

Algeria's Crowdfunding Challenges and Prospects

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Abstract:

This study focuses on the characteristics of Small and medium enterprises (SME) in Algeria and their access to finance, establishing the mechanism of operation of crowdfunding platforms, and efforts and problems in implementing crowdfunding platforms in Algeria.

Although the number of SMEs in Algeria is growing, the study found that they are suffering from a lack of diversity, limited activity, lack of sustainability, and a funding gap, which is a strong motivation for using crowdfunding platforms, which have proven to be effective in providing funding in a variety of formats. Despite the fact that crowdfunding platforms are legally recognized in Algeria, restricted access to technology, insufficient legal and regulatory frameworks for crowdfunding, and slow acceptance of electronic payment are the most pressing issues that must be addressed. Overcoming it by accelerating

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Algeria's digital transition and establishing a legal and regulatory framework for this new sort of finance.

Keywords: Small And Medium Enterprises, Start-Ups, Crowdfunding, Algeria.

Jel Classification Codes: D92, F20.

1. INTRODUCTION

Small and medium enterprises (SME) are gaining a lot of attention from countries all over the world, especially developing countries, because they are one of the most important tributaries of the economic and social development process since they are the main source for increasing productivity and addressing poverty and unemployment issues. Because of their high ability to create jobs, increase value-added, and support industry. The growth of entrepreneurial culture has aided the trend toward the establishment of numerous micro, small, and medium enterprises, which have demonstrated their potential to be inventive, competitive, lower production costs, and cope with market conditions more effectively than large corporations.

Because of the rising importance of small and midsize enterprises, this sector has become a focus in Arab countries' economic and institutional reform projects, including Algeria's, particularly in light of high unemployment rates and the need to diversify the economy and increase growth rates. Algeria established many devices and mechanisms, as well as a number of tax benefits, through the issuance of Law 01-18 on December 12, 2001, in an effort to upgrade small and medium enterprises, but the development of this sector still faces many challenges, the most significant of which is financing.

In Algeria, bank finance is one of the most important sources of capital for small and medium-sized businesses. Banks are hesitant to finance this type of institution due to a lack of sufficient information on the creditworthiness of small and medium-sized business owners and the weakness of the guarantees provided, not to mention the high level of risk associated with it, which is a significant obstacle to it performing the economic and social role entrusted to it. As a result, alternative financing sources that are consistent with and meet the financing demands of these organizations, particularly at the start of their operations, have

become important. Due to the innovative methods available, that allow direct lending between investors and owners of small and medium enterprises. Crowdfunding platforms are considered one of the most appropriate techniques for ensuring appropriate financing to small and medium enterprises in the context of the growing importance of digital financial technologies, which enhances the financial inclusion of small and medium enterprises and contributes to the sustainability of these institutions.

Study problem:

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

How can crowdfunding platforms be a suitable financing alternative for SME in Algeria in a way that assures their sustainability and activates their role in reaching sustainable economic and social development, given the limited availability of bank financing?

The following sub-questions fall under this problem:

- ❖ What are the characteristics of Algeria's SME and Start-Ups? What is the reality of its financial access?
- ❖ What are the creative ways that crowdfunding platforms are being used to finance SMEs and start-ups?
- ❖ What are the challenges and efforts involved in implementing crowdfunding platforms in Algeria?

Study Hypothesis:

This study proceeds from the following hypotheses:

- ❖ Crowdfunding is a suitable financing mechanism to increase financing opportunities for SMEs and startups.
- ❖ Crowdfunding can contribute to bridging the financing gap known to SMEs and startups in Algeria.

Objectives of the study:

This study aims to shed light on the nature of SME and start-ups in Algeria, as well as the extent of their access to financing. In addition, it aims to determine the mechanism of crowdfunding platforms and the most important financing options involved, as well as how to benefit from them to finance SME and start-ups in light of bank financing's reluctance to meet their financing needs. It also intends to shed light on Algeria's attempts to implement such a platform, as well as the major challenges it faces.

The importance of the study:

The importance of this study is to highlight the financing options offered by crowdfunding platforms to SMEs and start-ups as they work to increase access to financing through direct mediation between investors and institution owners, thus making it a viable financing alternative to the financing obstacle that these institutions have long faced, and thus contributing to its implementation and sustainability.

Study Approach:

The descriptive approach was used to define and assess the problem posed, and the analytical approach was used to analyze the collection of data and information contained in the study.

Study Structure:

This study was divided into three parts:

- ❖ Algerian SMEs and Start-Ups: Their Characteristics and Financial Access
- ❖ Crowdfunding Platform Mechanisms as a Financing Alternative for SMEs and Start-Ups
- ❖ Algeria's efforts and challenges in adopting crowdfunding platforms.

1. Algerian SMEs and Start-Ups: Their Characteristics and Financial Access

The role of SMEs and start-ups in economic and social development strategies and achieving balanced growth was emphasized in the majority of international studies and reports. Which urged Algeria to reconsider its regulations for achieving national development by emphasizing the importance of SMEs and start-ups, which had previously been based on large public institutions. We will try to understand the nature of these institutions in Algeria by identifying their concept, structure, and level of funding availability through this section.

