

Crowdfunding Platforms and the Financial Stability of Startups: Opportunities, Constraints, and Policy Implications

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Abstract

Purpose: This study examines the role of crowdfunding platforms in strengthening the financial stability of startups. It explores how crowdfunding can address financing gaps, diversify funding sources, and support startups across different stages of their business life cycle.

Design/methodology/approach: The study adopts a descriptive-analytical approach based on a critical review and synthesis of the literature on startup financing, crowdfunding models, financial stability, and entrepreneurial ecosystems. It evaluates the mechanisms through which crowdfunding affects access to capital, liquidity, funding diversification, financial resilience, and exposure to financial distress.

Findings: The findings indicate that crowdfunding platforms can enhance startup financial stability by expanding access to capital, reducing excessive dependence on conventional financial institutions, diversifying financing structures, and enabling entrepreneurs to test market demand before committing substantial resources. Crowdfunding can also promote early stakeholder engagement and improve the visibility of emerging ventures. Its effectiveness, however, depends on the quality of the legal and regulatory framework, investor protection, platform transparency, digital infrastructure, entrepreneurial capabilities, and public awareness of alternative financing mechanisms.

Research limitations/implications: The study is conceptual and relies primarily on secondary sources; therefore, it does not empirically estimate the effect of crowdfunding on startup performance or survival. Future research should employ firm-level data, longitudinal designs, and cross-country comparisons to assess

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the relationship between crowdfunding, financial resilience, profitability, and startup survival under different regulatory conditions.

Practical implications: Policymakers should establish clear crowdfunding regulations, strengthen investor-protection and disclosure requirements, and support secure digital payment and identity-verification systems. Crowdfunding platforms should improve due diligence, risk communication, transparency, and project-monitoring mechanisms. Entrepreneurs should incorporate crowdfunding into diversified financing strategies rather than treating it solely as a substitute for traditional finance.

Originality/value: The study extends the crowdfunding literature by examining crowdfunding from the perspective of startup financial stability rather than focusing exclusively on fundraising success. It presents an integrated framework connecting access to finance, funding diversification, financial resilience, regulatory quality, and entrepreneurial sustainability.

Keywords: alternative finance; crowdfunding; financial stability; innovation; startup financing; startups.

JEL Classification: G23; G32; L26; O16.

I.Introduction

Over the past few decades, startups have emerged as one of the fundamental pillars of modern economic development strategies, serving as key drivers of innovation, value creation, and sustainable economic growth. Their importance has become increasingly evident in light of the structural transformations experienced by global economies, which have gradually shifted toward knowledge-based economies driven by technology and innovation. Startups are distinguished by their ability to develop innovative business models and respond rapidly to changing economic conditions. However, their innovation-oriented nature and the high degree of uncertainty associated with their early stages expose them to numerous challenges, foremost among which is securing adequate financing to facilitate the transition from the idea generation stage to growth and long-term sustainability.

Within this context, many countries have sought to establish comprehensive entrepreneurial ecosystems that support startups through business incubation, mentoring, financial incentives, and diversified financing mechanisms while strengthening the linkage between academic and research institutions and market needs. Universities constitute one of the most significant components of these ecosystems owing to their qualified human capital, research capabilities, and innovative potential, which enable the transformation of scientific knowledge into innovation-driven business ventures. Contemporary entrepreneurship literature emphasizes that the success of startups depends not only on the existence of innovative ideas but also on the availability of a supportive institutional environment that ensures access to the financial, human, and technological resources required for sustainable growth.

Like many countries, Algeria has devoted increasing attention in recent years to developing the startup sector as a strategic instrument for diversifying the national economy and facilitating the transition from an economic model heavily dependent on natural resources toward a productive, knowledge-based, and innovation-driven economy. In this regard, the government has implemented a series of public policies and initiatives aimed at promoting academic entrepreneurship and encouraging university students and researchers to establish their own ventures through strengthening startup support structures and establishing specialized mechanisms for mentoring, guidance, and financing. This orientation reflects a broader shift in Algeria's economic policy toward fostering entrepreneurial initiatives and building a new productive base driven by youth and innovative entrepreneurs.

