

***What legal and fiscal framework governs start-ups in Algeria?  
Analysis in term of their innovation performance***

***Boudjana Hayat<sup>1</sup> , Pr. Rouaski Khaled<sup>2</sup>***

*<sup>1</sup> The National Higher School of Statistics and Applied Economics (Algeria)*

*<sup>2</sup> University of Algiers 3 (Algeria)*

***Received: 29/01/2025***

***Accepted: 24/04/2025***

***Published: 30/10/2025***

***Abstract:***

*A start-up describes a young innovative company. It exists in different fields such as health and biotechnology. Often supported by structures such as incubators and/or business incubators, start-ups receive attention from the Algerian authorities as they play a crucial role in job creation and innovation.*

*Being an emerging company, the start-up seeks, from its inception, an adequate business model due to its constant instability and change.*

*Countries through government policies encourage start-ups and therefore innovation. Algeria has launched measures to this end, by putting in place an appropriate legislative framework and incentives, particularly fiscal ones.*

*In this context, this paper reveals the legal and fiscal framework of start-ups in Algeria. Thus, it provides an analysis of their innovation performance.*

***Keywords:*** *start-up; innovation; performance; government policies.*

***Jel Classification Codes :*** *L26 ; M13 ; O31 .*

## **1. Introduction**

The Algerian authorities have paid particular attention to start-ups, due to their pivotal role in job creation and innovation, especially technological innovation (Choi et al., 2020).

The concept of an innovative project or a start-up is a young venture that brings new products on the market. It is further characterized by its ambition for success and growth. Start-ups can be found in various fields such as technology, health, environment, biotechnology and so on. this type of business is Often supported by structures such as incubators and/or business angels.

As a fledgling business, a start-up needs an appropriate business model from the outset, given its instability and constant changes. When launching a start-up, the investment risk is high. According to INSEE statistics, 25% of businesses fail within the first 2 years, and 49.5% fail within the first 5 years. The failure rate is even higher for start-ups, reaching 80% (Quand l'échec entrepreneurial est lié à la gestion, 2021). Eventually, the start-up may stabilise its business model and become a traditional company.

Government policies to encourage innovation target start-ups insofar as they produce innovative results. To this end, an appropriate legal framework and tax and customs exemptions have been being put in place for this type of company, given its specific nature.

With this in mind, is there a legal framework governing start-up in Algeria? Does it encourage the creation of this type of business? Are tax and customs incentives for innovative projects and start-ups the key to stimulate a spirit of partnership's spirit?

Inspired by the example of many countries, such as Italy, which was the first to regulate start-up activities in 2012 (Ministry of Economic Development of Italy, 2019), Algeria adopted this dynamic in 2020 by implementing measures to support these businesses, recognising their crucial role in stimulating innovation. Although the concept of start-ups emerged in the United States in the 1930s in the field of information technology, Algeria has created an adapted legal framework and specific tax incentives to encourage this type of business. This article examines the legal and fiscal framework for start-ups in Algeria, assesses the effectiveness of tax incentives and financing mechanisms, and analyses the innovation performance of start-ups operating within this framework.

## **2.What is a start-up, an innovative project and an incubator under Algerian law?**

A country's ability to keep innovating and to make every effort to ensure the emergence of an ecosystem conducive to the development of the knowledge economy is an indicator of its current strength. Start-ups see themselves as the beating heart of the knowledge era. They are the strategic vision of countries seeking to develop this economy.

In Algeria, start-ups bring added value in terms of technology and innovation to all the country's economic sectors. They are active in fields as varied as health, new technologies, education and transport (Entrepreneur Algérien, 2020).

Moving towards a knowledge-based economy where start-ups will be the cornerstone of this economy is an undeniable choice for Algeria. According to statistics, there are only 2000 companies considered to be start-ups in Algeria in 2020, whereas in other emerging countries such as Vietnam, there are already 15 start-ups worth more than \$100 million each. Some Vietnamese start-ups have recently reached a value of over 500 million dollars (L'entrepreneur Algérien, 2020).

