

RESEARCH
ARTICLE**The Role of the Startup Paradigm in Promoting Innovation and Economic Development in Algeria****Mohammed Sali**

Doctor

University of Amenokal Hadj Moussa Ag Akhamouk Tamanrasset
Algeria

Email: sali.mohammed@univ-tam.dz

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Innovation, paradigm, startups, sustainable development, economy.

Abstract

Startups in Algeria are a key pillar that contributes to stimulating the national economy and achieving economic diversification in the country. Despite their challenges, continued government support and various initiatives form a strong foundation for these projects to launch and develop. By improving the legislative framework and enhancing the culture of entrepreneurship, these companies will achieve success and sustainable growth, creating new job opportunities and developing innovation across various sectors. Therefore, investing in these emerging ventures represents a crucial step towards building a prosperous economic future for Algeria.

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Introduction

Startups are a key driver of creativity and economic growth in Algeria, especially as the economy faces multiple challenges, such as over-reliance on oil and gas revenues. This review aims to highlight the importance of the startup model in fostering innovation and providing practical solutions to economic problems. We will rely on David Blau's model to understand how these companies can bring about tangible changes in the economic environment. In recent years, Algeria has witnessed significant changes to strengthen entrepreneurship and support new ventures. This shift is part of a strategy to reduce dependency on the oil and gas industries and diversify the economy. Given the current economic conditions, startups have become a viable solution to enhance innovation, create job opportunities, and support sustainable economic growth.

The "ANSEJ" (National Agency for Youth Employment Support) has become a key starting point for many young Algerians, serving as a platform for launching their projects. The government has enhanced this sector by updating the legal framework and providing financial and administrative incentives, enabling youth to contribute effectively to the national economy through innovative entrepreneurial initiatives. Current theoretical frameworks examine how the economic and social environment influences entrepreneurship. Understanding these theories helps provide new insights into how to foster innovation and economic development. The current literature also includes studies that focus on the role of startups in innovation and development. Many studies indicate that supporting startups can improve the economic situation in Algeria.

1. Background and Importance of the Study:785 – www.imcra.az.org, | Issue 10, Vol. 8, 2025

Social issues and their relation to underdeveloped urban neighbourhoods in the city: The Case of the Merir Lahsen Neighbourhood in Khenchela
Saida Rehamnia

The development of Algeria's economy requires the adoption of new plans that encourage entrepreneurship. Historically, the Algerian economy has relied on oil, making it essential to diversify sources of income. This study aims to provide ideas on how the startup model can support creativity, help create job opportunities and improve the standard of living.

1.1. Research Problem and Study Objectives

The research problem lies in the unclear contribution of emerging startups to fostering creativity and economic growth. This study aims to understand how these companies, using specific business models, can influence economic development trajectory. We will explore practical methods and identify the challenges these companies face in Algeria to provide suggestions based on the study's findings.

2.1. Importance of the Study and Hypotheses

The importance of this study lies in providing practical intellectual contributions to understanding the relationships between startups and innovation. The hypotheses include:

- How does supporting startups contribute to enhancing innovation rates?
- Do government policies affect the effectiveness of the paradigm in supporting startups?

3.1. Methodology and Structure of the Research

We will use a mixed methodology combining both quantitative and qualitative data. Data will be collected through surveys and interviews with entrepreneurs and investors. The research will consist of multiple sections, starting with the theoretical framework and moving to field analysis.