Nevertheless, the transition of startups from the establishment phase to subsequent stages of growth and expansion remains largely dependent on their ability to secure adequate financial resources. Financing constraints continue to represent one of the most significant obstacles confronting startups, particularly during the early stages of their life cycle. This challenge primarily stems from the high-risk profile of startups and the absence of a proven financial track record, limiting their access

to conventional bank financing. Consequently, startups frequently rely on alternative financing sources, including venture capital, business incubators, business accelerators, and technology-enabled financing mechanisms.

With the rapid advancement of financial technology (FinTech), crowdfunding platforms have emerged as one of the most significant financial innovations, fundamentally reshaping the relationship between entrepreneurs and investors. These digital platforms enable project owners to raise financial contributions from a large number of individuals to finance specific entrepreneurial ventures or innovative ideas. Numerous studies have demonstrated that crowdfunding has become an effective alternative financing mechanism capable of narrowing the financing gap faced by startups and small enterprises by facilitating access to financial resources, expanding the investor base, and reducing dependence on traditional financial institutions.

The literature further indicates that the significance of crowdfunding platforms extends beyond merely providing financial resources. They also contribute to strengthening the financial stability of startups by improving liquidity management, diversifying funding sources, and reducing the risks associated with dependence on a single source of finance. The availability of flexible financing alternatives enables startups to withstand the uncertainties characterizing their early stages while enhancing their resilience, continuity, and adaptability to changing economic conditions.

In Algeria, growing attention has been directed toward developing innovative financing mechanisms for startups. This has been reflected in the establishment of a dedicated fund to support startups through modern financing instruments, alongside initiatives encouraging the emergence of digital crowdfunding platforms as effective tools for mobilizing individual savings and channeling them toward innovative entrepreneurial projects. These initiatives represent part of broader efforts to develop financing solutions tailored to the unique characteristics of startups, which often encounter difficulties in accessing conventional financing because of their elevated risk profiles.

Considering the pivotal role that crowdfunding platforms can play in enhancing the continuity and financial performance of startups, this study seeks to address the following principal research question:

To what extent do crowdfunding platforms, as an innovative financing mechanism, contribute to achieving the financial stability of startups?

To address this research question, the study is organized into two main sections:

- **Section One:** The conceptual framework of startups, their key characteristics, and the requirements for their success.
- **Section Two:** The role of crowdfunding platforms in achieving the financial stability of startups.

The significance of this study lies in the increasing economic importance of startups in Algeria and the growing need to establish a comprehensive entrepreneurial ecosystem that not only encourages the creation of startups but also ensures their sustainability and growth through financing mechanisms suited to their unique characteristics. Furthermore, the study contributes to the expanding body of knowledge on modern financing approaches by highlighting crowdfunding platforms as an innovative financial instrument capable of enhancing the financial resilience of startups while reducing the likelihood of financial distress.

Accordingly, the primary objective of this study is to examine the role of modern financing mechanisms—particularly crowdfunding platforms—in satisfying the financing needs of startups and strengthening their financial stability. More specifically, the study seeks to achieve the following objectives:

- To define startups and highlight their economic significance.

- To clarify the concept of crowdfunding as one of the contemporary financing mechanisms.
- To analyze the determinants influencing the financial stability of startups.
- To examine the contribution of crowdfunding platforms to supporting the sustainability and growth of startups.

To achieve these objectives and answer the research question, this study adopts a **descriptive-analytical approach**, which is considered one of the most appropriate methodologies for investigating economic phenomena and analyzing relationships among their underlying variables. The descriptive component is employed to present and establish the theoretical foundations of the study's main variables—namely crowdfunding platforms and the financial stability of startups—through a comprehensive review of the relevant academic literature and previous studies. The analytical component is devoted to examining existing literature and empirical findings concerning the role of crowdfunding platforms in enhancing startups' financial stability, thereby facilitating an in-depth interpretation of the relationships among the study variables and enabling the derivation of key conclusions.

Data and information were collected using the **desk research (library research) method**, through an extensive review of books, peer-reviewed journal articles, doctoral and master's theses, reports published by national and international institutions and organizations, as well as other scholarly sources relevant to the subject of this study.

II. Section One: The Conceptual Framework of Startups

1. Overview of Startups and Their Characteristics

The concept of **startups** emerged after the Second World War, coinciding with the rise of venture capital firms. Since then, the term has gained increasing prominence in both academic literature and business practice.

