
Support and Accompaniment Entities for Startups

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Abstract:

Startups are a strategic alternative for diversifying the world's economies, and they play an effective role in achieving local development, especially economic development in general. Therefore, Algeria has made great efforts to support and develop this type of enterprise in order to achieve its goals, by implementing a set of measures to qualify and adapt them to their environment and current economic developments.

We conducted this study to explain the most important terms and concepts related to startups, in addition to highlighting the various support structures that the state has established to promote these enterprises, so that they can be the main link in economic development.

Keywords: Startups; Support Structures; Economic Development; Algeria.

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1. Introduction:

Algeria, like other developing countries, has gone through stages of transformation. After gaining independence, it relied on large public institutions that were established and developed due to the high oil prices at that time. This continued until the global oil crisis, which witnessed a significant decline. Its reliance on oil revenues and its fear of the depletion of this resource in the future made it think of a new plan for economic revitalization as an alternative.

It then turned to restructuring large industrial institutions, which had been yielding poor results year after year, and dividing them into small and medium-sized enterprises. This was based on its conviction that there is no developmental means at present other than creating new small and medium-sized enterprises. The experience of many countries that were able to revive their economies by relying on these enterprises is evidence of this. Algeria realized the importance of small and medium-sized enterprises in achieving development in the early 1990s, and thus established several institutions for financial support and funding with the aim of enhancing this role.

In light of current changes, the world has turned to support startups and emerging industries. The diverse international organizations and practical applications in various countries around the world show that this sector is the core around which other economic sectors integrate in a developmental mix that primarily aims to elevate the national economy of any country, making it a strong economy. The Algerian economy has undergone several reforms whose main goal is to overcome the difficult economic situation that is reflected in various aspects.

The problem of this study can be formulated in the following main question: **What are the most important support and accompanying entities for startups in Algeria?**

1.2. Study Structure: We divided our study into two parts as follows:

- The first part: The theoretical framework for startups
- The second part: Support and accompanying entities for financing startups in Algeria

2. The theoretical framework for startups:

2.1. The nature of startup: Typically, a startup institution begins by building a minimum viable product, an initial model to verify and evaluate new ideas or business ventures and develop them. Additionally, the founders of startup companies conduct research to deepen their understanding of the ideas. The founding team should consist of innovators who are constantly seeking new markets, product features, or customers to test and implement their ideas as quickly and cost-effectively as possible (Bualshueur, 2018, p. 420).

In his famous article on growth, Paul Graham defines startups as "companies designed to grow fast." He emphasizes that a startup does not necessarily have to operate in the technology field or be funded by venture

capitalists. The crucial factor is growth, which ideally ranges between 5% and 7% weekly and sometimes reaches 10%.

On the other hand, Patrick Fridenson believes that a startup must meet four conditions:

- High potential for growth.
- Utilization of new technology.
- Requires significant funding.
- Operates in a new and challenging market with uncertain risks.

2.2. Lifecycle of a startup:Startup institutions are inherently complex and diverse. These institutions have a lifecycle that varies based on the type of activity and the stages each institution goes through. The following diagram illustrates this (Barwal & Khallout, 2017, p. 20):

- **Prelaunch Stage:**At this stage, an individual or a group of people develop a new idea characterized by creativity or even madness. During this stage, in-depth research and analysis of the idea, market, consumer behavior, and tastes are conducted to assess the potential for success, development, and future sustainability. Finding funding sources is also a priority at this stage. Self-funding is common, with the possibility of some assistance from the government.
- **Launch Stage:**In this stage, the product or service is introduced to the market where it is relatively unknown. The biggest challenge for the entrepreneur at this stage is finding someone who believes in the idea, funds it, and, in most cases, resorting to what is known as "Friends, Family, Fools" funding. Typically, friends and family become the initial funders of the project, or sometimes even daring individuals who are willing to take risks with their money, especially in the beginning. The product at this stage is priced high and requires advertising.
- **Early Takeoff and Growth Stage:**In this stage, the product reaches its peak and gains increased exposure. The activity expands beyond the initial innovators, which can negatively impact the institution as the number of competitors increases, pushing the growth curve towards decline.
- **Sliding into the Trough:**In this stage, the project continues to decline until it reaches a stage known as the "trough of sorrow," despite the continued funding from adventurous investors. The entrepreneur is faced with two options: exiting the market or turning things around. Growth rates are very low at this stage.
- **Climbing the Slope:**In this stage, the entrepreneur introduces improvements to the product, allowing the startup institution to revive through new strategies and gained experience. A new generation of the product is launched with adjusted pricing and wider promotion.
- **High Growth Stage:**At this stage, the product moves beyond the experimentation and testing phase after final development and is launched into the appropriate market. The growth curve starts to rise significantly, with the

potential for 20% to 30% of the target audience adopting the new product. This marks the stage of economic growth and substantial profit generation.