2. Innovation and Economic Development

1.2. Definition of Innovation:

John Young suggests that the term creativity is derived from a Latin word meaning "to make" and a Greek word meaning "to accomplish or achieve". In Arabic, creativity, according to *Lisan al-Arab* by Ibn Manzur, refers to unprecedented creation, meaning to achieve something new with good qualities. (Mekhen & Mohamed Sassi, 2015)

Innovation is the act of being the first to achieve something or to realize its beginning or prototype. According to the *Al-Mujam Al-Waseet* dictionary, "Bakara" refers to going out early in the morning before sunrise, and when a tree "bakers," it means it hastens to bear fruit. The root of the word "bakara" is the first part of the day, and "bakar" refers to something being at its beginning. Therefore, innovation can mean the creation of new meanings or forms or something that is not previously known, such as novel ideas, art forms, or discoveries. (Ghdaifi & Farhat, 2018)

The Austrian economist J. Schumpeter defines innovation as "the result of creating a new method or approach in production, as well as changes in all components of the product or how it is designed." (Ayoubi, 2024)

Innovation is also defined as the pursuit of finding or creating a new material or product, protecting its ownership and trademark, registering it as a patent, and then introducing it to the market for distribution. Innovation typically occurs as a response to the market's and consumer's demands, quality, and alignment with technological developments by creating modern techniques that support and enhance machines and equipment, ultimately increasing production via transferring, distributing, assembling, and manufacturing the innovation. (Al-Qader, 2021)

Therefore, innovation introduces positive changes in products, services, or processes. It includes technological, social, and marketing innovations. Understanding these types contributes to directing support strategies for emerging businesses. Innovation enhances competitiveness and increases productivity, making it a crucial element in economic growth.

2.2. Characteristics of Innovation:

Like other human activities, innovation has characteristics and advantages due to its intellectual and mental nature, which is distinguished by seriousness and contemporaneity. Below are the most prominent of these characteristics:

- **Attractiveness or Acceptance:** Innovation and creativity should be accepted by individuals and society and should not conflict with the beliefs and directions of the community.
- **Availability of Innovation Elements:** The person concerned must have the necessary elements for innovation and creativity.
- **Reference and Cumulative:** Accumulated data and prior experiences from the innovator or creator.
- **Choosing the Right Timing:** Selecting the appropriate timing to introduce the innovative product. (Amara & Berk, 2019)

3.2. The Importance of Innovation in Economic Development:

The perception of creativity has undergone a significant transformation in the current era, both at the corporate level and at the level of countries. Creativity has become a measure used to determine the progress and development of nations. Moreover, it is viewed as a source of wealth and a vital economic and social growth driver. On the other hand, creativity is an important indicator that helps assess institutional progress significantly.

Innovation is crucial in economic and social development in developed or developing countries. Many frameworks help study the components of a national innovation system. For instance, UNCTAD and the OECD have developed models countries can use to foster national innovation. These frameworks vary depending on the primary entity driving the innovation system: the economic sector or the government.

Innovation is one of the main pillars of the knowledge economy, an advanced economic and social development model adopted by successful economies to achieve progress independent of natural resources while focusing on training and developing human capital. Accordingly, innovation contributes to raising the knowledge index, which is part of the Human Development Index. (Abdellaoui, 2020)

Innovation plays a decisive role in improving economic performance. It enhances competitiveness, creates new job opportunities, and increases productivity. In Algeria, innovation is a key tool for reducing dependence on oil and developing other sectors, thus enhancing economic stability and reducing unemployment.

3. Startups:

1.3. Definition of Startups:

Depending on the criteria used to define startups, defining them is of great importance for anyone studying this field or topic in their research and analysis.

A startup is defined by the well-known entrepreneur Steve Blank as a temporary organization seeking an economic model that allows for scalable, repeatable, and measurable growth. The company experiments with different

economic models explores its environment and adapts to it gradually. In other words, a startup should strive to achieve the success of its project urgently and have an immediate impact on the market it aims to enter and contribute to. It also represents an idea and a vision embodied by the project owner, operating in an unstable market, to offer an innovative and new product or service. (Safa, 2022)

A startup is defined in the English dictionary as a small business recently established. The term "startup" consists of two parts: the first part, "start," refers to the concept of initiation, while the second part, "up," refers to rapid and substantial expansion. This term began after World War II, with the emergence of the first venture capital companies, and the term's usage spread significantly thereafter. In the present day, the French dictionary defines *Le Robert* as referring to innovative startups in the advanced technology sector. (Safa, 2022)

Startups are also defined as small, innovative companies seeking new solutions. They are characterized by flexibility and the ability to adapt to changes in the market. These companies are fundamental in providing job opportunities and fostering innovation. In Algeria, startups present a significant opportunity for employing youth and enhancing local development.

