

## The Legal System for Financing Startups in Algeria

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### Abstract

This study aims to analyze the legal system for startups in Algeria by reviewing the legislative and regulatory framework established by the Algerian legislator to support this modern economic model. The study addresses the definition of startups and the conditions for their establishment, the legal texts governing them, the tax and financial incentives provided to these enterprises, the role of business incubators in supporting them, and the legal protection of intellectual property rights. The study concludes that Algeria has made tangible efforts to establish a supportive legal framework, but challenges remain and require further development and modernization.

**Keywords:** Startups, Simplified Joint-Stock Company, Business Incubators, Tax Incentives, Financing, Intellectual Property.

### Introduction

Algeria faces significant economic challenges due to sharp fluctuations in hydrocarbon prices and the urgent need to diversify national income sources. In this context, the Algerian state has adopted new economic policies based on a knowledge and innovation economy and encouraged entrepreneurship through startups. Startups are considered strategic solutions to achieve sustainable economic development, create jobs, and enhance innovation and modern technology.

Since 2020, the Algerian legislator has introduced a comprehensive legal system

aimed at providing a supportive environment for startups, including administrative facilitation, tax incentives, innovative financing mechanisms, and institutional support through business incubators. This study aims to shed light on this legal system in a comprehensive and detailed manner, analyzing its effectiveness in achieving the intended objectives and the challenges facing its implementation.

### Research Problem

The main research question is: To what extent is the Algerian legal system adequate and effective in supporting and financing startups and achieving their economic objectives?

### Significance of the Study

This study is significant from several perspectives:

1. **Scientific significance:** It contributes to enriching the legal literature on startups in Algeria.
2. **Practical significance:** It provides a legal guide for those seeking to establish startups.
3. **Economic significance:** It helps understand the financing mechanisms for startups.

### Methodology

The study relies on a descriptive-analytical approach, reviewing relevant legal and regulatory texts and analyzing them to extract the governing rules and principles for startups.

### Study Structure

To address the research problem, the study is divided into three main chapters:

- Chapter One: Conceptual and Legal Framework for Startups
- Chapter Two: Mechanisms for Supporting and Financing Startups
- Chapter Three: Challenges and Prospects for Developing the Legal System

## **Chapter One: Conceptual and Legal Framework for Startups**

### **Section One: Definition and Characteristics of Startups**

#### **Subsection One: Definition of a Startup**

The Algerian legislator has not provided a precise and comprehensive definition of a startup in a single law but has referred to its characteristics and conditions through several legal and regulatory texts. According to Executive Decree No. 20-254 dated September 15, 2020, a startup can be defined as a newly established economic entity characterized by its innovative nature, aiming to develop new products or services based on technology and knowledge, with the potential for rapid and sustainable growth.

From this definition, the legal conditions can be derived as follows:

1. The enterprise must be newly established (not exceeding eight years).
2. It must be based on an innovative idea or a new business model.
3. It must have the potential for rapid and significant growth.
4. It must rely on technology and innovation in its activities.
5. It must obtain the "Startup" label from the competent national committee.

#### **Subsection Two: Characteristics of Startups**

Startups are distinguished by a set of characteristics that differentiate them from traditional enterprises:

1. **Innovative nature:** Innovation is the core of a startup, based on a new idea or an innovative solution to an existing problem, or the development of a product or service not yet available in the market. This

innovation can be technological, in the business model, or in the method of service delivery.

2. **Rapid growth potential:** Unlike traditional enterprises, startups can achieve rapid growth and significant expansion in a relatively short period, thanks to their reliance on technology and scalable products.
3. **Dependence on technology and knowledge:** Startups rely primarily on modern technology, scientific knowledge, and specialized human capital, making them part of the knowledge economy.
4. **High risk:** Startups face higher failure risks than traditional enterprises due to their novelty, reliance on untested ideas, and need for continuous financing.
5. **Flexible organizational structure:** They have a simple and flexible structure that allows rapid decision-making and adaptation to market changes.

