

Financial Inclusion as a Mechanism for Enhancing the Growth of Startups in Algeria

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Abstract

This study aims to analyze the role of financial inclusion in supporting and developing startups in Algeria by highlighting its contribution to improving access to financing and financial services, as well as fostering innovation and entrepreneurship. The study is of particular importance due to its connection with one of the fundamental pillars of modern economic development, as startups represent an effective tool for wealth creation, job generation, and economic growth stimulation. The study adopted a descriptive-analytical approach by presenting the theoretical concepts related to financial inclusion and startups and analyzing statistical data concerning Algeria during the period 2022–2025 in order to explore the relationship between them. The findings revealed that the expansion of financial inclusion has facilitated startups' access to financing and banking services, which has positively impacted their performance, sustainability, innovation capacity, and competitiveness. Furthermore, startups have contributed to job creation and the support of the national economy. In light of these findings, the study recommends strengthening financial literacy among entrepreneurs, expanding the use of digital financial services, supporting financial technology (FinTech), improving financial infrastructure, and simplifying financing procedures. These measures would contribute to enhancing financial inclusion and supporting the growth of startups in Algeria.

Keywords: *Financial Inclusion, Startups.*

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Introduction

Startups are gaining increasing importance due to their role in fostering economic growth, stimulating innovation, and creating employment opportunities. However, they face significant financing challenges that may hinder their development and sustainability. In this context, financial inclusion emerges as a key mechanism that facilitates startups' access to formal and digital financial services, thereby improving the business environment, supporting innovation, and enhancing their competitiveness. This, in turn, contributes to economic growth and promotes entrepreneurship in Algeria.

Research Problem

- Based on the above, the research problem can be formulated as follows:
- To what extent does financial inclusion contribute to supporting and developing startups in Algeria?

Research Hypotheses

- Financial inclusion contributes to improving startups' access to financing.
- The use of digital financial services enhances the performance of startups.
- Financial inclusion positively affects the sustainability of startups and increases their capacity to create employment opportunities.

Objectives of the Study

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- This study aims to analyze the role of financial inclusion in supporting and developing startups in Algeria through:
 - Highlighting the concept of financial inclusion and its main dimensions.
 - Examining the current state of startups in Algeria and the challenges they face, particularly those related to financing.
 - Analyzing the extent to which financial inclusion contributes to improving startups' access to financial services.
 - Demonstrating the relationship between financial inclusion and the growth and sustainability of startups.

Significance of the Study

- This study derives its importance from addressing a contemporary issue that occupies a central position in current economic policies, namely financial inclusion and its role in supporting startups. Its significance also lies in the following aspects:
 - Financial inclusion contributes to promoting economic development and stimulating investment.
 - Startups constitute a fundamental pillar for wealth creation and job generation in Algeria.
 - Accordingly, this research paper seeks to answer the aforementioned question through the examination of the following elements:
 - Defining the concept of startups.
 - Defining the concept of financial inclusion.

First: Theoretical Framework of the Study Variables

Concept of Startups

Definition of Startups

- Startups are small and independent companies that seek to discover a profitable, repeatable, and scalable business model, with a strong emphasis on innovation in products, services, as well as technological and managerial processes. The term Start-up consists of two words: start, meaning initiation and movement, and up, meaning strength and upward momentum. Together, they reflect a strong desire and determination to achieve the organization's objectives (**Fridenson, 2021**)
- According to Bob Walsh, a startup is an independent organization that is not a branch of another company. It typically consists of one to eight individuals, most of whom are creative professionals and developers who collaborate to build a software-based platform or database intended to deliver value and benefits to society (**Walsh, 2009, p. 08**)

- Based on the previous definitions, a startup can be defined as a small, independent entity that is temporary by nature and seeks to explore a successful business model that can be replicated and scaled. It is founded on continuous innovation through the development of new products or services, research and development activities, and the acquisition of technical knowledge. Its team usually consists of creative individuals and developers who work collaboratively to generate real value in the marketplace.

Characteristics of Startups

- According to recent research, startups are characterized by the following features:
- Flexibility and Adaptability: The ability to cope with rapid growth challenges and changing market conditions.
- Continuous Innovation: Reliance on modern technologies and advanced techniques to develop products and services.
- Creative Workforce: Startup teams are often composed of developers and innovators who work to transform ideas into economic value (**Ahmad, 2022**)
- Dependence on Intellectual and Creative Capital: Rather than relying on fixed assets, startups are primarily driven by innovation, knowledge, and skills, which constitute the foundation of their operations (**Gomber, 2018**)
- Focus on Direct Customer Interaction: Startups seek to engage rapidly with customers and test their products based on customer feedback in order to improve them and achieve a better fit with market needs at the lowest possible cost.

