

Startups in Algeria: Entrepreneurial ecosystem challenges and development mechanisms

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Abstract---This study aims to extrapolate the reality of Startups in Algeria and shed light on the obstacles they face, in addition to identifying various ways to develop this type of institutions. Through this study, we concluded that the environment for Startups in Algeria is considered a relatively undeveloped and slow-growing environment, as these institutions face several problems, including the problem of obtaining financing and the lack of bodies supporting them.

Keywords---Startups, Ecosystems, Incubators, Algeria.

1. INTRODUCTION:

The term “startup” began to gain prominence after the end of the Second World War, as these enterprises experienced significant expansion and development across various fields, particularly in technology. Startups came to be regarded as a driving force behind economic growth, playing a leading and highly significant role in the process of economic development. They have attracted considerable attention to the extent that statistical indicators related to startups often reflect broader economic dynamics.

In this context, the development of startups in Algeria has become both an inevitable necessity and a vital economic and strategic opportunity, especially in light of the decline in oil prices and the state's efforts to shift toward a policy of economic diversification. The Algerian government has made substantial efforts to improve the business environment and encourage members of society to innovate and establish startups. However, like all enterprises, startups require a set of fundamental conditions to ensure their development and rapid growth. These include access to adequate financing, supportive legislation and regulations, a conducive entrepreneurial ecosystem, advisory and support mechanisms, and an integrated market capable of absorbing their products and services. All these elements collectively contribute to the success of startups.

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1.1 Research Problem:

In light of the above, the research problem can be formulated as follows:

-What are the requirements for developing startups in Algeria in the face of the challenges they encounter?

1.2 Research Questions:

Based on the research problem, the following sub-questions can be raised:

- What is the current state of startups in Algeria?
- What are the main challenges hindering the development of startups in Algeria?
- How can the startup ecosystem in Algeria be developed?

1.3 Research Hypotheses:

To address the research problem, the following hypotheses have been formulated: Hypothesis 1: All Algerian startups obtain full financing for their innovative projects. Hypothesis 2: Support and advisory mechanisms provide comprehensive assistance to startups across all regions of the country.

1.4 Research Objectives:

The objectives of this study can be summarized as follows:

- Providing a theoretical framework for startups.
- Identifying Algeria's position at the global, African, and Arab levels in terms of the startup sector.
- Examining the current state of startups in Algeria.
- Identifying a sample of successful startups in Algeria. Exploring the challenges and requirements for developing startups.

1.5 Significance of the Study:

This study is of considerable importance given the global spread of startups and their positive economic implications, particularly in light of their continuous development over time. Startups have generated an economic revolution that has positively impacted various sectors. This significance has motivated the present research to examine the reality of startups in Algeria and to attempt to identify the requirements necessary for their development.

1.6 Research Methodology and Tools:

The study adopts both inductive and deductive approaches by collecting data and information from various sources related to the research topic. This approach aims to establish the theoretical foundations of the study variables, derive key findings that serve the research objectives, and provide answers to the research problem.

1.7 Structure of the Study:

This research paper is structured around the following sections:

- The concept of startups.
- Algeria's position in the startup sector at the global, African, and Arab levels.
- The current state of startups in Algeria and their potential for development.
- Yassir as a model of a successful Algerian startup.
- Challenges and requirements for developing startups in Algeria.

2. The Concept of Startups

2.1 Definition of a Startup General Concepts:

A startup is conventionally defined in the English dictionary as a small business that has just been established. The term "Start-up" is composed of two parts: "Start", which refers to the concept of beginning, and "up", which denotes growth and strong advancement. (Qannoush & Hani, 2020, p. 52)

According to Graham Paul, in his famous article in September 2012 (start-up = growth), a startup is: “An organization designed to grow rapidly. Being newly founded alone does not make an organization a startup, nor is it necessary for the startup to operate in the technology sector, accept venture capital, or have any exit plan. The only essential aspect is growth, and everything else associated with startups follows from growth.” (Paul, 2012)