2.3. Main Characteristics of a Startup: There are several growth and performance indicators that help distinguish the business of a startup, considering that the idea and the execution plan serve as the foundation of the startup. Here are some distinguishing characteristics (Crute, 2010):

- **High growth potential:** The business idea is based on a market need, and if the execution is successful, the product or service can have an impact on many potential customers. High growth is also associated with rapid execution, meaning that the product or service can be launched quickly, generating significant momentum.
- **Scalability:** The business model is built in a way that allows the product or service to be delivered in multiple markets simultaneously. There may be some customizations (such as customer support, language, logistics, and marketing activities), but in general, the global market can be addressed with the same core product or service.
- **High risk of failure:** The startup's idea is unique and different, offering better solutions compared to competitors in the market. This differentiation makes customers prefer the startup's product or service over competitive offerings. However, success is not guaranteed and is inherently risky. Some startups follow success stories of other companies (using similar business models, entering the same markets, having similar product or service advantages). In such cases, it takes a long time to succeed, but it can also reduce some risks associated with sales and marketing.
- **Resource constraints:** Startups are always lacking resources (time and money) because their target market is large, and developing the product requires extensive testing and iteration. The key is to find the right balance between development and execution, with the ultimate goal of reaching the market as quickly as possible and at the lowest cost.
- **Uncertainty in the business model:** Many startups offer unique services or products to customers, which is why the business model (the way of providing the solution and generating revenue) is not clearly defined at the beginning. Initially, you need to test different business models with different groups of customers to determine the model that suits them best. After finding the appropriate model, expansion becomes relatively easier.
- **Continuous adaptation:** Building a startup involves continuous adaptation to market conditions, investments, consumer habits, technological advancements, and more. The most reliable way to obtain accurate feedback on your activities is to conduct real-life tests with real customers and real products or services (or an initial prototype).
- **Customer-centric approach:** The customer is king because they help validate your assumptions, provide valuable feedback, and, ultimately, pay for your product or service. Reaching your target customers may be a challenging process, but it should be done as quickly as possible to save time and money. Engage with your

customers even before your core team is happy with them, as they are eager to be part of the product development process and provide valuable feedback.

- **Different financing options for growth:** Achieving profitability through a startup venture can involve various alternative paths. To support rapid growth and aggressive product development, startups have the option to seek external funding, such as loans, investments, grants, or crowdfunding. The key is to monitor financial resources and performance ratios to determine if additional resources are needed as soon as possible. Increasing capital can be a lengthy process, and the timing of starting it can make a significant difference (Jonathan & Jeffrey, 2014).

2.4. Success factors for startups: Startups and companies go through different stages in their operational life, and the initial stage of establishment receives significant attention. Entrepreneurs strive for excellence and high quality in the products and services they offer. However, after achieving success in that stage, many are unprepared for the second stage, which enables them to move to a new level of performance. These success factors include (Reis, 2011):

- **Focus on innovation instead of competition:** Business owners need to maintain high levels of innovation in their operations rather than focusing on outperforming competitors. Growth relies on developing products, improving services, and adding new features through the creation of new and innovative offerings for customers.
- **Emphasize hiring competent individuals:** Business owners must select a skilled and experienced workforce in the second stage of their company's development to ensure continued success. Hiring individuals with diverse and significant skills is crucial, instead of employing people who still require constant training and education.
- **Focus on sales development:** Achieving growth in the second stage of a company's life requires increased emphasis on sales. This can be achieved by forming a professional sales team that works towards the goals and requirements of the company. Project owners must train this team and provide them with the necessary tools and conditions. Additionally, improving the company's relationships with its customers is essential (Reis, 2011).
- **Distinguish between marketing and sales:** Marketing and sales play different roles in the second stage of a company's growth. Marketing embodies the brand, showcases product specifications, benefits, prices, and forms. Sales, on the other hand, focus on building relationships, meeting needs, making offers, and closing deals. Both aspects require different skills but complement each other.
- **Build strong customer relationships:** Successful companies in the second stage of their growth prioritize building personal and close relationships with their customers. They offer services and products that exceed customer expectations, which is the key to expanding the customer base and gaining their loyalty.