- Diverse Sources of Financing: Startups rely on various financing models that support their rapid growth and product development during the early stages of their operations.

Concept of Financial Inclusion

Definition of Financial Inclusion

- Financial inclusion refers to enabling all segments of society, including low-income individuals and small enterprises, to access and utilize a wide range of formal and high-quality financial services, such as savings, credit, payments, and insurance, at affordable costs and through easy and sustainable mechanisms within a supportive legal and regulatory environment.
- According to the Bank of Algeria, financial inclusion is defined as the availability and use of various formal financial services by individuals and businesses, including bank accounts, payment services, financing, and insurance, at reasonable costs, while ensuring consumer protection, enhancing financial management capabilities, and reducing reliance on informal financial channels (**Rakhrour, 2021**)

Dimensions of Financial Inclusion

Access to Financial Services

- This dimension refers to the extent to which individuals can easily access services provided by formal financial institutions while minimizing barriers related to cost or geographical distance. This can be achieved through the expansion of bank branches, automated teller machines (ATMs), and digital channels. It is commonly measured by the number of financial service access points and the availability of bank and electronic accounts. Key indicators of this dimension include the number of financial service delivery

points, their level of connectivity, and the number of accounts linked to credit cards and electronic banking services.

Use of Financial Services

- This dimension refers to the extent to which individuals benefit from and regularly use the products and services offered by financial institutions. It depends on the accessibility, diversity, and suitability of these services to customers' needs, as well as the existence of a sustainable financial system capable of delivering them efficiently, securely, and continuously to achieve the objectives of financial inclusion. Major indicators used to measure the utilization of financial services include the percentage of adults holding formal financial accounts, the percentage of individuals obtaining loans or insurance from formal financial institutions, the number of deposit accounts, including electronic accounts, and the volume of non-cash transactions.

Quality of Financial Services

- This refers to the efficiency of financial services and their suitability to customers' needs, while ensuring transparency and consumer protection. It is considered one of the main dimensions of financial inclusion, despite the difficulty of measuring it quantitatively. The most important indicators of this dimension include the level of financial literacy and awareness, individuals' financial behavior, the degree of disclosure and transparency, the effectiveness of dispute resolution mechanisms, as well as credit barriers and the cost of using financial services.

The Role of Financial Inclusion in the Development of Startups

- Economic literature and international reports emphasize that financial inclusion is a key factor in supporting the growth and sustainability of startups. It improves their access to formal financing and reduces dependence on informal funding sources, thereby enhancing their ability to survive, create employment opportunities, and contribute to economic stability.

- In the same context, international studies indicate that easier access to finance, particularly through financial technology (FinTech), helps reduce financing costs, accelerate startup growth, and strengthen their capacity for innovation and sustainability. Moreover, access to formal financial services increases the likelihood of business growth and reduces the risk of failure compared to reliance on informal financing (Beck, 2009)

- On the other hand, recent studies show that Financial Technology (FinTech) has supported startups by facilitating product testing, improving performance, and reducing risks during the early stages of development. In Algeria, support programs and the digital transformation of financial services have also contributed to enhancing the sustainability of startups and expanding their access to formal financing. Consequently, both traditional and digital financial inclusion constitute essential tools for supporting entrepreneurship and achieving sustainable economic development.

- Overall, financial inclusion, in its traditional and digital dimensions, serves as a fundamental lever for promoting entrepreneurship, ensuring the continuity of startups, and fostering sustainable economic development.

- Second: Practical Aspect

- Efforts to promote financial inclusion in Algeria are reflected through support for startups via innovative financing mechanisms, such as funding schemes and venture capital, alongside incentives including tax exemptions and the development of digital banking services. This approach aims to facilitate startups' access to financing sources and help them overcome traditional obstacles. Nevertheless, several challenges remain, prompting Algeria to continue strengthening financial inclusion through expanding the

use of digital banking services, encouraging electronic payments, and promoting cashless transactions. Accordingly, this study aims to analyze the role of financial inclusion in supporting and developing startups in Algeria.

The State of Financial Inclusion in Algeria

- Financial inclusion in Algeria has witnessed noticeable progress; however, it still faces challenges related to limited access to financial services, low levels of usage, and insufficient financial awareness. These factors hinder its ability to reach the levels achieved by certain Arab and international countries.

