

Venture Capital as a Strategic Option for Financing Startups in Algeria**رأس المال المخاطر كخيار إستراتيجي لتمويل المؤسسات الناشئة في الجزائر****PhD student. Bachar Samira¹, Professor. Ghodbane Hossam El-Din²**

¹ Mohamed Kheidar University of Biskra ,Laboratory of Finance, Banking and Business Administration, (Algeria), samira.bachar@univ-biskra.dz

² Mohamed Kheidar University of Biskra, Laboratory of Finance, Banking and Business Administration, (Algeria), houssam.ghodbane@univ-biskra.dz

Received: 01/07/2024**Accepted:** 28/09/2024**Published:** 30/09/2024**Abstract:**

This study aimed to highlight the crucial role played by venture capital firms as a strategic option available in the business environment for financing Algerian startups, fostering their development and promotion in the national market, and contributing effectively to the economy. By examining the financing options available to startups through venture capital firms in Algeria, the study focused on a case study of the Algerian Financial Corporation, regarded as a true pioneer of venture capital financing in Algeria. It emphasized its contribution to financing startups from 2015 to 2021. The study demonstrated that venture capital firms provide significant financial advantages, with a maximum intervention level of 49% of the financed firm's capital, and approximately 64% of the firms have entered the exploitation stage. Furthermore, FINALEP's contribution portfolio comprises 36% of firms in the creation stage, with investments in various critical economic sectors.

Keywords: Venture capital; Venture capital firms; Startups; Algerian Financial Corporation.

JEL Classification Codes: G24,O16,

ملخص:

هدفت هذه الدراسة إلى إبراز أهمية الدور الذي تلعبه شركات رأس المال المخاطر كخيار إستراتيجي متاح في بيئة الأعمال لتمويل المؤسسات الناشئة الجزائرية لتطويرها وترقيتها في السوق الوطني لمساهمتها الفعالة في الاقتصاد، من خلال معرفة الخيارات التمويلية المتاحة للمؤسسات الناشئة عن طريق شركات رأس المال المخاطر في الجزائر دراسة حالة شركة المالية الجزائرية المساهمة حيث تعد الرائد الحقيقي للتمويل بالرأسمال المخاطر في الجزائر و Y براز مدى مساهمتها في تمويل المؤسسات الناشئة خلال الفترة من 2015 إلى غاية 2021. حيث تقدم مزايا تمويلية مهمة الحد الأقصى لمستوى تدخل كل مؤسسة هو 49% من رأسمال المؤسسة الممولة وما يقارب 64% من المؤسسات دخلت في طور الاستغلال كما انها تتكون محفظة مساهمات شركة في نالب بنسبة 36% من شركات في مرحلة الإنشاء وتتميز باستثمارات في مختلف القطاعات الاقتصادية المهمة.

كلمات مفتاحية: رأس المال المخاطر، شركات رأس المال المخاطر، المؤسسات الناشئة، شركة المالية الجزائرية المساهمة

تصنيفات JEL : G24 ، O16،

Introduction:

Startups are regarded as one of the most significant sources of economic development due to their crucial role in stimulating economic and social development sustainability. They have become the primary cornerstone of the economies of both developed and developing countries and the primary drivers of their growth, enabling them to enter and integrate into the economic field and easily align with technological advancements. Accordingly, the prevailing trend today is to enhance the investment climate for these firms and encourage efforts to establish all the frameworks and requirements for their success and advancement on the one hand and to provide the necessary funding for them on the other hand, offering them immense significance both locally and internationally.

Financing is the primary obstacle and the defining condition for the survival and development of startups. Thus, the issue of financing these firms in both developed and developing countries has been given priority within the different strategies dedicated to development. At the forefront of these strategies is venture capital, a significant source and financial tool providing the necessary funding cover for all startups to eliminate the financial gap. This enables the financing of many of these firms and the revival of others in financial difficulties, helping them fulfill the goal of value creation and sustainability. This is achieved through a precise financing strategy that provides financial, technical, and administrative assistance to manage these firms professionally and expertly, thereby enhancing the real economy.

Algeria is no exception in this regard. Since its independence, the country has sought to drive growth and fulfill balanced value by prioritizing startups, particularly with the new state's direction and the break from the old economic system. The focus has been on venture capital firms by working to create an integrated institutional environment on the one hand and suitable legislative laws on the other. Modern financing methods applied in Algeria endeavor to diversify the sources of financing for the national economy to develop an integrated financial market structure.

