



***Business Incubators As An Innovative Mechanism To Support Startups
In Algeria.***

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Abstract:

This study aims to explore the role played by business incubators as an innovative mechanism to support emerging enterprises in Algeria. The importance of this research is highlighted by emphasizing the significance of emerging institutions, as they constitute one of the fundamental pillars in advancing sustainable development in Algeria.

The study concluded that business incubators are an ideal option to support these institutions in Algeria. The Algerian government, in collaboration with young entrepreneurs and experts, has been committed to intensifying various efforts and initiatives to support the youth and encourage them to launch their innovative projects that will contribute to advancing the economy at both the national and international levels.

Keywords: *business incubators, startups, innovation, support, Algeria..*

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I. INTRODUCTION

Emerging enterprises play a vital role in the global economy as they can quickly grow and contribute to innovation and competitiveness. Due to the challenges faced by Algeria, such as the decline in oil prices and the COVID-19 pandemic, the country has started focusing on supporting and developing emerging enterprises to promote economic diversification and job creation.

However, emerging enterprises face several challenges, including financial, marketing, technical, and administrative, that require support and assistance. Business incubators have emerged as a valuable alternative to help strengthen and advance this vital sector.

This text highlights a research proposal that aims to study the role of business incubators in supporting and developing emerging enterprises in Algeria. The study will cover various sub-types of business incubators and their services to emerging enterprises. It will also clarify the basic concepts of emerging enterprises and emphasize their importance. Additionally, it will discuss the legal framework and conditions for emerging institutions in Algeria and identify the types of business incubators available in the country.

The study will follow a structured approach, starting with an overview that briefly explains the subject matter and concludes with a summary that presents the findings. The middle section will comprise of three interconnected and complementary sections that focus on the essence of the topic. These sections will cover the general introduction to emerging enterprises, the theoretical framework of business incubators, and the role of business incubators in supporting emerging enterprises in Algeria.

The study will build on the previous work done on the topic, such as the study conducted by Sherif Ghiat and Mohamed Boukamoum in 2009, which found that the implementation of the incubator system is still inadequate due to several obstacles and difficulties SMEs face. Another study by Bou Al-Shaarifa in 2018 focused on the role of business incubators in supporting and developing emerging enterprises in Algeria and highlighted the increasing number of companies in Algeria but the challenges they face in maintaining sustainability. The study's objective was to analyze the current situation and potential of business incubators and emerging institutions in Algeria to promote the launch and support of emerging companies.

II. Methods and Materials:

1. a general introduction to e merging enterprises

Startups are essential to today's global economy, representing a driver of innovation, diversification and job creation. Startups are usually defined as small, newly established companies that aim to introduce new products or services. Here is a general introduction to startups.

1.1. The historical roots of the term

The term "startup" has its roots in the mid-20th century and was coined during a time when risk capital financing was gaining popularity. Although it is believed that the term was first used after World War II, there is no evidence of academic writers or researchers using it during that time. The phrase was first used in 1976 by Forbes, in an article that highlighted the significance of investing in startups in the data processing industry. Two years later, Davi Birich used the term in an article that discussed the role of small projects in creating new job

opportunities during a period of high unemployment and structural changes in the American industry. The book "Silicon Valley Fever: Growth of High-Technology Culture" by Larsen, Judith, Rogers, and Everett, published in 1984, popularized the term in reference to institutions with close ties to advanced technology and risk capital. Since then, the term "startup" has been commonly used in this context, with a strong association to risk capital financing, which plays a crucial role in launching these institutions. (Nawi & Dahan, 2023)

1.2. Definition of emerging enterprises

Definitions of emerging enterprises have multiplied with the spread of Internet facilities, as the financial markets witnessed several speculations on information technology facilities that are looking for rapid entry into the stock market. Among the most important of these definitions, we find:

A start-up is defined in the English dictionary as: "a small project that has just begun, and the word Start-up consists of two parts (Start), which refers to the idea of launching, and (Up), which refers to the idea of strong growth". (Salehi, 2021)

As Ferre defined it: "It is considered as the initial stage of the formation of the project, and it is supposed to be an institution that pursues growth. By definition, emerging institutions are only a temporary stage and represent the initial stage of the project."