#### **Subsection Three: Conditions for Obtaining the "Startup" Label**

Executive Decree No. 20-254 sets out conditions to obtain the "Startup" label from the competent national committee:

- **Age:** The enterprise must not exceed eight years from the date of establishment.
- **Revenue:** Annual revenue must not exceed the amount set by the national committee.
- **Capital:** At least 51% of the capital must be owned by Algerian natural persons or other certified startups.
- **Innovation:** The enterprise must be based on an innovative idea or new business model.
- **Growth potential:** The enterprise must have significant growth potential.
- **Registration:** The enterprise must be legally registered in the commercial register.

### **Section Two: Legislative and Regulatory Framework**

### **Subsection One: Executive Decree No. 20-254**

Executive Decree No. 20-254, dated September 15, 2020, is the cornerstone for regulating startups in Algeria. It includes provisions for establishing a national committee to grant the labels "Startup," "Innovative Project," and "Business Incubator," defining their functions, composition, procedures, and conditions for granting each label.

#### **1. Establishment of the National Committee:**

The decree establishes a national committee under the Minister in charge of startups with the following responsibilities:

- Granting the "Startup" label to qualifying enterprises.
- Granting the "Innovative Project" label for projects under development.
- Granting the "Business Incubator" label for supporting entities.
- Monitoring and evaluating the performance of labeled enterprises.
- Proposing policies and measures to develop the system.

#### **2. Label Granting Procedures:**

The decree sets clear procedures for submitting applications via a dedicated electronic platform, specifying required documents and legal response deadlines. Labels are granted for four years, renewable once for an additional four years.

#### **3. Label Revocation:**

Labels may be revoked in cases including:

- Non-compliance with legal conditions.
- Activity suspension for more than six months.
- Providing false or misleading information.
- Failure to submit required periodic reports.

### **Subsection Two: Law No. 22-09 on the Simplified Joint-Stock Company (SAS)**

The Algerian legislator introduced a new legal form of company, the Simplified Joint-Stock Company (SAS), under Law No. 22-09 dated May 5, 2022. This

company type is exclusively for startups with the "Startup" label.

#### **1. Characteristics of SAS:**

- Flexibility in organization: freedom to define management rules and internal regulations through the bylaws.
- Simplified procedures: easier establishment compared to traditional joint-stock companies.
- Legal personality: independent of partners.
- Limited liability: partners' liability limited to their capital contributions.
- Transferability of shares: facilitates entry of new investors.

#### **2. Founding Conditions:**

- The enterprise must hold the "Startup" label.
- Minimum of two partners.
- Minimum share capital as set by regulatory text.
- Full payment of capital upon establishment.

#### **3. Management:**

Flexible management system, where partners define the structure in the bylaws. One or more managers are appointed with broad powers to represent and manage the company.

#### **4. Applicable Provisions:**

SAS is subject to the provisions of joint-stock companies in commercial law unless conflicting with special provisions in Law No. 22-09.

### **Section Three: Complementary Texts and Ministerial Decisions**

In addition to the decree and the law mentioned above, several regulatory texts and ministerial decisions were issued to implement the legal system for startups:

#### **1. Executive Decree No. 20-54:**

Defines the powers of the Minister of Small Enterprises, Startups, and the Knowledge Economy, and sets the administrative and institutional framework to implement government policies.

#### **2. Annual Finance Laws (2019–2025):**

Include provisions on tax incentives and exemptions for startups. For example, the 2020 Finance Law established a support fund for startups.

### 3. Ministerial Decisions:

Several decisions detail the implementation of the above texts, including Ministerial Decision No. 1275 issued on September 27, 2022, by the Ministry of Higher Education and Scientific Research, aimed at stimulating entrepreneurship and innovation in Algerian universities and providing mechanisms for students and researchers to transform ideas and research projects into economically and socially valuable startups.

## Chapter Two: Support and Accompaniment Mechanisms for Startups

### Section One: Tax and Financial Incentives

#### Subsection One: Tax Exemptions

The Algerian legislator grants startups with the label a set of important tax exemptions to reduce financial burdens during early stages:

##### 1. Exemption from Income Tax and Corporate Tax:

Startups are exempt from personal income tax (IRG) or corporate tax (IBS) for 3–4 years from the start of activity, according to annual finance laws. Article 100 of the 2020 Finance Law extended the exemption period to four years.

##### 2. Exemption from Professional Activity Tax (TAP):

Full exemption during the above tax-free period.