Similarly, research expert Amna Puri-Mirza defines startups as: “Early-stage business ventures that generally attempt to approach the market with their new products or services from an innovative perspective. In most cases, startups are initially financed by their founders, and external financing is crucial to ensure their success and growth, often provided by venture capitalists.” (Amna, 2024)

According to the Statista Research Department, startups are defined as: “A startup is an enterprise that has developed a unique business idea and aims to make an immediate impact and capture the market.” (Statista Research Department, A Slowly-Growing Startup Environment, 2024)

2.2 The Concept of a Startup from the Algerian Legislator's Perspective:

According to Article 11 of Executive Decree No. 20-254, which established the National Committee for granting the labels “Startup”, “Innovative Project”, and “Business Incubator”, a startup is defined as:

“Any enterprise subject to Algerian law that meets the established standards.”

To be granted the “Startup” label, an enterprise must meet a set of conditions and criteria, as outlined by the decree (Official Gazette, 2020):

- The enterprise must not exceed eight (8) years of age.
- The business model must be based on innovative products or services.
- The annual turnover must not exceed the amount specified by the National Committee.
- At least 50% of the company's capital must be owned by natural persons, certified investment funds, or other enterprises that have already obtained this label.
- The enterprise must have significant growth potential.
- The number of employees must not exceed 250.

Based on the above definitions, a startup can be defined as: A newly established and rapidly growing business that evolves from an entrepreneurial idea into a real-world project, offering an innovative product or service aimed at a large market to meet its needs.

2.3 Characteristics of Startups:

Startups, like other enterprises, have a set of distinctive characteristics, which can be summarized as follows:

- **Newly Established, Young, and Temporary Enterprises:** Startups often begin as conceptual ideas by the entrepreneur and are then materialized into real businesses. They can grow into large enterprises or fail and transition into other opportunities. (Hussein & Sadiqi, 2021, p. 73)
- **High Growth Potential:** Launching a product or service rapidly can lead to widespread adoption, market penetration, and revenue exceeding costs, thereby achieving significant profit margins. (Dessler, 2003, p. 22)
- **Entrepreneurial Spirit and Scalability:** Startups can establish multiple operational units to diversify and produce different ranges of goods or services, targeting various markets simultaneously, reflecting their scalability.
- **Uncertainty and Risk Exposure:** Due to limited market information and the difficulty of conducting market research, startups often operate under uncertain conditions, especially when innovating in unestablished or poorly informed markets.
- **Capital and Investors:** Entrepreneurs often rely on self-financing or support from family and friends. To secure substantial capital for growth, startups usually turn to either venture capital or business angels. (Hussein & Sadiqi, 2021, p. 74)

- **Low Operational Costs:** Startups typically operate with minimal costs relative to expected profits, enabling faster market entry and competitive pricing. Examples include Microsoft, Amazon, and Facebook. (Ksouri & Qachout, 2021, p. 256)
- **Job Creation and Teamwork:** Startups are highly capable of employing young graduates, both experienced and inexperienced, forming mixed teams to develop their ideas and reduce unemployment.
- **Innovation and Creativity:** Startups constantly innovate, creating new products, enhancing existing ones, or offering services in novel ways to differentiate themselves and dominate the market.
- **Contribution to Local Development:** Investment by startups across various regions helps distribute populations more evenly, contributing to local development and reducing pressure on major cities. (Hussein & Sadiqi, 2021, p. 74)
- **Technology-Driven Enterprises:** Startups rely heavily on technology to grow and innovate, using digital platforms for marketing, sales, financing, and support from business incubators. (Darwish, 2023, pp. 3-4)

3. Algeria's Position in the Startup Ecosystem: Global, African, and Arab Levels.

3.1 Global Level:

According to Startupranking, which ranks countries based on the number of startups, the United States ranks first globally with 86,455 startups, followed by India with 18,007, and the United Kingdom with 7,895 startups. (startupranking.com)

Algeria ranks 19th globally out of 206 countries, with approximately 839 startups (see Table 1).

Table 1: Global Ranking of Countries by Number of Startups

Rank	Country	Number of Startups
1	USA	86,455
2	India	18,007
3	UK	7,895
...
19	Algeria	839

Source: Researchers' compilation based on startupranking.com.