According to professor and businessman Steve Blank: "The emerging enterprise is not a miniature copy of major enterprises. Rather, those enterprises move from failure to failure quickly until they achieve success in the end, as they constantly learn from customers, which teaches them to adapt." (Banu Jaafar, Shala, & Tabboush, 2021)

A startup is defined as a company with a short operating history. These companies are often newly established and are in the process of growth and searching for markets. This term became widely used after the dot-com bubble.

Without a consensus on a unified definition of (Startup), this concept, according to La Rouse, refers to it as: "those young, creative institutions in the field of information and communication technologies whose mission is to create and market new technologies."

Researcher Erice Reis defines it as: "those institutions that aim to develop and distribute a new product under a high degree of uncertainty." (Al-Moumen, 2020)

The Algerian legislator defines it in accordance with Article 11 of Executive Decree No. 20-254 of September 15, 2020, which includes the establishment of a national committee to grant the label of an emerging institution, an innovative project, and a business incubator, define its tasks, and shape its operation: An emerging institution is considered every institution subject to Algerian law, and respects the following standards:

- The institution must not exceed eight years old.
- The organization's business model must be based on goods, services, business model or any innovative idea.
- The annual turnover must not exceed the amount determined by the National Committee.
- The institution's capital must be owned at least 50% by natural persons, approved investment funds, or by other institutions holding the start-up label.
- The growth potential of the enterprise must be large enough.
- The number of workers must not exceed 250 workers.

1.3. Sources of financing for emerging enterprises

Emerging institutions often face many challenges, with financing being one of the most prominent. There are several sources of financing available for such institutions, including:

Firstly: Self-financing:

Many new entrepreneurs tend to depend on their personal finances to finance the early stages of their projects. This approach can have benefits as it allows the owner to retain complete control over the business. However, it can also be financially stressful, and the owner assumes full responsibility for potential losses.

Secondly, Small business loans:

Banks offer financing programs for small projects, allowing the owner to maintain sole ownership. However, banks impose certain conditions and demand a detailed description of the spending channels, which can be challenging to predict in the early stages of a project.

Thirdly: Business incubators:

Business incubators help project holders establish institutions in fields such as production, services, research, and development. They provide material, human, and financial support to help overcome challenges during the establishment phase.

Fourthly: Business incubators:

Venture capital companies finance investment projects, without guaranteeing the return or amount. This technique is based on participation, where the participant risks their money. (Zarwa)

1.4. Dimensions of financing emerging enterprises

The literature has identified dimensions of financing emerging enterprises.

with three basic dimensions

Dimension 1: The Founder(s) - This dimension considers the founder(s)' knowledge, experience, and inclinations, combining to determine their ability to take on risks associated with financing decisions. This dimension is viewed as a reflection of the founders' characteristics.

Dimension 2: The Emerging Enterprise - This dimension has the most determinants and is the focus of the financing process. The probability of obtaining necessary financing increases with a larger volume of tangible assets, providing greater guarantees and fewer financial risks for financiers. However, intangible assets such as intellectual property rights and patents also play a role.

Dimension 3: The External Environment - This dimension focuses on the market that the emerging organization targets through its products or services. The degree of market maturity, competition intensity, and level of innovation are considered the most important factors affecting the sustainability and continuity of the product or service in the market. (Nawi & Dahan, 2023)

2. A general introduction to emerging enterprises

Business incubators are a contemporary concept that has emerged in many countries as a stimulating environment for entrepreneurship and support for emerging projects. The success of

these incubators depends on various theoretical aspects and concepts, which form a general framework for understanding their role and importance in promoting innovation and developing the economy.

2.1. The emergence of business incubators

Business incubators have emerged as a means to support entrepreneurs and innovators in developing their ideas into successful businesses. The first business incubator was established in 1959 at the Batavia Industries Center in New York. The center rented its rooms, machines, and materials to individuals who wished to create their own businesses while providing guidance and support to them. Many other companies admired this idea, and they began to imitate it. In 1985, the American Association was established to organize these incubators.