- **Establish a positive corporate culture:** Business owners need to instill a positive corporate culture that defines the way employees work, the company's growth, and the management. This culture should align with their vision, values, and aspirations. By promoting and adhering to positive values and practices, businesses can withstand the volatile business world.
- **Differentiate leadership from management:** While these skills are integrated, they have different content. Leadership focuses on inspiring employees and encouraging them to give their best effort, while management involves guiding employees in their duties and tasks and creating a suitable work environment.
- **Seek support from business incubators:** Business incubators are independent organizations that provide a range of services and facilities for small investors who seek to establish small enterprises. Their goal is to assist innovative startups and new entrepreneurs by providing the necessary means and support (experience, locations, financial support) to overcome the challenges and stages of launching and establishing a business, which may last for a year or two. They also handle marketing and product promotion for these companies, acting as an incubator between the startup and growth stages of the business, supporting new entrepreneurs and helping them launch successful startup projects. Therefore, business incubators provide entrepreneurs with the necessary tools for project success (Rosalind & Heidi, 2022).

3. Support Institutions and Facilities for Financing Startups in Algeria:

Support institutions consist of a group of organizations, including:

3.1. National Agency for Youth Employment Support(Executive Decree No. 96, 1996, pp. 12-16): The National Agency for Youth Employment Support was established by Executive Decree No. 96-296 dated December 8, 1996. It operates under the authority of the Prime Minister, and the Minister responsible for employment oversees all the agency's activities. It is a national specialized entity with legal personality and financial independence. Its main objective is to encourage various initiatives aimed at revitalizing the youth employment sector by establishing small enterprises for the production of goods and services. Recently, its name has been changed to the Agency for Entrepreneurship Support.

3.1.1. Tasks of the National Agency for Youth Employment Support:The tasks of the National Agency for Youth Employment Support vary, and among them are:

- Support and provide consultation to young people with projects in implementing their investment projects. It operates according to the legislation and regulations applicable to the National Fund for Youth Employment Support, particularly regarding grants and interest rate reductions within the limits set by the Minister responsible for employment.

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- Inform young people with projects, who have submitted their projects for the purpose of benefiting from bank loans and financial institutions, about the various grants provided by the National Fund for Youth Employment Support and other privileges they can obtain.
 - Monitor the investments carried out by young people with projects, ensuring compliance with the terms and conditions set by the agency, and provide assistance to the institutions and relevant bodies involved in implementing the investments when needed.
 - Encourage all forms of other measures aimed at promoting youth employment, particularly through training programs, job placement, and initial employment. Some of the agency's main functions include:
 - Providing young people with projects with all economic, technical, legislative, and regulatory information related to their business activities.
 - Offering consultation and assistance to young people with projects in the financial structuring process and loan application.
 - Establishing ongoing relationships with banks and financial institutions within the framework of project financing, implementing the financing plan, and monitoring project progress and utilization.
 - Engaging specialized entities to prepare feasibility studies and typical lists of equipment, as well as organizing training courses for project owners to enhance their management skills. The agency works with projects whose total cost does not exceed 10 million dinars and provides the following:
 - **Financial assistance:**
 - The loan represents a grant ranging from 28% to 29% of the total project cost.
 - Reduction in bank taxes.
 - **Assistance in obtaining financing:**
 - The bank finances 70% of the total project cost through a simplified procedure by the Selection, Approval, Financing, and Loan Guarantee Committee, facilitated through the Joint Risk Guarantee Fund/Loans.
 - **The agency offers two financing formulas:**
 - Mixed: Personal contribution + agency financing.
 - Tripartite: Personal contribution + agency financing + bank financing, according to the following formula:
 - Personal contribution: 1-2% of the total project cost.
 - Agency: 28-29% of the total project cost.
 - Bank: 70% of the total project cost.
 - **Tax benefits:** Value-added tax exemptions, reduced customs tariffs during the construction phase, and tax exemptions during the exploitation phase for institutions after project establishment.

3.2. National Agency for Microcredit Management: (Executive Decree No. 04-14, 2004) The National Agency for Microcredit Management was established by Executive Decree No. 04-14 dated January 22, 2004. It is a special entity with legal personality and financial independence. The agency is placed under the authority of the Prime Minister, and the Minister responsible for employment is responsible for overseeing the overall activities of the agency in accordance with the provisions of this decree.

