

BUSINESS ANGELS AS COMPONENT OF THE ALGERIAN ENTREPRENEURIAL ECOSYSTEM, SCOPE OF ISSUES AND REALITIES

BAGHLI Abdallah El Moutawakil ¹

PhD candidate at Tlemcen University (UABT),
Tlemcen

baghli.abdallahelmoutawakil@univ-tlemcen.dz

TABET AOUAL Wassila

LARMHO Laboratory .Professor at Tlemcen University (UABT)
Tlemcen

tabet_wassila@yahoo.fr

Received date: 20.02.2021 / Accepted date:21.03.2021

ABSTRACT

A start-up or entrepreneurial project goes through several stages from MVP to acceleration to reach its full potential owing a homogeneous entrepreneurial ecosystem.

During our research on the different components of the entrepreneurial ecosystem in Algeria, we focused on Business Angels by highlighting their actions. To achieve our objectives, we will first present a review of the literature, then the Algerian business ecosystem, followed by the characteristics of Algerian Business Angels, and finally how they are active in both a media and behind-the-scenes environment.

Key words: Business Angels, start-up, entrepreneurial ecosystem, start-up finance, Algeria.

Jel classification : O16, O17, L21, L26, G23, G24, G32, M13

INTRODUCTION

The entrepreneurial ecosystem is composed of two terms, the first one refers to Start-ups and SMEs, mostly in their starting and/or scaling phase. Entrepreneurship is often understood as a driver of innovation and productivity and as an engine for sustainable economic growth. In the classic sense, entrepreneurs are people who start businesses, hire labor, mobilize resources, and ensure that their operational business keeps running. The latter actor has given birth to the three kind of SME:

¹ **Corresponding Author. BAGHLI Abdallah El Moutawakil. E-Mail :**
baghli.abdallahelmoutawakil@univ-tlemcen.dz

Traditional SME, Innovative SME and Start-up, which is defined as a SME based on an innovative product, very scalable and risky with a fast growth financed by capital intensive for a global implementation.

In order to be more precise in our elaboration, the start-up is stands out from a micro-enterprise by its innovative product/service new in the market with a scalable business model with high potential of growth based on the Customer acquisition cost (CAC) and which targets a very large market with a high-risk taking capacity to grow and study with the objective of becoming an empire, to achieve this level a start-up needs a specific ecosystem; defined as a system, or a group of interconnected elements, formed by the interaction of a community of organisms with their environment. Like biological ecosystems, an entrepreneurial ecosystem consists of different elements, which can be individuals, groups, organizations and institutions that form a community by interacting with one another, but also environmental determinants that have an influence on how these actors work and interconnect; in entrepreneurial ecosystems, these can be laws and policies or cultural norms.

One of the most frequently used models was developed by Daniel Isenberg (2011). According to him, the entrepreneurial ecosystem consists of six domains: policy, finance, markets, human capital, support, and culture.

The keys actors of the Entrepreneurial ecosystem are the business angels appearing in the field of finance, they are known with start-up funding (acting from the MVP to acceleration stage), but offering much more than funding, allowing full synchronization between other areas and actors. Our study is focusing on the Business Angel and they role on Algerian ecosystem.

While doing the literature research on the net using the Algerian business angels and business angels in Algeria items, we do not find any previous studies in scientific research; starting our work, we notice that an outstanding presence of a group of Angels pioneers with a formal network in Algeria named Casbah Business Angels (CBA) appeared in 2012; it has been followed by Haba Institute, in 2017, and other Business Angels who act alone or in other unnamed networks. But, unfortunately, their labels appeared only in electronic press release. Those make the work attractive and difficult by the same token.

We noticed that numerus researches were done on other markets with the huge number of case studies on many countries, but none was done on Algeria. Based on that we conduct this doctoral research on the Algerian Business angels.

Our study is to identify and quantify the Algerian business Angels and how they act in the non-conventional financing mode to help and improve the added value and to increase the scale-up of Start-ups who improve an evolution of the national economy.