Until recently, Algeria's efforts focused on creating a favourable legal and economic climate for start-ups. The legal and institutional framework specific to this type of business is recent in Algeria, insofar as the legislative and regulatory texts governing it have only been published since 2020, whether those related to the framework of related concepts or those related to tax incentives.

One of the main pieces of legislation in question, the (Executive Decree No. 20-254 Of September 15, 2020 on the Creation Of The National Committee Of Labelling Of "Start-ups", "Innovative Projects" and its "Incubators" and setting its missions, composition and operation, 2020). It created the National Committee for the Labelling of Start-ups, Innovative Projects and Incubators and set out the conditions and criteria for obtaining these labels.

## **2.1 Start up**

The main assets of a start-up are its ideas and the technical capacity to implement them, i.e. ideas, knowledge, and know-how.

The provisions of Article 11 of the reference decree regarding Labelling, mentioned above, set out the criteria that enable a company to have the label of a "Start-up" in order to be able to access all the facilities that the state makes available to start-ups.

The procedure for labelling start-ups requires that the company applying for the label:

- Is already established but has not exceeded 8 years in existence;
- Has no more than 250 employees;
- Has a business model based on products, services, and/or business model or any other innovative concept;
- Has an annual turnover not exceeding the amount set by the national committee;
- Has a share capital that must be at least 50% owned by individuals, approved investment funds or other companies with the 'Start-up' label;
- Has sufficient growth potential.

An average is calculated for each start-up, focusing on the number of patents, the sector of activity and innovation, not forgetting artificial intelligence, so that it can get a score that will enable it to obtain technical assistance and funding.

It is important to point out that Labelling is not of interest to companies that are already well established, even if they offer innovative services or products. One of the fundamental differences that separates these entities from traditional companies is the temporary nature of their organisations.

Furthermore, a start-up must be independent. An existing company that creates a subsidiary offering a new product, service or technique cannot be considered a start-up even though it has entered the sphere of innovation according to Algerian law.

## **2.2. Innovative project**

The terms of Article 16 of the above-mentioned decree n°20-254 stipulate that the innovative project must relate to innovation and be held by a natural person or group of natural persons eligible for the “Innovative Project” label. The label in question is awarded to the person or group of people concerned for a period of two (2) years, renewable twice (2), in the same way.

The “innovative project” label is intended for people with ideas who have not yet set up their own company. Like the “start-up” label, it gives access to the various facilities and advantages available for promoting innovation in all its forms.

## **2.3. Incubator**

According to the reference executive decree (no. 20-254 of 15 September 2020), an incubator is any public, private or partnership (public and private) structure that incubates start-ups and innovative project holders at all stages of their creation. It offers them technical and financial support, accommodation, training, and advice on various aspects.

As such, the incubator undertakes to guarantee the following services to its beneficiaries:

- domiciliation of incubated start-ups;
- The provision of dedicated workspace;
- Personalised support for project initiators during the business creation process, and for start-ups in their search for sources of finance and market deployment;
  
- Assistance for start-ups in drawing up business plans, market studies and financing plans for prototypes;
- providing logistical resources such as meeting rooms, computer and office equipment and high-speed internet connections.

The “Incubator” label is awarded on condition that staffs have the required qualifications or required professional background and experience in the field of business support for a period of five (5) years, renewable under the same conditions.

