

Financing practices of labeled startups

Sarra Benlefki,  <https://orcid.org/0009-0005-8934-388X>

Independent researcher, Higher National School of Management, Algeria

Mehdi Bouchetara,  <https://orcid.org/0000-0001-9826-8985>

Ph.D., Associate professor, Higher National School of Management, Algeria

Amine Saba,  <https://orcid.org/0009-0000-2146-3109>

Associate professor, Higher National School of Management, Algeria

Nadia Gahlam,  <https://orcid.org/0000-0002-4588-1337>

Ph.D., Associate professor, Higher National School of Management, Algeria

Corresponding author: Sarra Benlefki, benlefki.sarra@gmail.com

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Abstract: *The research investigates the formal and informal financing practices utilized by labeled startups in Algeria, emphasizing their essential role in economic development. Despite the recent dynamism observed in the Algerian startup ecosystem, these enterprises face substantial growth challenges due to limited access to financing, a critical factor for their success. To address this issue, a study was conducted involving 129 owners of labeled startups as of June 2023, employing a questionnaire for data collection. The data were analyzed using descriptive statistics and multivariate logistic regression. The findings confirm the prevalence of personal financing/love money as the dominant source of funding, with venture capital also identified as a significant financing method. Additionally, 28% of startups resorted to informal financing practices due to inadequate bank financing and difficulties in accessing other funding sources. The study also reveals that support structures have no significant impact on startup financing. This research provides valuable insights into the financing challenges faced by labeled startups and offers directions for future, more comprehensive research.*

Keywords: financing practices, labelled startup, sources, Algeria, multivariate logistic regression.

JEL Classification: G24, G32, L26, M13.

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INTRODUCTION

Over the past five years, Algeria has shown a particular interest in startups, following the example of other countries worldwide, by giving them a central place in the national economy with the aim of making startups the spearhead of the Algerian economy. This impetus was characterized by the creation of the Ministry delegated to the Prime Minister in charge of the knowledge economy and startups in 2019, which became the Ministry of Knowledge Economy, Startups, and Microenterprises. Its main mission is to invigorate the national and local startup ecosystem and establish financial aid mechanisms (Drouiche et al. 2022; Khelil, 2022; Ismail et al., 2021).

However, the path to the growth of a startup is fraught with challenges Saini et al. (2023), with one of the main challenges being financing, especially given the constraints of a weak financing environment (Khelil, 2022). Consequently, the difficulty of obtaining financing represents a source of concern in their development (Xu et al., 2021). Financing is thus one of the main causes of failure for these enterprises (Boumendil, 2022; Sabah et al., 2021; Drouiche et al., 2022).

Furthermore, the concern of these startups is not only limited to successfully acquiring these sources of financing, but also to the choice of financing among many others. Financing startups has always been a subject of debate among economists and researchers (Tariq, 2013). The interest in the financial challenge is explained, on one hand, by the specificity of startup financing, and on the other hand, by the importance of resources for startups, given that the issue of financing is second in importance after the initiative for their implementation (Boumendil, 2022).

The research problem of this study arises from the results of the research of Boumendil (2022); Drouiche et al. (2022); Tariq (2013). It is based on the following research question:

What are the financing practices of labeled startups in Algeria?

To answer the research question, the work of Belaid (2023); Boumendil (2022); Douadi-Amiar et al. (2022); Hattou (2019); Sabah et al. (2021) was considered. Thus, the research hypotheses that were retained are as follows:

H01: Personal financing/love money will emerge as the primary funding practice for labeled startups in Algeria, reflecting the reliance on internal resources and founder's funds to kickstart startups.

H02: Venture capital funding will demonstrate increasing importance as a method of startup financing in Algeria, driven by the establishment of venture capital funds such as the Algerian Startup Fund.

The study focuses on the financing practices of labeled startups in Algeria (Boumendil, 2022). It aims to achieve the following objectives:

- To understand the financing practices of labeled startups in Algeria;
- To identify the determinants influencing the choice of financing mode among other financing modes;
- To understand the role of support structures in startup financing;
- To explore the difficulties and facilitators of access to financing for startups in Algeria.

LITERATURE REVIEW

According to the reviewed literature, two approaches are prevalent in identifying sources of financing for startups: those that address startup financing according to their life cycle and those that address each financing method individually (Boumendil, 2022). These two perspectives are presented to highlight the financing sources of startups.

Startup Financing Life cycle

Startups, like all businesses, follow a lifecycle (Boulahouat et al., 2022), comprising five progressive phases: incubation, seed, startup (Early stage), growth, and finally, the exit phase (Ekeland et al., 2016).

There exists a variety of financial instruments aimed at funding startups (Kouamé, 2012). Each phase of the lifecycle mobilizes financing sources tailored to the startup's development, as financing needs change according to its stage of development (Tariq, 2013).

Figure 1 distinguishes the different phases of a startup's evolution, with each phase highlighting the various available financing modes.

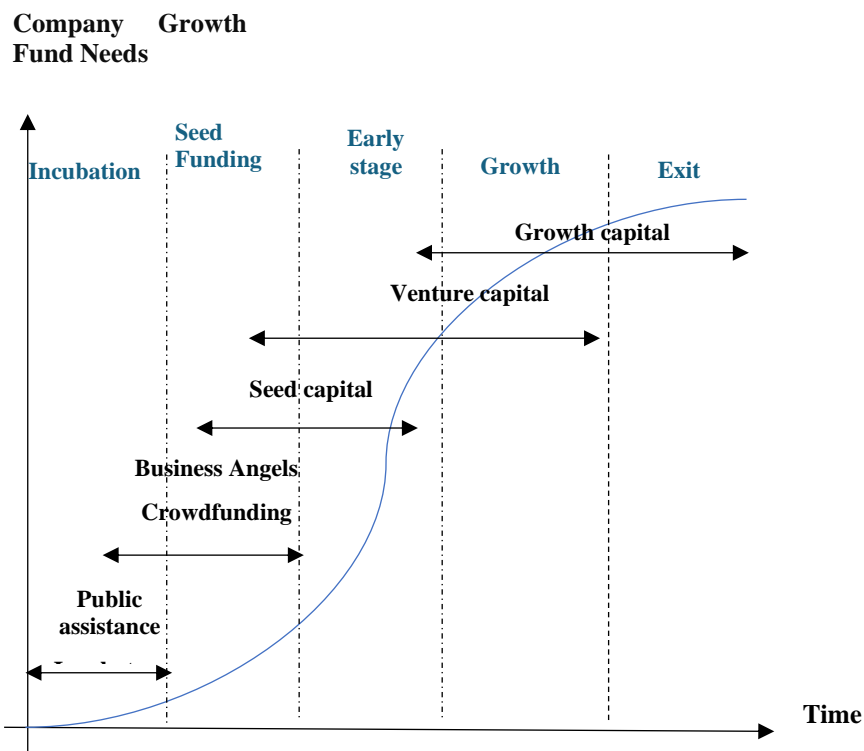


Figure 1. The funding cycle of startups according to their growth stages

Source : (Ekeland et al., 2016), *Renforcer le capital-risque français*, p. 2. Adapted.

The different phases of the startup life cycle and the most commonly found financing modes for each stage are summarized in Table 1.

Table 1. Startup Financing Phases

Phase	Description	Type of financing
Incubation Phase (Bootstrapping Phase)	This is the research and development phase. During this phase, the project is still just an idea.	Love money;
		Public assistance (competitions, honor loans);
		Networking provided by incubators and accelerators;
Seed phase	This is the phase of creating the startup and the initial capital injection into the company.	Business Angels.
		Public assistance;
		Business Angels;
		Crowdfunding;
Early stage (Startup Phase)	This phase begins when the startup sells its products, enters the market, and builds its team. It marks the first success.	Specialized funds (seed funds).
		Venture capital through specialized funds, or public assistance.
Later stage (Growth Phase)	This is the takeoff phase for the startup.	Growth capital (growth equity).
Exit Phase	This is the phase where the startup has reached maturity.	The startup is listed on the stock market;
		Acquisition by a large company.