3.1. Tasks of the National Agency for Microcredit Management: The National Agency for Microcredit Management serves as a tool to implement the government's policy in combating poverty and vulnerability. Its main tasks include:

- Managing the microcredit system in accordance with the applicable legislation and regulations.
- Providing support and guidance to beneficiaries in implementing their activities.
- Informing eligible project owners about the various grants available to them.
- Ensuring the monitoring of activities carried out by beneficiaries, while respecting the terms and conditions set by the agency.
- Assisting beneficiaries when needed in dealing with relevant institutions and organizations for project implementation.
- Establishing continuous relationships with banks and financial institutions to facilitate financial arrangements for projects and implement financing plans.

3.1.1. Qualification criteria for obtaining microcredit: Citizens who meet the following conditions are eligible for the grants provided under the microcredit program:

- Being at least 18 years old, having no stable or regular income, or demonstrating an appropriate professional skill that aligns with the desired activity to be undertaken.
- Possessing a certificate or equivalent document attesting to professional competence.
- Not benefiting from any other assistance for establishing businesses.
- Having the ability to contribute to the personal investment required based on the applicable financing formulas.
- Participating in the joint guarantee fund for small and medium-sized loans if applying for a bank loan.
- Committing to repay the loan and interest to the bank according to a specified schedule.
- Committing to repay the interest-free amount to the National Agency for Microcredit Management according to a specified schedule.

3.1.2. Financial Structure: The National Agency for Microcredit Management oversees the management of three (3) financing formulas, which are:

- Dual Financing: Between the Agency and the beneficiary

- This is applicable for the purchase of raw materials, the cost of which does not exceed 30,000 DZD.

- The Agency contributes 90% without interest.
- The beneficiary contributes 10%.
- **Dual Financing: Between the Bank and the beneficiary:**
 - This is for projects with a value ranging from 50,000 DZD to 100,000 DZD.
 - The contribution of the Bank and the beneficiary is as follows:
 - 95% from the Bank; 5% from the beneficiary.
 - The Bank's contribution increases to 97% if:
 - The beneficiary holds a recognized certificate or equivalent document.
 - The activity is carried out in a specific area, the South, or the highlands.

- **Tripartite Financing: Among the Bank, the Agency, and the beneficiary**

- This is for projects with a value ranging from 100,000 DZD to 400,000 DZD.
- The contribution of each party is as follows:
 - The Bank contributes 70% with reduced interest rates ranging from 80% to 90%.
 - The beneficiary contributes 3% or 5%.
 - The Agency contributes 25% or 27% of the activity cost if:
 - The beneficiary holds a recognized certificate or equivalent document.
 - The activity is carried out in a specific area, the South, or the highlands.

The bank loan is granted with a reduced interest rate borne by the beneficiary (10% to 20% of the interest rate determined by the bank and financial institutions). The Agency covers the difference in the commercial interest rate.

3.3. National Unemployment Insurance Fund:(El Saïd, 2006)The National Unemployment Insurance Fund is an Algerian government entity established in 1994 to assist individuals who have lost their jobs due to economic reasons or involuntarily, in order to facilitate their reintegration. This is done through active job search methods, assistance in establishing enterprises, vocational training, or reassignment.

3.3.1. Definition of the Fund:According to Legislative Decree No. 94-09, issued on May 26, 1994, which focuses on preserving employment and protecting workers who lose their jobs involuntarily. With the issuance of Executive Decree No.03-514 on December 30, 2003, which prohibits the establishment of activities by unemployed individuals aged between 35 and 50, the Fund has taken a new direction. This direction involves providing financial support for the reintegration of the unemployed into the job market by supporting the establishment of small and medium-sized enterprises, as well as providing consultations and certain tax benefits.

A. Financing Mechanism:Qualification Requirements: Individuals who meet the following criteria are eligible for financing from the National Unemployment Insurance Fund:

- Age between 30 and 50 years.
- Residing in Algeria.

- Not currently employed in a paid position at the time of submitting the assistance application.
- Registered with the National Employment Agency for at least one month as a job seeker or receiving unemployment compensation from the National Unemployment Insurance Fund.
- Possess a professional qualification or have relevant knowledge and skills related to the intended business activity.
- Have sufficient financial resources to contribute to the financing of their project.
- Not have engaged in self-employment activities for at least 12 months.
- Not have previously received assistance for establishing a business.