We will address the Algerian experience in venture capital financing with a study of the venture capital firm FINALEP.

Problem statement

In light of what has been introduced, the subject of the study centres around a fundamental problem statement that can be formulated as follows: What is the contribution of venture capital as a strategic option for financing Algerian startups?

Study Objectives:

Through this study, we aim to fulfill a number of objectives, as outlined below:

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- The study aims to identify the current situation and future prospects for the development of startups.
- Highlight the extent of the state's interest in the startup sector through the provision of fiscal and financial incentives.
- Examine the reality of venture capital financing and its effect on the creation and development of startups.
- Gain closer insights into the venture capital market operators in Algeria to determine the steps applied to foster venture capital in financing startups.

Study Methodology

To thoroughly enrich the topic and fulfill the desired objectives, we adopted the descriptive-analytical method by addressing the theoretical framework of startups and venture capital and the fundamental laws and procedures followed in the venture capital market. We introduced the leading firms in Algeria through a case study of the firm FINALEP. We attempted to provide an economic analysis by examining the available mechanisms for financing startups via venture capital in Algeria.

The study has been divided into three main sections. The study's delimitations can be outlined as follows:

- **Spatial delimitations:** The study's spatial delimitation encompasses an examination of Algeria through the case study of the Algerian financial firm FINALEP.
- **Temporal delimitations:** The study period received significant attention from the authorities, as the state revealed its sincere intention during this period to foster the startup sector as an economic alternative. This was fulfilled by offering a suitable investment climate and striving for political and economic stability. Accordingly, we chose to study and analyze this period, covering the timeframe from 2015 to 2021.

1 - Theoretical Framework of Startups

In the theoretical framework of startups, we will discuss the following: the definition of startups, the objectives of startups, and the sources of startup financing.

1.1. Startups Definition

According to the English dictionary, a *startup* is "a small project in its early stages. The term 'startup' comprises two parts: 'Start,' demonstrating the idea of launching, and 'up,' indicating the idea of strong growth." The term 'startup' started to be utilized directly after World War II, with the emergence of venture capital firms.

In the French dictionary, La Rousse, *startups* are defined as: "innovative young firms, especially in modern technologies. Startups represent the 'new economy' in the United States, and their development goes hand in hand with the Internet. Since the sustainability and growth of these firms remain uncertain, they benefit from specific sources of financing. These venture capital firms gather the necessary funds for business development; they get involved in management and earn their returns when the firms reach maturity. Individuals with significant resources can support these small firms. Startups that have gained credibility can be listed on new stock markets" (Bakhiti Ali, Bououina Salima, 2020, p. 3).

However, it is optional for these firms to operate in the technology sector or to be funded by venture capital. The primary concern is growth; everything related to startups follows growth (Asmaa Belama, Nour El Dine Kerrouche, 2020, p. 9).

According to Patrick Fridenson, a startup is independent of age, size, or sector of activity. A startup must meet the following four conditions:

- Strong growth potential
- Use of modern technology
- Need for substantial funding
- New market with difficulty in assessing risk

Accordingly, startups can be defined as firms that seek to innovate and develop a new product or service for the market. They are characterized by high risk and uncertainty, with the potential for rapid and strong growth and the possibility of fulfilling maximum returns in case of success (Sadouki Hamid, Maghrabi Kheira, 2022, p. 5).

According to Executive Decree No. 20/254, Algerian legislation does not define a startup but instead establishes criteria for its consideration as such. Several jurisprudential definitions share a similar meaning. Startups are defined as newly established firms in the business world with low initial costs compared to their rapid profits, facilitated by their quick growth potential and ability to expand through modern and advanced technology. Article 11 of this decree sets forth a series of conditions that a firm must meet to qualify as a startup, which is any entity subject to Algerian law and that achieves the following conditions (Executive Decree No. 20-254, 2020, p. 5).

- The age of the entity shall not exceed 8 years.
- Its business model shall be based on innovative products or services.
- Its annual business revenue shall not exceed the amount determined by the National Committee.
- The ownership of its capital shall be at least 50% held by natural persons or investment funds accredited by another entity that has been designated as a startup.
- The growth potential of the entity shall be significant enough.
- The number of employees shall not exceed 250 workers.