2.3. Characteristics of Startups:

Small businesses are characterized by unique features that differentiate them from large companies. One of the most notable characteristics is their ability to adapt to economic recessions caused by declining market demand more effectively than large companies, which bear the burden of significant fixed expenses. Due to the limited nature of their equipment and the simplicity of their operations, small businesses can quickly and efficiently adjust their costs to match the required production volume needed to meet market demand, making them more effective in volatile markets.

The efficiency of small businesses is also evident in areas that require specialized products or services and rely on personal relationships between the business owner and customers, such as in the women's clothing industry, which constantly evolves with fashion trends. Small businesses achieve great success in these markets by developing their products or services to meet consumers' changing needs and tastes, with responses provided in relatively short timeframes. (Lakhlef, 2004)

Startups are characterized by a set of features, including:

- **Balance in the Composition of Economic Activity in Startups:** Given the challenges faced by most developing countries due to imbalances in their economic structure resulting from the absence of a strong base of small and medium-sized industries, it has become essential to reduce this gap and develop plans to address this flaw, expanding the scope of small enterprises that are capable of growth and production.
- **Support for Large Companies:** Startups can provide intermediary products for large companies' operations, supporting their activities.
- **Creation of Real Job Opportunities and Reduction of Unemployment:** Startups are highly capable of generating employment, which reduces unemployment rates.
- **Investment of Small Local Savings:** By employing small capital, startups contribute to the investment of local savings and income redistribution.
- **Contribution to Import Substitution Policies:** Startups enable the production of goods to meet the local market's needs, which contributes to reducing imports and promoting exports, ultimately saving foreign currency. (Safa, 2022)

3.3. Importance of Startups:

Given Algeria's reliance on a knowledge-based economy, it is important to highlight the significance of startups as one of the key pillars in the global economic shift witnessed worldwide. Their importance can be outlined through the following points:

- **Development and Enhancement of Individual Skills:** Startups help develop and refine individuals' skills, enabling them to perform diverse and exceptional roles within the company.
- **Contribution to Local Economic Development and Increased Competitiveness:** Startups play a key role in boosting the local economy and enhancing its competitiveness.
- **Providing Widespread Employment Opportunities for Youth:** Startups offer significant job opportunities for young people, particularly in light of declining employment rates.
- **Strategic Benefits of Startups:** One of the key strategic advantages of adopting startups is that they open the door to technological advancement.
- **Positive Economic Impact through Wealth Creation:** Startups contribute to creating wealth and enhancing the country's position in various global rankings.
- **Addressing the Decline in Investment and Savings Rates:** Startups help tackle the decline in investment and savings and address the imbalance in the balance of payments by producing local goods instead of importing them.
- **Enhancing and Diversifying Industrial Activity:** Startups contribute to the activity and diversification of the industrial sector, catering to consumer needs as well as the demands of large industries.
- **Promoting and Developing Scientific Research:** This is reflected in initiatives like establishing business incubators within universities and other institutions, which simultaneously support startups and enhance scientific research.
- **A Key Tool for Implementing Capitalism:** Startups serve as a crucial means to prevent the concentration of wealth in the hands of a few members of society. (Manal & Inas, 2024)

