

Investment financing for performance indicators of non-valuing institutions in Algeria

التمويل الاستثماري الرافع لمؤشرات أداء المؤسسات غير المسعرة في الجزائر

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Abstract:

Venture capital is the sponsor product for financing the critical stages of innovative enterprises away from leveraged financing rules and equity financing rules, and has been a success in many industrialized and developing countries alike. Not only does it provide the necessary funds to finance productive operations, it provides administrative and administrative support, by accompanying the funded institutions. The following problems were identified: What is venture capital, what is its types and relevance, and what is its role for SMEs?

Keywords: Venture capital, companies, economic, development, starts up.

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Introduction

Small and medium-sized enterprises (Law no. 01-18)¹ are one of the main contributors to the Algerian economic landscape because of their creativity and innovation, their footprint to contribute to the expansion of production capacities, the use of labour and the achievement of regional balance.

Despite the priority it enjoys in the various strategies, the problem of financing continues to be hampered by the lack of guarantees on the part of the banks on the one hand and their inability to access the financial markets on the other, due to their lack of private resources. In view of this limited financial reality, the role and importance of venture capital companies as an innovative mechanism for the financing of non-paying companies are highlighted in their origin, their models, their objectives and Algeria's experience in this field.

As we know, the COVID-19 pandemic has severely damaged small and medium-sized businesses, in part because of their predominant activity in some sectors that rely heavily on direct contact, such as hotels, restaurants and entertainment.

As a result, many developed economies have been exposed to the risk of a wave of liquidations that have destroyed millions of jobs, damaged the financial system and weakened the still fragile economic recovery. To do so, policy makers had to find innovative and quick ways to mitigate this wave.

Abundant liquidity support through loans, credit guarantees and debt deferral has protected many SMEs from the imminent risk of bankruptcy. But liquidity support cannot solve solvency problems. With the accumulation of corporate losses and their reliance on borrowing until they continue to operate, they are facing insolvency because of their debt that far exceeds their ability to pay.

Venture capital is the lifeboat for SMEs, given the difficulties they face with bank loans and unfair interest-related conditions, It was not a haven for them if this saving investor is able to understand their ideas and believe in them and the capital adventure towards a project that expects him to succeed in inventory 'whose existence has been like a life kiss for them, and venture capital has been the impetus that has contributed to the emergence of many creative and innovative investment projects.

Notwithstanding, the role of venture capital in the financing of SMEs shows that it is the main driver of the emergence of innovative companies and gives them the opportunity to grow and develop, but it has also contributed to the infusion of the national and international economy and the emergence of new fields that abound in endless commercial and financial opportunities. What is venture capital, what are its types and relevance, and what is its role for SMEs?

In an attempt to address this problem, the analytical approach was used to analyse the legal and economic concepts contained in the research through a dual action plan. The first will be devoted to the pricing reference of venture capital. The second component will be addressed through the sources and role of venture capital

companies in the financing of small and medium-sized enterprises and their legislative framework in Algeria.

Firstly: Conceptual reference of venture capital

The idea of venture capital arose from the Greek scientist and founder of engineering science Thales De Milet, who borrowed money for his farm olive oil extraction project, His idea at the time was an innumerable risk that lenders would not encourage. But he managed to get the attention of a few money owners who eventually gave him adequate financing, which makes it the most important in applying the idea of venture capital historically².

Requests for venture capital then emerged in a number of ideas, such as the financing of geographical exploration trips and the financing of exotic scientific ideas, then merged with the era of digitization and modern technology and diversified their applications in all fields, including trade and investment.

Venture capital can also be defined as a form of financing provided by venture capital companies or funds to start-ups and start-ups with high growth potential.

Venture capital can also be considered as a form of private financing for unlisted companies. and defined as the contribution of the institutions concerned to this type of financing to the capital of other institutions in need of financing, for a limited period, they do not participate in the management of the enterprise, but help with their technical skills and exert a rather important control in order to obtain an added value following the renunciation of their actions³.