1.2. Startups Objectives

Startups have various objectives they seek to achieve, including the following:

- Fostering individual and collective initiative by presenting economic activities, whether commercial or service-oriented, that were previously nonexistent. This encompasses revitalizing economic activities abandoned for any reason, such as revitalizing traditional industries in manufacturing, construction, and public works, among others.

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- Creating new job opportunities directly or indirectly, either through the founders of startups themselves or indirectly by employing others.
- Reintegrating individuals who lost their jobs due to the bankruptcy of some public institutions or due to downsizing resulting from restructuring or privatization supports the possibility of compensating for lost activities.
- It is an effective tool for localizing activities in remote areas, fostering and improving local wealth, and integrating and cohesioneing regions.
- Seeking to become a link in the economic fabric through relationships with surrounding institutions that share and interact with similar inputs.
- Empowering different segments of society that possess good investment ideas but lack the financial and managerial capability to turn these ideas into viable projects (El Alami, Gouasmia, Salem Yakoub, page 6).

1.3. Sources of Financing for Startups

The sources of financing for startups vary from traditional sources, such as bank loans, to more modern sources, such as crowdfunding and venture capital, which are regarded as the most suitable sources for startups. The primary sources include:

- **Bank Loans:** Banks provide loans to businesses to meet their financial needs in exchange for interest. These loans are offered under agreed-upon terms and guarantees. Bank loans can be divided into short-term operating loans and long-term investment loans.
- **Self-Financing:** Relies on the entrepreneur's funds. Most new entrepreneurs resort to this method, particularly at the beginning of their activities when costs are relatively limited, and simple personal savings can cover initial operating expenses. One of the primary advantages of this method is that it allows the owner to retain full ownership and control of the firm without giving up any share or part of its management to external partners. However, it raises the financial and psychological burden on the entrepreneur, who becomes fully responsible for all aspects of the business amid uncertainty about the idea's success and its reception in the market (Ben Djima Nassira, Ben Jima Mariam, 2020, p. 6).
- **Business Incubators:** Business incubators help project holders seeking to establish innovative firms in production, services, and research and development by using their physical, human, and even financial resources to support and assist them in overcoming the challenges they encounter during their establishment. *Business incubators* are entities with legal standing, whether state-owned, privately owned, or a partnership between the two. They nurture technical projects by offering services and facilities to assist them survive and grow during the startup stage and assist in project management (Zerouak Aicha, 2022, p. 20).
- **Specialized Agencies and Institutions:** Sometimes, loans offered by these specialized agencies and institutions fall under bank loans, but their source is not banks. Instead, they come from entities specialized in supporting startups. These may be governmental, semi-governmental, or non-governmental organizations, and their

primary aim is to foster economic development and serve the public interest rather than profit.

- **Angel Investors:** Angel investors are successful businesspeople who fund startups with their own money. In Europe, an angel investor is called an "informal entrepreneur." He is defined as "a wealthy individual who invests a certain amount of capital during the launch stage of a business in exchange for equity ownership." However, there is a significant downside to relying on angel investors, which is the issue of equity ownership. An angel investor might acquire up to 50% of the startup, which means a substantial loss of profits for the original owners (Ben Djima Nassira, Ben Djima Mariam, 2020).

- **Crowdfunding:** Crowdfunding is a project financing mechanism that allows for collecting financial contributions, often small amounts, from many people. This approach offers methods and tools for financial transactions that eliminate the need for traditional intermediaries. Furthermore, it permits all members of society to invest a certain amount of money, regardless of its value. When combined with the investments of other contributors, it offers sufficient funding for the project. Unlike the traditional banking system, crowdfunding is not solely concentrated on generating profit from the investment but seeks to help and support the project owner in applying their idea.

- **Venture Capital Financing:** Venture capital financing is a method or technique for funding investment projects through venture capital firms. Unlike traditional banking, which typically offers cash, this technique relies on participation. The investor funds the project without any guarantee of return or its amount, thereby risking his money. This method is particularly beneficial for new or expanding small and medium-sized firms that are encountering difficulties in obtaining financing. In this technique, the investor wholly or partially bears the risk if the funded project fails (Asmaa Belama, 2020, p. 7).