##### 3. Exemption from Single Flat Tax (IFU):

Startups are also exempt from IFU applied to small enterprises for the same period.

##### 4. Customs Duty Reductions:

Startups importing equipment and materials necessary for their activities benefit from customs duty reductions or full exemptions in specific cases.

Tax/Levy	Exemption Period	Exemption Rate
Corporate Tax (IBS)	3–4 years	100%
Personal Income Tax (IRG)	3–4 years	100%
Professional Activity Tax (TAP)	3–4 years	100%
Single Flat Tax (IFU)	3–4 years	100%

### Subsection Two: Financing Mechanisms

Startups face significant challenges in obtaining funding from traditional sources such as banks due to high risk and limited guarantees. The Algerian legislator established alternative and innovative financing mechanisms:

#### 1. Startup Support Fund:

Established under Article 131 of the 2020 Finance Law to:

- Provide liquidity for startups.
- Finance innovative projects in early stages.
- Support research and development.
- Contribute to developing the startup ecosystem.

#### 2. Venture Capital Companies (Capital-Risque):

Allows investment in startups in exchange for equity and future profit participation, with features including:

- No need for collateral.
- Flexible financing terms.
- Administrative and advisory support from investors.
- Investor exit upon achieving desired growth.

#### 3. Specialized Investment Funds:

Funds can be established with contributions from public, private, and individual investors. Managed professionally and supervised by competent authorities.

### Fourth: Preferential Loans and Grants

The state, through the National Agency for Youth Employment Support and the Agency for the Support of Small and Medium Enterprises, provides loans under

facilitated conditions for startups, including:

- Long-term loans without interest or with reduced interest rates.
- The possibility of obtaining non-repayable grants to cover part of the establishment costs.
- A triple financing system (entrepreneur contribution + interest-free loan + bank loan).

### **Fifth: Crowdfunding**

Algeria has begun regulating crowdfunding through electronic platforms that allow startups to raise funds from a large number of small investors online.

### **Subsection Three: Administrative Advantages and Facilitation**

In addition to financial and tax incentives, the Algerian legislator granted startups a set of administrative facilitations:

- Simplifying registration and enrollment procedures in the commercial register.
- Priority in obtaining land and real estate for project establishment.
- Facilitated access to licenses and administrative approvals.
- Exemptions from certain administrative fees.
- Ability to use government electronic platforms for managing procedures.

## **Section Two: Business Incubators and Their Role in Support**

### **Subsection One: Concept and Functions of Business Incubators**

A business incubator is defined as a structure or entity that provides support and guidance to startups during their early stages by offering a suitable environment and integrated services to help them grow, develop, and overcome challenges.

#### **1. Types of Business Incubators**

Business incubators in Algeria vary according to their nature and ownership:

1. University incubators: affiliated with universities and research centers, targeting students and researchers.
2. Public incubators: affiliated with the public sector and state institutions.

3. Private incubators: affiliated with the private sector, operating under a commercial model.

4. Technological incubators: specialized in technical and technological projects.

### **2. Tasks and Functions of Business Incubators**

Executive Decree No. 20-254 defines the main tasks of business incubators:

- Providing equipped workspaces for startups.
- Offering administrative, legal, and financial consulting.
- Organizing training and capacity-building programs.
- Connecting startups with potential investors and partners.
- Facilitating access to financing.
- Providing shared services (internet, secretarial, accounting).
- Organizing events and competitions for startups.
- Supporting the development of business models and strategies.

#### **3. "Business Incubator" Label**

Entities meeting the specified conditions can apply for the "Business Incubator" label from the National Committee, which allows benefits such as:

- Tax exemptions for two years.
- Eligibility for government grants.
- Facilitation in land allocation and privileges.
- Official recognition and credibility.

### **Subsection Two: Conditions for Obtaining the "Business Incubator" Label**

Executive Decree No. 20-254 sets conditions to obtain the "Business Incubator" label:

1. The incubator must be legally registered as a company, association, or entity.
2. Provide suitable infrastructure and equipped workspaces.
3. Have a qualified management team with experience in support services.
4. Implement a clear program for support and training.