1.1. The concept of SME and Start-Ups

In this section, we will learn about the international organizations' definitions of SMEs and start-ups, as well as the classification of these enterprises under Algerian legislation.

1.1.1. SMEs

Due to the many criteria used to identify between these categories of enterprises, countries differ in their adoption of a single definition of micro, small, and medium enterprises. The number of workers, capital, and annual sales volume are the three main quantitative criteria used by Arab countries to classify these enterprises, but there are different versions in how these three criteria are combined, as well as other qualitative classification criteria such as legal, regulatory, and technical nature.

The World Bank defines small and medium enterprises on the basis of the employment criterion, turnover, and annual revenue. It defines a small enterprise as an enterprise that employs less than fifty (50) workers, and whose turnover and annual revenues do not exceed \$3 million. While the medium enterprise does not exceed the number of its employees three hundred (300), and the size of its

business (or annual revenues) does not exceed 15 million dollars (Oya , Nataliya , & Valentina , 2011, p. 04).

The United Nations Industrial Development Organization (UNIDO) defines small enterprises based on the criteria of employment and organization, and defines them as those projects run by a single owner who bears full responsibility and the number of workers in them ranges between ten to fifteen (10-15) workers (UNIDO, 1999, p. 09).

While the French Institute for Statistics and Economic Studies (INSEE) defines small and medium enterprises based on three criteria: employment, turnover, and total assets, they define them as those institutions whose number of workers does not exceed 250, provided an annual turnover of no more than fifty (50) million euros. Where the total value of its assets does not exceed forty-three (43) million euros (INSEE, 2019).

A small and medium enterprise, whatever its legal nature, is defined in Algeria by Article 5 of the law directing the development of small and medium enterprises as an enterprise that produces goods and/or services and employs between one (1) and two hundred and fifty (250) people, with a turnover of less than one million dinars. The yearly revenues are four billion Algerian dinars, or the total annual proceeds are less than one billion (1) Algerian dinars, meeting the independence condition. The following definitions apply to this law:

- ❖ **Persons Employed:** The number of people employed relates to the number of annual work units, or the number of two jobs performed on a continuous basis over the course of a year. Temporary or seasonal labor are considered part of the annual work units, and the year that is used for active small and medium enterprises is the one that relates to the year's final activity.
- ❖ **The limits considered for determining the number of works or the total outcome** are those related to the most recent activity that has been closed for a period of twelve (12) months.

- ❖ An independent institution is one whose capital is not owned by an institution or a group of institutions to the tune of 25% or more. It does not meet the definition of small and medium enterprises (SME) (الجريدة الرسمية للجمهورية الجزائرية، 2017, pp. 05-06).

The legislation includes a clear definition of the sorts of enterprises, micro to small and medium, in its eighth, ninth, and tenth articles, which we describe in the following table:

Table No. 01: Micro, Small and Medium Enterprises Classification in Algeria

	Number Of Employees	Annual Turnover	Yearly Revenue
Micro Enterprises	01 to 09 Employee	Less than 40 million Algerian dinars	Not more than 20 million Algerian dinars
Small Enterprises	10 – 49 Employee	Not more than 400 million Algerian dinars	Not more than 200 million Algerian dinars
Medium Enterprises	50 – 250 Employee	Between 400 million Algerian dinars and 04 billion Algerian dinars	Between 200 million Algerian dinars and 01 billion Algerian dinars

Source: Made by the researcher based on (الجريدة الرسمية للجمهورية الجزائرية، 2017, p. 06)

As shown in the table above, the classification of small and midsize enterprises in Algeria is based on the number of employees, annual turnover, and annual revenue as basic criteria for classification. It should be noted that if a certain institution is classified according to the number of its workers in a particular category and according to its turnover in another category, it should give priority to the criterion of annual turnover, and annual revenue to its classification. The category of micro enterprises is the most

popular, reaching 1,136,212 during the year 2019, compared to 30,471 small enterprises and 4,688 medium enterprises.

1.1.2. Start-Ups

Start-ups are defined as early-stage firms that are business ventures or social enterprises with a financial sustainability model even if they are too young to make money. The firms use an innovative and technology-enabled approach to the product or service that the firms provide to ensure high growth and scalability. Those start-ups are primarily in the software, internet, and mobile application markets (Kathy , Victor , & Matt , 2018, p. 09).

Three factors distinguish startups from SMEs: innovation, betting style, and the necessity for investors. If small and medium enterprises are founded on the principles of caution and market interaction, startups are founded on the principle of betting on the value of innovation, which is potentially very dangerous, especially given the complete uncertainty about the existence of a potential market for their product or service (Olivier , 2002, p. 03).