2. Theoretical Framework of Venture Capital

Finishing investment projects through venture capital firms is grounded on participation in the capital at different phases of a company's life.

2.1. Definition of Venture Capital According to the German Central Bank

Venture capital typically involves equity stakes in unlisted, technology-innovative startups. Despite their current low profitability, these firms have considerable growth potential. Venture capital firms offer these startups private funds and provide extensive interpretive expertise and advisory services (Ahlam Ben Naoui, Rabah Bouguerra, 2016, p. 10).

2.2 Types of Venture Capital Financing

Venture capital firms finance startups with projects that carry considerable risks, often perceived as offering necessary funding only at the project's inception. However, this type of financing is not limited to the initial stage but can occur gradually and at any stage of the firm's development. Therefore, venture capital financing typically follows these stages:

- **Startup and Launch Stage:** This stage is regarded as one of the most challenging and risky stages, where the financier makes a series of precautionary decisions mainly associated with the project risks to ensure anticipated investment returns. It consists of two essential stages:

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- **Pre-Startup Stage:** Considerable funding is allocated in this stage to cover research and development expenses, conduct actual experiments, test practical and commercial models for the new capacity, and evaluate market demand. This funding is very costly due to extensive research and experiments. Furthermore, there is a high cost related to the firm's risk of failure.
- **Startup Capital Stage:** This stage involves dedicated funding specifically for initial investment following the success of the research and experimentation stage. It includes initial startup expenses. This stage remains one of the riskiest because it does not meet institutional funding criteria, whether from banks or through stock offerings, and is solely funded by venture capital. (Sahnoune Samir, 2013, page 104)
- **Expansion and Development Stage:** Venture capital intervenes at this stage to fund the expansion activities of small and medium-sized firms, provided that this expansion generates additional profits for the project. At this growth stage, the project necessitates external financing sources amounting to approximately 40% or more, depending on the nature of the project. This growth can be internal, such as rising production capacity or improving marketing capabilities, or external, such as entering new markets, establishing new branches, diversifying into new markets, etc. As the project expands, the firm resorts to debt financing and gradually reduces dependence on venture capital due to reduced risk levels.
- **Ownership Transfer Stage:** This stage is utilized when the firm's owners wish to transfer the company's ownership to a new group of stakeholders. At this stage, venture capital intervenes by funding the transfer operations of the new management and financial team by establishing a holding firm responsible for overseeing the process, granting loans to partners, and monitoring the transfer process to guarantee benefits for the venture capital provider.
- **Correction or Recycling Stage:** It is regarded as one of the most challenging and risky for capital providers. It necessitates restructuring the firm's activities and renewing production processes or applying new technological or marketing arrangements to guarantee its success and return to profitability. Naturally, this involves obtaining substantial financing to restructure the project and deploy new competencies and skills capable of managing the new technology, thereby fulfilling the firm's profit goal. (Bribeche Al-Said, 2007, p. 10)

2.3. Forms of Venture Capital Financing

Venture capital firms are among the newly established intermediaries that offer funding to start-up firms. They are characterized by higher risks compared to traditional intermediaries. Accordingly, some researchers have categorized the types of financing these firms receive based on the nature of financial intermediation into institutional and non-institutional investors. The details of these classifications are as follows.

Institutional Investors:

François Poitral defines institutional investors as financial entities capable of gathering savings funds and investing a considerable portion in equity funds, which may be owned by them, or in private equity funds they do not own. These entities do not seek to maximize their resources beyond what the law permits. This type of institution funds projects in three ways, classified by the French Association of Venture Capital (AFIC) into three approaches.

The first approach includes direct funding of unlisted companies. The second approach is an internal indirect approach, conducted through an investment fund that finances the firms. The third approach, the fund-of-funds approach, involves forming one or numerous funds that

finance other funds, which finance start-up firms. This category encompasses pension funds, insurance firms, deposit and guarantee funds, private equity funds, etc.

Non-institutional Investors

This type of funding is one of the oldest forms of venture capital. Researchers could not define this type of financing due to the variation of non-institutional financing from one region to another, affected by a broad and diverse range of factors. It offers capital to small and medium-sized firms (SMEs) that are high-risk and small in scale. This category involves various types of financing, such as business angel investors, associations of angel investors, university and research center funds, and so on (Sahnoune Samir, 2013, p. 10).