### 3. Innovation performance of start-ups

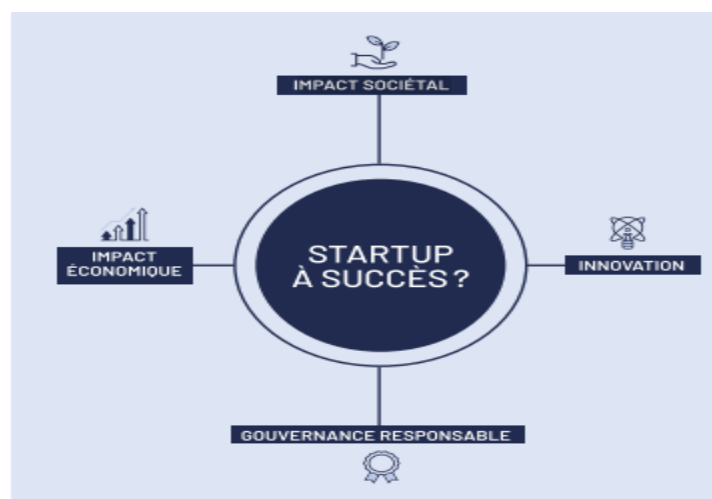
Innovation refers to a new or improved product or business process, or a novelty of any kind, that differs significantly from previous products or processes and has been marketed or introduced by a company (OECD/Eurostat, 2018). It is the search for improvement in products, services or operational processes with the aim of satisfying customers needed.

An invention, a new idea, a concept or the discovery of a product or process that is not commercialised cannot be considered as innovations, as innovation is a new idea that is put into practice by being put on the market. As a result, innovation is the transformation of an idea or invention, which does not emerge spontaneously, but is the result of a complex process of activities (research and development, marketing, etc.) carried out using multiple means such as multi-disciplinary working groups, tools and design analysis methods (Tomala et al., 2001).

A report drawn up by BCG (Boston Consulting Group; la Boussole, 2021) indicates that a success of a start-up according to the experience of 53 entrepreneurs, investors and coaches, as well as a study made on more than 100 start-ups, is based on a multitude of factors that can be summarized in four fundamental points:

- **Economic impact:** which means the growth of the start-up, its financing and profitability;
- **Societal impact:** the positive impact on the environment of its products or services, their social impact or the fair redistribution of value with its partners;
- **Innovation:** Its uniqueness shown in the options delivered, products, services, business model or mode of access to the market;
- **Responsible governance:** This brings together the start-up's actions in terms of employment and employee experience, governance and management methods.

**Figure 1:** The four cardinal points of success of a start-up



**Source 1:**(Boston Consulting Group; la boussole, 2021)

#### **4. Financing start-ups in Algeria**

Financing is one of the major issues faced by the start-up from its creation to its development. Indeed, financial resources are the tool that any innovative project needs to be launched and sustained.

The difficult mission of the innovative project leader, given the failure rate is considered particularly high in this type of project, is to convince the funders of funds (investors, bankers, etc.) etc.) to finance its project; to become financial partners.

The main forms of financing that exist, or those that the institutions concerned are prospecting to promote in Algeria, are:

##### **4.1. Self-financing of innovative projects**

Self-financing corresponds to the equity contributions of the entrepreneur and/or the partners. Contributions can include goods other than cash, such as a contribution from a web application or a research project etc.

However, this source of funding depends on the financial capacities of the project leader and his or her associates if applicable.

This form of financing can also come from the entrepreneur's family or friends (love money) **who believe in the project and wish to invest in the start-up.**

Participation in national and international competitions appropriate to the project may also allow you to have financial contributions and/or to meet investors in order to finance the said project.

Finally, and in practice, the start-up needs an accelerated expansion and requires swift market penetration after its launch. This target is difficult to achieve through self-financing alone. Often, one's own resources do not allow the anticipated development plan to be followed. Therefore, other resources must be mobilised.

##### **4.2. Support and development Fund for the Start-up ecosystem**

The start-up can benefit from the technical and financial assistance of the incubators created for these purposes. It can also take advantage of **innovation aid programmes** presented by them in collaboration with the Support and Development Fund for the Start-up Ecosystem created by the terms of Article 131 of the finance law for the year 2020, amended by the terms of Article 68 of the supplementary Finance Act for the year 2020 and Article 42 of the Supplementary finance law for the year 2021.