B. Project Financing Process:The National Unemployment Insurance Fund provides project financing through a triple financing formula, which includes:

- Personal financial contribution from the project owner.
- Interest-free loans provided by the National Unemployment Insurance Fund.
- Bank loan with a low interest rate from the National Unemployment Insurance Fund, partially guaranteed by the Joint Guarantee Fund to mitigate the risks associated with the loans for unemployed individuals' investments.

C. Tax Benefits:In addition to the financial privileges, the agency also provides the following tax benefits: During the project

- **Implementation phase:**

- Exemption from value-added tax for equipment and services directly related to project implementation.
- Reduced customs duties by 5%.
- Exemption from property transfer fees for real estate acquisitions.
- Exemption from stamp duties on contracts and loan documents with reduced or government-guaranteed interest rates.

- **During the project exploitation phase:**

- Exemption from general income tax.
- Exemption from corporate profit tax.
- Exemption from property tax on constructed properties.

3.4. Introduction to the National Investment Development Agency:The National Investment Development Agency was established under the Investment Development Law No. 01-03 issued on August 20, 2001, replacing the Promotion and Monitoring Agency for Investment.

3.4.1. National Investment Development Agency Tasks(Ben Hussein, 2004)

- Ensuring the promotion, development, and monitoring of investments, providing investors with all necessary administrative documents for investment completion.
- Welcoming and informing resident and non-resident investors and assisting them.
- Notifying the investor of the decision to grant or deny the desired benefits.

- Granting and managing investment-related benefits according to established procedures.
- Managing the Investment Support Fund.
- Facilitating investors during the exemption period.
- Facilitating the establishment of institutions and implementing projects through centralized one-stop services.

The establishment of the agency was accompanied by a set of complementary bodies to facilitate its activities, including:

- The National Investment Council.
- The Centralized One-Stop Services.

3.4.2. The Benefits Provided by the National Investment Development Agency: The agency provides a range of general and specific benefits.

A. General Benefits: We can summarize the most important benefits provided by the agency in the following points:

- Benefit from a reduction in the rates imposed on customs duties for equipment directly involved in the investment.
- Goods and services directly used in the investment are exempt from value-added tax.
- Similarly, in the context of exemptions, all aspects related to real estate acquisitions are exempt from property transfer fees.

B. Special Benefits:

▪ **Project Implementation Phase:**

- Exemption from payment of property transfer fees for real estate acquisitions made within the investment.
- Fixed registration fees are applied at a low percentage, estimated at two per thousand, for constitutional contracts and capital increases.
- The state partially or fully covers expenses related to essential infrastructure necessary for project completion, after the agency assesses their size.
- Exemption from value-added tax on goods and services directly involved in the investment, whether imported or purchased from the local market, when these goods and services are intended for taxable value-added operations.
- Application of reduced rates for customs duties on imported goods directly involved in the investment (5% instead of 37%).

▪ **Project Launch Phase:**

- Exemption for a period of ten years from actual business activity from corporate income tax, total income tax on distributed profits, exceptional payments, and professional activity tax.

- Exemption for a period of ten years from property registration fees on real estate properties that are part of the investment, starting from the date of acquisition, providing additional benefits to facilitate investment.
- Extension of the period for benefiting from the privileges.

4. Conclusion:

Algeria seeks to develop and finance startups due to their effectiveness in driving the national economy and achieving economic development. They are considered one of the best means for economic revitalization due to their adaptability and flexibility, which enables them to overcome competitive challenges and combine economic development with job creation and wealth generation. Alongside other industrial enterprises, they can penetrate foreign markets. This necessitates increasing and intensifying state efforts to finance these institutions and improve support structures.

In light of current economic developments and the decline in fuel prices, the state should pay more attention to startups to promote the national economy. They should take advantage of the available opportunities to enhance their activities and adapt to constantly changing internal and external variables. In this regard, there are some recommendations and proposals that can contribute to the promotion of startups:

- ✓ Enhancing production levels and fostering technological knowledge.
- ✓ Developing management and human resources.
- ✓ Promoting scientific research and conducting thorough market studies before venturing into the unknown.
- ✓ Establishing strategies and programs for the development of startups.
- ✓ Providing necessary assistance and services, especially for emerging projects.
- ✓ Creating a conducive environment that can adapt to ongoing changes.

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