2.4. The Significance of Venture Capital in Supporting Start-Ups

After addressing the types and forms of funding for start-ups, the importance of venture capital as an alternative financing technique for these firms becomes apparent. It can be emphasized through the following points:

- **Difficulty in Financing Some Projects through Traditional Methods:** Venture capital funds projects that are difficult to finance through traditional methods, as most financial institutions are hesitant to lend to them.
- **Ease of Access for Start-Ups:** Venture capital financing is more accessible to start-ups than traditional financing methods, given the more straightforward procedures and lack of collateral requirements.
- **Added Value Services:** Venture capital provides added value services to entrepreneurial projects, including technical, managerial, marketing, and strategic consultations, raising their chances of success.
- **Economic Growth:** Venture capital contributes to economic growth by creating new markets, helping diversify the economic structure, and increasing competitiveness.
- **Reducing Unemployment:** Venture capital assists in reducing unemployment by offering job opportunities in new fields.

In contemporary economies, venture capital institutions are among the most important means of financial and technical support for start-up projects. These institutions can manage risks effectively (Bouamama Khamra, 2023, p. 9).

2.5. Series of Funding for Start-Ups

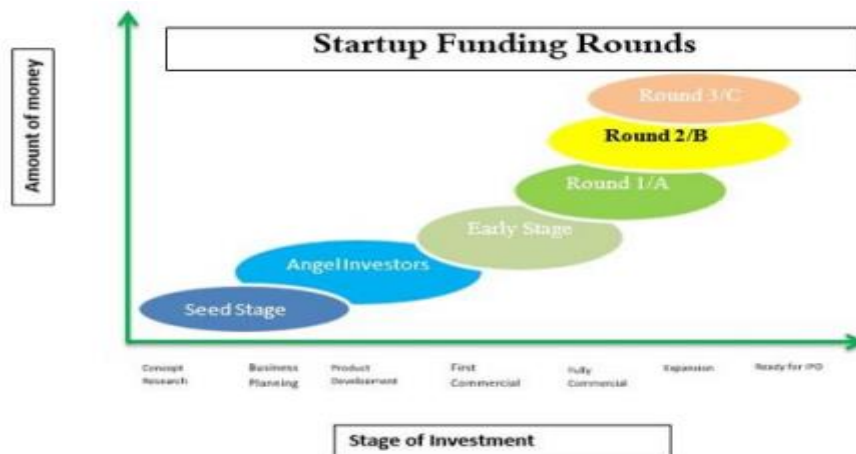
This is known as the funding or investment stage, where a start-up firm obtains financing, starting from its inception and culminating when it holds a significant market share. These stages vary in terms of company maturity, types of investors involved, the aim of funding or capital increase, and the level of risk:

- **Seed Capital** is the initial stage of financing, often sourced from founders' personal assets, friends, family, or angel investors, to cover initial operational expenses and attract further investment.
- **Series A Funding:** Mainly funded by traditional venture capital firms, this stage seeks to enhance the product base by financing the business plan to expand the product scope across various markets and achieve long-term profitability.
- **Series B Funding:** Investors offer funding to the firm to expand, continue developing its plans, and attract employees, among other objectives.
- **Series C Funding and Beyond:** The firm necessitates funding to develop products or services further, gain a larger market share, acquire other companies, and more.

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These funding stages are significant for start-ups in securing the necessary resources for growth and development in different aspects of their business strategy (Narimane Ben Abdelrahmane, 2023, p. 9).

Figure 01: Series of Funding for Start-Ups



Source: Narimane Ben Abdelrahmane, p. 9

3. The Financing of Venture Capital as a Strategic Option for Financing Start-Ups in Algeria: A Case Study of the Algerian Financial Company FINALEP

FINALEP (formerly called Algerian-European Financial Company) represents pioneering experience in this field. It was established on June 30, 1991, following reforms in the Algerian banking and financial system that sought to improve investment capital.

Its capital has experienced numerous rises to the current level of 3,200,000,000 DZD. FINALEP operates across the national territory, contributing to developing and promoting small and medium-sized firms, especially those with an industrial focus.

The new strategic redirection policy of FINALEP originates from its strong desire to consolidate and foster its relationships with partners. The new strategy of FINALEP highlighted its vision for distinction within a dynamic economic framework and endeavored to improve promotional capabilities that reflect its recent achievements.