This fund, which has in its incomes the State endowment, the proceeds of fiscal and par fiscal taxes, donations and legacies, Will handle the due diligence and feasibility studies for innovative projects, the costs related to the creation of a prototype, the development of the business plan, the necessary technical assistance, training as well as the incubation of start-ups and the promotion of the start-up ecosystem.

#### **4.3. Bank loans**

A start-up can take out a bank loan to finance itself, at any phase (start-up or development); the **classic method known**. However, it is not the easiest source to obtain, especially when starting a start-up, because banks require, in most cases, a minimum of equity to grant a loan and sufficient guarantees.

This method of financing has a major disadvantage for start-ups which is the obligation to repay loan maturities on a specific deadline. This may impact its cash flow, especially if the activity has not yet started. In return, no new partner enters the company's capital given the company's valuation, which remains low at this phase.

#### **4.4. Private Equity Financing**

Financing by private equity companies involves the acquisition, either on their own behalf or on behalf of third parties, of the capital of newly created, developing, unlisted companies. While they do not directly manage these companies, they provide assistance through their technical and managerial expertise. Private equity firms also exercise varying degrees of control with the aim of generating a profit from the eventual sale of their shares.

Indeed, private equity, which refers to a set of activities that have in common the investment in companies and the close support of their management, is an instrument of partnership much more than an act of financing, its development has allowed the birth of a new type of relationship between lenders and entrepreneurs ( Beztouh et al., 2021).

This financing resource is now an essential vector of development in the landscape of several economies, recognized for its driving effects on the growth of companies, the promotion of new generations of companies such as start-ups and the creation of jobs (Legoupil, Gayraud et Weir, 2005 cited in Beztouh et al., 2021).

In Algeria, the business world remains wary of this world of financing, yet the legal framework has favoured the use of private equity since 2006.

La Law No. 06-11 on the Private Equity Company, 2006, stipulates that the purpose of private equity is participation in the share capital and any operation consisting of equity and quasi-equity contributions to companies being created, developed, transferred or privatized.

This law was amended by Article 46 of the 2020 Supplementary Finance Law, to give these companies the right to participate up to 100% in the capital of a start-up.

However, and in practice, private equity financing is still in its infancy. Only a few companies share the investment financing market and have a capital endowment of 3 billion dinars, which is really derisory (Djekidel et al., 2021). According to a report by the Africa Venture Capital Association, Algeria is second to last in North Africa in terms of private equity. Among the reasons for the low penetration of this method of financing, the lack of promotion and popularization, i.e. the profession is not sufficiently known and mastered by market players (Beztouh, 2021).

#### **4.5. Crowd funding**

The Crowd funding system, which allows the collection of funds for the benefit of start-ups via internet platforms to which the entrepreneur presents his start-up project and tries to convince investors to finance his project.

In Algeria, to encourage this type of financing, especially for start-ups, the status of crowd funding investment advisor has been established. These advisors are responsible for creating and managing crowd funding investment advice platforms on the internet and facilitating the investment of funds from the general public into crowd funding projects, in accordance with the provisions of Article 45 of the Supplementary Finance Law for the year 2020.

### **5. Tax and customs measures to promote Start-ups in Algeria**

The start-up is a company like any other that must have a legal status and a tax regime that can be lightened through the granting of tax and even customs advantages in order to ensure the sustainability of these companies and achieve sustainable economic development.

Tax advantages have been granted to start-ups, in particular those active in the field of innovation and new technologies, by the provisions of Article 69 of the Finance Law for 2020, amended by Article 33 of the Supplementary Finance Law for 2020, which has also been amended by the provisions of Articles 86 and 87 of the Finance Law for 2021, which provide that companies with the "start-up" label benefit from:

- Exemption from the global income tax (IRG) or the corporate income tax (IBS) for a period of four years, from the date of obtaining the label, with an additional year, in case of renewal;
- Exemption from value added tax (VAT) and a reduced rate of 5% of customs duties on equipment acquired by these companies, directly involved in the realization of their investment projects
- And that companies with the "incubator" label also benefit from the same advantages, with the exception of a reduced rate of customs duties, for a period of two years, from the date of obtaining the label.