According to the legislator, every institution is considered a start-up under Algerian law and must meet the following criteria (الجريدة الرسمية للجمهورية الجزائرية, 2020):

- ❖ The institution's age should not be more than eight years old.
- ❖ Its business model is based on goods, services, business methods, or any other invention.
- ❖ The yearly turnover must not exceed the amount set by the National Committee for awarding the marks "start-up institution," "innovation project," and "business incubator."
- ❖ Natural persons, approved investment funds, or other institutions with the "startup" mark must possess at least 50% of the company's capital.
- ❖ That the institution's potential for expansion is sufficient.
- ❖ The total number of employees can't be more than 250.

1.2.The Evolution of SME in Algeria

The number of small and medium enterprises in Algeria has grown, as has their contribution to the gross domestic product (GDP), the nature of their activity, their geographic concentration, and the provision of jobs.

1.2.1. The Evolution of SME Number in Algeria

The following table shows the evolution of the number of small and medium enterprises in Algeria over the last three years by sector and legal form.

Table No. 02: Overall population of SMEs in Algeria

SMEs	2017		2018		2019	
	Number	%	Number	%	Number	%
Privet Sector	1,060,033	99.98	1,092,908	99.98	1,171,665	99.98
Legal entities	595,818	56.19	628,219	57.47	659,537	56.28
Natura l entities	464,215	43.78	464,689	42.50	512,128	43.70
Public Sector	264	0.02	262	0.02	244	0.02
Total	1,060,297	100	1,093,170	100	1,171,909	100

Source : (Bulletin d'information Statistique de l'entreprise, 2017-2018-2019)

According to the above table, the number of SMEs in Algeria increased by 10.53% between 2017 and 2019, as private SMEs dominated almost entirely in the structural composition of the total number of enterprises, accounting for 99.98% of the total number of enterprises, compared to the weak contribution of public SMEs. The number of public SMEs has been steadily decreasing, falling from 264 in 2017 to 244 in 2019. Legal entities made up half of all

private SMEs. This demonstrates the Algerian government's intention in reactivating the sector's economic role.

1.2.2. The Nature of SMEs' Activities and Their Geographical Location in Algeria

Agriculture, energy and related services, construction and public works, manufacturing industries, services, and traditional industries are the six areas under which SMEs operate. The following table shows how SMEs are classified based on their type of business.

Table No. 03: The Nature of SMEs' Activities and Their Geographical Location

SMEs	2017		2018		2019	
	Public Sector %	Private Sector %	Public Sector %	Private Sector %	Public Sector %	Private Sector %
Agriculture	31.82	0.62	36.64	0.62	38.11	0.62
Energy and Affiliate Services	1.13	0.27	0.76	0.26	1.23	0.26
Construction and public works	8.71	16.77	9.16	16.69	6.15	16.07
Transformative Industries	31.82	8.75	28.63	8.94	29.92	8.71
Services	26.52	50.62	24.81	51.36	24.59	51.44
Traditional Industries	-	22.99	-	22.09	-	22.90
Private SMEs Density By Geography						
North %	69		70		70	
High Plateaus %	22		22		22	
South %	09		08		08	

Source : (Bulletin d'information Statistique de l'entreprise, 2017-2018-2019)

According to the above table, half of the number of private SMEs are involved in the field of services, which includes self-employment, putting traditional industries in second place with 22.90 percent in 2019, followed by construction and public works, while public SMEs are more concentrated in the areas of agriculture and manufacturing. Followed by the services sector, to keep the contribution in the field of energy and affiliated services very weak for both sectors, given that major industrial institutions acquire it.

It should be emphasized that the 70 percent geographic concentration of private SMEs in the north is due to the region's high population density, which has created a development gap between the regions, particularly the southern ones.

1.2.3. SMEs Contribution to GDP

The amount to which SMEs contribute to the production of the gross domestic product outside of hydrocarbons determines their role in attaining economic growth. The following table shows the evolution of SMEs' contribution to Algeria's GDP production.

Table No. 04: SMEs Contribution to GDP

Years	2017	2018
GDP (billion Algerian dinars)	15,503.7	17,252.5
Private sector's contribution to the value-added (billion Algerian dinars)	9,125.3	10,017.6
Public sector's contribution to the value-added (billion Algerian dinars)	4,901	5,736.8
Private sector's contribution to GDP	58.85	58.06
Public sector's contribution to GDP	31.61	33.25

Source : (La Direction Technique Chargée de la Comptabilité Nationale, 2020, pp. 75-80)

The table shows that the contribution of private SMEs to GDP formation exceeded 50% in 2018, compared to the contribution of the public sector, which did not reach 33.25 %. This demonstrates the Algerian government's efforts to improve SMEs' activity.

To activate its role in diversifying sources of income and attaining sustainable economic growth, programs and support mechanisms were designed to assure the advancement of this sector on multiple levels, including rehabilitation, training, accompaniment, and financing.

1.2.4. The Importance of SMEs in Creating Jobs

SME's help to reduce unemployment by creating jobs that provide income and help people get out of poverty. The table below shows the contribution of SMEs to employment creation in Algeria.