1.1 Definition of Startups

Despite its widespread use over several decades, there is still no universally accepted definition of a startup. The concept has been interpreted differently by scholars and practitioners, reflecting the diversity of perspectives regarding its nature and objectives. Some of the most prominent definitions are presented below.

According to the English dictionary, a startup is **"a business that has just begun operations."** The term *startup* is composed of two parts: *start*, which refers to the initiation of an activity, and *up*, which conveys the idea of rapid growth and expansion (Sherifa, 2018, p. 420).

Similarly, Eric Ries defines a startup as an organization established to develop and deliver a new product under conditions of extreme uncertainty and high risk (Mohammed et al., 2016).

A startup has also been described as a small-scale enterprise characterized by ease of establishment and relatively low initial capital requirements. This enables university students and aspiring entrepreneurs to transform innovative ideas into entrepreneurial ventures rather than seeking traditional employment. The establishment of such ventures primarily requires a careful assessment of market needs and the feasibility of the proposed project to determine its potential for successful implementation (Bougna, 2020, p. 221).

Based on the foregoing definitions, startups can be defined as **newly established, innovation-driven enterprises that originate from entrepreneurial ideas and seek to develop sustainable business models capable of generating economic value within specific markets.** They typically introduce innovative products or services that satisfy market needs and possess significant growth potential despite the substantial challenges and uncertainties associated with their early stages of development.

1.2 Characteristics of Startups

Startups possess several distinctive characteristics that differentiate them from conventional business enterprises (Kamel, 2023, p. 130):

- They are **innovation-oriented enterprises** capable of creating and developing new products and services in response to evolving market demands.
- They generally operate with **lower production costs** than traditional firms while maintaining the potential to generate relatively high and rapid returns compared with their size.
- They are exposed to **high levels of risk**, particularly during the early stages of development, when uncertainty is greatest and the likelihood of business failure remains significant.
- They possess **strong scalability and rapid growth potential**. Successful startups can quickly expand their customer base, increase market share, and diversify their products without experiencing proportional increases in operating costs.
- They demonstrate a high degree of **flexibility and adaptability**, enabling them to respond effectively to dynamic external environments and changing market conditions.
- Their long-term success depends largely on their ability to **continuously innovate, evolve, and leverage technological advancements** to achieve sustainable growth and competitive advantage.
- Startups are fundamentally **built upon innovation and technology**. They rely extensively on digital technologies to accelerate their development, seek financing through digital crowdfunding platforms and other online funding channels, and benefit from incubation and mentoring services provided by business incubators.
- Startups also capitalize on **scientific research and technological knowledge**, allowing them to develop specialized products based on rigorous research and precise market analysis, thereby improving production efficiency and enhancing their competitive position (Ramdani & Boukara, 2020, p. 280).

2. The Life Cycle of Startups and Their Financing Needs

The life cycle of a startup is generally comparable to that of any other business organization, as each stage of its development is characterized by distinct financing requirements that reflect the specific challenges and objectives associated with that phase.

2.1 The Startup Life Cycle

Like any business organization, a startup progresses through a sequence of developmental stages, beginning with the emergence of an entrepreneurial idea and culminating in organizational maturity. The duration of each stage depends largely on the nature of the targeted business activities and market conditions. In general, startups evolve through the following stages:

- **The Establishment Stage:** The establishment stage represents the initial phase of the startup life cycle, during which the venture is built around a preliminary prototype of an innovative idea. At this stage, considerable effort is devoted to conducting comprehensive feasibility studies, assessing market opportunities, validating the business concept, and evaluating the project's potential for successful implementation, sustainability, and future growth (Sherifa, 2018, p. 42).
- **The Launch Stage:** The launch stage marks the startup's entry into the market for the first time. This phase is typically characterized by slow growth in both sales and profitability, requiring the startup to establish its market presence while competing against more experienced firms. The probability of business failure remains particularly high during the first few years of operation (Azi, 2012–2013, p. 11). Consequently, startups at this stage generally rely on founders' equity, self-financing, or financial support provided by government-sponsored funding institutions.
- **The Rapid Growth Stage:** During this stage, startups experience significant increases in sales and gradually acquire larger market shares, resulting in substantial improvements in profitability. Once

the viability of the business concept has been validated, firms typically seek to expand their production capacity and enlarge their customer base. This growth trajectory enhances their attractiveness to investors and facilitates access to external capital required to finance further expansion.