Business incubators have become popular worldwide, and many refer to the growth of this industry as the "incubator industry". The European Union established its first business incubator in 1986, and Egypt established the first technological incubator in the Arab region in 1998. There are currently around 1,000 technological incubators in the world, with approximately 500 in the United States alone .

Incubators have become an essential tool for economic development by aiding small business organizations to grow and continue. They are crucial for economic growth in their respective regions. Since their inception, local economic development agencies, governmental and private institutions have adopted incubators as a tool for reducing the probability of failure and accelerating innovation processes.(Kafi, 2017)

2.2. Definition of business incubators

The meaning of incubation (incubation) can be dealt with linguistically and idiomatically, as it is meant linguistically as a word taken from the root of the verb incubate, for example, a bird incubates an egg and the mother of its children, while incubation is meant idiomatically: "the period between an individual contracting the disease and the appearance of its signs," while incubator means an incubating bird. An incubator is a device for incubating or hatching eggs.

Business incubators are: "programs designed to develop and support programs for emerging companies by providing them with a set of support resources and services designed and managed by the incubator's management, which is done through two means: the first directly by providing them with a set of resources and services designed and provided by the incubator's management, and the second indirectly." Directly through a network of relationships, business incubators differ according to the way they provide startups with support and services, their organizational structure, and the type of clients they provide services to".(Tawji, 2015)

The American National Association for Business Incubation defines business incubators as: "Bodies that aim to help emerging creative institutions and new entrepreneurs, and provide them with the necessary means and support (expertise, places, financial support) to overcome the burdens and stages of launching and establishing. They also carry out marketing and dissemination operations." The products of these institutions" (Bin Qataf, 2016)

Business incubators are also defined in the Arab Human Development Report for 2003 as: "a representative of a new type in structures that support innovative activities for small and medium enterprises or for creative developers full of entrepreneurial spirit who lack the necessary capabilities to develop and market their research and innovative technologies" (Bin Shayeb & Saadi, 2019)

It is also defined as: "An institution to encourage, support and develop new businesses, as incubators provide joint facilities for new and small companies, business assistance services, opportunities to connect communication networks, as well as flexibility, as incubator companies may enter as a tenant for a period of time and then leave the business when it becomes effective and may turn into a competitor." In the market, incubators also provide tangible benefits to

companies, such as reducing operating and service costs, as well as intangible profits, such as moral support, advice to others, and facilitating access to information. (Ethar & Saadoun, 2012)

2.3. Types of business incubators

The word incubator covers a wide range of fields, services and goals, and Table 01 summarizes these types:

Table No. 1: Types of business incubators

First: According to the Objective				
Number	Title	Purpose		
1	Primary	Attracting foreign capital		
2	Regional	Investing in human resources or a specific segment of society		
3	Industrial	Facilitating exchanges and focusing on technical support and knowledge		
4	Specialized Sector	Serving a specialized sector such as software and engineering industries		
5	Technological	Providing advanced designs for non-traditional new products with advanced devices		
6	Research	Developing academic research and ideas		
7	Virtual	Serving different sectors by adopting information networks		
8	Internet	Assisting startups in the internet and software field		
First: According to the Objective				
Number	Title	Technology Level	Entity	Examples
1	Public or Mixed Projects Incubator	Simple technology in service delivery or light manufacturing	Knowledge-based projects and unique craftsmanship industries	Cambridge Incubator, Campsix Idealab & companies
2	Specialized Economic Development Incubators	Diverse technologies linked to the state	Operational projects, industry restructuring projects	McKinsey
3	Technology Incubators	Advanced technology	Research centers, universities, information centers	Anderson Consulting, The Elevator Com, Internet Capital Group
Third: According to the Services Provided				
Number	Title	Service		
1	Project Incubator	Comprehensive services (infrastructure, communication technologies, human resources, capital)		
2	Project Accelerators	Accelerating the startup or initiation process of any new business project (consulting services, funding acquisition, launching the project quickly)		
3	Project Entrances	Establishing networks of contractors, consultants, and investors		
4	Project Networks	Investing in the early stages of work, taking initial measures consistent with the overall strategy, and building small cooperatives distributed among their members to provide real support for investment value		

