

The reality of financing and accompanying emerging institutions between the system of laws and the investment environment**واقع تمويل ومراقبة المؤسسات الناشئة بين منظومة القوانين وبيئة الاستثمار****PHD.S MAHDAOUI Meryem¹, Pr. BOUCHRA Abdelghani²**¹ University Ahmed Draia of Adrar (Algeria), Mer.mahdaoui@univ-adrar.edu.dz² University Ahmed Draia of Adrar (Algeria), Abd.bouchra@univ-adrar.edu.dz**Received:** 20/11/2022**Accepted:** 10/03/2023**Published:** 15/03/2023**Abstract**

Algeria, like other countries, has shown great interest in supporting young people and encouraging them to set up their small and medium enterprises through the "startups" formula, involving them in the path of development and economic renaissance in Algeria, and strengthening the local production machine.

Accordingly, this study aims to clarify the reality of financing emerging institutions between the system of laws and the investment environment in Algeria, by using the descriptive approach to highlight the most important concepts related to emerging enterprises, the study concluded the necessity of supporting the establishment of these institutions and facing the obstacles that impede access to the desired goals. .

Keywords: Emerging institutions; system of laws; small and medium enterprises; investment environment, local production machine .

JEL Classification Codes: L26- M13

ملخص:

أظهرت الجزائر كغيرها من الدول اهتماما كبيرا بدعم الشباب وتشجيعه على إنشاء مؤسساته الصغيرة والمتوسطة من خلال صيغة "المؤسسات الناشئة" واشراكهم في مسار التنمية والنهضة الاقتصادية في الجزائر وتعزيز الآلة الإنتاجية المحلية. وعليه تهدف هذه الدراسة إلى توضيح واقع تمويل المؤسسات الناشئة بين منظومة القوانين وبيئة الاستثمار في الجزائر، باستعمال المنهج الوصفي لإبراز أهم المفاهيم المتعلقة بالمؤسسات الناشئة، و توصلت الدراسة إلى ضرورة دعم إنشاء هذه المؤسسات و مواجهة العراقيل المتسببة في إعاقه الوصول إلى الأهداف المرجوة.

كلمات مفتاحية: المؤسسات الناشئة، منظومة القوانين، المؤسسات الصغيرة والمتوسطة، بيئة الاستثمار، الآلة الإنتاجية المحلية.

تصنيفات JEL : L26- M13

INTRODUCTION:

Emerging enterprises are considered one of the most important engines of economic growth for countries, as interest in them has become necessary because of their great importance in developing the national economy, as they contribute economically to achieving development, while from the social it reduces unemployment.

The growth of new startups and specifically those, which depend on mobile technology, cultural and creative ideas, has expanded and diversified existing business models, created new models, and enhanced new business model interpretations and discussions, it push into the exponential increase of innovation.

Thus, the transition of an information and knowledge society to a creative one has emerged various forms of ventures.

➤ *Problem statement and research questions:*

In view of the challenges that emerging institutions are experiencing, we decided to pose the following main problem:

What is the reality of financing and accompanying startups in light of the system of laws and the investment environment?

To answer the previous main problem, we ask a number of sub-questions:

- What is meant by startups?
- What are the sources of financing for startups?
- What are the challenges of emerging enterprises?

➤ *Search divisions:*

We divided this study into a number of points represented in:

1. Definition of emerging institutions;
2. Startups life cycle;
3. The constitutive law of Algerian startups;
4. Financial Challenges for Startups;
5. Challenges of startups;

➤ *Previous studies:*

Many studies have dealt with the subject of the startups, including:

- The study of “**Arab fatima Zohra; Seddiki Khadra**” titled by: “**The role of the state in supporting the start-up in the new Algeria A study of the decision to establish a start-up fund**”: in this study, the researchers aims to highlight the role of the new Algeria in supporting emerging enterprises, by highlighting the government’s decision to establish a fund for financing emerging enterprises using the descriptive and analytical approach. , and facilitated the procedures for its establishment, which highlighted the essential role in strengthening the national economy;
- The study of “**Ramdani Marouan , Bouguerra Karima**” titled by: “**Challenges of Emerging Institutions in Algeria - (Examples of Successful Emerging Arabic Institutions)**”: in this study, the researchers aims to Present the most important basic concepts of emerging institutions and successful Arab experiences in embodying this,

The study concluded that emerging enterprises have become one of the pillars of economic and social development due to their contribution to absorbing unemployment and achieving added value, as well as contributing a lot among the arab emerging enterprises which qualified them to obtain major financing rounds and then implement ambitious plans of regional expansion outside the local framework by classifying them according to the size of funding criteria. Therefore, it can be said to some extent that they are the most funded emerging Arabic companies, but at the same time along with Arabic entrepreneurial work are not the best active and influential in the market.