FINALEP's primary mission as a venture capital firm is to improve the capital of small and medium-sized firms, whether for its account or on behalf of others, to exit later.

3.1. Objectives and Tasks of the Firm

The main objective of FINALEP is to acquire social shares or stakes by contributing to the capital of small and medium-sized firms. To achieve this, it intervenes in several stages of a company's lifecycle through the following forms:

- **Venture Capital**
- **Development Capital**

To participate in firms' capital, FINALEP can employ its own funds as well as external resources: regional investment funds established by public authorities under the Complementary Finance Law of 2009.

Regional Investment Funds (www.finalep.dz, s.d.): Established under Article 100 of the Complementary Finance Law of 2009, are responsible for contributing to the capital of small and medium-sized firms initiated by young investors.

Resources of Regional Investment Funds: Each regional investment fund is supported with resources estimated at one (1) billion DZD.

Management of Investment Funds: Law 6-11 of June 26, 2006, concerning venture capital firms, entrusted the management of these investment funds to venture capital firms on behalf of the public treasury.

3.2. Specific Objectives of FINALEP in Managing Regional Investment Funds

According to the agreement signed between the Ministry of Finance and FINALEP, the public treasury has entrusted FINALEP with managing these funds in the form of contributions to the capital of small and medium-sized firms in the establishment or development stage.

In accordance with the provisions of Law No. 06-11 dated June 24, 2006, regarding venture capital companies:

The Algerian financial participation ratios and amounts are defined as follows:

- **Maximum Level of FINALEP's Intervention:** FINALEP can intervene up to 49% of the funded firm's capital, within the limits of 15% of the total resources of the investment fund, which amounts to 150,000,000 Algerian Dinars per funded firm.
- **Minimum Level of FINALEP's Intervention:** The minimum level of FINALEP's intervention in each firm is 5,000,000 Algerian Dinars.

3.3. Eligible Institutions for Financing

Every project owner operating in the industrial and service sectors and meeting the following eligibility criteria:

- Contribution to reducing imports and rising exports excluding hydrocarbons
- Creating high added value
- Use of local resources and raw materials
- Participation in reducing unemployment, particularly among young graduates from training centers and universities
- Contribution to regional balance and local development

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- Engagement in the knowledge economy and renewable energies (www.finalep.dz, s.d.)
- Activity in environmentally friendly industries

3.4. Conditions for Intervention by the Algerian Contribution Firm Funded institutions are required to adopt the legal form of capital firms (limited liability firm or joint-stock firm).

- The contribution ratio should not exceed 15% of its capital in funding the same institution.
- Minority participation should not exceed 49% of its capital in the same institution.
- Negotiation of a shareholder/partnership agreement beforehand, encompassing:
 - Duration of the contribution
 - Conditions and methods for exit and transfer of shares or social quotas, ...
 - A set of provisions sought at organizing and protecting the rights of minority investors and guaranteeing the right of preemption for founding shareholders/partners.

3.5. Methods of Intervention of the Algerian Investment Firm

Investment capital is regarded as private funding directed towards non-stock exchange institutions. It involves the participation of specialized institutions in this type of financing in the capital of other institutions needing funding for a limited period. These institutions do not participate in the firm's management but contribute their technical expertise to its operation and exercise a somewhat supervisory role to fulfill added value due to relinquishing their shares.

3.6. Various Types of Venture Capital Interventions

Venture capital can be classified into:

1. Repurchasing contributions possessed by another venture capital: Purchasing shares from another venture capitalist in the capital for strategic reasons, including specialization according to sector, region, branch of activity, and so forth.
2. Development capital: After reaching breakeven and fulfilling profitability, the firm necessitates additional resources to raise its capacity, develop its sales team, or increase its working capital.
3. Risk capital in the startup stage: Participation in the startup stage from product development to industrial and commercial launch.

3.7. Characteristics of FINALEP's Investment Portfolio

The figure below represents the features of FINALEP's investment portfolio. Approximately 64% of the investments have entered the operational phase. The remaining

funded firms are expected to enter the operational stage primarily during the financial year 2023. Furthermore, 36% of the firms are in the startup stage, featuring investments in diverse fields alongside funding for some exceptional projects. Since 2016, 87% of the contributions have been fulfilled, indicating that FINALEP's portfolio has been highly sustainable since the financial year 2016. This demonstrates the commercial and promotional efforts made.