3.2 African Level:

In Africa, Nigeria ranks first with 845 startups, followed closely by Algeria with 839 startups, indicating an improvement from its previous 6th position. Egypt, South Africa, and Kenya follow in third, fourth, and fifth positions, respectively.

Table 2: African Ranking by Number of Startups

Rank	Country	Number of Startups
1	Nigeria	845
2	Algeria	839
3	Egypt	645
4	South Africa	534
5	Kenya	356

Source: Researchers' compilation based on startupranking.com.

3.3 Arab Level:

Among Arab countries, the UAE leads with 1,586 startups, followed by Algeria (839 startups), Egypt (645), Saudi Arabia (220), and Morocco (135).

Table 3: Arab Ranking by Number of Startups

Rank	Country	Number of Startups
1	UAE	1,586
2	Algeria	839
3	Egypt	645
4	Saudi Arabia	220
5	Morocco	135

Source: Researchers' compilation based on startupranking.com

4. The Reality of Startups in Algeria and Their Development Potential:

4.1 Algerian Startup Ecosystem:

According to the 2021 Global Startup Ecosystem Report, regions like Dubai, Cairo, Riyadh, and Abu Dhabi rank among the top 100 emerging ecosystems globally, with funding rounds for advanced-stage startups doubling over the past five years.

Algeria's startup ecosystem, however, remains relatively underdeveloped and slow-growing, particularly compared to other African countries such as Nigeria, Kenya, Egypt, and South Africa. Obstacles in general business operations and startup creation persist, although recent legislation and investment in technology have contributed to gradual improvements. (Statista Research Department, 2024)

For example, the 2023 Finance Law introduced incentives for R&D and innovation, increasing R&D expenditures from 1% to 3% of GDP over five years. The law also simplified taxation for self-employed entrepreneurs, with a flat tax rate of 5% and a turnover cap of 5 million DZD. (Start-up: Plus de 5000 start-up recensées, 2023)

4.2 Startup Financing:

Adequate financing is considered a fundamental factor for the success of startups. According to a study conducted by several researchers, 64% of the surveyed enterprises face financial difficulties, which constitutes a highly critical problem (Bachni & Sharara, 2022, p. 411). This challenge is particularly acute for startups, as they require funding to develop their ideas, conduct market studies, and test their products or services. These testing phases may need to be repeated several times, which requires substantial financial resources, and the lack of such resources significantly limits the innovator's capabilities.

Once a viable and innovative business model has been established, and after securing customers and ensuring the commercialization of products or services, startups require larger-scale financing to support their growth and expansion (Hussein & Sadiqi, 2021, pp. 76–77).

Based on Figure (01), it can be observed that startup financing activity in Algeria began to experience a continuous increase in 2022 compared to 2021. In November 2021, startup funding amounted to approximately USD 40,000,000, before declining in December 2021 to USD 30,000,000. However, with the beginning of 2022, specifically in February, a significant increase in startup financing activity was recorded, reaching USD 150,000,000, as illustrated in the following figure.

