly, investment activity interacts with incentives, costs, and restrictions" (Jaheza & Elaraby , 2020, p. 09).

The Arab Organization for Investment Guarantee defined it as "the totality of the conditions and circumstances that comprise the environment in which the investment process takes place." These conditions are influenced by political, economic, social, security, legal, and administrative factors, which can have a positive or negative impact on the success of investment projects (Shahnaz , 2016, p. 178).

Many international institutions and organizations define business climate as: the totality of the benefits provided by the state to institutions and investors of all types, including government policies related to credibility, fighting corruption, and various facilities for establishing institutions (Qaddoumi, 2006, p. 25).

According to the preceding definitions, the business climate is a combination of political, economic, social, cultural, legal, and international conditions and factors that affect an investor's confidence positively or negatively and influence his decision to conduct business in that environment.

1-2 Components of an attractive business climate for investment

The business climate that attracts investments is built on a number of factors, the most important of which are:

1-2-1 Economic climate:

The economic climate is a collection of factors that influence the investor and project activity, including (Zaghba, 2012, p. 206):

- ❖ The extent and suitability of infrastructure development, as represented by the availability of transportation, water, energy, airports, and telecommunications networks.
- ❖ The investor is concerned with the flexibility of monetary and financial economic policy, particularly the tax policy and what it contains in terms of tax exemptions and customs duties, as well as the exchange rate policy followed and its stability.
- ❖ The extent of the banking industry's efficiency and financial preparedness as a result of its role in expanding the financial intermediation process through the financial products it offers, as well as the banks' ability to provide information to investors.
- ❖ Because the volume of production is dependent on the ability to market it locally or

internationally, market size is one of the most important factors in establishing or expanding investment projects. The larger the local market, the more economies of scale emerge, and thus the investment opportunities are good.

1-2-2 Political and Security Climate:

The political and security climate is affected by a number of factors, including (Zaghba, 2012, p. 206):

- ❖ Political and security stability are required conditions for any investment, as all efforts to provide a suitable investment climate environment may be lost if investors are pessimistic.
- ❖ The extent to which civil society organizations enjoy democracy.
- ❖ The degree to which the state enjoys political stability, is free of civil and security upheaval, and maintains stable political relations with neighboring countries and the rest of the world.

1-2-3 Legislative and Regulatory Climate:

The legislative and regulatory climate is affected by several factors, including (Qalil, 2013, p. 365):

- ❖ An effective and fair judicial system and an impartial executive authority.
- ❖ The extent to which the legal frameworks regulating investment in a country are stable and not conflicting.
- ❖ Providing facilities and facilitating procedures by the institutions that implement laws.
- ❖ The existence of an administrative system characterized by the smoothness and clarity of procedures, and the absence of bureaucracy.
- ❖ The availability of the information needed by the investor in a detailed, accurate and timely manner.

1-2-4 Socio-cultural climate:

It includes the following factors (Qalil, 2013, p. 365):

- ❖ The role of trade unions organizing the workforce.
- ❖ Educational, training and craft policy used.
- ❖ The rate of population growth and the amount of participation in the process of economic development.
- ❖ The degree of health awareness, the amount of social insurance followed.

2- The nature of startups:

2-1 Definition of startups

Many researchers and specialists have worked hard to present a concept of Start-Ups that can clear up some of the ambiguity and provide a clear picture of this type of institution that arose as a result of significant changes in the business environment.

The term startup was formulated after World War II to describe the emergence of venture capital institutions, and the English dictionary defines it as a project that has just begun. The word start-up is composed of two parts: start, which refers to the concept of beginning, and up, which expresses the concept of rapid growth. According to the French dictionary, la rousse, the term startup refers to innovative young businesses in the high-tech sector (Sharifat , 2018, p. 420).

Some define a startup as "an entity formed to create a new product, develop a service, or provide technology in the face of great uncertainty" (Dobrila, 2012, pp. 23-26).

It can also be defined as "an organization that is well aware of market opportunities and also tries to create such opportunities on its own in order to attract investors, with a high rate of innovation and value creation" (Sekliuckiene & Vainauskiene, 2018, pp. 125-144).