Table No. 05: SMEs Contribution to Creating Jobs (2017-2019)

SMEs	2017	2018	2019
Private SMEs			
Employees	58.34	58.54	57.69
Employers	40.75	40.63	41.57
Public SMEs			
Public SMEs	0.91	0.82	0.74

Source : (Bulletin d'information Statistique de l'entreprise, 2017-2018-2019)

According to the above table, private SMEs contributed 58% to the creation of employment (Employees) and 41% to the creation of employers in 2019, but public SMEs contributed barely 1% and its steady declining. It should be mentioned that a certain number of SMEs are canceled each year, with their number estimated to be around 8,195 enterprises in 2019, compared to 21,193 in 2018 and 9,941 in 2017, due to a lack of maturity in launching initiatives and an inability to compete.

1.3. Algerian SMEs' Financial Access

According to the economic research on the benefits of SMEs' access to finance, funding SMEs is a critical aspect in achieving economic diversity, growth, productivity, and employment increases. Given that bank financing is the primary source of funding for SMEs in Algeria, we will attempt to assess the extent to

which SMEs may access financial and banking services based on globally recognized indicators of financial inclusion for these types of institutions.

1.3.1. Borrowing Level Evolution for SMEs in Algeria

The ratio of adults who borrow from banks for the purpose of starting a business or expanding an existing one to the total adult population is the level of SMEs borrowing measured by the indicator.

Table No. 06: The evolution of the percentage of adults who borrowed for the purpose of establishing or expanding a project in Algeria

Categories	Borrowing for establishing a project or expand an existing project		
	2014	2017	Global Average
Female	2.3	2.4	5.45
Male	5.7	4.6	16.2
Youth (15-25 years)	2.3	2.1	5.25
Adults (+25)	4.9	4.2	7.15

Source: (world bank The Global Findex Database, n.d.)

Due to the lack of returns obtained because of unequal employment opportunities between females and males, and between young people and the adults, the level of deposits in banks to establish a project or expand an existing project has exceeded the global average for the male and adults categories, compared to the female and youth categories. In 2017, the percentage of deposits held by private entities in the Algerian banking system was expected to be 15.42 percent, with all of these deposits being current deposits that these organizations could use to settle their commercial transactions, , which indicates the limited savings deposit for SMEs in the banking sector.

The Algerian government has begun the process of establishing a fund to finance Start-Ups using financing

mechanisms other than traditional financing. As well as encouraging the establishment of more business incubators that provide support to Start-Ups and holders of innovative projects in terms of lodging, training, counselling, and financing. as well as a set of fiscal benefits such as exempting the establishments from paying the fee on professional activity and tax on the total income for a period of three years starting from the date of their activity. It's also immune from the sole category tax and value-added charge on the equipment it buys to finish its investment initiatives.

2. Crowdfunding Platform Mechanisms as a Financing Alternative for SMEs and Start-Ups

The recent global financial crisis played a significant role in the spread of financial technology, which has changed the ways of financing SMEs and start-ups thanks to the digital financial technologies it entails, the most important of which is the technology of crowdfunding platforms, which is considered the most suitable to meet the financial needs of SMEs and start-ups. This section will clarify the concept of crowdfunding platforms, their most common types, and how to finance them at various stages of their life cycle.

2.1. The concept of crowdfunding

There are numerous definitions of Crowdfunding; however, there is no accepted or universal definition. It must be mentioned first that there are several terms used for Crowdfunding such as crowdfinancing and crowdinvesting. From this point forward, this study will use the term ‘crowdfunding’.

Before various definitions of crowdfunding can be given, one must first define the root word that crowdfunding originates from, which is ‘crowdsourcing’. **Wired** magazine writer originally coined the term crowdsourcing (Howe, 2010, p. 121). Howe defines it as the act of taking a job traditionally performed by a

designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call (Unterberg, 2010, p. 122).

One can easily take Howe's definition of crowdsourcing and replace the word 'job' with loan/funding to define crowdfunding, 'the act of taking a loan/funding traditionally performed by a designated agent and outsourcing it to an undefined, generally large group of people in the form of an open call'. To begin to get a more well-rounded sense of what crowdfunding is, it is beneficial to look to literature for other definitions.

In the basest sense, crowdfunding is raising funds by tapping a public (or the crowd). Lambert and Schwienbacher go one step further, defining it as an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes (Lamber & Schwienbacher, 2010). There must be some caution and clarification when referring to the open call utilizing the internet because making a general solicitation for equity offering is limited to publicly listed equity in the case of actual security being exchanged for money.

Voorbraak defines it as the process of one party requesting and receiving money and other resources from many individuals for financing a project, in exchange for a monetary or non-monetary return on investment (Voorbraak, 2011).

The consensus by most authors seems to be that crowdfunding is raising money from the public, or the 'crowd', via an intermediary platform that is typically web based. This study defines crowdfunding as the act of acquiring third party financing from the public via an intermediary, generally in the form of a web-based platform.