The 2021 Finance Law granted exemptions from IRG, IBS, VAT and reduced customs duties to companies with the start-up label, as well as similar benefits for incubators. In 2022, Article 117 extended these exemptions to the IFU for labelled start-ups. The 2025 Finance Law reinforces these measures by extending exemptions for incubators and introducing tax incentives for R&D and open innovation, thus consolidating the entrepreneurial ecosystem in Algeria. Among the new benefits:

- The extension of the IRG and IBS exemption for incubators, from two to four years.
- A 30% reduction in taxable profits for companies investing in R&D, with an annual ceiling of 200 million dinars.
- Exemption from transfer tax for start-ups and incubators when acquiring assets or real estate intended for industrial activities.
- Exemption from registration fees for contracts related to the creation of companies by the promoters of labelled innovative projects.

## **6. Are tax incentives for innovative projects and start-ups the key to stimulating partnerships in Algeria?**

Granting tax incentives to innovative companies is a behaviour that will certainly produce an improvement in the spirit of entrepreneurship and innovation. Since, offering tax and customs incentives will increase the after-tax income on the entrepreneur's profits and thus increase the incentive to carry out an entrepreneurial and/or innovative activity. But this standard of analysis does not apply to start-ups and other companies that face a low probability of success (Choi et al., 2020). The question that arises are incentives of different forms, the cardinal point that encourages the holders of ideas to bring them to light and that promotes the start-up ecosystem?

According to (Morse & Allen, 2016), Conventional tax breaks are only used by capital-constrained start-ups in the unlikely event that they succeed and become profitable. Indeed, these rebates for entrepreneurship or innovation do not attribute the desired behaviour for start-ups contrast with the frequent and general recommendations for the adoption of such tax rebates.

Decision-makers constantly want to encourage the creation of start-ups through tax incentives, but these require investment planning (Morse & Allen, 2016) Because addressing these benefits in the early stages of a start-up's life is unlikely to successfully increase innovation and entrepreneurship. Such advantages are often only valuable for a start-up if the company itself becomes a success.

The establishment of an ecosystem that promotes the activity of start-ups requires, in addition to tax and customs incentives, the improvement and development of the investment climate. The start-up needs a set of factors conducive to innovation through the establishment of an adequate business environment in order to supervise and support investors and entrepreneurs.

## **7. Conclusion**

Numerous studies and research have shown the positive effect of start-ups, especially technological ones, on economic growth and innovation performance. Noting that start-ups make an important contribution to job creation and productivity gains (Choi et al., 2020).

The previous analysis concludes that Algeria, in its recent experience supervising start-ups, demonstrates a pressing need for development in its legal and fiscal framework, although it remains in its embryonic phase. This is particularly evident in the implementation of legislative and regulatory texts. In fact, the promotion of start-ups and the development of their ecosystem require the collaboration of multiple institutions, organizations, and even the participation of the private sector.

In addition, there are cardinal points through which to evaluate the success of the start-up and its performance in terms of innovation, such as its economic and societal impact and its innovation. These main points, detailed above, can constitute, particularly for support structures such as incubators, a tool allowing tailor-made and relevant support.

Regarding the financing of start-ups in Algeria, it turns out that the most well-known and adopted mode for the moment are bank loans, although there are interesting but little-known financing forms that have not yet taken the mission in hand, namely, financing by investment companies and crowd funding.

Tax and customs incentives are also meaning of encouraging start-ups. However, the promotion of start-ups requires efforts beyond these and this, through the development of the business climate as well as the improvement of the personal and cultural environment of entrepreneurs as well as the adaptation of the legal and institutional framework.