Source: Compiled by the authors, based on the works of Ekeland et al., (2016); Salamzadeh & Kawamorita Kesim (2015).

Startup Financing Practices

Several sources of financing exist for startups (Drouiche et al., 2022). Financing sources can be formal or informal. Formal financing sources include financing from regulated institutions, both government and central bank, while informal markets operate beyond the regulatory framework of the financial system (Arisa et al., 2022).

Informal Financing Practices

The lack of financing is often the primary cause of startup failure, especially as most entrepreneurs struggle to obtain financing from formal sources (Mendes-Da-Silva, 2019). Consequently, informal financing has become the preferred channel for startup financing due to the difficulties they encounter in securing funding from formal institutions. Therefore, establishing and developing without the support of informal funding is challenging for startups (Xu et al., 2021). Informal financial markets play a key role in the development of millions of small businesses, complementing formal financial markets. These small businesses often face severe financing constraints from formal financial markets, particularly in emerging markets with underdeveloped financial systems (Li & Hua, 2023). Consequently, the existence and proper functioning of an informal financial market are as important as the formal financial market (Edirisinghe & Ariyawansa, 2015).

According to (Edirisinghe et al. 2015), the informal finance sector is divided into three main categories:

- Non-commercial financing: is the money lending between relatives and friends with little or no interest.
- Commercial finance: is the funds lent and borrowed to finance the purchase or sale of goods for consumption or investment purposes.
- Arrangements with savings and credit groups and associations.

On the other hand, Daoudi et al. (2010) present four main types of informal financing practices in the agricultural sector in Algeria:

- Pre-financed standing sale: the sharing of technical and financial responsibility for the implementation of the production process. Negotiation and realization of this type of transaction take place at the beginning of the production cycle.
- Production association: this practice allows individuals with different but complementary factors of production to combine them. It is a combination of production factors (labor and capital). Profit is distributed according to the contribution of each in factors of production.
- Supplier credit (Commercial credit): credit granted by suppliers and sometimes by customers.
- Peer-to-peer lending: the main sources of this loan are parents, friends, and economic partners. These loans are usually made in cash and interest-free.

According to Eriola, et al. (2022); Riding (2008), the informal market consists of two main segments: Business Angels and friends and family “love money”. The latter tends to be occasional investors and represent most informal investments:

Personal Financing / Love Money

Personal financing and love money are considered the main sources of financing for startups. Moreover, they constitute the largest source of informal financing for startups (Pommet et al., 2016; Tariq, 2013). On one hand, personal financing corresponds to the entrepreneur’s personal financial contribution (Andaleeb et al., 2016; Drouiche et al., 2022). On the other hand, love money financing, also known as the “3F” for “family, friends, and fools,” refers to funds collected from family, friends, acquaintances, or others (Drouiche et al., 2022).

Business Angels (Angel Investors)

Business Angels are individuals or private individual investors. They invest part of their personal wealth in a startup they believe in its growth potential (CNCC, 2023; Ernes et al., 2022; Leseur, 2018). In addition to the invested amount, Business Angels provide entrepreneurs with their skills and bring their opinions, advice, networks of contacts, and experience (CNCC, 2023; Leseur, 2018). Moreover, according to Iruarrizaga and Santos (2013), as shown in Table 2, Business Angels are part of the informal investment sector that exists in all economies. However, the terms “informal investor” and “Business Angel” are not always synonymous. The theoretical debate in the literature is still ongoing, as there is uncertainty in classifying Business Angels, as some operate in the formal and others in the informal sector.

Table 2. The Positioning of Business Angels Between Informal and Formal Financing

Informal financing		Formal financing	
Family, Friends and Fools (3Fs)	Business angels	Venture capital funds	

Source : (Iruarrizaga & Santos, 2013), *The informal investment context: specific issues concerned with business angels*, 183. Adapted.

Formal Financing Practices

Crowdfunding

Crowdfunding is a mode of financing complementary to traditional financing (Sabah & Bentayeb, 2021). It involves a financial transaction (Khelil, 2022), based on fundraising through crowdfunding platforms on the internet, which connect contributors and project holders (CNCC, 2023; Khelil, 2022). This type of financing has experienced growing success globally in recent years (Attuel-Mendes & Soulas, 2021; Douadi-Amiar & Derridj, 2022).

Private Equity

Private equity is a long-term financing mode undertaken by investors with the aim of generating profit upon their exit from the capital. It primarily targets companies facing difficulties in obtaining financing from traditional financing sources. Additionally, it is a form of financing that can fund startups based on their maturity level (Rifai, et al., 2023).

According to Amirat (2020); Beztouh (2021); Rifai (2023), there are five types of private equity:

- Seed capital: intended for startups still in the research and development phase.
- Venture capital: aimed at startups in the creation and startup phase.
- Growth capital: primarily for startups that have proven their potential in the market and wish to accelerate their internal and external development.
- Buyout: involves acquiring a significant portion of a company through debt. Investors provide the company with their strategic, legal, financial, and human expertise to manage this crucial situation for the company's future.
- Turnaround: turnaround investors typically acquire all or a majority stake in a struggling company. This financing aims to keep the startup alive.

Venture Capital

Venture capital is a compartment of the larger family of private equity (Kouamé, 2012). The main difference from other private equity products lies in the fact that venture capital primarily targets early-stage financing for young companies, while private equity addresses a broader range of companies, often even mature companies with restructuring prospects (Ernes et al., 2022).

Venture capital is divided into several types that fund startups according to their maturity (Parpaleix, 2019) as follows:

- Seed funding: the first financing, it funds the company's creation phase. This phase generally concerns technological companies (Parpaleix, 2019).
- Creation: this funding is primarily intended to finance the startup of the company's activity (Parpaleix, 2019).
- Post-creation: this type typically funds the growth of the company's activity before it becomes profitable (Parpaleix, 2019).

Bank Financing

Banks are an important source of financing for startups. They offer various financing offers and opportunities as well as assistance in renegotiating the contract whenever startups face difficulties. Moreover, banks facilitate future access to financing for startups by solving the problem of lack of information about them, generating information about startups (Tariq, 2013).

However, in recent years and particularly since the 2008 economic crisis, the financial environment has undergone significant changes. New regulatory measures have been introduced, leading banks to take a harder stance regarding loans to businesses (Douadi-Amiar et al., 2022). Especially for startups, due to their highly risky activities and lack of financial guarantees. Moreover, startups do not meet banks' requirements as they lack proven track records (Rifai et al., 2023), and generally cannot manage fixed repayment deadlines (Ekeland et al., 2016). Therefore, resorting to bank loan financing for startups is delicate and very limited, if not impossible, especially in the creation or startup phase. Because bank credit is not suitable for financing startups (Ekeland et al., 2016; Hyun et al., 2022; Rifai et al., 2023).

Initial Coin Offering (ICO)

Initial Coin Offerings (ICOs) are a fundraising method involving the issuance of crypto-assets or tokens exchangeable for cryptocurrency during the project's startup phase. In other words, when the startup has not yet launched a product or service (Hafied, 2019). To obtain this funding, startups must create a page on a

crypto-asset exchange platform and present their project (Hafied, 2019). These fundraising operations are conducted using distributed ledger technology, resulting in the issuance of tokens exchanged on the platform (Le Moign, 2019). The pre-sold token units can be used to obtain products or services or to generate a profit (Hafied, 2019).