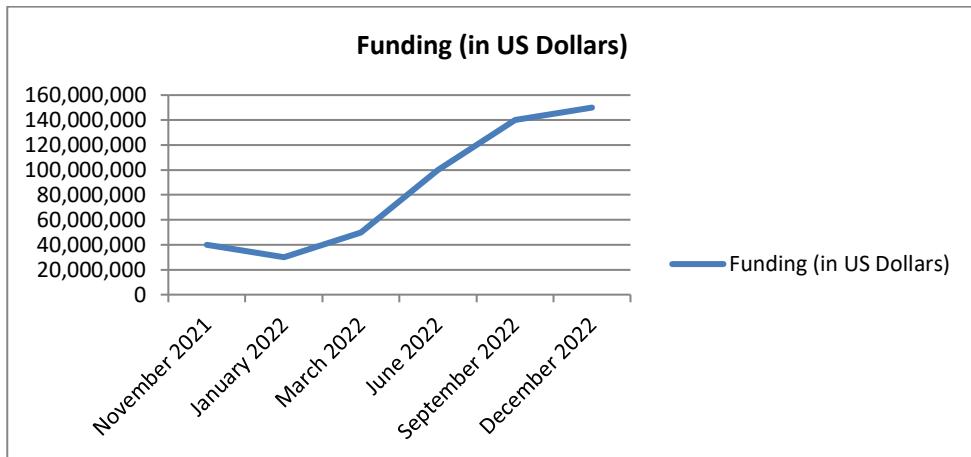


Figure 01: Startup Financing Activity in Algeria.

Source: Prepared by the authors based on (*Algeria startup funding activity*)

For startups to develop and achieve rapid growth, it is essential for them to secure multiple funding rounds, particularly at advanced stages. This is evidenced by December 2021 statistics, which recorded 587 high-growth startups across 19 countries in the Middle East and North Africa (MENA) region. This figure corresponds to an average of approximately 0.14 high-growth startups per 100,000 inhabitants. (Report on the project landscape in the Emirates, 2022, p. 02)

The data also reveal that several Arab countries are competing with global technology-driven business ecosystems. The United Arab Emirates ranks first, with 251 high-growth startups that collectively raised USD 5.4 billion in funding. It is followed by the Kingdom of Saudi Arabia in second place, with 106 startups securing USD 1.2 billion, while Egypt ranks third with 84 startups that raised USD 1.4 billion. As for Algeria, it ranked 15th and last, with only two startups that collectively raised USD 49 million in funding. (Report on the project landscape in the Emirates, 2022, p. 02)

4.3 Institutions Responsible for Supporting Startups:

To ensure the success and development of the startup sector in Algeria, a range of institutions has been established to support startups, encourage entrepreneurship, and facilitate access to various financing mechanisms. The most prominent of these institutions include:

4.3.1 The National Startup Financing Fund:

The National Startup Financing Fund, also known as the Algerian Startup Fund (ASF), is a public venture capital institution that finances enterprises holding the “Startup” label and aims to develop the entrepreneurial and innovation ecosystem in Algeria. It was officially launched in 2020 during the National Startup Conference “Algeria Disrupt”, with an initial capital of DZD 1.2 billion, serving as a public financing mechanism for young project holders.

This fund is the result of cooperation between the Ministry of Startups and six public banks (ministerecommunication.gov.dz). As an initial step, the fund invested in the equity of more than 70 startups, while the total volume of investments exceeded DZD 1.2 billion (premier-ministre.gov.dz, 2022).

From its establishment until early 2021, the fund allocated financial envelopes estimated at DZD 510 million to innovative project holders. Furthermore, in 2023, it succeeded in mobilizing approximately DZD 58 billion from investment funds, which positively impacts startups by significantly increasing the

fund's investment capacity. Notably, individual startup investments range between DZD 5 million and DZD 150 million (Abd Moumen, 2023).

By 2024, the fund had received 350 startup project applications, of which 139 financing files were processed and are currently under implementation across 22 provinces (Algerian Startup Fund). In addition, 23 innovative projects have been successfully implemented on the ground.

The National Startup Financing Fund operates across 18 funded sectors, including electronic services, robotics, pharmaceuticals, industry, electronic devices and components, transportation and logistics, green technology, and construction and public works (gloriousalgeria, 2024).

4.3.2 Ministry of the Knowledge Economy, Startups, and Small and Medium Enterprises:

The Ministry of the Knowledge Economy, Startups, and Small and Medium Enterprises works to establish a functional regulatory and legal framework that serves startups by mapping support mechanisms and financing opportunities, thereby contributing to the transformation of the national economy (www.aps.dz, 2020).