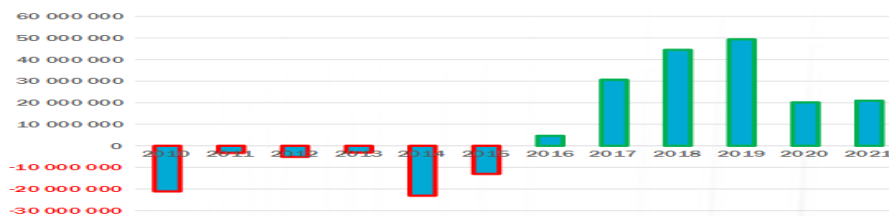
Figure 02: Features of FINALEP's Investment Portfolio



Source: www.finalep.dz

3.8. General Results of the Algerian Financial Firm

Figure 03: Historical Development of General Results for the Period from 2010 to 2021

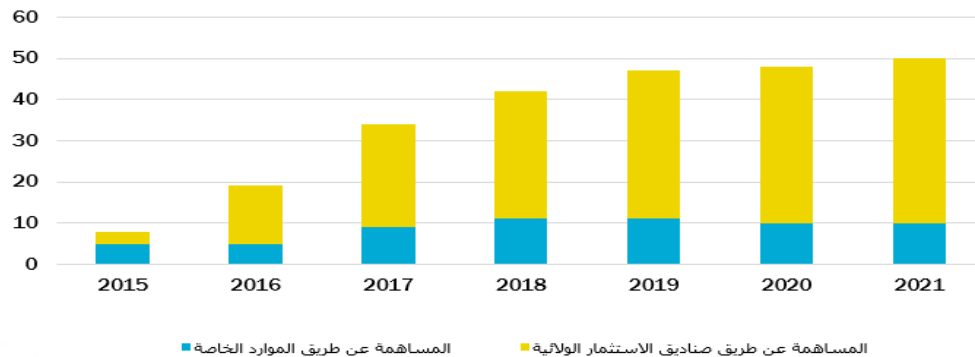


Source : www.finalep.dz

We note from the above figure that the general result of the Algerian Financial Firm for the period from 2010 to 2021 indicates a negative result from 2010 to 2015. However, the firm experienced a positive result in 2016, followed by noticeable annual growth until 2019. Thereafter, a decline was observed in 2020 and 2021 due to the global COVID-19 pandemic.

3.9. Evolution of the Investment Portfolio Contribution

Figure 04: Evolution of FINALEP's Portfolio for the Period from 2015 to 2021

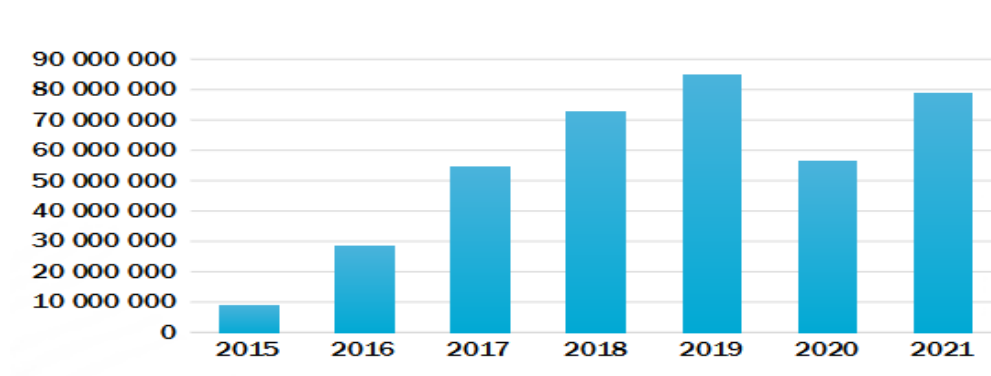


Source: www.finalep.dz

From the above figure, we notice the evolution of FINALEP's portfolio from 2015 to 2021, emphasizing contributions through provincial investment funds and private resources. This demonstrates increasing annual growth, showing the strength of its financial activities for these institutions.