Venture capital is often divided into phases of business development, from start to finish, and is used to start establishing- Phased companies and capital growth that are often used to finance the expansion of existing businesses that generate revenue and may not be profitable or generate cash flow to finance future growth⁴.

Start-ups supported by venture capital have led a massive technological boom over the past decade, but it has not taken long to reduce reliance on venture capital.

In order to simplify the idea of venture capital, it is a financial and professional support provided by a businessman or a company so that this natural or legal person ensures the success of the idea and its ability to generate profits in the long term, and supports this belief in the bet that each of the losses will be incurred with the contractor, in exchange for the expectation of expected future profits.

1. Levels and characteristics of venture capital companies

There are three known levels of venture capital worldwide.

1.1. Levels of venture capital companies

These levels vary according to the type of financial cooperation between the investor and the entrepreneur, there are:

- Simple capital: capital used to finance emerging companies, especially technology companies, which need a financial boost to support and grow their development⁵.

•Global capital: Capital for start-up companies with sufficient labour market experience. Financial support is provided to provide them with financial liquidity in which they can enter new fields and perspectives that carry a certain degree of adventure and investment.

•Complex capital: The wave capital of start-ups that have achieved some success on the ground, with the aim of helping them to achieve a surplus of profits and develop their project towards new horizons and a new level of growth, here the company or investor provides, finances, and provides technical and administrative support⁶.

1.2.Characteristics of venture capital

Whether venture capital comes directly from official sources or indirectly, in both cases it is characterised by a range of common features such as:

- Fixed by a renewable time: When a businessman or a company invests his money with you, he does not give you financing on a blank cheque, but this financing is fixed by a certain time, and the project must return these funds with its profits during this period.

- For long-term projects: venture capital is long-term capital. The return on the investment is not perceived in the short term, but it is perceived over time and usually after the agreed period of the contract.

- Bold: Venture capital is bold in its administrative and financial decisions. Most decisions are taken on the basis of personal experience and extrapolation of the instability of the domestic and international market which can change at any time and can change overnight⁷.

- Radical change: Some start-ups that are invested in venture capital generally have a particular advantage that makes them know that they are one of the leading projects in the future So, invest in a revolutionary idea or an emerging creative idea, could earn the investor 10 times what it has invested over short periods of time. Who invested in companies like Apple and Tesla in the beginning, now earning crazy profits in exchange for a bold choice that someone could take from time.

- Calculated risk: Although the investment decision is based on a high risk ratio, this decision is preceded by numerous studies and analyses of logical opportunities, on the basis of which the owner of the capital believes that the investment is worth making.

2. Advantages and disadvantages of venture capital companies

Among the most important advantages of so-called investment are:

-Business Experience: Regardless of financial support, obtaining venture capital financing can provide a start-up with a valuable source of advice. This can help in

making various business decisions, including financial management and human resources management. Making better decisions in these key areas can be very important as your business grows.

-Other sources: In a number of critical areas, including legal, tax and personnel issues, a venture capital firm can provide active support, especially at a key stage in the growth of a start-up. Faster growth and greater success are key potential benefits.

-Links: Venture capital investors are generally well-connected to the business community. Exploiting these links can have enormous benefits.

Among the most important disadvantages of venture capital investment:

- Loss of control: Defaults associated with capital financing in general can double with venture capital financing.

- Minority ownership status: Depending on the size of the venture capital company's stake in the company, which may be greater than 50%, administrative control may be lost.

Secondly : Sources and role of venture capital companies in financing SMEs and their legislative framework in Algeria

Various types of venture capital and the variety of projects to help it, I have found many formal and informal sources of funding that work to provide venture capital to those who deserve it⁸.

1. Sources of venture capital for financing SMEs

The diversity of sources of venture capital and the diversity of projects it aims to help.

1.1.Sources officielles de financement du capital de risque

It is the official sources recognized in the provision of financial and professional services for ideas and emerging companies that carry a high proportion of the investment in them. They vary between companies and financial institutions, and among the available investment funds, the official sources of venture capital funding are⁹:

- Independent Venture Capital Investment Companies (VC): Companies created from the outset to provide venture capital and to provide accumulated opportunities, generally comprised of a group of investment investors or a group of brokers with some degree of extensive relationships and experience that link entrepreneurs to creative ideas and venture capitalists.