- **The Maturity Stage:** At the maturity stage, startups achieve a relatively stable level of sales, revenues, and profitability. As market saturation gradually emerges, firms are required to adopt continuous innovation and differentiation strategies in order to maintain their competitive position and ensure long-term sustainability in increasingly competitive markets.

- **The Decline Stage:** The decline stage is characterized by a deterioration in organizational performance, reflected in decreasing sales, declining profitability, and weakening cash flows. Startups often encounter difficulties related to innovation, product renewal, and market adaptation. At this critical juncture, firms face two strategic alternatives: either reinvent themselves through innovation and strategic transformation or exit the market. Consequently, startups are encouraged to introduce new innovations, develop improved products, or penetrate new markets in order to restore competitiveness and create new growth opportunities.

- **The Relaunch Stage:** Startups that successfully overcome the decline stage enter the relaunch phase, during which they regain momentum and resume rapid growth. Drawing upon the experience accumulated throughout previous stages, these firms capitalize on their organizational strengths while addressing existing weaknesses, thereby achieving stronger performance and sustainable competitive advantages.

2.2 Financing Needs of Startups

Although the development of startups depends on several factors—including business development, market expansion, and the efficiency of distribution channels—the availability of financial capital remains the most critical determinant of their success. Financing challenges arise from both the inherent characteristics of startups and the changing financial requirements associated with each stage of their life cycle (Mostafa & Souli, 2020, p. 136). These financing needs can be summarized as follows:

- ❖ **Financing Needs During the Establishment Stage:** At the establishment stage, startups generally face three principal categories of financing requirements:

- **Seed Capital:** Seed capital refers to long-term financing allocated to cover all expenditures associated with the establishment of the business. Because this stage requires substantial financial resources while generating negative cash flows, only a limited number of startups successfully progress beyond this phase (Naif Bernouti, 2010, p. 149).

- **Early-Stage (Start-up) Financing:** Early-stage financing covers the financial requirements associated with the first years of business operations. During this period, startups require external financial resources to meet initial operating expenses. However, because they often incur losses due to high fixed costs, they are generally unable to generate sufficient internal funds. At the same time, limited operating performance and considerable uncertainty regarding future prospects restrict their access to conventional external financing. Consequently, entrepreneurs frequently rely on financial support from family members and friends to satisfy these initial funding needs (Heikal, 2003, pp. 56–57).

- ❖ **Financing Needs During the Initial Growth Phase:** As startups begin to experience rapid growth, their long-term financing requirements increase substantially, primarily to support investments aimed at expanding production capacity and business operations. At this stage, **growth capital** becomes essential to strengthen the firm's equity base and finance its transition toward subsequent stages of development (Ahmed, p. 20).

❖ **Financing Needs During the Second Growth Phase:** During the second growth phase, startups begin to generate relatively stable cash flows. Consequently, they require continuous short-term financing to meet working capital needs resulting from expanding sales and business activities. Although the demand for long-term financing decreases compared with earlier stages, additional investment may still be required to develop new products or improve existing ones. As the firm's financial position strengthens, financing constraints gradually become less severe (Abu Naem, 2002, p. 235).

❖ **Financing Needs During the Expansion Stage:** At the expansion stage, startups seek to increase their market presence through product diversification, technological upgrading, and business development. Medium- and long-term financing therefore becomes the most appropriate source of capital for supporting these expansion strategies and enhancing productive capacity.

❖ **Financing Needs During the Maturity Stage:** Following successful expansion, startups generally establish a well-balanced capital structure and operate with a high degree of organizational efficiency. As a result, their dependence on short-term financing to support operating cycles decreases, while long-term financing requirements are primarily directed toward sustaining technological development, strategic expansion, and innovation. Higher production levels and stronger profitability further enhance the firm's capacity to finance its activities internally.

❖ **Financing Needs During the Decline Stage:** During the decline stage, financing needs increase considerably as startups experience deteriorating competitiveness and declining operational performance. The reduction in internally generated funds, combined with greater reluctance among external financiers to provide additional capital, intensifies financial constraints and increases the need for financial restructuring and strategic renewal.