2.2. Crowdfunding platform principles and rules

Crowdfunding platforms are built on a set of fundamental concepts, which we outline below (Cieply, 2016, pp. 4-5):

- ❖ **Transparency and Trust:** Transparency and trust are the first principles upon which crowdfunding platforms are based. The development of social networks has had a great advantage in its emergence, in addition to renewing confidence in the use of the Internet, as crowdfunding is based on the exploitation of new technologies on the Internet to gather and increase interaction between investors and innovative entrepreneurs. Funders can choose the exact destination of their money based on the attractive and profitable projects that are presented on crowdfunding platforms, where funders are regularly informed of the progress of the project.
- ❖ **Create A Network Of Collaboration And Knowledge Sharing:** Crowdfunding platforms allow the creation of a link between the owner of the project and the parties that allow it to implement it by uniting a group of customers, collaborators, and suppliers to provide a business model, product, or service to mobilize and persuade Internet users. This type of platform is not limited to providing funding solely based on cooperation, but also includes other motivations such as collaboration and participation in product development and the establishment of new institutions, building on crowd intelligence to gain industry and financial expertise tailored to each project, crowdfunding platforms build on crowd intelligence to gain crowd intelligence. Many studies have also confirmed that interaction with the network, communication, and exchange of skills are essential in the crowdfunding process, as the decisions to mobilize funds are strongly influenced by the

decisions of expert investors, because the project chosen by them is evidence of the quality of the project.

- ❖ **Reducing Uncertainty in Entrepreneurship:** Crowdfunding platforms allow for an initial test of the market, whereby the contractor receives an indication of the market potential of his product. Given that the funders are also consumers, the more positive comments they have about the potential of the product, the more important this is as an incentive to increase the crowd. Note that professional investors do not rely on the amount of consumption in making their investment decisions but based on their assessment of the overall profitability of the investment opportunity. Crowdfunding thus limits potential market risk by allowing early abandonment of projects that have not received sufficient contributions from crowdfunding platforms.

The regulations of operation are the same for all types of crowdfunding platforms, which are as follows (Nicolas , 2013, p. 11):

- Projects on crowdfunding platforms are selected based on a set of different criteria (such as type of activity, degree of maturity, etc.).
- The project owner retains all rights. In return, he is obliged to provide symbolic or tangible rewards, which cost no less than the amount of the contribution, in order to secure the necessary financing for the project.
- The process of raising funds is a limited period during which contributions are collected in order to reach or exceed the minimum goal set by the project owner.
- Most crowdfunding platforms follow the "all or nothing" rule; if the specified goal is not met, the pooled contributions are recorded and reserved without deduction; and if it is confirmed that the specified goal is impossible to meet. The project owner will not receive any funding, and

the platform returns commission on the total amount collected at a rate ranging from 5 to 8 percent.

The table below shows the extent to which the concepts of crowdfunding platforms are used in various types of finance.

Table No. 07: The extent to which the principles of crowdfunding platforms are used in other forms of financing.

	Crowdfunding	Love money	Capital-risk	Business Angels	Bank loans
Direct interaction with investors	Yes	Yes	No	Yes	No
Customers receive direct returns.	Yes	No	No	No	No
Financial transparency process	Yes	Yes	Yes	Yes	No
Bring the group together and get them involved.	Yes	No	No	No	No

Source: (Germon & Maalaoui, 2016, p. 08)

SMEs require crowdfunding platforms for a variety of reasons, which may be described as follows (Nicolas , 2013, p. 13):

- ❖ The ability to break free from bank dependence, particularly for creative initiatives that have previously struggled to acquire bank finance, since crowdsourcing platforms supply them with the essential and adequate funds
- ❖ Take use of the free marketing tool, which allows the project owner to show any information, documents, photographs, and videos relevant to his project on the crowdfunding site for free download.

- ❖ Crowdfunding platforms enable project owners to test the viability of their ideas as well as the market potential for their product or service. Any unfavorable remark or low contribution rate indicates that the project needs to be reworked.
- ❖ Because the entrepreneur is not subject to the decisions of financial partners, one of the most important advantages that crowdfunding platforms give is that the entrepreneur retains all of his rights and has complete control over his business.
- ❖ The project owner's reputation will grow as a result of the success of his project's promotional process and his ability to gain the confidence of donors via the Internet.

2.3. Crowdfunding Models:

Crowdfunding encompass various models that differ according to the level of business, maturity of the intended idea for funding, and, more profoundly, the type of relationship between the entrepreneur and the crowd. Studies in this area are still in a mature stage but researchers agree on two basic models: donation-based crowdfunding and investment-based crowdfunding. In addition, some studies have suggested additional models such as the internal crowdfunding model and the hybrid model.