We have set the following problematic that encompasses the partial study of Algerian Business Angels (ABA):

What status is there of the presence of Business Angels in the Algerian entrepreneurial ecosystem and how they act?

To answer the latter, we propose the following hypothesis:

1. The Business Angels can and are an alternative to regular financing, because they enjoy a very favorable image among political decision-makers, academics and business leaders. By reducing information

asymmetries through their direct presence with entrepreneurs, they have the reputation of being more successful investors, both in terms of return on investment, future business development and assistance as advisors and mentors to entrepreneurs.

2. The presence of business angels in developing enterprises would allow them to achieve better economic and financial performance than in unassisted enterprises, their scoop of intervention varies according to the needs of the start-up.

To support our hypothesis, our article is composed of three part, in the first one we have summarized a brief review of the existing literature to fully explain who the business angels are. And in the second part we discussed our research target, where we had proceeded during the period from April to August 2020 to interviews (some of them were virtual interviews due to COVID-19 with those outside of the country) with all potential financiers of start-ups 37, individuals or institutions. The latter led us to identify who the real Algerian business angels are. For that we have proceeded with an in-depth research structured by individual semi directive interviews with the Business Angels inventoried to frame our qualitative exploratory study of the Algerian entrepreneurial ecosystem, using a constructivist stance and qualitative methods researching how they interact with local start-ups. And by the end the last part is reserved to discussions and recommendation for future research.

1. LITERATURE REVIEW

The first pioneering academic work on Business Angels (BA) was Wetzel's study "Venture Capital of Angels and Informal" published in Sloan Management Review (1985). He proposed that new companies benefiting from the technology would encounter problems when raising small amounts of early-stage financing. The evidence indicates that BA have played a role in solving this problem.

First; BAs address a significant investment need (typically in the range of '100-1M Euro) that is generally not considered attractive or profitable for capital investors because of the relatively high due diligence costs of early stage companies (Jeng and Wells, 2000; Carpenter and Peterson, 2002; Mason, 2009).

Second, along with the injection of capital, BAs provide valuable non-monetary resources such as industry knowledge, management experience, mentoring, and personal networks (Harrison and Mason, 1992; Landström, 1993, Politis, 2008). In the literature, there are several definitions for Business Angels that do not differ radically from each other.

Wetzel highlighted the common features of BA: wealthy, self-educated, male and very active investors who have invested in a geographical proximity to home and who rely heavily on their friends and business partners' network.

According to Fiti *et al.* (2007), Business Angels are people with financial means who are willing to invest in entrepreneurial ideas. They include retired executives who have received large payments or compensation, as well as entrepreneurs and managers who have become wealthy from their businesses.

Mason and Harrison (2008) define a Business Angel as an individual acting alone or in a formal or informal syndicate, who invests money directly in an unlisted company in which there is no family connection and who, after making the investment, actively participates in the company, for example, as an advisor or member of the board of directors".

The emergence of angel groups as a means of connecting entrepreneurs to angel capital is an important development for the corporate finance market. By facilitating connections, policy makers should encourage the development of angel groups and business angel networks. Although business angel networks have existed for many years, the emergence of angel groups is a sign that the market is changing the way it organizes itself. Angel groups (and networks of professional business angels) offer three distinct advantages:

- First, and related to the previous policy implications, by investing in a group, rather than individually, transaction flows and quality are increased (Mason, Botelho and Harrison, 2016).
- Second, although access to angel financing is a primary objective, angel groups have the added benefit of providing "virgin" angels with knowledge and experience (Mason, Botelho and Harrison, 2016). This improves the new investor's human capital and ability to make more effective investment decisions (Bonini et al., 2018).
- Finally, while angel investment criteria are well documented (Haar, Starr and MacMillan, 1988; Hall and Hofer, 1993; Mason and Harrison, 1994; Feeney, Haines and Riding, 1999; Paul, Whittam and Johnston, 2003), entrepreneurs must learn to identify appropriate business angels.