3. Sources of Financing for Startups

Startups require adequate financing sources to cover their operational and investment costs throughout the different stages of their life cycle. To satisfy their evolving financial needs, they rely on a variety of financing mechanisms that are appropriate to each stage of development. The principal financing sources are presented below.

3.1 Crowdfunding (Crowdfunding Platforms)

Crowdfunding has emerged as one of the most important alternative financing mechanisms for entrepreneurial ventures and startups. It involves raising relatively small amounts of capital from a large number of individuals through online platforms. This financing model eliminates, or significantly reduces, the role of traditional financial intermediaries by enabling individuals to invest regardless of the size of their financial contribution. As the number of contributors increases, the amount of capital available for financing entrepreneurial projects also grows.

Unlike conventional bank financing, crowdfunding is not exclusively driven by financial returns. Instead, it aims to support entrepreneurs in transforming innovative ideas into viable business ventures. Furthermore, crowdfunding generally involves relatively lower investment risk for contributors, who often receive non-financial rewards, products, or other forms of recognition rather than direct monetary returns, depending on the crowdfunding model adopted (Jean-François, 2013, p. 5).

Crowdfunding transactions are conducted through specialized **crowdfunding platforms**, which are web-based platforms or mobile applications that enable entrepreneurs to present their innovative ideas to the public. These platforms facilitate the promotion of entrepreneurial projects through various digital communication tools with the objective of attracting public support and securing the financial resources necessary to transform ideas into marketable ventures (Boumeddine et al., 2014).

A. How Crowdfunding Platforms Operate

Crowdfunding is characterized by a high degree of transparency, while the credibility of the project owner (campaign creator) plays a crucial role in determining the success of the fundraising campaign. Crowdfunding platforms typically host thousands of campaigns simultaneously, and their operation is based on several fundamental principles:

- Individuals may voluntarily donate to or invest in a campaign once they are convinced of its objectives and credibility.
- Potential contributors review the electronic link associated with the campaign and are not required to browse all campaigns available on the platform before making a contribution.

The success of a crowdfunding campaign depends heavily on the campaign creator's ability to mobilize support during the initial stages, particularly from friends, relatives, and colleagues. These groups are generally the first contributors because they are familiar with the entrepreneur, trust his or her credibility, and possess prior knowledge of the campaign objectives. Without their confidence and early support, campaigns are significantly less likely to succeed.

Crowdfunding platforms differ in their policies regarding campaign approval and publication. Some platforms permit any entrepreneur to publish a campaign directly, leaving the responsibility for promotion, credibility building, and investor engagement entirely to the campaign creator. Under this model, entrepreneurs must provide sufficient evidence regarding the legitimacy of their projects, including supporting documentation and relevant information, to convince potential contributors.

Conversely, other platforms conduct comprehensive screening procedures before publishing campaigns and only approve projects that satisfy their internal credibility and quality standards. Regardless of the platform model, successful fundraising depends primarily on the entrepreneur's ability to persuade potential contributors. To enhance credibility and increase campaign visibility, entrepreneurs frequently employ promotional tools such as explanatory videos, periodic progress reports, personal presentations, and continuous communication with contributors. These practices substantially improve investor confidence and can significantly increase the volume of financial contributions received (Khelfaoui & Ait Mohammed, 2022, pp. 239–240).

B. Major Crowdfunding Platforms in Algeria

Crowdfunding has increasingly become an important alternative financing mechanism in Algeria, enabling entrepreneurs to raise capital from private investors while providing a viable substitute for conventional bank financing, which is often characterized by lengthy credit evaluation procedures. Crowdfunding has consequently emerged as an effective instrument for financing entrepreneurial ventures, facilitating financial inclusion, and supporting innovators and startup founders who encounter difficulties in accessing traditional banking services.

To promote entrepreneurship, Algeria has introduced several financial support mechanisms for startups, including tax incentives, dedicated financing instruments, and the establishment of a specialized startup support fund designed to meet financing needs throughout the various stages of business development. In addition, the **Supplementary Finance Law of 2020** officially recognized crowdfunding as an alternative financing mechanism by providing a legal framework for platforms that collect funds from private investors to finance startups and innovative projects facing financing constraints due to their inherently high-risk characteristics.