4.3. The Importance of Supporting Innovation in Startups:

Startups, as well as small and medium-sized enterprises, face several barriers related to administrative aspects and performance in management. They often adopt a traditional structure, surrounded by many reservations, primarily targeting profit generation and market expansion, with limited spending on improving the organization's performance and structure, and secondly on research and development. Startups constantly navigate continuous changes, facing the risk of business shutdown or market exit. As a result, they are compelled to adopt the principle of ongoing organizational change and adapt to developments in creativity and innovation, seizing available opportunities and alternatives or seeking external expertise for the same purpose. (Al-Qader, *Contribution of Innovation to the Development and Promotion of Startups*, 2021)

Innovation plays a crucial role in the success of emerging ventures, as it serves as a real competitive advantage for the project itself, setting it apart from others and prompting questions about the secret behind its success in generating millions, or even billions, in some cases. (Chaddad & Adel Aidawi, 2022)

4. Paradigm and Its Role in Enhancing Innovation and Economic Development

1.4. Definition of Paradigm:

Linguistically: The term "paradigm" has various meanings and definitions depending on the dictionary used. In the *Larousse* dictionary, the term is linked to linguistic derivation, which refers to "all forms derived from a single word, such as a model, for example, the derivation of a noun or the conjugation of a verb." Structural linguistics is "any unit that can be substituted within a given context." Economic theory refers to selecting topics to be studied and the methods used for their analysis. (kedouss & Ammatout, 2020)

Terminologically: Regarding its terminological definition, the term "paradigm" refers to a scientific achievement and the common methods, means, and standards upon which researchers and scientists rely. A paradigm only becomes apparent through a globally recognized scientific discovery, such as the physical paradigms that have evolved throughout the history of science, from Newtonian physics during the era of traditional science to Einstein's theory of relativity in the twentieth century (kedouss & Ammatout, 2020)

2.4. The Role of the Paradigm in Enhancing Innovation and Economic Development:

The paradigm serves as a platform that supports entrepreneurs by providing the necessary resources, financial assistance, and technical support. It works to create a positive environment that encourages creativity, innovation, and knowledge exchange through services such as training and mentorship. The paradigm contributes to accelerating the pace of innovation in startups, and we see the paradigm model in countries such as the United States and Canada, demonstrating how supporting startups can foster innovation. Moreover, global incubator and accelerator programs provide valuable lessons for Algeria, highlighting the importance of collaboration between entrepreneurs and investors to achieve success.

Financial startups drive financial development in many advanced and emerging economies. Their growth as a type of startup has made them a model to follow, given their positive impact on the business environment for other startups. They can contribute to improving the surrounding conditions for these companies, thereby enhancing their ability to sustain and thrive. (Yakoub & Salihah, 2022)

Companies' prosperity and sustainability depend not on increasing profits and investment returns. Companies often develop strategies to understand the nature of transformations occurring in their environment and the specific market characteristics in which they operate. In this context, focusing on creativity and innovation is essential to improve startup performance.

5. The Economic Environment in Algeria

1.5. Overview of the Algerian Economy:

After Algeria gained independence in 1962, its economy was characterized by a shift towards a socialist system and a policy focused on heavy industry, with dominance by the public sector, the hydrocarbons sector, and government intervention, alongside marginalization of other sectors. Given the critical role of hydrocarbons in industrial development and their abundance in Algeria, the state established Sonatrach in 1963 to manage this sector. However, the industrialization process during that period did not achieve the desired results, and multiple challenges were faced, such as the lack of resources due to the state's financial drain from the need for funding in this sector. As a result, Algeria adopted a transitional policy for the light industry, focusing on consumer goods such as textile manufacturing, leather and footwear, and food processing.

In the second half of the 1980s, the Algerian economy experienced a continuous deterioration in its balance of payments, attributed to two main reasons. The first relates to the trade balance, which deteriorated due to the fall in oil prices and, thus, decreased exports while the import bill continued to rise. The second reason was the inappropriate structure of external debt. Consequently, the Algerian authorities turned to the International Monetary Fund (IMF) and the World Bank for economic reforms, essential to undertake the country's basic economic tasks. This also led to the privatization of public enterprises as part of the transition to a market economy.