However, entrepreneurs should seek not only relevant angel finance experience, but also entrepreneurial and investment experience. This will help the business angel to offer more accurate perspectives, add more value to the business and better adapt to changes and unexpected events (Collewaert and Manigart, 2016).

In 2019, the France Business Angel Network (FBAN) reported that angel investment grew 8.3% for €42.9 million invested in 2019 for a leverage effect. While, it is only in 2019 that Algeria appears in the Partech Africa's 2019 annual report on private equity that the benchmark barometer of the sector in Africa has shown: 234 African start-ups raised a total of USD 2.02 billion in 2019, an increase of 74% compared to 2018. Nigeria is in first place with 37% of funds raised, while Kenya is in second place with 26% of funds raised. Egypt is taking off in 2019, taking third place for the first time ahead of South Africa, with 10% of funds raised. Algeria is ranked fourteenth with only 4 million dollars raised by a VTC start up.

This is due to the late interest of the Algerian government to create and foster a conducive entrepreneurial ecosystem; It was only in the beginning of the year 2020 that the adoption of various mechanisms to encourage business creation and investment support was decided and most recent ones the new government created the ministry delegated in charge of start-ups who In the complementary financial law of July 2020 have added the admission of politics that can allow the crowd funding platforms, tax exemption for new start-ups and the revive of Cyber park Sidi Abdallah are in addition to encourage further creation. Algerian economy is highly dependent on petroleum and natural gas exports. It is estimated that hydrocarbons account for roughly 60% of budget revenues, 30% of GDP, and over 95% of export earnings, Nether less it is difficult to undertake in a context where the general economic situation is not optimal.

2- Case study: Non-conventional financing in Algeria

The Algerian entrepreneurial ecosystem has gone through a succession of stages and challenges in trying to offer the favorable and sustainable ground for the

business creation and the setting up of start-ups for the Algerian entrepreneur aiming to raise the challenge of gazes and oils dependency.

BAs are among the most attractive players in the ecosystem for entrepreneurial businesses, given their ability to bridge the 'financing gap' between supply and demand for equity capital at an early stage.

through our practical research and following our interviews with BAs we deduct the following:

3. The Birth and characteristics:

The concept of Business Angels has taken its first steps in Algeria, through the Casbah Business Angels (CBA) network which is also a member of the EBAN European Business Angels, for the moment the only structured network in Algeria which was created in 2012 by a group of Algerian entrepreneurs from the Silicon Valley located in California; it brings together 50 Algerian business angels including female business angels with an age between 35 and 60 years old, the network also offers training to become a business angel member of the network for interested investors.

Other individual Business Angels who wished to remain anonymous, we have named α , β , γ , δ , λ comes after the creation of the latest network they are very active and operate individually;

Often expert managers, but also professionals or successful business people or entrepreneurs who have succeeded in their careers. These recent days another network still in process of creation focused on the Algerian diaspora business angels under the name of BAALDI (Business Angels Algérie Diaspora).

4.Processes of BA Act:

Both of this BA's (members of a network and individuals) receive and accept entrepreneurs in all stages of a start-up (MVP, early stage, Incubation, Mentoring), but most of the entrepreneurs who approached them were in the MVP or creation phase (early stage)

The most formal way to apply for funding from the Algerian BA network is to submit a business plan on their platform, -without excluding other way to get their attention- who which is then sorted by members of the network who are the first to consider the project viable; based on evaluation grid where the project idea and the quality of the business plan has the most important coefficients, the project is then directed to the BA in close relation to the project, who then invites the projects holders to pitch their ideas in front of the audience composed only by BA (between 4 and 5 expert members in the field applied for). At this point the BA focuses on the candidate's knowledge and competence for the project and his/her motivation for it, most of project are followed by one from the audience; at this stage a relationship of trust is practically created and will strengthen through the partnership which follow the Agency theory (Van Osnabrugge, 2000; Kelly and Hay, 2003).