Government Initiatives (Public Programs)

Public programs are a necessary and indispensable support to assist startups. They have the primary objective of encouraging the creation, development, and establishment of startups, as they are seen as an essential lever for long-term economic growth. Public programs are generally available in all countries (Kouamé, 2012). They come in two forms:

- Direct public programs, such as investment subsidies or lowering the corporate tax rate, etc. (Kouamé, 2012);
- Indirect public programs, such as tax or social exemptions, public guarantees, investment deductions, equity investments, or repayable advances, etc. (Kouamé, 2012).

Asset-Based Financing

Asset-based financing is a financial arrangement whereby a company uses its non-current assets as collateral to obtain short-term credit without disclosing its credit history. The main instruments of asset-based financing (Ernes et al., 2022) include Asset-based loans, Factoring, Invoice discounting, Leasing, Hire-purchase.

Islamic Financing

Islamic financing, represented by Islamic banks, constitutes an alternative financing source for startups. It is based on two principles: profit and loss sharing, and uncertainty in business relationships (Adraoui et al., 2016). There are several Islamic finance instruments, offering advantageous diversity for young project holders (Adraoui et al., 2016).

Islamic financing products are classified into three main categories (Baochi et al., 2022):

- Participation-based financing instruments are based on profit and loss sharing, with no guarantees required when financing through these instruments. Therefore, these products are intended for companies with strong growth potential and a healthy and secure financial history (Brgchou & Hamimida, 2018). Among these instruments, Mudharaba, Mouzaraa, Mousakat, Musharaka, etc. can be mentioned (Baochi et al., 2022);
- Sale and debt-based financing instruments, also called commercial instruments or products, are numerous. These include Murabaha, Bai Salam, Ijara, Iqtina'a, Istisna'a, etc. (Baochi et al., 2022);
- Charity-based financing instruments (without counterpart), the most well-known and widely used being Qard Al Hassan, which is a free financing contract. In this case, a lender finances a borrower for a specified period without applying interest on this loan (Baochi et al., 2022).

Islamic Social Financing

Islamic social finance is social financing subject to Islamic principles (Bouhadra, 2021). It represents an important source of financing for small businesses, especially as Islamic Social Finance (ISF) instruments have demonstrated their effectiveness, both in the past and present (Diaw et al., 2019). The main instruments are as follows:

- Sadaqah: this is voluntary charity, which can consist of a donation of goods or simply the relinquishment of their usufruct (Diaw et al., 2019). These donations are intended to support individuals in need of funding for their small businesses (Bouhadra, 2021).
- Zakat Fund: Zakat is a mandatory collection on taxable assets, intended for specific categories (Diaw et al., 2019). The zakat fund collects zakat funds to distribute them to beneficiaries, who may be micro-enterprises (Bouhadra, 2021).
- El wakf: when the benefits of sadaqah are supposed to flow continuously into the future. El waqf should enable good mobilization of resources for the financing of small businesses. Additionally, the fundraising process may also include the issuance of waqf certificates to participants or donors who may benefit from tax exemption as a form of incentive to encourage them to invest (Baochi et al., 2022).

Stock Market Financing

Initial Public Offering (IPO) is an operation carried out by a company with the aim of listing its shares on the stock exchange. This allows the company to raise funds and its shareholders to find liquidity for their shares (CNCC, 2023). Access to the stock market is an important step for the development and financing of

small and medium-sized enterprises (Lefebvre & Hamelin, 2020). Moreover, financing startups on the stock market is often carried out by talented venture capitalists (Matika et al., 2023).

METHODOLOGY

Data

The labels “startup” and “innovative project” are particular statuses exclusively dedicated to startups in Algeria (Khelil, 2022). Executive Decree 20-254 dated September 15, 2020, establishes the creation of the National Committee for Labeling “startups”, “innovative projects”, and “incubators”, defining the procedures to obtain the “startup” label and the “innovative project” label. These labels confer various advantages, notably in financial and fiscal terms, thereby supporting and promoting the development of startups. To address the research question, a survey was conducted among labeled startups in Algeria. A total of 129 responses was collected for the questionnaire. Ultimately, 93 responses were retained after eliminating unqualified responses.

Method

To address the research question and verify the hypotheses, a quantitative study is conducted by administering a questionnaire (Boumendil, 2022). The questionnaire was developed based on the most recent literature review on the subject, notably the works (Boumendil, 2022; Insee, 2010; Lafortune et al., 2000; Ngongang et al., 2017; Robyn, 2018). The questionnaire primarily consists of closed-ended questions to facilitate data processing (Tamim, 2020). Various types of closed-ended questions were utilized, such as yes/no questions, single-choice questions, multiple-choice questions, and Likert-scale questions with five points.

Additionally, respondents were provided with the option to express themselves under the heading “Other: specify” and also the option “no opinion” to mitigate the risk of off-topic responses. In addition to closed-ended questions, some open-ended questions were included to offer diversity to respondents and prevent monotony in questionnaire progression. Finally, justificatory questions were included to support the interpretation of results (Tamim, 2020). Upon obtaining the database, analysis is conducted using statistical means and procedures (Queirós et al., 2017). Analyses using software tools were performed: Excel to convert data before importing it into SPSSⁱⁱⁱ for descriptive analysis, and SAS^{iv} software for multiple logistic regression analysis.

RESULTS

Respondents' Profiles

The first section of the questionnaire gathers questions related to the respondents' profiles, aiming to provide a brief description of the individuals participating in the survey. Table 3 summarizes the results and statistics of the respondents' profiles, including their genders, age categories, and educational levels.

Table 3. Descriptive Statistics of the Sample - Respondents' Profiles

Variables	Items	Frequency	Percentage
Gender	Men	64	68,8%
	Women	29	31,2%
	Total	93	100%
Age range	Under 25 years old	25	26,9%
	Between 26 and 35 years old	49	52,7%
	Between 36 and 45 years old	15	16,1%
	Between 46 and 55 years old	4	4,3%
	Total	93	100,0%
Level of education	Highschool	1	1,1%
	Bachelor's degree	16	17,21%
	Master's degree	60	64,5%
	Doctorate	11	11,8%
	Engineer	5	5,39%
	Total	93	100,0%

Source: IBM SPSS Statistics 25

The results indicate that the obtained sample consists of 64 men, accounting for a percentage of 68.8%, which represents more than half of the sample. The dominant age group falls within the 26 to 35 years interval, representing more than half of the sample at 52.7%. The results also show that the master's level of education dominates the sample. Based on Figure 2 and 3, all respondents participated in the creation of startups, with

only one respondent being an exception. Furthermore, most respondents are also executives, with only three startups being different.

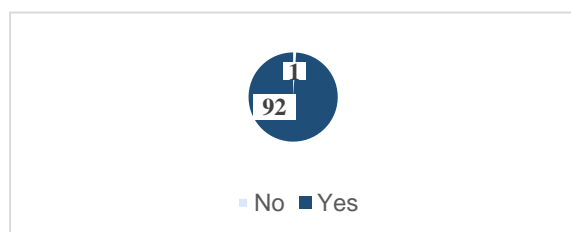


Figure 2. Participation in the creation of the company

Source: IBM SPSS Statistics 25 and Excel

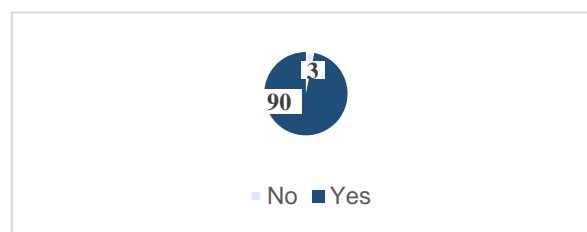


Figure 3. The owner is also the manager of the company

Source: IBM SPSS Statistics 25 and Excel

Startup Profiles

Tables 4-5 present a description of the profiles of the startups in our sample. This description is based on the following variables: label type, number of employees, sector of activity, wilaya (province) of location, development phase, and legal status.