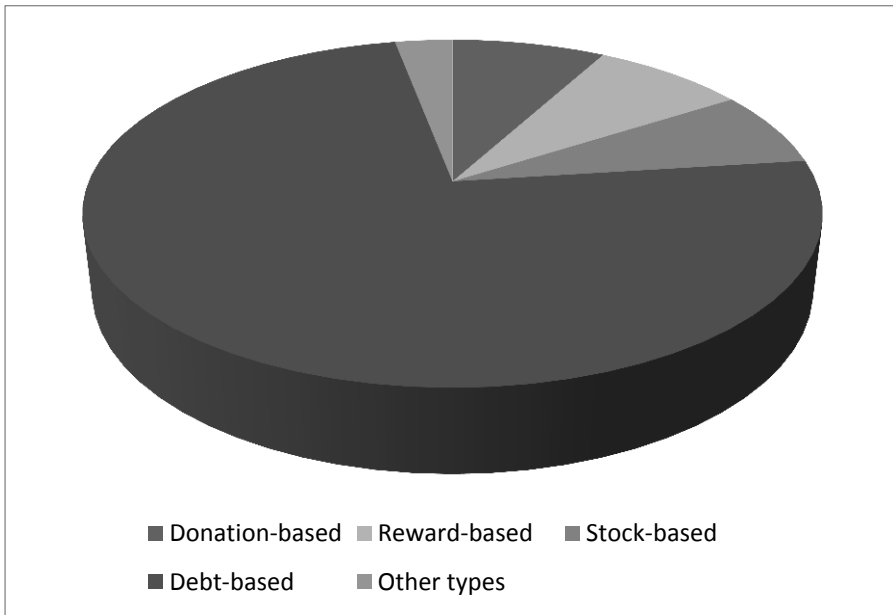
2.3.1. Donation-based Crowdfunding

Also known as Patronage this model is based on donors pledging small donations in return for minimum awards, benefits, or just to show support for a certain project. Typically, entrepreneurs show an initial prototype and ask for funds for further development or mass production. This model is usually associated with a very small risk from the entrepreneur's side, but many times, it ends up raising a small capital. This form of financing is divided into:

- ❖ **Based on donation:** through this model, crowdfunding campaign funds are collected with the aim of participating in charitable projects, to support disaster relief efforts and participation in non-profit organizations, so that donations are accepted from a large number of individuals in small percentages, and they can share funds for social causes. Since this type of crowdfunding does not have a financial return for investors, the chance of losing the investment is zero (Usha, 2014, p. 51).
- ❖ **Based on reward:** In this type of crowdfunding, the investors get rewards for their investment, and they do not benefit from any financial return. The rewards may be in the form of a product or service provided by the company as a token gift. Companies offer different types of rewards and incentives in order to convince and attract investors. This type of crowdfunding is more popular due to the intrinsic value of crowdfunding participation, social reputation and shared identity (Melissa, 2017, p. 24).

Platforms following this model offer their services in two forms: Fixed Funding, also known as the all-or nothing model, where entrepreneurs get the funds only if people fully fund their requested amount within a certain amount of time (like Kickstarter), and Flexible Funding where entrepreneurs get whatever they raise (Indiegogo is one of the leading platforms for this category). Platforms dealing with this model usually incur a certain commission as a small percentage relative to the amount of funds raised, which is usually higher for flexible campaigns.

Figure No.01: The relative importance of crowdfunding platforms to the total market size



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

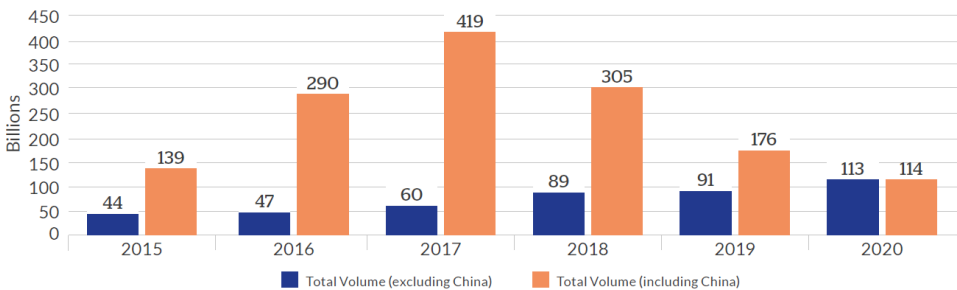
2.3.2. Crowdfunding Investing (CFI)

When entrepreneurs are in need of a serious investment after passing the initial prototype phase and they want an alternative for traditional VCs, many launches a Crowdfunding campaign to get a „Crowd“ of investors on board. Those investors provide cash in return for equity in the business (Equity Crowdfunding) or as a debt (Debt Crowdfunding). In rare cases, the crowd follows a royalty-based model where they get a percentage of revenue (Royalty-based Crowdfunding). Being riskier and less common than the Donation-based model, CFI offers significant capital for entrepreneurs to develop their startups and a long-term relation

between entrepreneurs and investors. Eureeca is an example of a platform following this model (Abushaban, 2014, p. 444).