5. Demonstrate the ability to provide required services.
6. Submit resumes of incubator staff and trainers.
7. Provide a copy of the commercial register and legal framework.

### **Subsection Three: Performance Evaluation of Business Incubators**

Incubators with the label are subject to periodic evaluation by the National Committee to ensure the quality of services and continued compliance with conditions. Evaluation is based on:

- Number of startups supported.
- Success rate of incubated startups.
- Quality of training programs provided.
- Beneficiary satisfaction level.
- Contribution to the startup innovation ecosystem.

## **Chapter Three: Challenges and Prospects for Developing the Legal System**

### **Section One: Legal and Administrative Challenges**

#### **Subsection One: Complexity of Administrative Procedures**

Despite efforts to simplify procedures, startups still face administrative challenges:

- Slow processing of label applications.
- Multiple authorities involved with lack of coordination.
- Shortage of specialized staff handling startup files.
- Limited digitalization in some administrations.
- Difficulty obtaining certain required administrative documents.

#### **Subsection Two: Legislative Gaps**

The legal framework suffers from gaps requiring attention:

1. Lack of a precise and comprehensive legal definition of a startup in a single law.
2. Absence of detailed regulatory texts for some aspects of Law 22-09.
3. Unclear criteria for granting labels.
4. Insufficient provisions related to startup governance.

5. Lack of complete legal regulation for modern financing mechanisms such as crowdfunding.

### **Subsection Three: Coordination Between Competent Authorities**

Startup support responsibilities are distributed across several ministries and agencies, which sometimes leads to:

- Overlapping or conflicting authorities.
- Difficulty identifying the competent authority for certain issues.
- Slow decision-making due to consultation among multiple entities.
- Absence of a unified database.

## **Section Two: Economic and Financial Challenges**

### **Subsection One: Difficulties in Accessing Financing**

Despite new financing mechanisms, funding remains a major challenge:

#### **1. Caution of Traditional Banks**

Traditional banks exercise extreme caution in funding startups due to:

- High risk level.
- Absence of a credit history.
- Insufficient collateral.
- Difficulty evaluating innovative project feasibility.

#### **2. Limited Venture Capital**

The venture capital market in Algeria is still in its early stages:

- Few active venture capital firms.
- Weak culture of investing in startups.
- Absence of clear exit mechanisms for investors.
- Limited available funds.

#### **3. Slow Disbursement of Government Support**

Startup owners complain of delays in disbursing government grants and loans, and complex procedures to obtain them.

### **Subsection Two: Weak Investment Environment**

The general investment environment affects the growth and development of startups:

- Difficulty accessing local and international markets.

- Limited technological infrastructure in some areas.
- Weak networking between startups and the private sector.
- Few partnerships between startups and large companies.
- Difficulty attracting talent and specialized human resources.

### **Section Three: Development Prospects and Recommendations**

#### **Subsection One: Legislative Framework Development**

##### **1. Issuing a Unified Law**

Introduce a comprehensive law for startups consolidating all scattered provisions into a single text, including:

- A precise and comprehensive definition of a startup.
- Clear specification of rights and obligations.
- Integrated regulation of support and financing mechanisms.
- Special provisions for startup governance.

##### **2. Amending Existing Texts**

Review and amend Executive Decree 20-254 and Law 22-09 to close gaps and simplify procedures.

##### **3. Issuing Regulations**

Issue decrees and ministerial decisions to implement existing legal texts.

##### **4. Organizing Modern Financing**

Establish a comprehensive legal framework for modern financing mechanisms such as crowdfunding and angel investors.

#### **Subsection Two: Improving the Administrative Environment**

##### **1. Comprehensive Digitalization**

Develop a unified electronic platform enabling online completion of all procedures:

- Submission of label applications.
- Tracking application status.
- Obtaining administrative documents.
- Communication with competent authorities.
- Access to a unified database.

##### **2. Staff Training**

Organize training programs for administrative staff handling startup files to qualify and improve their performance.

#### **Third: Establishment of One-Stop Windows**

Establish unified administrative windows in each province bringing together representatives from various concerned authorities to facilitate procedures.

#### **Subsection Three: Development of the Financing System**

##### **1. Encouraging the Banking Sector**

- Establish mechanisms for risk-sharing between the state and banks.
- Develop banking products specifically for startups.
- Provide government guarantees for loans directed to startups.