- The study of: **“DINAoui anfel aicha , ZEROUAT fatma zohra”** titled by: **“Emerging enterprises are the new locomotive for Algeria to boost the national economy”** **Challenges and Support Mechanisms**”: in this study the researchers aims to shed light on the challenges facing emerging enterprises in Algeria and the strategies adopted by the Algerian government recently, which has become very interested in supporting emerging enterprises

1. Definition of emerging institutions:

Perhaps the most important stage of the institution’s life cycle is its beginning in the form of an emerging institution, and for its importance, we will give some definitions (NCIRA & GUESSOURI, 2021, pp. 177-179):

- It is known according to the English dictionary as a small project that has just started. The word "Start-up" consists of two parts, which refers to the idea of starting and "UP", which refers to the idea of strong growth;

- As Paul Graham defines it in his famous essay on “Growth” as:

A company designed to grow rapidly. (growth = start-up) and the fact that it was newly established does not make it a start-up company stands alone, and it is also necessary for the emerging companies to work in the field of technology, or to be financed by risker or adventurers, or to have a sort of an exit plan. The only thing that matters is growth and whatever else related to startups follows growth;

- As for economist Patrick Fridenson, which is to be a start-up, is not related to age, size, or sector of activity, and the four questions must be answered:

- ❖ Potentially strong growth;
- ❖ The use of modern technology;
- ❖ It needs huge financing;
- ❖ Being certain that the market is new in which risk assessment is difficult.

2. The difference between start-ups, entrepreneurs, and small and medium enterprises:

Entrepreneurship expresses every activity to create a new business project that provides added economic efficiency;

It differs according to different classification criteria, such as size; for example, we find small and large enterprises, creativity, where we find traditional institutions and emerging institutions with advanced technologies. For this reason, we consider that the concept of

entrepreneurship is the most comprehensive concept, as small and medium enterprises and startups are only forms of entrepreneurship.

Accordingly, we can define the difference between small and medium enterprises and other traditional companies with emerging companies through the following elements:

- Objective of incorporation or creative nature;
- Incorporation steps;
- industrial environment or domestic market,
- In terms of funding sources;
- growing growth;
- in terms of returns;
- Duration of the project;

3. Steps to setting up a startup:

To establish a startup company, the following points must be followed:

- Thinking about people's problems and needs;
- Thinking of ways to help improve work and sales;
- Technology based;
- Setting goals and time periods for their implementation;
- Find crowd funding resources;
- Formation of a unified work team. (DINAOUI and ZEROUAT 331)

4. characteristics of emerging enterprises:

Emerging enterprises are also characterized by a set of characteristics that made them able to adapt to the economic conditions of various countries, whether developed or developing, including:

- The entrepreneurial spirit can establish many industrial units, which produce a variety of goods, especially consumer ones;
- Small enterprises are characterized by their high ability to provide job opportunities;
- Contribute to the local development strategy, because many countries are making plans for it;
- Its ability to innovate and develop new products
- Its ability to adapt to the external environment and extend its range to fiery regions, in addition to the lack of geographical spread

4.1. Strength points:

- The balance of the structure of productive activity;
- Support for large companies;
- Creating real opportunities and reducing unemployment;
- Contribute to the realization of the local development strategy;
- The ability to innovate and develop new products, career progression and the number of workers;
- High enthusiasm and motivation due to its sole proprietorship;
- Speedy decision-making and contribution to achieving import substitution policy;

- Spreading positive industry values.
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4.2. Weaknesses:

- Limited and inability to choose and formulate a business strategy;
- The inability to form an effective distribution network due to the lack and weakness of its capabilities;
- The difficulty of accessing financing resources for several reasons, perhaps the most prominent of which is the weakness of its financing structure;
- It is not possible to take advantage of economies of scale for smallness