Table 4. Descriptive Statistics of Startup Profiles

Variables	Items	Frequency	Percentage
Label Type	Innovative Project Label	38	40.9%
	Startup Label	55	59.1%
	Total	93	100%
Number of employees	1 to 10 employees	81	87.1%
	11 to 50 employees	10	10.8%
	51 to 99 employees	1	1.1%
	100 to 250 employees	1	1.1%
	Total	93	100.0%
Wilaya of residency	Batna	1	1.1%
	Bejaïa	3	3.2%
	Blida	14	15.1%
	Bouira	2	2.2%
	Tiaret	1	1.1%
	Algeirs	40	43.0%
	Sétif	8	8.6%
	Saïda	1	1.1%
	Annaba	1	1.1%
	Constantine	4	4.3%
	Mostaganem	2	2.2%
	M'Sila	3	3.2%
	Oran	6	6.5%
	El Bayadh	1	1.1%
	Bordj Bou Arreridj	1	1.1%
	Souk Ahras	1	1.1%
	Tipaza	4	4.3%
Total	93	100.0%	
Company status	SARL	55	59.1%
	EURL	9	9.7%
	SPAS	11	11.8%
	Individual person	7	7.5%
	No legal status	11	11.8%
	Total	93	100.0%
Busines start-up phase	Creation	15	16.1%
	Startup	37	39.8%
	Growth	29	31.2%
	Maturity	11	11.8%
	Decline	1	1.1%
	Total	93	100.0%

Source: IBM SPSS Statistics 25

Table 4 indicates that 87.1% of startups employ between 1 and 10 employees. The most dominant legal status is SARL, accounting for 59.1%. It is worth mentioning that 39.8% of startups are in the startup phase. Furthermore, 43% of startups are located in Algiers.

The startups in the sample in Table 5 were created between 2016 and 2023, with a year-on-year growth in creation, particularly from 2020 onwards with the establishment of a regulatory framework for startups and

the introduction of the startup and innovative project labels. Furthermore, more than half of the sample has the startup label.

Table 5. Descriptive statistics of startup profiles

		Ear of obtaining the Startup Label or innovative project				Total
		2020	2021	2022	2023	
Year of creation of the Company	2016	1	6	2	0	9
	2017	1	2	2	0	5
	2018	0	2	3	0	5
	2019	0	3	5	0	8
	2020	2	4	6	0	12
	2021	1	6	7	2	16
	2022	1	2	12	9	24
	2023	0	0	0	14	14
Total		6	25	37	25	93

Source: IBM SPSS Statistics 25

Figure 4 shows that the field of activity of the startups in the sample is dominated by the e-service sector at 20.4%, with favorable responses across the other 21 sectors of activity.

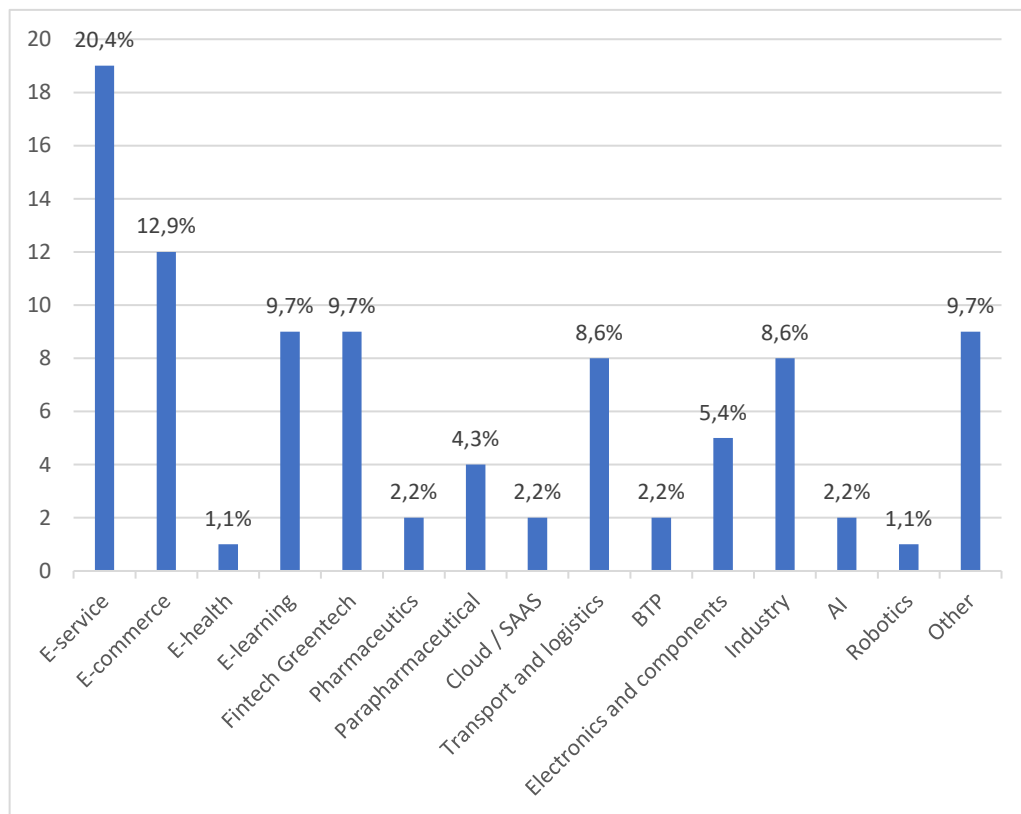


Figure 4. Startup activity sectors

Source: IBM SPSS Statistics 25 and Excel.

Startup Financing

To have a clear understanding of startup financing practices, a descriptive analysis was conducted. Figure 6 illustrates the initial funding obtained by startups.

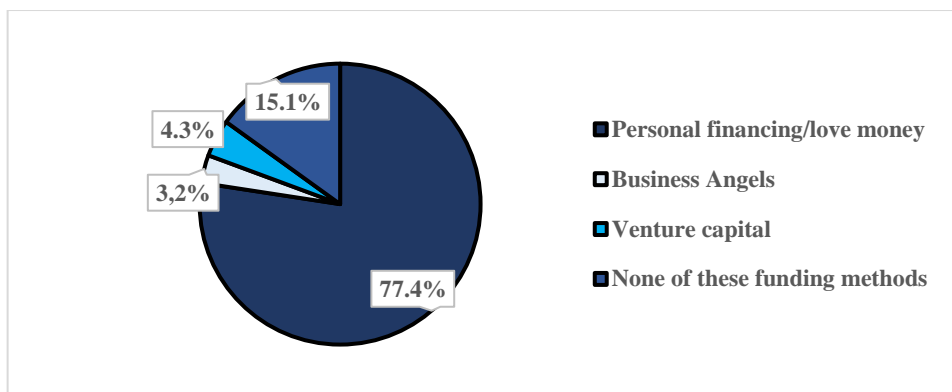


Figure 5. The first funding obtained by the startup

Source: IBM SPSS Statistics 25 and Excel

Figure 5 demonstrates that 77.4% of startups in the sample opted for personal financing/love money. However, 15.1% of startups received no funding.

Personal Financing/Love Money, Venture Capital Financing

The results reveal that personal financing/love money is the most significant funding source obtained by startups in our sample, with a percentage of 57%, followed by venture capital financing at a percentage of 16.15%.

The distribution of these two funding modes is presented in Table 6. According to the results, 66.96% of startups have utilized personal financing/love money at least once. Moreover, the primary source of this financing is personal funds, accounting for 62.8%, indicating that the majority of startups obtained this funding during the creation phase. Additionally, the second most obtained funding source by startups is venture capital financing, with a percentage of 20.43%. All startups received this financing once from ASF (Algerian Startups Fund).