In another definition, the classification of a start-up company is not based on age, size, or industry, but rather on the presence of the following conditions: strong growth potential, use of modern technology, need for large funds, and presence in a new market with difficult to assess and predict risks (Benchouat & Kadri, 2021, p. 301).

According to the provisions of Executive Decree No. 20/254, the Algerian legislature is considered a developing institution. Each institution must meet the following requirements (Executive Decree No. 20/2020, 254):

- The institution shall be subject to Algerian law.
- The age of the institution shall not exceed 08 years.
- That the activity of the institution depends on the provision of products or services, and that the activity includes an innovative idea.
- The institution's business number shall not exceed the limit imposed by the competent national committee.
- The capital of the institution must be owned by at least 50% by natural persons or investment funds, or by other institutions that have the mark of "startup".
- That the activity of the institution includes great potential for growth.
- The number of the establishment's workers shall not exceed 250 workers.

According to the preceding definition, an Start-Ups is a newly established business that seeks to develop a new product or innovative service, regardless of its field of activity. Its activities are marked by a high level of risk, allowing it to achieve rapid and strong growth, characterized by low startup costs as well as large profits in the event of success and establishing its market position.

2-1 characteristics of startups

Startups have several characteristics, including (Mustafa & Ali , 2020, pp. 133-134):

- ❖ Startups are distinguished by their youth and are distinguished by being a company whose business is based on pioneering ideas and the satisfaction of market needs in a smart and modern manner; it has two options: develop and transform into successful companies, or close its doors and lose.
- ❖ Organizations that have the potential for incremental and incremental growth: One of the distinguishing features of a startup is its ability to grow quickly and generate revenue much faster than it costs to operate. In the sense that startups are businesses that can quickly upgrade their operations, i.e. increase production and sales without increasing costs. As a result, its profit margin expands unexpectedly, indicating that startups are not necessarily limited to lower profits due to their small size, but rather the opposite. They are businesses that can generate enormous profits.
- ❖ Technology-related institutions that rely heavily on it include: It is defined as a company whose business is based on innovative ideas and meeting market needs in a smart and modern manner. Startup founders rely on technology to grow, progress, and find funding through online platforms and by winning the assistance and support of business incubators.

- ❖ Startups have very low costs in comparison to the profits they generate, and these profits usually arrive quickly and somewhat unexpectedly. Startups include Amazon, Apple, Google, Microsoft, and others.

3- The reality and evaluation of indicators used to assess the startup business climate in Algeria:

A set of economic, social, regulatory, and legal indicators is used to assess the business climate. Today, international institutions and organizations work to organize countries and even regions within countries based on measurable indicators. In developing their future strategy, these indicators rely on investors, decision-makers, and institutions. As a result, the impact of the business climate on the pace of establishing startups emerges, which remains dependent on the ability of the Algerian state to improve and make the business climate more appealing. To understand Algeria's position and diagnose the business performance environment in it, we have compiled a list of the most important indicators approved by the most important international institutions, which include the following:

3-1 Algeria's ranking in the Index of Economic Freedom

This indicator contributes to providing an overall picture of the country's investment climate by taking into account developments related to administrative and bureaucratic barriers, the presence of trade barriers, and the extent of the rule of law and labor laws. In terms of creating a positive impression of the country, the economic freedom index has grown in importance and is closely followed by investors, decision-makers, and officials (Fatiha & Ahlam , 2020, p. 324). This indicator is based on ten equally weighted factors. The indicator is calculated by taking the mean of these sub-indicators on a scale ranging from 0 to 100, so that each category indicates (Zahiat , 2019, p. 293):

- From (80-100) indicating complete economic freedom.
- From (70-79.9) indicates almost complete economic freedom.
- From (60-69.9) indicates moderate economic freedom.
- From (50-59.9) indicates weak economic freedom.
- From (0-49.9) indicates very weak economic freedom.