5. Startups life cycle:

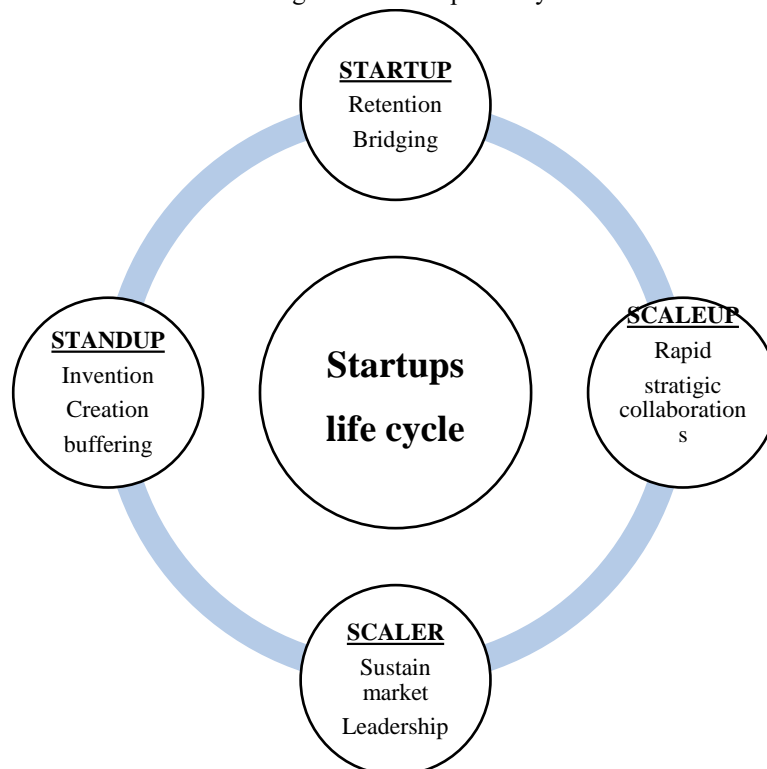
In Figure (1) below, we propose and demonstrate the life cycle of startups,

The vertical axis represents the maturity development whereas; the time is represented on the horizontal axis.

The startups life cycle passes through four stages:

- The first stage is “standup”: which represents invention, creation and buffering.
- The second one is “startup”: in this stage, a search for a repeatable and scalable business model is done.
- The third stage is “scaleup”: in which there is a rapid and exponential growth, market development and strategic collaboration with corporates.
- The final stage is “scaler”: in which the startup sustains its market leadership and growth. (ABURRUB & CHELLALI, 2020, p. 223)

Figure 01: Startups life cycle



Source: by researchers

6. The constitutive law of Algerian startups:

To encouraging investment outside of hydrocarbons, the Finance bill project for the year 2020 approved tax facilities and incentives for the benefit of "start-up" enterprises that are active in the areas of innovation and new technologies and exempt them from tax on profits and fees on value added in order to accompany them in the start-up stage and ensure their subsequent development;

The ministry of small and medium enterprises, emerging enterprises, and the knowledge economy is working on creating a legal and regulatory framework, defining ways to evaluate its performance for emerging enterprises by developing a roadmap to support and fund these institutions by involving the stock exchange and investment capital, determining how expatriates can contribute, and applying "quasi-total" tax exemption mechanisms, to enable youth to effectively contribute to disengaging the national economy from hydrocarbons and enabling them to play an important role in the national economy;

In addition, an investment capital fund was established with the participation of public banks and the National Agency for the Promotion and Development of Technological Parks, with the aim of forming a company to finance emerging enterprises, and the text of the Supplementary Finance Law 2020 that allows capitalization companies to acquire more than 49% of the shares of the startup in order to support the financing of emerging institutions, which represents the main challenge;

For the growth of these institutions with high capabilities and for investment capital companies, the 2006 law limited the contribution of these companies in economic projects to 49%, and it was also suggested that four types of economic zones will be created at the national level, which would be an incubator for emerging institutions and other investments with incentive financial and tax advantages. The emergence institution is the sum of human and material resources that are allocated for the sake of promoting an innovative idea that may be new in markets outside its target range, and its financing is usually from economic dealers such as banks, pioneering institutions and supporting government agencies. It is noticeable in Algeria that more than 500 thousand startups have been established with financing From the National Agency for Youth Employment Support, the National Unemployment Insurance Fund. (Al-Jomhoriyah newspaper. Laying out a roadmap to support and finance startups in Algeria, 2020)

The most important decisions to embody this strategy are:

- ✓ Establishing an investment fund dedicated to financing and supporting startups;
- ✓ Establishing a supreme council for innovation, which will be the cornerstone of the strategic direction in the field of valuing ideas, innovative initiatives and national potentials for scientific research in the service of developing the knowledge economy.
- ✓ Establishing the legal framework that defines the concepts of emerging institutions and incubators as well as the terminology for the knowledge economy ecosystem, in order to facilitate the procedures for establishing these entities in addition to the process of preparing the relevant regulatory texts, which will lead to reviewing the existing texts in order to adapt the financing mechanisms to the growth cycle of emerging institutions
- ✓ Transferring the National Agency for the Promotion and Development of Technology Parks {ANPT} to the Ministry of Small Enterprises, Emerging Enterprises and the Knowledge Economy;