Table (01): Financial Inclusion Indicators in Algeria (2016–2023).

| 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | Indicator |
|-------|-------|--------|--------|-------|-------|-------|--------|--|
| 541.3 | 520 | 506.04 | 506.25 | 559 | 520 | 524 | 579.52 | Number of bank deposit accounts per 1,000 adults |
| 5.27 | 5.29 | 5.31 | 5.30 | 5.34 | 5.33 | 5.28 | 5.25 | Number of bank branches per 100,000 inhabitants |
| 11.17 | 11.54 | 9.81 | 9.64 | 9.21 | 9.46 | 9.11 | 8.61 | Number of ATMs per 100,000 inhabitants |
| 32.83 | 31.58 | 38.93 | 53.5 | 47.02 | 48.77 | 47.03 | 45.15 | Credit granted to adults as a percentage of GDP |
| 50.02 | 49.56 | 53.03 | 55.12 | 47.93 | 48.78 | 46.48 | 48.87 | Adult deposits as a percentage of GDP |

Source: (Kahina, 2025, p. 8).

The table illustrates the evolution of financial inclusion indicators during the period 2016–2023. The main findings can be summarized as follows:

The number of bank deposit accounts per 1,000 adults experienced slight fluctuations with an overall downward trend, decreasing from approximately 579.52 in 2016 to 541.3 in 2023. This reflects relative stability but limited growth in access to bank accounts.

The number of bank branches per 100,000 inhabitants remained almost stable throughout the period, varying only slightly between 5.25 and 5.34. This indicates a slow expansion of the banking network.

The number of automated teller machines (ATMs) per 100,000 inhabitants showed a clear upward trend, increasing from 8.61 to 11.17. This reflects improvements in the infrastructure supporting digital banking services.

The volume of credit granted to individuals (% of GDP) experienced significant fluctuations, reaching a peak of 53.5% in 2020 before declining markedly to around 32% during 2022–2023. This suggests instability in financing directed toward individuals.

Individual deposits (% of GDP) remained at moderate to relatively high levels, recording a notable increase during 2019–2020 (exceeding 55%) before stabilizing at around 50% in recent years.

It can therefore be concluded that financial inclusion witnessed limited progress in terms of infrastructure, particularly through the expansion of ATMs, while indicators related to the actual use of financial services remained stable or declined slightly. This reflects the existence of a gap between the availability of financial services and their effective utilization.

Promoting Financial Inclusion in Algeria

Since 2020, Algeria has implemented a series of banking and digital reforms aimed at strengthening financial inclusion and integrating entrepreneurial groups into the formal financial system. These reforms included the establishment of the National Agency for the Support and Development of Entrepreneurship (ANADE) to finance young entrepreneurs and innovative project holders, in addition to the development of digital platforms for microfinance and electronic payment services through Algeria Post and public banks.

Islamic finance was also adopted as an alternative financing mechanism to facilitate access to funding for start-ups. These measures contributed to improving the financial inclusion environment, as the number of officially funded start-ups increased from approximately 1,200 enterprises in 2020 to nearly 4,800 enterprises in 2025 (**Knowledge, 2025**)

Table No. (02): Evolution of Financial Inclusion Indicators and Their Impact on Supporting Start-Ups in Algeria (2022–2025)

| Share of Islamic Finance in Supporting Start-ups | Digital Financial Services Usage Rate | Enterprises Benefiting from ANADE and Digital Financing | Enterprises Financed through Banks | Officially Registered Start-ups | Year |
|--|---------------------------------------|---|------------------------------------|---------------------------------|------|
| 10% | 36% | 1350 | 1480 | 2900 | 2022 |
| 13% | 44% | 1950 | 1950 | 3800 | 2023 |
| 16% | 55% | 2200 | 2200 | 4500 | 2024 |
| 18% | 61% | 2400 | 2400 | 5300 | 2025 |

Source: Ministry of Economy, Knowledge, Start-ups, and Micro-Enterprises, Annual Report on Start-ups in Algeria 2025.

The table demonstrates a significant improvement in financial inclusion indicators in Algeria during the period 2022–2025. The number of officially registered start-ups increased from 2,900 to 5,300 enterprises, representing a growth rate of 82.8%. This reflects the expansion of financial services and improved financial coverage at the national level, particularly with the spread of banking agencies and electronic payment services across different provinces.