Algeria's position within this indicator can be clarified through the following table:

Table (1): Algeria’s ranking within the Index of Economic Freedom for the period (2011-2020)

year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Global Ranking / Score in the Index	132/ 52.40	140/ 51	145/ 49.60	146/ 50.80	157/ 48.90	154/ 50.1	172/ 46.5	172/ 44.7	171/ 46.2	169/ 46.9

Source: Made by the researcher based on (The Heritage foundation, 2020)

During the period (2011-2020), the index value ranged between 52.40 and 44.7 points, allowing Algeria to move from the weak economic freedom zone to the very weak freedom zone. The number of countries participating in the economic freedom index reached 180 in 2020, with Algeria ranking 169 globally, with 46.9 percentage points, which is a balance lower than all regional and global averages, qualifying Algeria to classify its economy as having weak economic freedom, owing to a noticeable decrease in investment freedom. Government spending management, lack of freedom from corruption, and monetary freedom. In addition to regulatory inefficiency, the weakness of open markets, the presence of customs restrictions and private sector obstruction, and the inefficiency of investment laws.

3-2 Algeria's ranking in the transparency index

Transparency International publishes the Corruption Perceptions Index each year to reflect the level of improvement in government management practices and international companies in order to improve transparency and anti-corruption efforts. The index attempts to determine the extent of corruption in the country and the degree of its impact on the investment climate as one of the obstacles within it, as well as the perception of international foreign companies to invest in the concerned country, using a series of surveys and reliable sources of information. The index value ranges from zero to ten, with zero indicating a high level of corruption and ten indicating a high level of transparency (Hisham , 2020, p. 359). The following table shows Algeria's position within the transparency index during the period (2011-2020) as follows:

Table (2): Algeria’s ranking within the transparency index for the period (2011-2020)

year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of countries/ranking	112/ 180	105/ 176	94/ 177	100/ 175	88/ 168	108/ 176	112/ 180	105/ 180	106/ 180	104/ 180
points/10	2.8	3.4	3.6	3.6	3.6	3.4	3.3	3.5	3.5	3.6

Source: Made by the researcher based on (Transparency International, 2020)

According to the data in the table, Algeria's rating in the International Transparency Index ranged between 2.8 and 3.6 during the period (2011-2020), indicating the presence of major corruption and an opaque investment environment in Algeria during this period. It ranks low and very low, which means that the public system in Algeria, according to the authors of this indicator and the businessmen and investors in charge of it, encourages corruption, bribery, and the exclusion of fair competition and prevents the transmission and circulation of information to know the status of the institutional environment that will work to improve the investment climate. This is because government reforms have been ineffective and infeasible in improving Algeria's image in terms of transparency and integrity around the world.

3-3 Algeria’s ranking in the Global Governance Index

The World Bank's global governance indicators are regarded as among the most comprehensive, credible, and accurate indicators for measuring the quality of governance when compared to the rest of the available indicators. It is a composite index of six indicators, each focusing on a different aspect of governance. These indicators are: corruption control, government effectiveness, political stability, legislative quality and implementation, rule of law, participation, and accountability. The global governance indicators range between -2.5 and 2.5, with the higher the value indicating poor governance (Bassam , 2014, pp. 181-182). The following table shows Algeria's performance in the Global Governance Index:

Table (3): Algeria's performance in the sub-indicators of the Global Governance Index for the period (2011-2020)

year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Corruption Control Index	-0.54	-0.5	-0.47	-0.6	-0.66	-0.69	-0.61	-0.66	-0.62	-0.64
Government Effectiveness Index	-0.56	-0.53	-0.53	-0.48	-0.5	-0.54	-0.6	-0.53	-0.52	-0.53
political stability index	-1.36	-1.33	-1.2	-1.19	-1.09	-1.1	-0.96	-0.84	-1.04	-0.86
Legislative Quality Index	-1.19	-1.28	-1.17	-1.28	-1.17	-1.17	-1.2	-1.23	-1.3	-1.29
Rule of Law Index	-0.81	-0.77	-0.69	-0.77	-0.87	-0.86	-0.86	-0.74	-0.82	-0.78
Participation and Accountability Index	-1	-0.91	-0.89	-0.82	-0.84	-0.86	-0.9	-1	-1.06	-1.1

Source: Made by the researcher based on (World Bank, 2020)