✓ The transformation of the regional technological excellence pole {HUB} for emerging enterprises which is being carried out by the company "Sonatrach" at the level of the major wind park "Dunya Park" to the Ministry of Small Enterprises, Emerging Enterprises and the Knowledge Economy

✓ Enabling holders of innovative projects and emerging institutions to benefit from the available spaces within the institutions of the youth sectors and professional training at the national level

✓ Preparing local groups for spaces designated for emerging enterprises, with priority given to areas with great potential for innovative project holders, especially the states of Bechar, Ouargla, Constantine, Oran, Tlemcen, Setif and Batna, before expanding this endeavor to the entire national territory. (Al-Jomhoriah newspaper. Laying out a roadmap to support and finance startups in Algeria, 2020)

7. Institutional financing formulas available in Algeria :

7.1. Classic financing formulas:

The Algerian environment for financing new medium and small projects provides classic financing formulas such as the National Agency for Support and Employment of Youth, the National Fund for Unemployment Insurance, and the National Agency for the Management of Microcredit. However, these formulas are not suitable for financing emerging enterprises, as reality requires the adoption of a financing formula through capital risks;

7.2. Emerging Enterprises Fund:

The launch of the Emerging Enterprises Fund is only a temporary solution, because the laws that include the risk financing formula have not yet been issued in Algeria, and this is the result of the lack of development of the Algerian banking system and the existence of an overlap between the work of the stock exchange and banks in Algeria. In the future, Algeria may seek to open capital to the private sector in order to finance emerging institutions through "risk capital", and this is with the help of the Algiers Stock Exchange, which must do so because activating the latter is the only way to guarantee the financing of these institutions in the future;

7.3. Financing through venture capital:

The financing of emerging enterprises through the Algerian banking system does not seem effective, and the reason is that commercial banks finance these institutions through "in-kind" guarantees, which are incapacitating guarantees for innovative and creative youth, who do not originally own real estate or large capital to guarantee medium and long-term bank loans. As well as the costs of these loans. Accordingly, it seems that the best solution for financing startups lies in adopting the "financing through risk capital" formula. (MEFROUM 353-354)

8. Financial Challenges for Startups :

Funding is an important part at the beginning of the activity, especially since this type of institution often faces financial problems as a result of several reasons and at different stages, for example during The corporation negotiates with his family members or friends to persuade them to invest in his corporation

Great difficulties, and at various stages it may need more money, as in the establishment stage it.

It is basically looking for investors to convince them with reasonable valuation plans and then in the construction phase has to prepare a plan along with the supporting documents, benefit from the capital investment. (Salamzadeh, 2015).

8.1. Self-funding and FFF :

Often at the beginning, funding is provided by the project owner, or possible to resort to friends or family or fools which are easier than resorting to other sources that may impose conditions on them, and this is at the first stage of developing the product and launch it to the market.

We can find business angels are also important for start-ups to support new entrepreneurs and these are called informal funding it is the most important primary source for start-ups. It's possible that entrepreneurs in developing countries rely on informal funds as well as (Aleisa E, 2015):

8.2. Banks :

It is another option Traditional way of getting financial resources by (mortgages or loans for various purposes) as collateral or personal guarantee of the entrepreneur.

8.3. Public Subsidies & Crowd funding :

According to (Tech, 2018) public Subsidies can have various forms as the creation of spaces for work, educational programs, and providing grants from public bodies, tax reliefs from the government, and some studies that show, that low-income countries have low levels of financing.

8.4. Family Offices:

Here is spoken about wealthy families, they already own companies and investments, and they aim to diversify their activities. These family offices are characterized as entrepreneurial because their owners are the shareholders and the enterprising who afford the risks of financing the start-ups in the early stages in which the uncertainty and ambiguity are high.

8.5. Corporate Venture Capital and Accelerators :

Corporate Venture capital is a project that the company adopts by establishing special units for strategic investment to achieve profits, increase sales and diversify the market.

9. Challenges of startups :

Startup companies face various obstacles as any other company or institution. Therefore, we devoted this title to discuss and illustrate multiple challenges that start-up go through.

9.1. Financial challenges :

Funding is considered the essence of startups in every stage of its life; also, it is considered one of the common problems for new projects to launch. In the first stages, we find the entrepreneur try to convince friends and family of the extent of the splendor of his/her idea and try to direct them to invest in it.