- Venture capital firms are general partners: companies that provide management services for projects in exchange for a percentage of management and profits, this type of project is generally financed by grant funds, contractual funds as well as wealthy businessmen.

- Venture capital investment subsidiaries: subsidiary, division or subsidiary of the parent company. This type of business aims to exploit and take advantage of

imminent investment opportunities in order to provide additional sources of profit for businesses.

- Investment funds: These are funds dedicated to pooling the savings of companies, investors and financiers, and then working to regulate this capital in a useful financial trading that helps to create start-ups and bring more profits to everyone.

1.2. Informal sources of venture capital funding

As for the role of venture capital in the informal financing of SMEs in the form of angel investors or so-called adventurous investors, They are a kind of individual who is able to bet on their own money in order to believe in the usefulness of a particular project or idea and to this end provide all available financial, professional and administrative support, Images of angel investors can vary to appear in a friend, family member or group of entrepreneurs who collaborate to support an idea or project.

2. The role of venture capital companies in financing SMEs and their legislative framework in Algeria

Venture capital plays a very important role in financing SMEs, particularly in injecting funds and strengthening the national and international economy. As a result of this type of funding, the following actions have been taken:

2.1. The role of venture capital companies

- Increase the value of domestic exports by encouraging locally created SMEs.
- Reduce the migration rate of young minds by investing in their ideas and finding a light port for them.
- Help emerging young faces in the business market and take advantage of their new ideas and market vision.
- To help the emergence of new economic and development sectors, thus providing important employment opportunities for young people.
- Help the trade of money, the flows of profit and develop the local and international economic situation.
- Removing financial barriers for SMEs and fostering the growth and development of SMEs¹⁰

2.2. Legal framework for Algerian venture capital companies

The Algerian legislator defined the institutions of venture capital as "intended to contribute to the capital of the enterprise and to any process of supply of shares of private or semi-private funds to companies in the process of establishment, growth, the financing or allocation that is engaged in an investment capital activity by the

company on its own behalf or on behalf of others and in accordance with the stage of development of the company.

The Algerian legislator simply gave a definition of venture capital and did not give a definition of venture capital, but rather included venture capital activity in venture capital activities¹¹.

It can be said that, until mid-2006, the venture capital institution set up its own legal framework, which was a bit late because of the creation of the first venture capital company 13 years ago.

As a whole, Law No. 06-11 of the Official Journal of 24/06/2006¹² defines the conditions of the venture capital company's activity and the procedures for its creation and operation. As regards the control of its activity, it is subject to the control of COSOB in accordance with Decree No. 93-10 of 23 May 1993.

As a result, the 2005 law introduced tax incentives for venture capital activities, which exempted these companies from the IBS corporate income tax for 5 years. The Algerian legislator has also instituted the honour of benefiting from the tax advantages mentioned by the promise of the venture capital institution not to withdraw the amount invested in the company for 05 years. Law 06-11 also deals with registration fees for foundation contract transactions, the increase or reduction of capital and the renunciation of securities, which represents a fixed fee of DZD 500 plus DZD 20 per page¹³.

Venture capital companies active in Algeria: the creation of venture capital companies is due to the problems encountered by private equity companies ", due to the fact that this method is considered as an alternative to loan-based bank financing, Despite the importance of venture capital financing technology and its success both in the United States of America and in Europe's Development", the attention paid to this technology in finance in Algeria remains insufficient. The following venture capital companies are active in Algeria:

2.2.1. FINALEP (Algerian European Financial Company for Contribution)

The Algerian-European Financial Corporation for Contribution (FINALEP) was founded after a series of meetings held by the Bank of Algeria and the Ministry of Finance with the European Investment Bank, the French Development Agency and the German Cooperation Fund to support the development of investments in Algeria. On 15 November 1990 an agreement was concluded and the Algerian-European Financial Corporation was subsequently set up. The capital of the company at the time of its creation was 73750,000 DZD distributed to the Local Development Bank by 40%, the Algerian popular loan by 20% and the French Development Agency by 40%. After joining the Aruban Investment Bank, its capital reaches 159,750,000

DZD, each held by the Local Development Bank at 40%, the French Development Agency at 28.74%, the Algerian People's Loan at 20% and the European Investment Bank at 11.23%.