Under Executive Decree No. 20-254, which established the National Committee responsible for granting the “Startup” label, the ministry is tasked with diagnosing innovative projects, promoting them, and improving the startup ecosystem. In 2021, the ministry received approximately 3,516 applications nationwide for the “Startup” label, of which 751 enterprises were granted the label. The following figure illustrates this distribution (Le Fonds National de Financement des Startups (ASF), 2022)

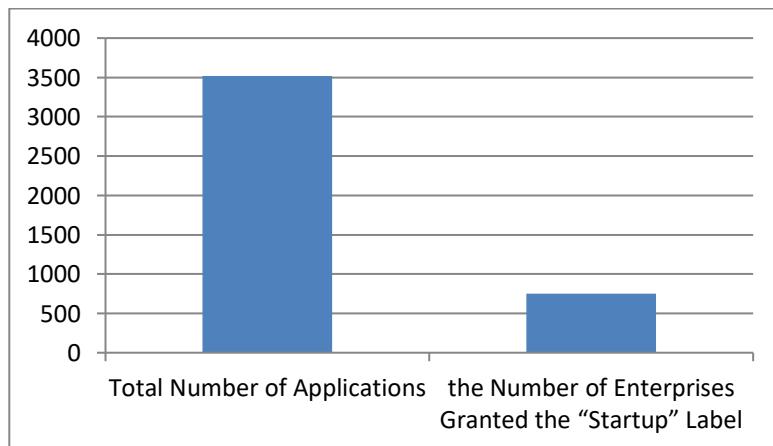


Figure (02): Number of Enterprises Granted the “Startup” Label out of the Total Number of Applications

Source: Prepared by the authors based on (Le Fonds National de Financement des startups (ASF), 2022)

In 2022, various measures were taken by public authorities to encourage innovative youth to establish startups. The Commercial Code was also revised to become more flexible for these enterprises, simplifying the procedures for creating startups. Several regulatory and implementation texts were issued, which led to a significant increase in the number of startups and innovative projects that received the Startup Label, reaching over 750 startups within a year and a half (premier-ministre.gov.dz/, 2022). At the beginning of 2023, more than 1,100 enterprises obtained the Startup or Innovative Project label, and over 5,000 startups were registered in Algeria (Start-up: Plus de 5000 startup recensées, 2023).

To further promote spending on research and development in the startup sector, the Ministry of Knowledge Economy and Startups collaborated with the Ministry of Higher Education and Scientific Research, as well as the Directorate of Research and Development, to cover costs related to prototyping, patent fees, and all intellectual property documentation.

4.3.3 Business Incubators:

Business incubators are considered a means of support for startups and small- and medium-sized enterprises (SMEs). They are independent institutions with their own legal entity, aimed at assisting innovative startups and new entrepreneurs by providing them with the necessary resources and support such as expertise, workspace, and financial assistance to overcome the burdens of the launch and growth phases, which can often be lengthy. (Boualchour, 2018, p. 420)

5. Yassir as a Model of a Successful Algerian Startup:

Yassir was founded in 2017 (Yassir, 2023). It is an application that provides on-demand transportation services, developing to become a leading startup in the country (Statista Research Department, A slowly-growing startup environment, 2024). This success is attributed to the funding rounds it received, making it an excellent example illustrating the need for cumulative financing for a startup's growth and development. Yassir is based on the following principles (Ben Cherif, 2023, p. 562):

- Ease of use: Customers simply need to download the app on their phones.
- Service availability: Services are provided anywhere and at any time.
- Providing the best price to the customer: Takes into account distance, timing, traffic, and service quality.
- Quality service: Ensures safety and reduces waiting time for both customers and drivers.

According to the Ranking Startups platform, which tracks global startups and ranks them based on the SR Score (a number ranging from 0 to 100,000 reflecting the startup's online significance and social impact), Yassir was ranked 3,944 globally in 2021, while it ranked fourth within Algeria, as shown in the following table:

Table (04): Ranking of the Top Startups in Algeria in 2021

Rank	Startup Name	SR Score	Description
1466	Siamois QSM	69.370	An e-learning platform for Algerian medical students and those preparing for residency exams.
1759	Sekoir	66.814	A marketplace where individuals and local companies come together to create value and profit from the growing e-commerce market.
2788	Betolis	56.501	A 100% Algerian online sales platform.
3944	Yassir	43.757	Yassir is a transportation service using a smartphone application.