Table 6. Descriptive Statistics of Personal Financing/Love Money and Venture Capital Financing

Variables	Personal financing / love money			Venture capital financing		
	Items	Frequency	Percentage	Items	Frequency	Percentage
The source of this financing	Friends	11	11.7%	ASF	19	100 %
	Family	10	10.6%			
	Acquaintances	11	11.7%			
	Personal	59	62.8%			
	Another business	4	3.2%			
	Total	72	100.0%			
Startup development stage at the time of obtaining this funding	Creation	52	72.2%	Creation	3	15.78%
	Startup	16	22.2%	Startup	9	47.36%
	Growth	4	5.6%	Growth	3	15.78%
	Total	72	100.0%	Total	19	100%
Number of times financed through this funding	Only once	38	52.8	Only once	19	100%
	Twice	18	25.0	Twice	-	-
	Three times	11	15.3	Three times	-	-
	Four times	1	1.4	Four times	-	-
	More than four times	4	5.6	More than four times	-	-
	Total	72	100.0	Total	100.0%	100.0%

Source : IBM SPSS Statistics 25.

Figures 6-7 represent the satisfaction level regarding these two funding modes.

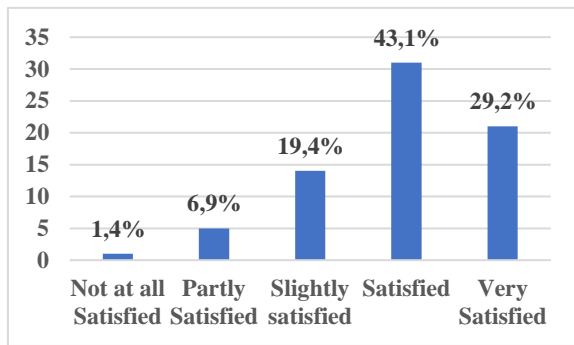


Figure 6. Level of satisfaction with personal financing/love money

Source: IBM SPSS Statistics 25 and Excel.

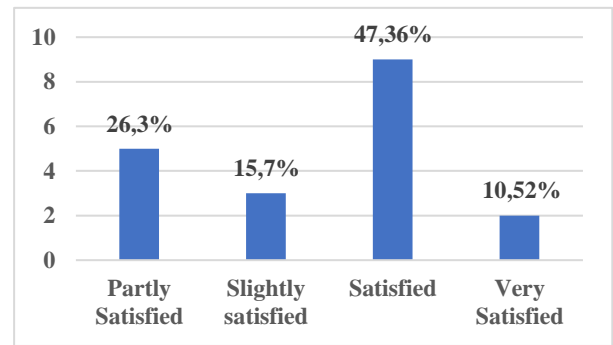


Figure 7. Level of satisfaction with venture capital financing

Source: IBM SPSS Statistics 25 and Excel.

Figure 6 is related to personal financing/love money, showing that the majority are satisfied. Figure 7 is related to venture capital financing, indicating that 47,36% are satisfied, and more 26,3% are partly satisfied.

Funding by Business Angels, Private Equity, Crowdfunding

The distribution of these three funding modes is represented in Table 7. According to the results, 4.65% of startups in the sample received funding from Business Angels, 3.72% obtained funding from Private Equity, and 2.79% from crowdfunding.

Table 7. Descriptive Statistics of Business Angels, Private Equity, Crowdfunding Financing

Variable	Business Angels			Private Equity			Crowdfundig		
	Items	Frequency	Percentage	Items	Frequency	Percentage	Items	Frequency	Percentage
The source of this financing	Casbah Business Angels	1	20.0 %	AIF	1	4.3 %	Twizza	2	66.7 %
	Business Angels Algérie-Diaspora BAALDI	1	20.0 %	FINALEP	1	4.3 %	Ninvesti	1	33.3 %
	Private	3	60.0 %	Wilaya investmen t funds	2	8.7%	-	-	-
	Total	5	100.0 %	Total	4	100.0%	Total	3	100.0%
Startup development stage at the time of obtaining this funding	Creation	3	60.0 %	Creation	-	-	Creation	-	-
	Startup	1	20.0 %	Startup	1	25%	Startup	2	66.7 %
	Growth	1	20.0 %	Growth	3	75%	Growth	1	33.3 %
	Total	5	100.0%	Total	4	100%	Total	3	100.0%
Number of times financed through this funding	Only once	3	60.0%	Only once	4	100%	Only once	3	60.0%
	Twice	1	20.0	Twice	-	-	Twice	-	-
	Three times	1	20.0	Three times	-	-	Three times	-	-
	Total	5	100.0	Total	4	100%	Total	3	100.0%

Source: IBM SPSS Statistics 25.

Bank Financing, Islamic Social Financing, Financing by Government Initiatives

From the results, it is observed that none of the startups in the sample obtained Islamic social financing. Additionally, only one startup received bank financing, and it was Islamic financing (“El Mourabaha”) from Al Baraka Bank. This startup obtained the financing only once during its maturity phase, and the satisfaction level is high.

Similarly, only two startups in our sample benefited from financing through a government initiative. They obtained this financing only once during the startup phase through ANADE. Furthermore, one startup in our sample obtained financing from an international funding fund.

Funding through Competitions

Tables 8 gathers the results related to funding through competitions. It is noteworthy that 33 startups in our sample have already won a competition. Among these startups, 20 received funding, which is equivalent to 60.6%.

Table 8. Descriptive statistics of funding through a competition

Variables	Items	Frequency	Percentage
Participation in a competition	No	58	62.4%
	Yes	35	37.6%
	Total	93	100.0 %
Won a competition	Yes	33	94.3%
	No	2	5.7%
	Total	35	100%
Won funding from a competition	Yes	20	60.6%
	No	13	39.4%
	Total	33	100%
The number of times participated in a competition	Only once	15	42.9 %
	Twice	12	34.3%
	Three times	4	11.4%
	Four times	1	2.9%
	More than four times	3	8.6%
	Total	33	100.0

Source: IBM SPSS Statistics 25

According to Table 9, the majority of startups participated in competitions during the creation phase between the years 2021 and 2022.

Table 9. Descriptive statistics of funding through a competition

		Stage of development was the startup at the time of participating in the competition			
		Creation	Startup	Growth	Total
The year of obtaining this funding	2017	0	1	0	1
	2018	3	1	0	4
	2019	1	2	0	3
	2020	1	0	1	2
	2021	7	2	1	10
	2022	7	4	1	12
	2023	1	0	0	1
Total		20	10	3	33

Source: IBM SPSS Statistics 25

Informal Financing Practices

Figure 8 shows the percentage of startups in our sample that have used these practices. 28% of the startups in the sample have used these practices.

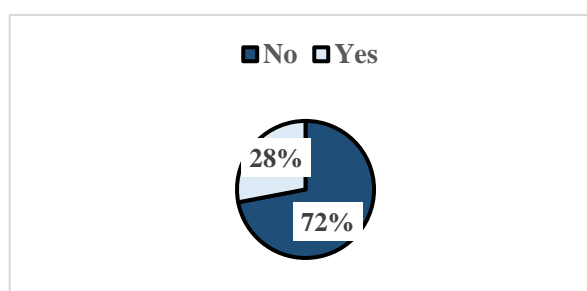


Figure 8. The percentage of startups that have resorted to informal financing practices

Source: IBM SPSS Statistics 25 and Excel

However, Table 10 presents the results related to these informal financing practices.

Table 10. Descriptive Statistics of Informal Financing Practices

Informal financing practices	Responses		Percentage of observations
	N	Percentage	
Pre-financed standing sale	12	33.3%	46.2%
Production association	7	19.4%	26.9%
Supplier credit	14	38.9%	53.8%
Peer-to-peer lending	2	5.6%	7.7%
The tontine	1	2.8%	3.8%
Total	38	100.0%	138.5%

Source: IBM SPSS Statistics 25

It is observed that the most used practice is supplier credit at 38.9%, followed by on-site sale with pre-financing at 33.3%.