The need for financing the entrepreneurial projects continues to expand and develop, so it begins to search for investors to negotiate with them and convince them of it plans. (Salamzadeh, A., Arasti, Z, & Mohammadi Elyasi, G, 2018, p. 383)

9.2. Human resources:

Startups companies usually start from one or more founders, it working on embodying an idea and developing it according to the needs of the market. This requires experts to develop the first model, the ability to negotiate and communicate with users, suppliers, and this in the end, need hiring employees and forming an integrated team and the ability to guide them to succeed of the project, and the human resource management problem may be the reason for startups sliding into Death Valley. (Salamzadeh, A., Arasti, Z, & Mohammadi Elyasi, G, 2018, p. 384)

9.3. Support mechanisms:

Support mechanisms are among most important reasons for the success of Start-ups that include angel investors, hatcheries, incubators, science and technology parks, accelerators..ect; and the sifficulty accessing these mechanisms will definitely lead to disappearance. (Salamzadeh, A., Arasti, Z, & Mohammadi Elyasi, G, 2018, p. 384)

9.4. Environmental elements:

The environmental elements are considered one of the determinants of business success and growth and lack of interest it leads to failure of startups, included business infrastructure , the particular customer markets, community Lifestyle and legal issues and economy ...ect , and all of these are need to take into consideration. (Salamzadeh, A., Arasti, Z, & Mohammadi Elyasi, G, 2018, p. 384)

10. Economic incentives and emerging enterprises in Algeria 2020-2021

Economic stimulus provided to emerging enterprises in the years 2020 and 2021:

- Tax exemptions for startups for up to five years;
- Bank loans of up to 300,000 DZD for startups in general, and if they take the status of a small start-up, two million DZD, and if they are medium, the loan limit is 150 million DZD;
- The authorities are determined to support startups by fighting bureaucracy;
- Encouraging local groups to sign expertise agreements with innovative start-ups;
- Creation of the Emerging Enterprises Support Fund;
- Exempting them from the tax on professional activity and the tax on corporate profits for a period of two years, along with exempting their equipment from the value-added tax and submitting to the customs duty rate reduced to 5%. (REGGAMI 726-727)

11. analyzes according to the data of years 2020- 2021:

The general budget deficit in 2020 is 13 billion dollars, and the expected deficit in the Finance Law 2021 is 22 billion dollars, while the official exchange rate of the dinar for 1 dollar is 114 chickens at the beginning of 2018, 118 chickens at the beginning of 2019, and 119 chickens until March 6, 2020, and then 129 until March 2020. November 02 has become 131 DZD, meaning that it is constantly declining, so the inflation rate on an annual basis in May 2019 was 3.6%, and in May 2020 it was 9.1%, meaning it is constantly increasing, while the average rate of savings in commercial banks is 3%, while the average The interest rate for lending to owners of economic institutions is 8%, bearing in mind that commercial banks state that the borrower benefits from reducing the interest rate in the event of choosing one of the projects within the framework of loans supported by the state, while economic growth was in 2019 it was 0.8%, while in 2020 it was a contraction by 6.4%, so we notice that there is an increasing deficit in the public budget and a continuous reduction in the exchange rate of the national currency against the major currencies, which was accompanied by an increase in the rate of inflation despite the economic conditions that are supposed to encourage a reduction in inflation.

The latter leads to a decrease in the purchasing power of money, especially since the Central Bank printed money within the framework of non-traditional financing, as it printed about the equivalent of 32 billion dollars in September 2018, and from it the Algerian economy is in a state of stagnation, so the need was for institutions from another and it is possible that through them the Increasing the value of returns from hard currencies outside of hydrocarbons, which are emerging institutions.

Since the State of Algeria has an exchange reserve at the beginning of 2019 amounting to 79.7 billion dollars and at the beginning of 2020 62 billion dollars, then 60 billion in March 2020 and it reached 6.51 in December 2020, meaning that there is a financial balance that was formed before the start of the oil crisis in 2014 This allows the Algerian state to provide rents legally by increasing public spending, which is considered one of the most important influences on the state's general budget deficit, which amounted to 10.4% in 2020.

And spending is mainly to stimulate aggregate demand, with the exemption or reduction of the value of taxes collected from

Economic institutions, including emerging ones, constitute the economic stimulus

Conclusion:

The emerging institutions in Algeria live in an economic and social reality that has some peculiarities that must be taken into account and adapted to for the success of the project idea:

- The nature of the national economy;
- Weakness of the service sector;
- Financing and payment mechanisms;
- Administrative tradition in the age of speed;
- Digitization and internet services;
- Logistics and transportation channels.

In order to advance these institutions, we suggest the following recommendations:

- Supporting and developing the financing methods of these institutions;

***The reality of financing and accompanying emerging institutions between the system
of laws and the investment environment***

- Establishing an investment fund dedicated to financing and supporting emerging institutions;
- Entrepreneurship assistance in financing startups.

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