After the reforms carried out by Algeria from the early 1980s to the end of the 1990s, the country has created an environment suitable for the efficiency of its economy and the better functioning of its institutions. As such, the primary focus now is to promote the competitiveness of businesses and the industrial system, particularly with the signing of the Euro-Mediterranean partnership agreement, through adopting several initiatives.

The Algerian economy faces significant challenges, including dependence on oil and gas exports. Although the government tries to diversify the economy, most jobs remain in the public sector. An environment that encourages innovation and entrepreneurship is urgently needed.

2.5. Challenges and Opportunities in the Business Environment:

Startups in Algeria face significant challenges due to their nature and characteristics. On one hand, they are relatively new, requiring time to find and establish the right environment for growth and adaptation. On the other hand, startups that rely on creative ideas often struggle to turn them into viable projects because they encounter numerous challenges and obstacles that frequently prevent their success and continuity. Among these challenges, we can highlight the following:

- **Funding Issues:** The most significant challenge entrepreneurs face is securing sufficient financial resources to support a startup at various stages. Establishing a company from the ground up, entering a highly competitive and volatile market, and staying in the sector requires continuous improvements and the development of all its capabilities, which demands high and ongoing costs.
- **Challenges in Securing Suitable External Funding:** Due to banks' varying conditions and criteria for funding and guaranteeing these projects, along with the burden of interest rates, obtaining the proper external funding to cover the company's costs is a significant hurdle.
- **Difficulties in Financing Capital Expansions During Rapid Growth:** Startups often struggle with securing capital for expansions during periods of rapid growth.
- **Challenges in Obtaining Official Permits:** These include difficulties in obtaining import and export permits, following instructions issued by various government agencies, and dealing with multiple oversight and inspection bodies such as tax authorities, customs, and social security agencies.
- **Technical Challenges:** Startups face technical challenges, particularly in securing financial and human capital. Limited resources hinder their ability to acquire advanced technologies and keep up with developments. Consequently, they often focus on weaker or moderate technological fields. (Yakoub & Tabaiya, 2022)

Startups in Algeria face many challenges, including bureaucracy and the lack of adequate financing. However, there are significant opportunities in technology and innovation that enable startups to significantly contribute to improving the economy.

Conclusion

Startups represent the only viable option for ambitious youth to enter the world of business and finance, as they possess advantages that allow for growth and profit generation. However, these startups face economic, social, technological, and even legal challenges, particularly without specific legal frameworks. Also, they suffer from limited funding, bureaucracy, and delays in their establishment due to a lack of awareness and a reluctance to take risks. Moreover, many sectors contributing to their growth have not witnessed the necessary digitalization and transparency, such as tax systems, financial institutions, and insurance companies.

Despite these difficulties, the Algerian authorities have recently shown significant interest in supporting startups, aiming to diversify the economy and enhance economic and social development. They have mobilized various support structures and advisory bodies, providing media space to highlight the talents and innovators. The President of Algeria has also honoured innovators and exceptional individuals to encourage them, reflecting the strong management of economic decision-makers in Algeria.

Projects that do not primarily rely on communication cannot grow and compete in a changing market that seeks distinction and uniqueness. Many large companies have disappeared because they failed to improve their service innovations. In contrast, other companies dominated the market by developing business models, services, and delivery methods. It is, therefore, crucial for the government to adopt policies that support startups, such as offering tax incentives and financing facilities. The private sector must also play an active role by investing in these enterprises.

Guidelines for Future Research and Theoretical Development:

Finally, we recommend further studies on the impact of paradigms on innovation and how to improve government support for startups. Focusing on developing theoretical models that enhance understanding of the relationship between innovation and economic development will be valuable. Moreover, training programs should be developed to enhance entrepreneurial skills and provide technical support for emerging projects. Encouraging collaboration between institutions to exchange knowledge and expertise should also be prioritized.

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