3.10. Evolution of Revenue for the Period 2015-2021

Figure 05: Evolution of Revenue



Source: www.finalep.dz

From the above figure, we note the historical development of the firm during the period from 2015 to 2021, indicating noticeable annual growth from 2015 until 2019. However, there was a decline in 2020 due to the COVID-19 health crisis, followed by a considerable enhancement in 2021.

3.11. Major Startups Funded by the Algerian Financial Firm

The Algerian Financial Firm provides funding for various economic projects across various sectors, which are significant for building sustainable economic diversification. The table below illustrates a sample of these projects from various provinces.

Table 01: Major Startups Funded by FINALEP

Province	Firm	Activity sector	Financing type
Tipaza	Keltmar LLC	Breeding molluscs	Funding the Firm During the Development Stage
Setif	Fitpac	Manufacture of flexible packaging	Funding the Firm During the Development Stage
	Adam Bites LLC	Biscuits	Funding the Firm During the Creation Stage
Skikda	Park Aquatic Lablatane	Waterpark	Funding the Firm During the Creation Stage
El-Bayad	Soufiane Hotel	Hotel industry	Funding the Firm During the Creation Stage
	Al Baraka Milk	Dairy	Funding the Firm During the Creation Stage

Source : www.finalep.dz

From the above table, the Algerian Financial Company (FINALEP) distinguishes itself by diversifying its funding portfolio across various stages of business development, encompassing growth stage financing, startup stage financing, and development stage financing, with a predominant focus on the latter.

In terms of sectors, FINALEP has made a concerted effort to diversify its investments across different industries, services, tourism, and commercial activities. All these funded projects contribute to building a strong Algerian economy beyond the hydrocarbon sector.

The Algerian government sincerely intends to develop this sector by establishing a dedicated ministerial department to expand and improve venture capital funding across different industrial, service, and tourism sectors. This initiative also supports innovative projects through venture capital, facilitating the operational mechanisms and access to funding from venture capital firms.

4. Conclusion:

Through our study, we aimed to emphasize venture capital firms' role in financing startups in Algeria. These firms have played a crucial role in addressing the traditional financial challenges faced by startups, particularly innovative ones. Algeria is home to numerous active venture capital firms, which underscores the need to promote a risk-taking attitude to finance more startups, especially those with new and innovative ideas that leverage technology. The experience of venture capital firms in Algeria, focusing on FINALEP, was introduced to illustrate this perspective.

Among the most significant results are:

- The startup sector is one of the most significant economic sectors the state relies upon to build economic diversification and growth. The state has offered extensive technical and financial support, and venture capital companies support startups through risk capital financing.
- Venture capital is one of startups' most essential means of support and accompaniment. However, all financing in Algeria has been in the stages of establishment or growth, with no financing offered before the establishment stage.
- The maximum level of intervention by "FINALEP" in each institution is 49% of the institution's funded capital, within the limits of 15% of the investment fund's total resources, i.e., 150,000,000 Algerian dinars per funded institution.
- The minimum level of intervention by "FINALEP" in each institution is 5,000,000 Algerian dinars, and funded institutions must take on the legal form of capital firms (limited liability firm or joint-stock firm).
- There is a diverse range of venture capital interventions, encompassing buybacks of shares owned by other venture capital entities, development capital, and venture capital for the establishment stage.
- Approximately 64% of the contributions entered the usage stage. The remaining funded firms are expected to enter into utilization to a large extent in the financial year 2023.
- FINALEP's portfolio of contributions comprises 36% of firms in the establishment stage, characterized by investments in different fields and financing for exceptional projects.
- There is diversity in financial contributions offered to startups through regional investment funds and contributions from private resources.
- The firm's financing diversity involves stages of establishment and development across different economic sectors such as industry, pharmaceuticals, and tourism.

5 - Recommendations:

Based on the results presented, the following recommendations can be suggested:

- Provide several guarantees and incentives, such as tax reductions, to encourage and support venture capital firms. Encourage regional and international banks to invest in Algeria.

- Working on valuing innovations and scientific research results through specialized agencies, significantly after Algeria shifted its focus towards a productive economy instead of a rentier one.
- Stimulating the market for venture capital firms in Algeria by presenting more incentive mechanisms to guarantee more significant funding for a larger number of startups.
- Encouraging venture capital firms to raise their participation in capital funding to foster the creation and establishment of innovative startups within both the professional and university environments.

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