The data in the table reflect Algeria's poor performance in the field of governance, across all indicators and over time (2011-2020). The values of the corruption control index appear negative throughout the period 2011-2020, reflecting Algeria's weakness in combating corruption and its citizens' inability to hold those in charge of state affairs accountable. The table also shows that the effectiveness of governments in Algeria was classified as low, as the value of the indicator did not improve over the period (2011-2020). Algeria was also classified as having low political stability and being politically dangerous in the index of political stability. In Algeria, the indicators of the quality of legislation and its implementation deteriorated. This means that the government has not implemented effective policies to improve legislative quality. Algeria has maintained low ranks and negative values in terms of the rule of law, implying that no genuine and significant efforts have been made to halt and reform the deterioration, and the rule of law is not in place. According to the table data, Algeria's participation and accountability index scores recorded negative and fluctuating performance between 2011 and 2020. Overall, global governance indicators show weak governance in Algeria during the period (2011-2020), despite a discrepancy in some governance indicators where their value remained below zero.

3-4 Algeria's ranking in the Global Competitiveness Index

The World Economic Forum publishes the Global Competitiveness Report, which measures a country's competitiveness and serves as a diagnostic tool for identifying strengths and weaknesses in the business environment. The report's classification of countries is based on a case study of each country based on 12 sub-indicators. The work methodology for the Global Competitiveness Report is constantly changing. The report used a scale of 0 to 100. Countries that achieve an average of close to 100 are more competitive. Algeria's ranking in the global competitiveness index is shown in the table below:

Table (4): Algeria's ranking in the global competitiveness index for the period (2011-2019)

year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ranking/Number of Countries	87/ 142	110/ 144	100/ 148	79/ 144	87/ 140	87/ 138	86/ 137	92/ 142	89/ 141
Basic requirements	75	89	92	65	82	88	82	-	-
Efficiency Enhancers	122	136	133	125	117	110	102	-	-
Innovation and development factors	136	144	143	133	124	119	118	-	-

Source: Made by the researcher based on (World Economic Forum, 2020)

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Algeria's ranking in the Global Competitiveness Index has dropped from 87th in 2011 to 110th and 100th. It is ranked 87th out of 140 countries in the ranking. While Algeria's ranking improved to 89th out of the 141 economies included in the ranking in 2019, it was ranked 82nd out of 140 countries in 2018. Algeria's ranking fluctuated between improvement and decline during the period (2011-2019) due to the obstacles that prevent it from entering the field of global competition, the most significant of which are the difficulty of obtaining financing, the ineffectiveness of labor, commodity, and financial markets, government ineffectiveness, inflation and high tax rates, weak factors of innovation and technological development, high corruption and bureaucracy. To improve its position in the global competitiveness index, Algeria must develop an effective institutional structure based on reliable databases and information, with a focus on financing and investment promotion activities.

3-5 Algeria's performance in the ease of doing business index

Since 2004, the World Bank and the International Finance Corporation have published the Business Performance Environment Report, which is based on indicators related to the ease of doing business in a country, in order to identify any climate that facilitates the establishment of new projects and the development of existing projects, as well as working to accompany reforms related to improving and facilitating business in various countries. The ease of doing business index is calculated by averaging ten sub-indices. The table below shows Algeria's ranking in the ease of doing business index out of 190 countries included in the ranking from 2011 to 2020:

Table (5): Algeria's ranking among the sub-indicators of ease of doing business for the period (2011-2020)

year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ranking in the general index	143	148	147	154	154	163	156	166	157	157
Start activity	150	153	139	141	141	145	142	145	150	152
Issuance of building permits	117	118	122	127	127	122	77	146	129	121
Get electricity	-	-	150	147	147	130	118	120	106	102
Property registration	165	167	156	157	157	163	162	163	165	165
Get credit	139	150	169	171	171	174	175	177	178	181
Investor protection	74	79	123	132	132	174	173	170	168	179
Pay taxes	162	164	174	176	176	169	155	157	156	158
Cross-border trade	123	127	131	131	131	106	178	181	173	172
Contract enforcement	123	122	120	120	120	176	102	103	112	113
Insolvency settlement	52	53	94	97	97	73	74	71	76	81

Source: Made by the researcher based on (WB & IFC, 2020)