Source: Prepared by the researchers based on (startupranking.com)

Regarding the Startupranking Report for 2022, it is observed that Yassir improved its ranking, reaching 2521 globally and first place in Algeria. The following table shows the details:

Table (05): Ranking of the Top Startups in Algeria in 2022

Rank	Startup Name	SR Score	Description
2521	Yassir	42.787	-
2558	Batolis	42.633	-
3386	Siamois QSM	39.313	-

Rank	Startup Name	SR Score	Description
4715	Global Opportunities	33.453	Considered the first platform for discovering opportunities for all youth in Algeria.

Source: Prepared by the researchers based on (startupranking.com)

In 2023, Yassir achieved a remarkable improvement in its global ranking, reaching 709 worldwide compared to 2521 previously, while in Algeria it retained first place according to the Ranking Startups platform. The following table illustrates this:

Table (06): Ranking of Top Startups in Algeria in 2023

Rank	Startup Name	SR Score	Description
709	Yassir	66.925	-
757	Siamois QSM	66.020	-
2,992	Global Opportunities	38.732	-
3,614	Zawwali	35.803	A platform offering a range of low-cost goods and services.

Source: (startupranking.com)

According to the Ranking Startups platform in 2024, Yassir experienced a slight decline in its global ranking, reaching 844 worldwide, while it retained first place in Algeria. The following table shows the ranking:

Table (07): Ranking of Top Startups in Algeria in 2024

Rank	Startup Name	SR Score	Description
844	Yassir	63.654	-
2,649	Siamois QSM	39.672	-
3,631	Zawwali	35.203	-
3,742	Mdin Jdida	34.548	A multi-vendor online platform in Algeria.

Source: (Top - Algeria)

According to Startupranking reports, the Algerian startup Yassir has held the first position in recent years, starting from 2022, after previously ranking fourth in 2021, which indicates its rapid development and growth. Yassir became one of the leading transportation companies in Africa in 2022, thanks to funding received at the end of 2021 of approximately 70 million USD (Statista Research Department, A slowly-growing startup environment, 2024).

In 2022, it also secured 150 million USD, making it the highest-funded transportation startup in Africa in recent years. This contribution represented about 70% of the total funding secured by transportation projects and significantly exceeded all other contributions from Egypt, Nigeria, and Kenya (Galal, 2024).

In 2023, the Algerian startup Yassir raised a total funding of around 218 million USD, marking the highest startup funding in Algeria and securing the first position as the top Algerian startup in 2022 by total funding.

In addition to Yassir, there are other leading startups in Algeria, including General Emballage, TemTem, Kick Sport, Eurl LD Azouaoua (Statista Research Department, A slowly-growing startup

environment, 2024). According to the table below, which ranks the top Algerian startups by total funding received, the cumulative funding of the aforementioned startups amounts to 278.9 million USD, with the following highlights:

- Yassir ranks first in Algeria and 31st in Africa among 100 African startups, with funding of 217,690,000 USD.
- General Emballage ranks second in Algeria and 97th in Africa among 100 African startups.
- The remaining startups such as TemTem and Kick Sport are not listed among the top 100 African startups (startuplist.africa).

The following table illustrates this data:

Table (08): Top Startups in Algeria

Rank	Startup	Description	Latest Funding Round	Total Funding Raised	Year Founded
01	Yassir	Yassir is a transportation service that uses a smartphone app, allowing everyone to book drivers and travel safely.	Series B	\$217,690,000	2016
02	General Emballage	General Emballage is a supplier of corrugated cardboard in Algeria.	Private Equity	\$55,000,000	1998
03	Tem Tem	A private passenger transportation company.	Series A	\$5,700,000	2017
04	Kick Sport	Provides sports equipment online to customers worldwide.	Seed	\$246,312	2009
05	Eurl LD Azouaoua	This company is involved in the assembly and distribution of tractors.	Corporate	\$448,145	2010

Source: (Top Startups in Algeria)