##### **2. Developing the Venture Capital Market**

- Encourage the establishment of venture capital funds.
- Provide tax incentives for investors in venture capital.
- Organize events to connect investors with startups.
- Develop clear exit mechanisms (stock exchange, acquisition).

##### **3. Increasing Resources of the Support Fund**

Increase the financial allocations dedicated to the Startup Support Fund and improve its disbursement mechanisms.

#### **Subsection Four: Promoting an Entrepreneurial Culture**

##### **1. Education and Awareness**

- Include entrepreneurship subjects in educational curricula.
- Organize workshops and awareness lectures at universities.
- Launch media campaigns to encourage youth to establish startups.

##### **2. Supporting Business Incubators**

- Increase the number of business incubators and their geographic distribution.
- Improve the quality of services provided.

- Encourage the establishment of incubators specialized in certain sectors.
- Connect incubators with international networks.

### **3. Organizing Events**

- Organize competitions for startups.
- Hold exhibitions and forums for networking and communication.
- Organize "Investor Days" to connect funders with innovators.

### **Subsection Five: Openness to International Experiences**

#### **1. International Partnerships**

Develop partnerships with countries leading in startups to benefit from their experiences.

#### **2. Attracting Foreign Investment**

Establish mechanisms to attract foreign investors to invest in Algerian startups.

#### **3. Facilitating Access to International Markets**

Assist startups in exporting and expanding into foreign markets.

### **Conclusion**

The legal framework for financing startups in Algeria represents a positive and important step toward diversifying the national economy and promoting entrepreneurship and innovation. However, the success of this system does not depend solely on the existence of legal texts; it requires a genuine will for actual implementation, continuous development, and cooperation among all stakeholders: the state, the private sector, universities, and civil society.

Startups are not merely economic projects; they are a new model for creating wealth and value based on knowledge, innovation, and creativity. Supporting and developing them contributes to building a strong and sustainable economy, creating job opportunities for youth, and keeping pace with global economic transformations.

### **Results**

From this in-depth study of the legal framework for financing startups in Algeria, the following results can be drawn:

1. Algeria has recognized the importance of startups as a lever for

economic development and diversification of national income sources, moving toward establishing a supportive legal and regulatory framework for this modern economic model.

2. The legal system for startups consists of several legal and regulatory texts, most notably Executive Decree No. 20-254 of 2020, Law No. 22-09 of 2022 concerning the Simplified Joint-Stock Company, and the annual finance laws.
3. The legal system provides a range of incentives and facilitation for startups, including 3–4 years of tax exemptions, innovative financing mechanisms such as the support fund and venture capital, and guidance through business incubators.
4. The legislator introduced a new legal form of company, the "Simplified Joint-Stock Company," exclusively for startups, characterized by flexibility and simplified procedures.
5. The legislator established a structured system to protect intellectual property rights of startups, considering them the foundation of their activity and competitive advantage.
6. Despite efforts made, the legal system still faces some challenges and gaps that hinder fully achieving the intended objectives, including complex administrative procedures, difficulties in accessing financing, and a weak investment environment.
7. The legal system requires further development and updating to keep pace with rapid global developments in the startup sector.

### **Recommendations**

#### **For the Legislator:**



1. Issue a unified and comprehensive law for startups consolidating all scattered provisions.
2. Close legislative gaps and issue the necessary implementing regulations.
3. Legally organize modern financing mechanisms such as crowdfunding with clear regulations.
4. Further simplify legal and administrative procedures.

#### **For the Government:**

1. Implement full digitalization of all procedures related to startups.
2. Increase financial allocations for the Startup Support Fund.
3. Improve coordination among different involved authorities.
4. Encourage the banking sector to finance startups.
5. Develop technological infrastructure.

#### **For Universities and Research Centers:**

1. Enhance the role of university incubators in supporting startups.
2. Include entrepreneurship in educational programs.
3. Encourage the transformation of research results into startups.

#### **For Startups:**

1. Maximize the use of available incentives and facilitations.
2. Proactively protect intellectual property rights.
3. Engage with business incubators to benefit from support.
4. Build strategic partnerships with the private sector.

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