The table shows Algeria's poor performance in the ease of doing business index, which has slipped from 143rd in 2011 to 157th in 2020. In terms of the sub-indicators of the ease of doing business index for 2020, Algeria ranked 152 in the starting activity index, as it takes the competent bodies 12 procedures and 18 days to carry out administrative treatment and register the institution. Factors contributing to Algeria's poor institutionalization. Algeria ranked 121 in the building permits index, with 19 procedures and an average of 131 days, at an estimated cost of 6.5% of the property value, while the building quality control index scored 12 points out of 15 points. Algeria, on the other hand, was ranked first in the report. It ranked 165 in the

property settlement index, with 10 procedures and 55 days, and the process cost is estimated at 7.1%, while the quality of land management index scored 7.5 points out of 30. Algeria also ranked 178th in the world in terms of benefiting from bank loans, owing to a lack of soft laws and the difficulty of financing conditions. The credit registry coverage index recorded 3.36% of the total percentage of adults, while the credit bureaus coverage index recorded 0% of the total percentage of adults. In terms of the investor protection index, Algeria ranked 179, reflecting the deterioration of the various sub-indices, which reflects the state's inability to protect investor rights and establish governance and transparency requirements for companies. Algeria continued to lag behind in the cross-border trade index, falling from 123rd in 2011 to 172nd in 2020, as reflected in the sub-indices that comprise this indicator, the most important of which are trade fees and burdens, clearance of goods, as well as weak control over trade and weak customs control. Although Algeria was classified as a difficult country to do business in due to complex procedures and the central and bureaucratic nature of management, as well as unfair competition, financial and administrative corruption, and others, as well as the contribution of some institutions and bodies to the multiplicity of procedures and documents for project establishment. however, Algeria It has risen from 150th in 2013 to 102nd in 2020 in the Access to Electricity Index, where 5 procedures are required and an average of 84 days are required. Algeria's rank in the tax payment index improved from 176th in 2014 to 158th in 2020, with the time taken to collect increasing by 265 hours per year, while the total tax rate fell to 66.1% of annual profits, and the filing index scoring 49.8 out of 100 points, while the number of payments per year, estimated at 27, remained unchanged. Algeria also made progress in the contract implementation index, ranking 113th in 2020, with the duration of a commercial contract implementation estimated at 630 days at a cost of 21.8%. While the quality index of judicial procedures received 5.5 out of a possible 18 points. According to the Doing Business report, Algeria ranked first in the investment project liquidation index, which is completed quickly, as the time required to liquidate a company in Algeria is estimated at 1.3 years, at a cost of 7% as a percentage of funds after liquidation, and the debt recovery rate for creditors reached 50.8 cents on the dollar, while the strength of the insolvency settlement index recorded 7 points out of 16 points.

Despite the positive indicators of some indicators, Algeria's overall performance is evident in the ease of doing business index, indicating that it still has a long way to go to improve its investment climate.

3-6 Algeria's performance in the investment attractiveness index

The Arab Investment and Export Credit Guarantee Corporation launched the "Guarantee Investment Attractiveness" indicator in 2013 as one of the most comprehensive international indicators in terms of the number of approved variables and geographical coverage to measure the attractiveness of Arab countries and the world, enhancing decision makers' ability to identify strengths and weaknesses in the investment environment and suggest effective ways to address them. A guarantee index for investment attractiveness was built through three groups to help the authorities concerned with attracting investment in Arab countries achieve the goal for which it was established: the group of basic requirements, the group of latent factors, and the group of positive external factors. which a total of eleven sub-indicators fall. In turn, indicators branch into 56 quantitative variables. In terms of the 2019 index, 109 countries from around the world have been proposed, including 16 Arab countries (AIECGC,

2019, p. 08). Algeria's performance according to the investment attractiveness index was characterized as weak, as illustrated by the table data below:

Table (6): Ranking within the Investment Attractiveness Index for the period (2013-2019)

year	2013	2014	2015	2016	2017	2018	2019
world ranking	82	85	87	87	87	86	84
Arabic ranking	13	12	13	13	12	12	12
Index point	24.1	32.2	33.9	34.2	35	34	33
Performance in the prerequisite group	41.6	46.6	45.8	45.1	47	46	47
Performance in a combination of latent factors	35.9	37.5	37.7	38.3	42	38	36
Performance in a combination of external factors	6	15	18.6	19.4	18	18	18

Source: Made by the researcher based on (AIECGC, 2019)

According to the data in the preceding table, Algeria's investment climate is not ready, given the gap recorded between the global average and even the Arab average, where it ranked very late throughout the period (2013-2019), where it ranked 84th globally among the 109 countries included in the ranking with an average value of the index. It received 33 points and was ranked 12th out of 16 Arab countries, , which is a weak performance. In terms of Algeria's ranking in the main groups of the general index to ensure investment attractiveness for 2019, it appears that Algeria scored 18 points out of the total index in the group of positive external factors, which is very low when compared to the global average of 31 points. Algeria scored 47 and 36 points in the groups of basic requirements and latent factors, respectively, falling short of the Arab average and falling short of the global average (AIECGC, 2019, p. 56).

4- Challenges and requirements for improving the startup business climate in Algeria

Creating a new institution is a difficult step, and it is even more difficult for startups that must achieve increased growth rates in unknown or unstable markets, so it was necessary to provide a comprehensive and integrated framework to overcome obstacles and ease the path of establishing the startup. The success of startups is dependent on creating a fertile and appropriate investment environment that supports and encourages individuals with creative ideas and the willingness and capability to put them into action on the ground. The following are the most significant obstacles and difficulties impeding the growth and development of Start-Ups in Algeria (Al-Zahra & Al-Awti, 2020, p. 318):

- ❖ Institutional and organizational obstacles, These impediments are related to regulations, legislation, laws, and infrastructure that affect the environment and the overall cost of doing business. The complexity of the procedures for establishing startups, as well as the difficulty in obtaining official licenses for them, are regulatory and legislative barriers. Where Start-Ups face a plethora of inspection and control bodies, economic, health, social security, tax and customs departments, standards and metrology departments, and so on, as well as a lack of coordination between these bodies and the regulatory authorities for Start-Ups.
- ❖ Funding challenges are regarded as the most significant challenges confronting Start-Ups, as evidenced by the difficulty in obtaining appropriate external financing. For example, obtaining loans from commercial banks is difficult due to the inadequacy of bank standards, the nature of these projects, and their requirements to obtain the necessary financing on simple and appropriate terms, either due to a lack of the necessary guarantees

required by those banks, or due to the difficulty of financing conditions in terms of interest, installments, and repayment periods. In addition, the project's inherent financial difficulties in terms of irregular financial inflows raise the degree of credit risk assigned to it.

- ❖ The problem of industrial real estate, which is impeding the completion of many small projects, is exacerbated by the complexity of administrative and bureaucratic procedures.
- ❖ Weakness of the services sector, while the services sector provides strong support for Start-Ups, the poor quality of its services forces initiators to invest more effort and resources in order to provide these services on their own, increasing the bill of effort, time, and money.
- ❖ The absence of digital payment systems, which complicates the task of young entrepreneurs and limits the ease with which capital can be transferred. The lack of currency exchange offices also limits access to foreign suppliers of raw materials and results in unreliability of output.
- ❖ Bureaucracy is one of the most significant issues confronting the owners of start-up businesses, manifesting itself in the length of processing files at the level of various departments, as well as the complexity of the administrative files required to obtain the necessary licenses and permits to begin the activity. And, because the project's idea must be realized quickly in order to survive the world's fluctuations and rapid and continuous developments, Algeria's administrative system may pose a barrier to Start-Ups.
- ❖ Lack of legislative frameworks that understand and regulate the work and activity of Start-Ups, their ambiguity and lack of flexibility, particularly in the stages preceding their establishment, where they carry out an activity with a legal commercial objective but have not reached the stage of generating revenues and thus do not find a legal status for themselves.
- ❖ The state of the infrastructure, means of transporting goods, and internal movement of people is not adequate, particularly the roads connecting the country's north and vast south, which acts as a barrier in the face of young institutions and wastes large shares of the market on them.
- ❖ Small businesses' lack of competitiveness limits the national product's competitiveness in international markets.
- ❖ Neglecting the two sides of R&D, allocating insufficient agreement on them, and the existence of a gap between scientific research centers, universities, laboratories, and the ground.
- ❖ There are no business incubators to help start-ups.
- ❖ Technological obstacles, including:
 - The appropriate technology infrastructure, which has become an urgent need for Algerian institutions due to the increasing number of Internet consumers, resulting in the necessity of training new Start-Ups' employees and enabling them to deal with important customer information in an automated manner.
 - The absence of financial technology, which is one of the most visible phenomena of the digital economy, and which provides a distinct range of financial services based on modern technologies. However, the lack of appropriate technological infrastructure and legislation that keeps up with these developments prevents these institutions from