6. Challenges and Requirements for the Development of Startups in Algeria

6.1 Challenges Facing Startups in Algeria:

These startups face a range of challenges that hinder their operations and development, which can be summarized as follows:

- The novelty and limited scope of the startup concept in Algeria.
- The absence of a functional ecosystem that serves startups.
- Bureaucratic procedures and the lack of legislation and regulations that facilitate and organize their work.
- The problem of insufficient funding, which slows down the growth rate of startups significantly.
- The lack of necessary guidance and adequate support to ensure the success of such enterprises.
- Weak government spending on scientific research, coupled with a large gap between academic research/universities and the demands of the market and business environment in Algeria.
- The limited number of business incubators, their distance from urban areas, and their misalignment with global business incubator models. (Nabila, 2021, pp. 29-30)

6.2 Requirements for the Development of Startups in Algeria:

- Develop an ecosystem that supports and encourages the creation of startups.

- Establish a comprehensive and exemplary funding plan for startups, involving financial institutions, venture capital companies, and the stock exchange, while defining how expatriates can contribute.
- Provide training for startup founders in various economic, financial, administrative, and legal fields to equip them with comprehensive knowledge to address recurring problems.
- Strive to implement “near-total” tax exemption mechanisms in practice, enabling youth to actively contribute to reducing the national economy’s reliance on hydrocarbons.
- Establish financial laboratories to serve startups operating in the fintech sector.
- Provide programs to accelerate the process of establishing startups, set up incubators and accelerators in all provinces, and implement systems to evaluate and qualify the performance of business incubators.
- Remove general obstacles, especially those that hinder commercial activities in Algeria.
- The production of goods that do not comply with international standards reduces the competitiveness of Algerian products in both global and domestic markets (Ramdani & Bouguerra, 2021, p. 287). Therefore, it is necessary to ensure the production of goods meeting international standards and to establish a committee for product monitoring.

Conclusion

Through its support for startups, the state seeks to achieve a range of objectives, particularly economic and social ones, such as fostering innovation and talent, creating jobs, and more. To achieve this, efforts should not be limited to the mere establishment of startups; it is also essential to ensure their continuity and growth by providing support and a comprehensive ecosystem. Based on the analysis of the collected data, we reached the following conclusions regarding the hypotheses:

- The first hypothesis, which stated that “all Algerian startups receive full funding for their innovative projects”, is not correct. Not all Algerian startups receive full funding; only some receive it, and often the funding is very limited.
- The second hypothesis, which stated that “support and consulting services provide full assistance to startups in all provinces of the country”, is also incorrect. Consulting centers, support services, and business incubators tend to favor innovative projects in the services sector, neglecting other sectors. Additionally, business incubators support only a limited number of startups in some provinces specifically, 9 out of 58 provinces so they do not cover the entire country.

From this study, we also derived several key findings:

- The startup ecosystem in Algeria is relatively new, underdeveloped, and slow-growing.
- Algerian startups lack multiple funding rounds, especially in advanced stages, unlike regions such as Dubai, Cairo, Riyadh, and Abu Dhabi, which are among the top 100 ecosystems.
- Yassir is the only startup benefiting from significant cumulative funding, which has allowed it to lead, unlike other startups whose growth remains very slow due to limited access to funding.
- Support institutions for Algerian startups are weak.
- There is a limited number of business incubators, which support only a small number of innovative projects and operate in only a few provinces.
- Support is biased toward projects in the services sector, while other sectors such as tourism, crafts, trade, renewable energy, environment, and information and communication technology are neglected.

Recommendations:

- Develop a more advanced and fast-growing startup ecosystem.
- Provide multiple funding rounds for startups, especially in advanced stages.
- Establish a legal, regulatory, and functional framework that serves the interests of startups.

- Create specialized and model business incubators across all provinces that emulate leading global practices.
- Encourage startup founders to invest in all sectors, not just the services sector.
- Conduct international rankings of startups, knowledge economy, and innovation, and work to improve Algeria's position.
- Grant tax exemptions specifically for startups to encourage youth innovation and the creation of such enterprises.
- Define startups and incubators legally and establish methods to evaluate their performance.

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