Source: (Ben Issa, 2018)

2.4. Services provided by business incubators.

Business incubators provide a range of services to support emerging enterprises. (Sayed Muhammad Ali, 2021)

Logistics services refer to the physical spaces, infrastructure, technical equipment, laboratories, chemical or biological laboratories, research facilities, and specialized modern equipment .

On the other hand, entrepreneurial services are provided by business incubators to founding entrepreneurs who likely have technological expertise but lack entrepreneurial experience .

Financial services provided by the incubator can help new projects obtain bank loans based on a compelling business plan facilitated through training and financial networks in the incubator .

Professional services are also typically provided by business incubators to their resident companies such as advice on licensing, training, legal protection, auditing, and networking with key suppliers and customers .

Belonging to a reputable business incubator or cooperating with leading universities is an additional certificate for emerging projects, which helps these projects overcome or reduce the problem of lack of brand recognition and the usual initial lack of credibility towards customers and enhances the ability of emerging projects to compete.

3. Case study: The role of business incubators in supporting emerging enterprises in Algeria.

Through its new economic policy, Algeria seeks to develop an appropriate and strong environmental system aimed at diversifying and multiplying the devices allocated to creating and supporting emerging institutions to make them the locomotive that leads the transition of the Algerian economy from a rentier system to a model that depends on other productive sectors and the knowledge economy.

3.1. The development of business incubators and emerging institutions in Algeria

The table below illustrates the growth of the number of business incubators, along with the number of new projects and job positions in Algeria. The data covers the period from 2011 up until the first quarter of 2023.

Table No. 2: Development of the Number of Business Incubators, Number of New Projects, and Job Positions.

Number of expected job positions	Number of new institutions	Number of hosted projects	Number of incubators	the years
69	19	33	4	2011
363	28	29	4	2012
375	37	37	4	2013
1025	75	120	13	2014
397	84	135	13	2015
576	70	158	16	2016
546	83	161	16	2017
539	93	186	16	2018
463	61	85	17	2019
169	41	79	17	2020
106	30	69	17	2021
600	900	220	60	2022
789	1100	250	60	The first trimester in 2023

Source: Prepared by the researchers based on statistics from the Ministry of Industry via the website: <https://www.industrie.gov.dz> and statistics from the Ministry of Small Enterprises, Emerging Enterprises and the Knowledge Economy

Looking at the table, we can see that there has been an increase in the number of business incubators in Algeria from 4 in 2011 to 17 in 2021. The number of hosted projects increased significantly from 33 in 2011 to 186 in 2018, before decreasing to 69 in 2021. The number of emerging enterprises increased from 19 in 2011 to 93 in 2018 before dropping to 30 in 2021 due to the COVID-19 pandemic and the reorganization of business incubators.

Between 2020 and 2023, the number of active business incubators in Algeria increased from 14 to 60, thanks to the Finance Law of 2023, which included stimulating measures in research, development, and innovation. The lump sum tax for self-entrepreneurship was also set at 5% for activities under the self-contractor legal regime.

In 2022 and 2023, the Ministry of Small Enterprises, Emerging Enterprises, and the Knowledge Economy reported several achievements, including registering 5,000 innovative ideas for startup projects, small enterprises, and patents. They also collaborated with DGRST to establish 52 university business incubators, bringing the total number of business incubators to 94. They filed 270 patent applications at INAPI level and established a certain number of technology support and innovation centres.

Finally, the National Fund for Financing Emerging Enterprises raised 58 billion dinars from investment funds at the state level of the country, which will significantly increase the fund's investments in emerging companies. An emerging project can receive an investment ranging between 5 million and 150 million dinars.