- ❖ **Stock-based crowdfunding:** Through this model, investors get shares in the company that chooses this type of crowdfunding to increase its capital, and the shareholders receive a financial return on their investments and a share of the profits. It should be noted that each country has special regulations regulating the work of investments through platforms Equity crowdfunding (Usha, 2014, p. 51).
- ❖ **Debt-based crowdfunding:** In this type of crowdfunding, companies apply for debt from debt-based crowdfunding platforms, while the platform reviews the companies' application, and launches it online for funds. So that the online application includes the interest rate on The Company, the credit period and the risks involved in the securities or bonds offered for sale, and in exchange for the securities, the investors receive interest on these unsecured loans, and the company repays the debt after a specified period.

Figure No.02: The Size and Growth of the Global Crowdfunding



Market

Source: (Tania Ziegler, 2020)

2.3.3. Other types of crowdfunding

- ❖ **Internal Crowdfunding:** The technology giant IBM has come up with the model of Internal Crowdfunding in which employees are given a number of points or funds and are asked to spend them on projects that they find useful within the company. Pledges can be in funds or via offering time and effort to help realize the project, whereas the funding seeker defines what givebacks are offered for funders.
- ❖ **Hybrid Crowdfunding:** A model in which platforms offer more than one approach at the same time, by supporting a part of requested capital as a loan and another part as pledges for the production of the product or service at hand.
- ❖ **Real Estate Crowdfunding:** Real estate crowdfunding allows investors to finance real estate projects by investing in real estate, owning ownership shares (shares), or contributing to building a property directly via the electronic platform. This type of financing is very modern and more attractive for any investor who wants to diversify their investment portfolio. Real estate crowdfunding platforms allow the investor to have a share in the institution that owns the investment property and give them access to capital that they may never be able to raise.

2.4. SME and start-up financing stages through crowdfunding platforms

The following phases are involved in SME financing:

- ❖ **Choosing the right type of crowdfunding platforms:** Although all of the types of crowdfunding platforms mentioned above avoid the traditional financing cycle, each has its own package of advantages:
 - Non-financial reward-based crowdfunding platforms are the perfect suited for start-ups with innovative products.

- Lending-based crowdfunding platforms are appropriate for businesses with short-term profitability and growth objectives because they can pay interest to lenders.
 - Equity-based crowdfunding platforms are the most ideal for organizations looking for major expansion since they will be prepared to sell their capital shares in return for raising funds to achieve their objective.
- ❖ **Choosing the most solid project:** Unlike lending-based crowdfunding platforms, which select the projects that are most able to pay their debts, donation-based crowdfunding platforms generally avoid rejecting projects and generally provide advice for improvement. Whereas lending-based crowdfunding platforms select the projects that are most able to pay their debts, so the owners of these projects provide the most recent tax documents and their financial expectations. Similar to equity-based crowdfunding platforms, equity-based crowdfunding platforms require entrepreneurs to present a business plan to show that the expected return on investment can be achieved.
- ❖ **Determine the amount to be collected:** The process of collecting funds is carried out according to the principle of "all or nothing". Therefore, as we mentioned earlier, the project owner must determine the amount to be collected in a strategic way, based on the expected number of participants according to his personal circle of knowledge and the need to prepare a financial evaluation for his campaign. Taking into account the amount of production allocated to the funders, the amount of commissions paid to the platform, and the expenses related to communication.

- ❖ **Project submission:** The project owner is committed to fulfill the crowdfunding platform's questionnaire while also presenting his project in a unique way, since the submission page must include all information about the project owner, the institution, and the project itself, as well as financial details. The platform monitors the availability of all necessary information to confirm the project and present it on the Internet, and crowdfunding platforms based on equity are the strictest in their project selection, so it's important to ask about their terms to avoid project rejection.
- ❖ **Evaluating funders' interest in the project and the duration of its stay on the platform:** Notifications arrive to the members of the crowdfunding platforms of the existence of a new project on the Internet. Where only registrants have the right to access the project, and they can ask some, additional questions that need to be answered by the project owner in a detailed and quick manner, in order to be able to persuade them to invest.
Based on that, the investors determine the amount of the amount the financial amount to be invested, which is deducted in the event that the threshold specified for financing the project is reached. In general, projects remain on the platform for a period of three months. After the expiry of this period, the projects are automatically deleted, whether they were funded or not.

3. Efforts And Challenges Of Adopting Crowdfunding Platforms In Algeria

The State of Algeria has acknowledged that although traditional financing has contributed significantly to the financing of the economy, it does not necessarily meet the financing needs expressed by SMEs and start-ups. Therefore, other more adaptive and appropriate financing methods must be developed for SMEs,

innovative projects, and start-ups. For this reason, the state has adopted the method of crowdfunding platforms and allowed them to practice project financing activity in a legal transaction, as stipulated in Article 45 of the Supplementary Finance Law for the year 2020, where it names these platforms as covalent investment advisors. The ability of a covalent investment advisor in charge of creating and managing advisory platforms in the field of covalent investment and investing the money of the general public on the Internet in co-investment projects, where it can experience the status of a covalent investment advisor, commercial companies established for this purpose, and brokers in approved stock exchange operations. Companies that provide advice services in the investment of moveable assets and financial goods, as well as investment fund management organizations, fall into this category.