2.2.2. Sofinance Financial Corporation for Investment, Contribution and Employment¹⁴:

A public financial institution specialized in investment with a capital of 5 billion Algerian dinars, the decision to establish it was taken by the National Council of State Contributions in 06 august 1998, to develop domestic production and develop new financial products, and obtained approval for the start of its activity by the Bank of Algeria in January 2001¹⁵.

2.2.3. Algerian Saudi Investment Company (ASICOM) :

The Algerian Saudi Investment Company was created in 2004 as part of an agreement between Algeria and Saudi Arabia and is the first government institution specializing in venture capital in Algeria. Fixed its capital at 8 billion Algerian dinars (DA) 8.000.000 . The subscribed capital was distributed equitably between the two governments, with half to be paid at the time of establishment. The company is managed by a six-member board of directors composed of three members from each country 2002¹⁶.

2.2.4. Algeria Investment (El djazair Istithmar):

«Algeria Investment " is a private capital institution whose capital of one billion Algerian dinars is held by two public banks, the Agricultural and Rural Development Bank at 70% and the National Savings and Reserve Fund at 30%. The accreditation was issued for the start of its activity by the Ministry of Finance on 6 May 2010.

2.2.5. Private Equity Maghreb Fund:

The Moroccan Venture Capital Fund is active in three Maghreb countries: Algeria, Morocco and Tunisia, and produced through the Tuninvest Group, initiated in Tunisia in 2000 by the International Finance Corporation SFI, which contributed to investment in North Africa and as the first phase began with investments in Algeria, Morocco and Tunisia, then moved to Libya in the second phase¹⁷.

Conclusion

The role of venture capital in financing SMEs is essential to revitalize the economy and help improve the domestic and international market. As a financing mechanism, it is interested in financing innovative and creative projects, and has highlighted its role and the place of venture capital in the financing of unpaid SMEs in Algeria, by addressing the legal and regulatory its size and the obstacles to its development and the means to support it.

Despite the Algerian financial sector's performance in financing SMEs, it has failed to meet the needs of many new and innovative start-ups in their early stages with the advantages and capabilities needed to achieve high growth rates. This is due to the reluctance of banks to finance innovative start-ups without substantial guarantees, and to the insufficient development of alternative financing, which is the risk capital considered appropriate for new companies with high growth rates.

As regards the promotion and development of small and medium-sized enterprises (SMEs), the public authorities have taken a series of measures focusing on the following areas:

1. To meet the needs of SMEs and complement the traditional loan from the development of this adapted financing tool through the creation of venture capital branches by public banks.

2. Expand and diversify financing opportunities for SMEs.

3. Improve the financial solvency of offers issued by SMEs and strengthen banks' risk tolerance capacities.

4. Improve the ability to respond to SME offers and increase banks' risk tolerance. In order to facilitate the development of banks' lending capacities, the public authorities have developed two ways of mitigating the risks borne by banks.

This is the creation of two security agencies, the Investment Loan Guarantee Fund for Small and Medium-sized Enterprises (SMEs). CGCI-PME (and SME Loan Guarantee Fund) FGAR (which has been working alongside banks on the SME financing market since 2002 for the SME Loan Guarantee Fund and since 2007 for the SME Loan Guarantee Fund).) CGCI-PME The interventions of these guarantee bodies have been improved by cutting the guarantee display so that the guarantee becomes complementary and more visible for banks and investors.

5. Modernize businesses and finance business upgrades.

6. Promoting diversification of financial provision to SMEs:

7. Establishment of public investment funds managed by venture capital companies.

8. Re-establishment of the National Investment Fund (NIF) with a contribution of up to 34% to the capital of SMEs.

9. Creation of a market for small and medium-sized enterprises on the Algiers Stock Exchange.

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