According to Figures 9-10, more than half of the startups received this funding only once.

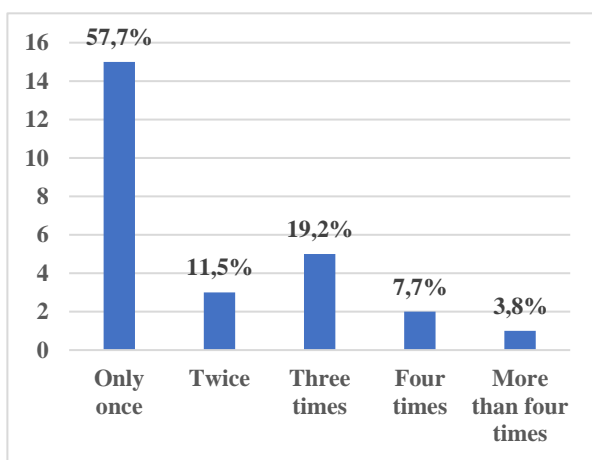


Figure 9. Number of times informal financing practices are utilized

Source: IBM SPSS Statistics and Excel.

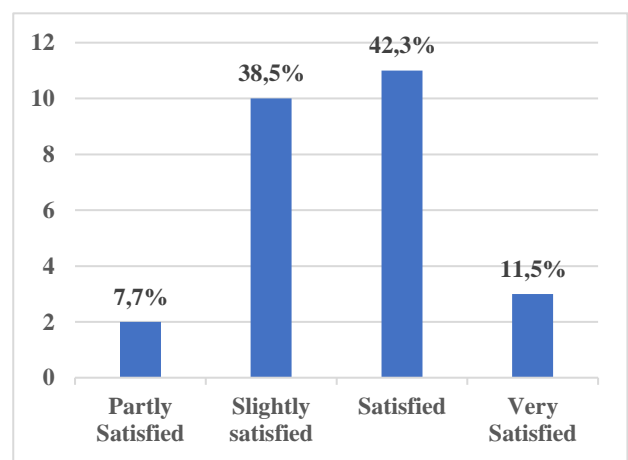


Figure 10. Satisfaction level regarding informal financing practices

Source: IBM SPSS Statistics 25 and Excel.

Furthermore, most startups are moderately satisfied and satisfied.

Issues and Obstacles to Accessing Financing for Startups

Figure 11 summarizes the results of funding modes rejected for startups in our sample.

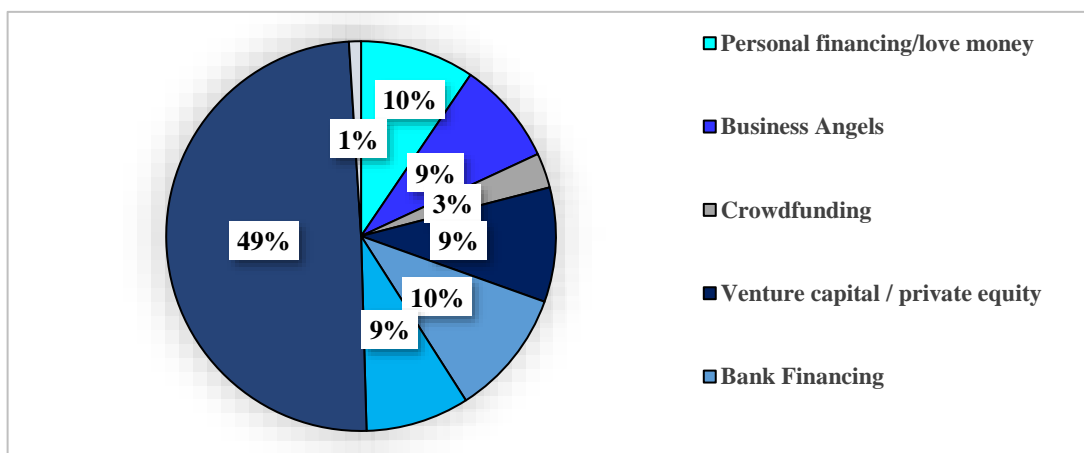


Figure 11. Rejected funding modes for startups

Source: IBM SPSS Statistics 25 and Excel.

The results indicate that no funding mode was rejected for 50% of the startups in the sample; however, 10% experienced rejection of bank financing, 9% of personal financing, and only one startup faced rejection of a second round of financing from the ASF.

Access to Financing Problems Encountered by Startups

Figure 12 presents the results related to access to financing problems faced by startups in the sample.

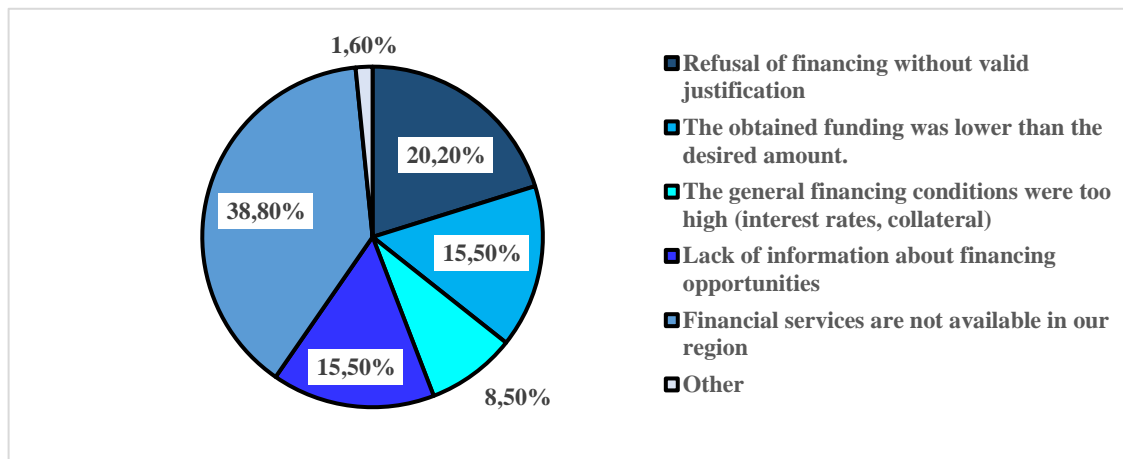


Figure 12. Problems encountered by startups in accessing financing

Source: IBM SPSS Statistics 25 and Excel.

The results reveal that the main obstacle is the unavailability of financing services in the startup’s region, representing a percentage of 39%. The primary problem is that financing services are not available in the startup’s region, accounting for 39%, followed by financing rejection without valid justification, at a rate of 20%. Additionally, 15% of startups faced the issue of obtaining financing lower than the desired amount, as well as a lack of information on financing possibilities. Finally, a percentage of 9% of startups indicate that the conditions for accessing financing were very restrictive.

Obstacles to Accessing Financing for Startups

Table 11 presents a subjective assessment of obstacles to accessing financing for startups.

Table 11. Obstacles to Accessing Financing for Startups

Items	Strongly Disagree	Disagree	Agree	Strongly Agree	Total	Medium	Standard deviation	Signification
The required documentation is too complex.	9	6	37	41	93	4.02	1.26	High
The complexity and length of the processes.	5	4	39	45	93	4.24	1.047	High
Very high interest rates.	8	11	23	51	93	4.04	1.346	High
Sharing control of the company.	6	11	21	55	93	4.16	1.279	High
The loan terms were unacceptable (for ex. repayment conditions).	5	11	23	54	93	4.18	1.233	High
Lack of financial education (lack of training and knowledge in finance).	6	8	39	40	93	4.06	1.168	High
Growth opportunities were insufficient	5	13	18	57	93	4.17	1.282	High
The management team lacked experience	16	9	21	47	93	3.80	1.557	High

Source: IBM SPSS Statistics 25

Reading the results enables to deduce that according to the responses from the sample, all the mentioned obstacles are major barriers to accessing financing for startups.