Among the crowdfunding platforms that aspire to expand in Algeria, we mention the "Covandi" crowdfunding platform, which is based on donations and targets African countries. While the "Ninvesti" platform is, the first Algerian crowdfunding platform created during the year 2019, by Algerian contractors, whose goal is to create a link between financiers and owners of small and medium-sized enterprises emerging in Algeria, to face the difficulty of their access to bank financing.

It should be emphasized that the success of the process of implementing crowdfunding platforms in Algeria faces several problems, the most significant of which are:

- ❖ Weak legal and regulatory frameworks that oversee the activity of crowdfunding platforms, offer proper protection for participants, whether they are funders or lenders, and provide a system for resolving conflicts between them have a negative impact on their growth.
- ❖ Due to weak digital infrastructure, low internet penetration, limited flow, and expensive cost, there is limited access to technology.

- ❖ The usage of electronic payment tools is based on the weak spread and adoption of electronic payment methods as the basis for dealing through crowdfunding platforms.
- ❖ Lack of understanding and confidence in dealing with innovative methods: Because crowdfunding platforms are a relatively new phenomena in many markets, potential users (financiers and borrowers) are unfamiliar with them, reducing their trust in interacting with them.

4. CONCLUSION

The main objective of this study is to learn about a new type of financing called crowdfunding for SMEs and start-ups, to identify the challenges it faces in Algeria, and to determine whether it is a sustainable and long-term alternative or simply a choice for Algerian entrepreneurs looking to start or grow a business.

4.1. Results:

This study concluded the following results:

- ❖ The SME sector has experienced continuous growth in numbers, with very small private enterprises accounting for the majority of these enterprises, mostly active in traditional services and industries, and helping to provide jobs compared to the weak contribution of public enterprises. In addition, the SME sector is the most effective in the formation of GDP, which has helped to diversify sources of income.
- ❖ Algeria's SME sector is unsustainable, with a number of them cancelled annually due to poor maturity in project launch and competitiveness, and the concentration of most of them in the north, creating a development gap between the southern regions.
- ❖ An analysis of the level of access of SMEs to finance has shown that they suffer from a financing gap due to the reluctance of banks to finance them. due to the difficulty of assessing the creditworthiness of these institutions, their association with many risks, and the weak guarantees they have in front of the guarantees required to obtain the credit.
- ❖ Crowdfunding platforms are the alternative financing for SMEs by being able to raise funds in small amounts from a large number of financiers and direct them towards borrowers through electronic platforms. These platforms vary according to the formula adopted in financing, helping institutions get rid of bank dependency. Crowdfunding platforms based on

lending are the most common, accounting for 74% of the total crowdfunding market size, making them an effective tool that can significantly contribute to the growth of SMEs in the face of a financing gap.

- ❖ Crowdfunding platforms are based on a set of basic principles, making them distinct from other sources of funding, ensuring through the principle of transparency and trust increased interaction between financiers and innovative entrepreneurs, establishing collaboration and shared knowledge links for project development, and allowing the first market test to reduce its potential risks. The importance of crowdfunding platforms as a money-saving mechanism not only helps SMEs in general and innovation in particular, to ensure the validity of the project idea, but also benefits from free marketing and basic knowledge about markets and how to reach new customers while retaining all their rights.
- ❖ The entrepreneur's success in obtaining funding from crowdfunding platforms is linked to his good choice of the appropriate platform for the nature of his project, and the development of a clear and accurate action plan to demonstrate the possibility of achieving the expected return on investment. with the amount to be raised strategically, and the presentation of his project in a distinct manner, all in order to persuade financiers (investors) to contribute to the transformation of the project from an idea to reality on the ground.
- ❖ Algeria has begun to take care of crowdfunding platforms as an alternative financing method for SMEs by giving them legal status under the designation of a contributing investment advisor, but this will not be enough because of the challenges in the process of adopting these platforms so that they are a critical factor in supporting and promoting the SME sector.

4.2. Recommendations:

Based on the findings, this study recommends:

- ❖ Promoting the establishment of SMALL and medium-sized enterprises and not focusing solely on very small enterprises, with the need to diversify their activity in several areas such as industry, agriculture and fishing. to support national production, support large enterprises and promote exports, and to focus on expanding their geographical position, particularly in the southern regions that have shown their effectiveness on the agricultural side.
- ❖ The need to enhance the sustainability of SMEs, especially at the beginning of their activities, by reviewing the tax aspects and making them more relevant to the nature of their business model and activating the accompanying bodies to support them at the start-up stage,
- ❖ Work on equal access to finance for the creation or expansion of enterprises, to support the economic empowerment of all actors in society, ensuring sustainable economic and social development.
- ❖ Closing the financing gap for SMEs and supporting the creation of start-ups is a key driver for adopting crowdfunding platforms because of their appropriate financing characteristics for the specificity of their financing needs. However, they face a range of challenges, requiring an effective integrated strategy to accelerate the transition to the digital economy, as well as the need to enact a legislative and regulatory framework governing this new type of funding.

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