For Business Angels operating alone, the process is different because the pitch is in first position followed by the other steps, hence the importance of being able to present the project in a very limited time while attracting the BA.

5.The taking of equity and partnership holdings/associations:

The equity participation starts from 4% and can go up to 35% depending on the value of the risk and the domination/protection of the entrepreneur and the BA's entrepreneurial experience also influences but experience as an investor seems to

influence it in the opposite direction: the more experience he has, the greater his willingness to finance several different projects. Most of the projects financed by the business angels, whether in a network or on their own, is 15%. It states that the level of the BA's assets has an influence on its investment strategy and in relation to the level of risk-taking and the level of activity. When there is an agreement between the two parts the partnership process is then launched, the passage through a notary is obligatory, who mention the participation rate among other things on the status of the start-up.

According to the statistics that we have deduced from our research, the time needed for the operation between the meeting between the involved one and the moment of fund raising varies from 2 to 3 months, depending on the motivation and competence of the entrepreneur for a long period of time, for the local market no mention that there has been an exit from the BA has been found

The maximum amounts invested by the Algerian Business Angels in one start-up that have reached the figure of DA15 million for a remarkably high value-added start-up that arrived with an MVP at the meeting with the BA's.

The Algerian business angels claim an important lack of innovative start-ups in the Algerian ecosystem whereas there are several innovation models (sometimes 10).

6.The definition of ABA deduced from the research:

These allowed us to define the Algerian Business Angels (ABA) and join the definition made by Mason et Harrison as a group of individuals/ alone, who inject capital into a business in exchange for equity added to this the mentoring and the sharing of their network. The network is made up of experienced professionals or entrepreneurs who have knowledge and contacts in the industry in which they invest, most of them coming from the Algerian diaspora. The Algerian Business angels invest in companies with high growth potential based on their business idea and self-motivation / determination, generally in the early stage; they typically step in to provide funding for start-ups that have exhausted any friends and family investments or personal savings they may have been able to access. While most business angels are engaged and helpful.

CONCLUSION AND ROCOMENDTION FOR FUTURE RESEARCH

However, our study carried out is pioneering to identify these important actors of the ecosystem(Algerian Business Angels). Beyond the absence of studies and statistics shedding light on the facts listed above and providing a snapshot of the situation in which this means of financing startups in Algeria finds itself, the operations which are currently being carried out are discreetly between the two stakeholders and are not promoted or mediatised by their authors, except for a few BA's for strategic reasons, with a view to the positive repercussions which this mediatisation could have on the ecosystem.

Indeed, the research carried out highlights the commitment of business angels, makes emulators among potential investors and future business angels, promote this type of financing with the government, promote the Algerian startup ecosystem which suffers from under-mediatisation both internally and especially internationally, which does not contribute to attracting different stakeholders and international players in Algeria (foreign startups, regional or global networks of incubators, accelerators, venture capitalists). This weak development of business

angel networks can be explained mainly by the absence of regulations promoting this type of financing. Indeed, from a tax point of view, this method of financing should be part of an environment that encourages its practice "especially when these investors group together in business angel holdings".

It should also be noted that the Algerian economic landscape is quite conducive to the emergence of this type of financing. Indeed, it is notably dominated by family businesses at different levels of their typology, from the VSE, to the SME and even large companies. Beyond the investment in business angel networks, a second investment approach is possible for these families who maintain and develop their wealth and who call Family Offices.

The government, aware of the importance of start-ups, has taken the 12 long steps of the creation of a start-up in consideration which are slowed down by bureaucracy and is putting in place measures to remove all existing obstacles or obstacles that may appear to be obstacles to the creation of a start-up by creating a new fund for labeled start-up.

It is recommended that the future research analyze the relationships between Algerian business angels and entrepreneurs, and the legislation at the governmental level.

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