Other problems and obstacles to accessing financing encountered by startups in the sample include:

- Misunderstanding of the financing needs of startups, especially at the level of the ASF, as it operates with a banking logic.
- Long credit disbursement delays.
- Some human resources within the ASF are inadequately qualified.
- Access to required accreditations is complex.

To better appreciate the results of this survey, a subjective analysis of some observations derived from the literature is conducted. The results are presented in Table 12.

Table 12. Findings from the literature

Items	Strongly Disagree	Disagree	Agree	Strongly Agree	Total	medium	standard deviation	signification
The purpose of labeling is to benefit from financing facilitations	11	10	33	39	93	3.85	1.383	High
You have obtained the startup/innovative project label in order to benefit from financing through the ASF.	16	15	23	39	93	3.58	1.57	High
The promulgation of a law regulating crowdfunding financing in Algeria will help to dynamize this financing method.	13	15	25	40	93	3.69	1.503	High
The promulgation of a law regulating the activity of Business Angels in Algeria will help to dynamize this financing method.	9	10	33	41	93	3.94	1.325	High
The lack of dynamism in the stock market is an obstacle to the development of startups in Algeria.	7	12	20	54	93	4.10	1.336	High

Source: IBM SPSS Statistics 25

The analysis of the results indicates a significant emphasis on the purpose of labeling, leading to benefiting from financing facilities.

Moreover, the results also suggest that the enactment of a law governing crowdfunding financing and the activities of Business Angels in Algeria would invigorate these financing modes. Furthermore, most startups assert that the lack of dynamism in the stock market constitutes an obstacle to their development in Algeria.

Logistic Analysis

Multiple logistic regression analysis was opted to study the determinants of the choice of personal financing / love money and informal financing practices because the variables are qualitative. This choice was made based on the results of the descriptive analysis, which indicated that these are the two most used modes of financing by startups in our sample.

Similarly, multiple logistic regression was used to verify if support structures play a role in startup financing.

Personal Financing / Love Money

According to the multiple logistic regression analysis as presented in Table 13, the determinants explaining the choice of personal financing / love money are as follows: the absence of interest rates allows acceptance at a 5% error risk rate.

At the same time, the absence of collateral requirements and increased ability to access other financing options are rejected by the latter but accepted at a 10% error risk rate.

Table 13. Logistic Regression on Personal Financing/Love Money

Parameter		Estimation	Pr > Khi-2
Intercept		4.2587	0.0191
Ease of access	x11	-16.8163	0.9393
	x12	-16.8697	0.9452
No interest rate	x21	-3.7785	0.0321
	x22	-1.2582	0.2862
No collateral requirement	x31	-2.4225	0.0562
	x32	-1.3695	0.2436
Increased capacity to access other sources of funding	x41	-2.0708	0.0755
	x42	0.6930	0.5954

Source: Statistical Analysis System 9.4.

Informal Financing Practices

According to the multiple logistic regression analysis in Table 14, where the determinants explaining the choice of these practices are examined, the results reveal that the lack of bank financing is accepted at a 10% error risk rate and rejected at 5%, while difficulties in accessing financing, conversely, are accepted at a 5% error risk rate.

Table 14. Logistic Regression on Informal Financing Practices

Parameter		Estimation	Pr > Khi-2
Intercept		3.5626	0.0075
No collateral requirement	z11	-26.7728	0.7981
	z12	-18.2885	0.8929
Banks do not grant loans to startups	z21	8.1477	0.8792
	z22	-3.5626	0.0668
Lack of trust and reliability in financial institutions	z31	9.2068	0.9061
	z32	8.7001	0.8836
Lack of trust and reliability in financial institutions	z41	7.2407	0.9198
	z42	-2.0790	0.2406
Loan applications had been refused by financial institutions	z51	0.4152	0.8516
	z52	3.8081	0.9867
Personal choices	z61	9.0229	0.9462
	z62	-2.4320	0.1760
Difficulties in accessing financing	z71	6.5978	0.9433
	z72	-3.1927	0.0488

Source: Statistical Analysis System 9.4.

Support Structures

According to the literature, support structures play an important role in startup financing. The support structures comprising this variable are incubators, accelerators, and business nurseries. According to the results, 33.48% of the sample benefited from support. Table 15 provides an overview of the support structures, as well as the startup development phase during the support and the duration of the support.

Table 15. Descriptive Analysis on Support Structures

		Accelerator	Incubator	Foreign organization	Total
Stage of development of the startup at the time of the support	Creation	7	18	0	25
	Startup	3	3	2	8
	Growth	2	1	0	3
	Total	12	22	2	36
The duration of the support	Less than 3 months	6	6	1	13
	3 to 12 months	5	12	1	18
	12 to 36 months	1	4	0	5
	Total	12	22	2	36

Source: IBM SPSS Statistics 25

The multiple logistic regression analysis aims to examine whether support structures play a role in startup financing. The results reveal that the mentor does not have a significant role in the financing of these startups (see Table 16).

Table 16. The Role of Mentoring in Startup Financing

Parameter		Estimation	Pr > Khi-2
Intercept		1.8680	0.0019
Support structures prepare startups for fundraising.	A 11	-24.6193	0.9004
	A 12	-24.5260	0.9055
Support structures guides startups towards potential investors.	A 21	1.5555	0.2242
	A 22	11.6375	0.9303
Support structures facilitate obtaining financing.	A 31	11.1371	0.9331
	A 32	-1.4876	0.2049
Support structures influence the choice of financing mode.	A 41	-0.6865	0.5918
	A 42	-1.3017	0.2697

Source: Statistical Analysis System 9.4.

DISCUSSION

The present study addressed the financial challenge posed by the emergence of startups by conducting a theoretical and empirical review on the financing practices of labeled startups in Algeria (Boumendil, 2022), along with their determinants. The main findings are discussed and justified as follows.

Sample Unit Characteristics

Through descriptive analysis, we were able to gather general information on the profiles of respondents as well as those of startups. The sample consists of 68.8% men and 31.2% women. The distribution of the sample regarding the developmental phase of the startup indicates that most of the startups are in the startup and growth phase. The sample comprises startups from various sectors; however, the e-commerce sector has the highest presence with a percentage of 20.4%, followed by e-services, representing 20% of the sample. Moreover, these are mainly startups with 1 to 10 employees. As for their legal nature, the sample is composed of 41% SARLs.

Startup Financing in Algeria

According to the analysis results, it is observed that personal financing/love money is the most used financing by startups in our sample, followed by informal financing practices as well as venture capital financing.

Personal Financing/Love Money

The analysis results indicate that 66.96% of startups in our sample have received personal financing/love money at least once. Furthermore, the main source of this financing is the founder's personal funds, representing 62.8%. Additionally, most startups obtained this financing during the creation phase. The results of Boumendil (2022) also show that personal financing is the main source of financing for startups. Furthermore, we wanted to identify the main determinants influencing the choice of this financing mode. Through a multiple logistic regression analysis, the main determinants explaining the choice of personal financing/love money are the absence of interest rates and the absence of collateral requirements. These results confirm our initial hypothesis that personal financing/love money is a primary financing practice for labeled startups in Algeria.

Business Angels

According to our study, we found that only five startups in our sample (4.65%) received financing from Business Angels. Three of these startups obtained financing from private Business Angels, one through Casbah Business Angels, and the last one from Business Angels Algeria-Diaspora (BAALDI). These results indicate the limited development of Business Angels financing in Algeria. However, according to our results, the enactment of appropriate regulations for Business Angels in Algeria will help to boost this financing mode. These results are consistent with the conclusions of Boumendil, 2022; Douadi-Amiar, et al., 2022; Hattou, 2019; Khelil, 2022).