taking advantage of these services, the most prominent of which are digital commissions. Money transfer, the crowdfunding lending market, wealth management, and risk management are all options.

- The labor market lacks highly skilled and specialized labor capable of dealing with new technologies, particularly modern industry trends; where it does not stop at creativity, but new technologies impose on Start-Ups a new innovation that outperforms market innovations; which may result in a greater challenge represented by the need to constantly reinvent the Start-Ups for itself to meet and exceed expectations.
- Cyber Security, Most startups have a business model, and cyber risks may arise because they are unaware of the potential risks that may arise for them. Especially with no alternative plans to keep the data center operational to ensure the continuity of the Start-Ups work.

Despite the difficulties in establishing startups in Algeria, the requirements for their development are as follows:

- ❖ Improving the business environment by improving the quality of laws and legislation, bridging the gap between the text of laws and their implementation on the ground, and taking steps to reduce the cost of doing business as well as the number of procedures and time spent dealing with government agencies. Controlling corruption, as well as achieving all of this, requires the participation of all parties involved in these efforts.
- ❖ Allocating financing resources and distributing risks more evenly among lenders, encouraging competition among banks, and providing incentives to provide innovative financing tools and more appropriate lending models through the development of banking legislation. Specifically, by creating more credit bureaus and borrowers' registries and improving their critics, establishing efficient mechanisms to secure and guarantee loans to Start-Ups, and removing legislative barriers to equity and venture capital funds participating in developing the financial resources available to these institutions.
- ❖ Strengthening partnerships among various actors, led by universities, research centers, incubators, and other support bodies, various funding institutions, as well as bodies concerned with research insurance, public institutions, and the private sector, in order to coordinate and strengthen their efforts. To encourage creativity and innovation, as well as to facilitate the process of translating scientific research into marketable products and services that benefit the national economy and society in general. And work to promote entrepreneurship education and training at all levels and disciplines in order to improve the entrepreneurial culture, develop the spirit of entrepreneurship and risk-taking, encourage creative ideas, and ensure the success of the development process.
- ❖ Accelerate the embodiment and creation of infrastructure that meets the needs and development of Start-Ups, such as upgrading the digital economy and digital marketing, by improving the quality of Internet services and providing electronic payment mechanisms, for example, in order to facilitate the widespread distribution of Start-Ups' products or services.
- ❖ Interest in promoting the incubator sector as an integrated escort mechanism that can

accompany the contractor in achieving, facilitating, and succeeding the path of transforming his creative idea into a start-up company, thanks to the capabilities, resources, and expertise of its component team.

- ❖ Develop programs to create and support Start-Ups small and medium-sized businesses in order to assist entrepreneurs in launching their own projects and providing them with market information, management and regulatory methods. Providing logistical and institutional support, as well as acting as a guide for small investors and assisting them in translating their ideas into viable and sustainable projects. One of the necessary measures to activate the role of Start-Ups in growth and employment is to assist institutions in not stumbling during the early years of the project.
- ❖ Organizing training courses on important topics for the institution, such as marketing, financial statement preparation, cash flow management, tender document preparation, identifying export markets and export development mechanisms, and governance of small, medium, and Start-Ups.