The Minister explained that the knowledge economy sector aims to enhance spending in research and development to reach a percentage of 3% of the gross product within 5 years, compared to 1% currently. (Ministry of Small Enterprises, Emerging Enterprises and Knowledge Economy, 2023)

3.2. Types of Business Incubators in Algeria

There are four types of business incubators in Algeria :

- Public business incubators: These represent enterprise nurseries operating under the supervision of the Ministry of Small and Medium Enterprises, as well as facilitation centers;
- Technology business incubators: Technology business incubators were established in Algeria in the form of so-called technology parks through the establishment of the National Agency for the Promotion and Development of Technology Parks in 2004 under the supervision of the Ministry of Post and Information Technology.
- University incubators: To enhance the university's role in innovation and accompanying economic institutions, the National Agency for the Promotion and Development of Technology Parks established on March 28, 2012 an incubator at the level of the National Institute of Communications and Information Technology;
- Incubators in partnership with private companies: The National Agency for the Development of Small and Medium Enterprises and the mobile phone operator Ooredoo announced on May 14, 2011 the official launch of the T-Start program, the Algerian program for emerging technological enterprises, which aims to provide material and moral support to the projects of those with innovative ideas.(Asmaa, 2022)

3.3. The government's efforts to activate the role of business incubators to support and encourage emerging enterprises.

To reinforce all of the above, public authorities, along with young entrepreneurs and experts, were keen to redouble efforts and initiatives with the aim of supporting and encouraging young people to enter the world of entrepreneurship and launch this innovative type of companies. These initiatives were represented in:

a. Tags: “start-up”, “innovative project” and “business incubator.”

According to the Ministry Delegate to the Prime Minister in charge of the knowledge economy and emerging enterprises, the Emerging Enterprise Mark is an institutional document that serves as a passport to obtain all the facilities the state provides for the benefit of emerging enterprises. An innovative project mark is granted to project holders who have not yet established their institutions, and it allows, similar to the “Establishment Mark,” An emerging institution to obtain benefits while the “business incubator” label is granted to every structure affiliated with the public or private sector, which proposes support for emerging institutions and innovative project holders in terms of accommodation, training, consulting and financing.

B. Launching the Africa By “IncubMe” program:

This is the new program's name that deals with innovative ideas and emerging institutions carrying innovative projects on the African continent. The aim of this program, which is a private initiative with the support of public authorities and many multinational companies, is to accompany project holders by Algerian and foreign institutions active in the field of “Open Innovation” and help them find smart solutions for the continent. This initiative would make Algeria an actual pole of innovation in Africa. (Meziane & Amaroush, 2020)

III. Results and discussion :

After listing, describing and analyzing various aspects of business incubators, this study has concluded that they play a vital role in supporting and developing national economies. By providing a range of facilities and services to emerging enterprises during their incubation cycle, they contribute to fostering innovation and enhancing competitiveness.

Depending on what was presented in the study, the following conclusions can be drawn:

- Business incubators work to accompany and encourage entrepreneurs and develop their innovations.
- Start-ups contribute to economic and social development.
- Moving towards startup companies has become an absolute necessity due to the results it has achieved.
- The accompaniment process is very important for emerging institutions.
- Incubators work to provide a suitable work environment for the growth of emerging institutions.
- Emerging institutions depend on creativity and innovation.
- Business incubators aim to train emerging project owners on good management and develop their capabilities.

IV. Conclusion:

This study underscores the pivotal role that business incubators play as an innovative mechanism to support emerging enterprises in Algeria. As emerging institutions continue to gain importance in the country's pursuit of sustainable development, the findings demonstrate that business incubators are an ideal option to bolster and nurture this vital sector. The Algerian government, in collaboration with young entrepreneurs and experts, has shown dedication to

fostering a supportive ecosystem that encourages the launch of innovative projects, ultimately contributing to economic growth at both the national and international levels.

To support and encourage young people to enter the world of entrepreneurship and launch innovative companies, we suggest:

- Redoubling efforts and initiatives.
- Supporting emerging institutions and innovative project holders with accommodation, training, consultation, and financing.
- Strengthening the university's role in innovation and accompanying economic institutions.

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