Crowdfunding

The analysis shows that only three startups (2.79%) received financing from a crowdfunding platform, with two of them obtaining financing from the NINVESTI platform and the third from the TWIZA platform. These results indicate the limited development of crowdfunding financing in Algeria. However, according to our results, the enactment of appropriate regulations for crowdfunding in Algeria will help to boost this financing mode. These results are consistent with the conclusions of (Belbekhari, 2022; Boumendil, 2022; Douadi-Amiar et al., 2022; Hattou, 2019; Khelil, 2022; Bentayeb et al., 2021).

Private Equity

The results indicate that out of our sample, only four startups, representing 3.72%, received funding from Private Equity firms. Among these, two benefited from funding through the Wilaya Investment Fund, while the other two startups obtained their funding from AIF and FINALEP. These results reflect the limited development of Private Equity financing for startups in Algeria. The findings are consistent with those of Beztouh (2021) and Bougouffa (2019).

Venture Capital

Furthermore, regarding venture capital, the results show that 19 startups from the sample, accounting for 17.67%, received funding from a venture capital firm, with all startups receiving their funding from ASF. These results corroborate with the findings of Belaid (2023) and Boumendil (2022). Thus, the results affirm our second hypothesis that venture capital financing would be a primary financing practice for startups in Algeria. However, these results contradict those of Himrane (2019), Necira (2021), Mouassa (2021), who concluded that venture capital financing in Algeria is limited or virtually nonexistent.

Government Initiatives

The results indicate that only two startups from our sample received funding from ANADE, indicating the limited funding of startups by government initiatives. The findings are also consistent with those of Boumendil (2022), Hattou (2019), Khelil (2022), who concluded that the inadequacy of government initiatives for startups is the main reason.

Bank Financing

According to our results, only one startup from our sample obtained bank financing, and it was Islamic financing (El Mourabaha). Furthermore, the startup received this financing only once during its maturity phase. The results also indicate that 10% of our sample had previously sought bank financing, which was refused. These results can be justified by the fact that recourse to bank financing for startups is delicate and highly limited, if not impossible, as bank credit is not suitable for financing startups (Ekeland et al., 2016; Hyun et al., 2022; Rifai et al., 2023). However, these results contradict those of (Adraoui et al. 2016), who concluded that Islamic financing is an important source of financing for SMEs.

Islamic Social Financing

According to the results of this study, none of the startups in the sample benefited from Islamic social financing. However, these results contradict those of Bouhadra (2021), who concluded that Islamic social finance is an important source of financing for small businesses.

Competitions (Competition Prizes)

The results regarding financing through competitions show that 20 startups from our sample, representing 18.6%, received funding from a particular competition during the startup creation phase. Therefore, funding obtained through winning a competition is important, especially for startups in the creation phase.

Informal Financing Practices

The results demonstrate that 26 startups, representing 28% of our sample, have resorted to informal financing practices drawn from the literature, mainly from the article by Daoudi et al. (2010), which presents four main types of informal financing practices in the agricultural sector in Algeria. We wanted to identify the most important determinants for the choice of these financing practices. Through multiple logistic regression analysis, the results indicate that the main determinants explaining the choice of these practices are the lack of bank financing and difficulties in accessing financing. These results are consistent with those of Eriola & Hounkou (2022) and Nguyen et al. (2022), who analyzed the reasons why SMEs choose informal financing

practices, concluding that SMEs use informal finance as an alternative when facing difficulties in the formal finance application process.

The Role of Support Structures in Startup Financing

Our results on the role of support structures in startup financing, through multiple logistic regression analysis, show that the support structure does not play a significant role in startup financing. These results contradict those of (Khelil, 2022), who concluded that support structures play an important role in startup financing.

Facilities and Difficulties in Accessing Financing

According to our results, the advantages claimed by startups acquiring the startup or innovative project label, notably the possibility of seeking funding at the ASF (Boumendil, 2022). Furthermore, a flat reading of the results indicates the financing access problems encountered by startups in our sample, which include: 39% lack of available financing services in the startup's region, 20% financing refusal without valid justification, 15% obtained financing was lower than the desired amount, 15% lack of information on financing opportunities, and 9% financing conditions were too high. Similar obstacles are observed by Drouiche et al. (2022). Additionally, 2% of our sample encountered other financing access problems, including:

- Misunderstanding of startup financing needs, especially at the Algerian Startup Fund-ASF due to a banking logic.
- Very long financing release time.
- Low mastery of personnel and management at the Algerian Startup Fund-ASF.
- Difficulties in obtaining necessary approvals. Furthermore, the lack of dynamism in the stock exchange poses an obstacle to startup development, which is consistent with the results of Amirat, et al. (2020) and Abdessamie et al. (2021).

In conclusion, based on the results, we observe that the financing practices of labeled startups in Algeria are primarily personal/love money financing, which aligns with the work of Eriola and Hounkou (2022) and Riding (2008), indicating that personal/love money financing is informal financing. This is followed by financing practices such as on-the-spot sale with pre-financing, production association, supplier credit, peer-to-peer lending, and tontine, which according to the literature are informal financing practices (Daoudi et al., 2010). This indicates that most financing for these entities is informal. However, that venture capital has become an important source of financing for startups since the creation of the Algerian Startup Fund.

CONCLUSIONS

This study allows to examine the funding practices of labeled startups in Algeria. The research model is based on the following research question: “What are the funding practices of labeled startups in Algeria?” From the literature review, two hypotheses were derived. The first assumes that personal financing/love money would be the main funding practice for labeled startups in Algeria. As for the second hypothesis, it assumes that venture capital funding would be the main funding practice for labeled startups in Algeria. To test our hypotheses, a quantitative study based on a questionnaire was conducted.

The sample consists of 129 responses, of which 93 meet the requirements. For data processing, two steps were proceeded. Firstly, a descriptive analysis was conducted to identify the main funding practices for startups, as well as to gain an overview of each funding mode. Similarly, a descriptive analysis was used to identify obstacles to funding access for startups. Secondly, the determinants influencing the choice of funding mode for startup owners were attempted to understand. To do this, a multiple logistic regression analysis regarding the determinants of personal financing/love money choice was conducted as it is the most used funding by the sample. Likewise, the determinants of resorting to informal funding practices by startups was studied. Furthermore, multiple logistic regression analysis was used to verify the role of support structures in startup funding.

Subsequently, the most important determinants were identified influencing the choice of these funding practices. The results suggest that startups rely on three main sources of funding, namely personal financing/love money, informal funding practices, and venture capital funding through the Algerian Startup Fund-ASF. Additionally, the results also indicate that support structures play no role in startup funding. Consequently, both formulated hypotheses are validated.

The research has highlighted the funding practices of startups in Algeria, especially since funding is one of the main challenges they face. The information regarding the funding practices of these startups, the determinants of funding mode choice, as well as the difficulties in accessing funding were gathered. This

research will contribute to the literature review and assist researchers in conducting similar, more in-depth studies, also with the aim of sustainable development of the startup ecosystem in Algeria.

However, this study has some limitations, including the following: the research is mainly limited by the sample size. Additionally, the difference in the number of respondents on different funding modes does not allow for precise statistical analyses. Moreover, choosing another statistical method for analysis may lead to more relevant results. Despite its limitations, this study provides an overview of the funding practices of labeled startups in Algeria, as well as the determinants motivating the choice of funding mode and difficulties in accessing funding.

Future research can further deepen quantitative analysis by focusing on a single type of funding. This would allow for a deeper understanding of each practice. Additionally, they can extend the results of this study beyond the population of labeled startups. Researchers can also be interested in other challenges arising from the emergence of startups in Algeria.

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