Conclusion:

As many developed and developing countries have relied on developing their business environment to upgrade their contribution to the economic development process, Start-Ups are one of the most important entry points to development. According to the findings of this study, the most important indicators for measuring the investment climate indicate that the business climate in Algeria is insufficiently qualified and unattractive to investments or Start-Ups, owing to a variety of factors, and among the conclusions reached are the following:

- ❖ Algeria's economic freedom remains weak, as reflected in the economic freedom index, particularly in recent years, where Algeria is at the bottom of the ranking, which constitutes one of the fundamental distortions in its business climate and has a negative impact.
- ❖ International organizations consider Algeria to be one of the countries with high rates of corruption, as corruption is ranked third after finance and bureaucracy, indicating a lack of transparency in the Algerian business climate.
- ❖ Despite the discrepancy in some governance indicators, where their value remained below zero during the study period, global governance indicators show weak governance in Algeria.
- ❖ According to the Global Competitiveness Report, despite having many advantages in some indicators such as the market size index, the health index, and primary education, Algeria was unable to occupy advanced ranks in the general index, and this low ranking within the global competitiveness index was attributed to a number of factors. On top of that, there have been poor results in terms of financial sector development.
- ❖ Despite economic reforms, Algeria's business climate did not improve significantly in the World Bank's approved indicators during the study period. Whereas the report stated that Algeria does not provide an attractive investment climate due to a variety of factors, describing it as a difficult destination for foreign investors due to complex procedures and the central and bureaucratic nature of management, as well as the ineffectiveness of some bodies and institutions that contribute to the large number and multiplicity of procedures, measures, and documents for project establishment.

- ❖ Algeria ranked last in the investment attractiveness index, both globally and in the Arab world, as it was last in the poor-performing countries, putting it close to the countries with very poor performance, which are countries with a collapsed economy, whether as a result of wars and internal conflicts. Where does poor performance focus in a set of external factors, which in its content mean that Algeria lacks excellence and technological progress, as it has an underdeveloped market and a low-attractive business environment with a low indicator of knowledge and e-government, reducing the country's value to create a competitive advantage.
- ❖ According to the statistics presented above, the business climate in Algeria is not conducive to the establishment and growth of new institutions. The establishment and development of start-up companies necessitates a comprehensive and integrated framework that allows for positive interaction between the contractor's individual characteristics and the social and economic factors that characterize its surroundings, beginning with providing a culture and education that encourages creativity and entrepreneurship, as well as an institutional environment and an encouraging business climate. The ease of obtaining financing from a variety of innovative sources that are compatible with the nature of businesses in Start-Ups, such as venture capital companies, business angels, crowdfunding, and finally the provision of support and escort devices that provide integrated services, such as incubators.

In light of the study results, the following recommendations can be made:

- ❖ The establishment of legal and regulatory frameworks for startups would help to increase the number of startups, particularly in the high-tech sector, making Algerian innovative entrepreneurship more competitive at the regional and international levels.
- ❖ Launching the legal and regulatory frameworks for venture capital financing and activating the role of the Algeria Stock Exchange
- ❖ Accelerate and implement the greatest number of reforms possible, while also accelerating efforts to create the appropriate conditions for private sector prosperity, and relying on effective and transparent rules for a vibrant economy and a strong environment for entrepreneurship.
- ❖ The need for concerned authorities to focus on preparing markets, removing restrictions, and structuring the industry in order to overcome the challenges of establishing and expanding Start-Ups, as well as strengthening the technological infrastructure that would improve commercial transactions.
- ❖ One of the reasons for their success is that administrative procedures for establishing and launching Start-Ups are made easier, especially since most Start-Ups express technological ideas that are characterized by rapid development and change.
- ❖ By providing a transparent business environment free of bureaucracy and bribery, the serious pursuit of combating corruption and bribery and respecting basic freedoms within the framework of what is dictated by laws.
- ❖ Reforming the financial and banking system to make it more flexible and responsive to economic realities; avoiding double taxation; focusing on the real estate file and working to highlight a flexible and transparent real estate market; and focusing on human resources by improving education and training quality and adapting it to global developments.

- ❖ Providing opportunities for young people to invest in order to become drivers of economic change and wealth creation, as well as to shift mindsets from wanting to work in the public sector to establishing private sector projects and creating job opportunities rather than looking for work.

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