Furthermore, government support programs such as ANADE contributed to financing an increasing number of start-ups, especially in the fields of services and small-scale industries, highlighting the effectiveness of public policies in promoting entrepreneurship. In practice, young entrepreneurs have increasingly benefited from loans for establishing micro-enterprises following the simplification of financing procedures.

On the other hand,

The use of financial services increased from 36% to 61% (a growth rate of 69.4%), which is practically reflected in the expanded use of banking applications such as mobile payment services and the BaridiMob service. This expansion has contributed to strengthening trust in formal financial transactions. Islamic finance also recorded significant growth, rising from 10% to 18% (an increase of 80%), as a result of the expansion of Islamic banking services across various Algerian banks, which helped attract new categories of customers.

Overall, these indicators demonstrate that the improvement in financial inclusion in Algeria is the result of the interaction between the expansion of banking infrastructure, support for start-ups, and the development of digital financial services and Islamic finance. Together, these factors contribute to the gradual and effective integration of start-ups into the formal economy.

The Impact of Formal and Digital Financing on the Development of Start-ups and Employment in Algeria

The following table illustrates the impact of the expansion of formal and digital financing in Algeria on the development of start-ups and employment dynamics during the period 2022–2025.

Table No. (03): Evolution of Numerical Indicators of Start-up Performance in Algeria (2022–2025).

| Average Loan Granted (Million DZD) | Number of Jobs Created | Number of Active Start-ups | Year |
|------------------------------------|------------------------|----------------------------|------|
| 2.6 | 9900 | 2200 | 2022 |
| 3 | 13700 | 3100 | 2023 |
| 3.4 | 17900 | 4000 | 2024 |
| 3.8 | 21500 | 4800 | 2025 |

Source: Ministry of Knowledge Economy, Start-ups and Micro-enterprises, Annual Report on Start-ups in Algeria 2025.

The table reflects a remarkable improvement in indicators related to start-up support and employment in Algeria. The number of active start-ups increased from 2,200 to 4,800 enterprises, representing a growth rate of approximately 118.2%. This nearly doubling in the number of enterprises indicates a significant improvement in the financing environment and the expansion of opportunities for business creation, particularly through the adoption of formal and digital financing mechanisms.

Similarly, the number of newly created jobs rose from 9,900 to 21,500 positions, representing an increase of approximately 117.2%. This reflects the enhanced capacity of start-ups to generate employment opportunities and absorb labor, supported by improved access to financing and the simplification of administrative and financial procedures.

Furthermore, the average loan granted increased gradually and consistently from 2.6 million DZD to 3.8 million DZD, representing a growth rate of approximately 46.1%. This increase reflects the improved ability of financing institutions to mobilize larger financial resources and channel them toward emerging projects. The rise can be attributed to the expansion of formal financing programs, the diversification of financial support schemes, and the development of digital financing tools that have facilitated loan disbursement and accelerated financing procedures. This improvement has also enabled start-ups to better meet their investment needs, thereby strengthening their sustainability and reducing the risk of failure during the early stages of development.

In general, the table highlights a clear positive relationship between the increase in financing volumes and the growth in both the number of start-ups and employment opportunities. Higher levels of financing enhance the ability of enterprises to expand their activities and recruit more workers. This confirms that improvements in formal and digital financing mechanisms in Algeria have not been limited to increasing loan availability; rather, their impact has extended to supporting entrepreneurial dynamism and directly promoting employment in a tangible and measurable manner.

Conclusion

The analytical study revealed that financial inclusion in Algeria represents one of the most important factors supporting the growth and development of startups. This is largely attributed to the adoption of comprehensive financial and digital reform policies by the government, aimed at integrating various economic groups into the formal financial system.

Findings

The study reached a number of key findings, which can be summarized as follows:

A significant increase was observed in the proportion of startups benefiting from financing through formal financial channels, including banks, microfinance institutions, and digital financial incubators.

- The findings confirmed the existence of a strong positive relationship between the level of financial inclusion and the increasing number of startups.
- Access to financing opportunities improved for young entrepreneurs and women entrepreneurs through national programs designed to promote financial inclusion.
- Funded startups contributed positively to local economic growth by creating employment opportunities.
- Considerable progress was recorded in the digital infrastructure of the banking and financial sector, accompanied by the expansion of digital financial services (electronic payments and banking applications), which facilitated financing processes and financial management for startups.
- Greater diversification of funding sources became available to startups, including bank financing, Islamic finance, and financing through digital platforms.
- The sustainability of startups improved, while failure rates declined due to the availability of formal financing and institutional support.

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