Therefore, the government is paying more and more attention to the indicators identified by the sphere of start-ups and innovative projects such as the number of companies created or the number of people employed. Several incentives are put in place for the development of entrepreneurship in this field. For example: regulatory measures, fiscal measures, administrative measures, pre- and post-creation support and support as well as financing modalities. Nevertheless, entrepreneurship essentially depends on the recognition of the state of the economic activities in which entrepreneurs invest as well as the facilities it grants them (Rachid Smouni, 2014).

Finally, Algeria should put in place a real support strategy and facilitate access to financing to remedy the lack of equity among business creators, consolidate and develop entrepreneurial skills by relying on training adapted to the reality of project leaders with.

## 8. Referrals and references

1. Beztouh, D. (2021). Le capital investissement moyen alternatif de financement pour les PME et les start-up, *Revue Recherche Économique Contemporaine*, 40, pp 135–149.
2. Boston Consulting Group; la boussole. (2021). qu'est ce qu'une start-up à succès ? la réussite des start-ups, au-delà de la valorisation financière. In *BOSTON CONSULTING GROUP; la boussole*.
3. Choi, D. S., Sung, C. S., & Park, J. Y. (2020). How does technology start-ups increase innovative performance? The study of technology start-ups on innovation focusing on employment change in Korea. *Sustainability (Switzerland)*, 12(1). <https://doi.org/10.3390/su12020551>
4. Djekidel, Y., Doua, M., & Merrad, R. (2021). La start-up en Algérie : Caractéristiques et Obligations, *Revue d'excellence Pour La Recherche En Économie et En Gestion*, 05, pp 417–427.
5. Décret exécutif n° 20-254 du 15 septembre 2020 portant création du comité national de labélisation des « Start-up », des « Projets innovants » et des « Incubateurs » et fixant ses missions, sa composition et son fonctionnement., Pub. L. No. DE n°20-254 du 15 septembre 2020, Journal Officiel De La Republique Algerienne 10 (2020).
6. L'entrepreneur Algérien. (2020). Les Start-up et l' économie de la connaissance en Algerie, *L'entrepreneur Algérien*. <https://lentrepreneuralgerien.com/start-up/item/110-les-start-up-et-l-economie-de-la-connaissance-en-algerie>.
7. Ministry of Economic Development. (2019). *The Italian Start-up Act Italy's national strategy to support innovative start-ups and innovative SMEs*.
8. Morse, S. C., & Allen, E. J. (2016). Innovation and Taxation at Start-up Firms. *Tax Law Review*, 69, pp 357–388.
9. OCDE/Eurostat. (2018). Concepts et définitions pour la mesure de l'innovation d'entreprise, In Éditions & OCDE (Eds.), *Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation* (4th Editio). Éditions OCDE. <https://doi.org/https://doi.org/10.1787/3b66075a-fr>
10. *Quand l'échec entrepreneurial est lié à la gestion*. (2021). 13/04/2021. <https://www.dynamiquemag.com/article/echecentrepreneurial-lie-gestion.3451>
11. Rachid Smouni, S. konate. (2014). *Quelle stratégie d'accompagnement aux jeunes entrepreneurs créateurs de start-up au maroc*, pp 1–17.
12. République Algérienne Démocratique et Populaire. (2006). Loi n° 06-11 du 20 décembre 2006 relative à la société de capital d'investissement, Journal Officiel de la République Algérienne, n° 82.
13. République Algérienne Démocratique et Populaire. (2020). Loi n° 20-16 du 31 décembre 2020 portant loi de finances pour 2021, Journal Officiel de la République Algérienne, n° 83.
14. République Algérienne Démocratique et Populaire. (2021). Loi n° 21-16 du 30 décembre 2021 portant loi de finances pour 2022, Journal Officiel de la République Algérienne, n° 100.
15. République Algérienne Démocratique et Populaire. (2024). Loi n° 24-08 du 24 novembre 2024 portant loi de finances pour 2025, Journal Officiel de la République Algérienne, n° 84.
16. Tomala, F., Sénéchal, O., & Tahon, C. (2001). Modèle de processus d'innovation. *Conception, Analyse et Gestion Des Systèmes Industriels*.