The introduction of crowdfunding responded to the limitations of existing financing mechanisms. Traditional financial institutions generally exhibit reluctance to finance innovative startups because of their elevated risk profile, while the Algerian capital market primarily serves large-scale investment projects through the main market and medium-sized enterprises through dedicated market segments. Consequently, policymakers sought innovative financing mechanisms capable of addressing the specific financing needs of startups.

Within this regulatory framework, the **Commission for the Organization and Supervision of Stock Exchange Operations (COSOB)** established regulations governing the operation of crowdfunding platforms for startups. Article 45 of the **Supplementary Finance Law of 2020** introduced the concept of **participatory (collaborative) investment**, providing the legal basis for crowdfunding activities, which officially commenced during the final quarter of 2020. The status of **Participatory Investment Advisor** may be granted to commercial companies specifically established for this activity, licensed stockbrokers, and investment fund management companies (Article 45, 2020).

To obtain this authorization, applicants must submit a comprehensive application to COSOB describing the proposed business model, estimated fundraising capacity, project selection procedures, valuation methodologies, monitoring and governance mechanisms, and remuneration policies applicable to participatory investment advisors. In addition, applicants must satisfy several regulatory requirements, including:

- Providing complete and transparent information intended for publication on the crowdfunding platform.
- Demonstrating the technical capabilities necessary to conduct crowdfunding activities.
- Complying with professional ethical standards to establish and maintain investor confidence.
- Ensuring that platform managers and administrative personnel possess appropriate professional competence and integrity.
- Providing detailed and transparent information regarding proposed projects and the associated investment risks.

Among the most prominent crowdfunding platforms operating in Algeria are **Tiwizi**, **Chriki**, and **Coufandi**, all of which primarily operate according to donation-based crowdfunding models while seeking to expand their presence within the Algerian entrepreneurial ecosystem. In addition, **N'investi**, established in 2019 by Algerian entrepreneurs residing abroad, is recognized as one of the country's pioneering crowdfunding platforms. Its primary objective is to connect investors with small and medium-sized enterprises (SMEs) and startups in Algeria, thereby facilitating access to financing for businesses facing difficulties in obtaining conventional bank credit.

3.2 Self-Financing

Self-financing refers to the use of the entrepreneur's own financial resources to establish and operate the startup. Under this financing method, the founder's personal savings constitute the primary source of capital. When these resources prove insufficient, entrepreneurs typically seek additional financial support from family members and friends (Reihan & Boumoud, 2019, p. 4).

3.3 Angel Investment

Angel investors are individuals who provide financial resources to startups during their early stages of development. This financing is often structured as a convertible loan that may later be transformed into an equity stake in the company. In other words, angel investors contribute capital in exchange for partial ownership while generally refraining from participating in the firm's day-to-day management. If the startup succeeds, angel investors may realize substantial capital gains. However, because investments are made during the earliest and most uncertain phases of business development, this financing mechanism is associated with a high level of investment risk (Hijab & Aichawi, 2019, p. 26).

3.4 Venture Capital

Venture capital represents one of the principal financing mechanisms available to startups and is characterized by a particularly high degree of investment risk. Venture capitalists provide funding to

innovative ventures without guarantees of recovering their investment, thereby assuming significant financial uncertainty in anticipation of potentially high future returns.

Unlike conventional financiers, venture capital investors become equity partners in the startup and actively participate in strategic decision-making and corporate governance. Their involvement is based on the principle of sharing both risks and expected returns with entrepreneurs. Venture capital providers may include individual investors, specialized venture capital firms, investment funds, or other financial institutions. Beyond providing financial resources, they contribute managerial expertise, strategic guidance, professional networks, and business development support, thereby enhancing the startup's ability to overcome operational challenges, mitigate failure risks, and achieve sustainable growth (Mariam et al., 2020, p. 526).

3.5 Equity Crowdfunding

According to the **International Organization of Securities Commissions (IOSCO)**, equity crowdfunding is a broad financing concept involving the mobilization of relatively small financial contributions from individuals or organizations through internet-based platforms, either in the form of investments or business loans. Similarly, the **World Bank (2013)** defines it as an online financing mechanism that enables firms to raise capital from numerous investors through donations or equity investments, with fundraising amounts typically ranging from approximately USD 1,000 to USD 1 million (Salem Magdy, 2022, p. 323).

Although equity crowdfunding shares several characteristics with conventional crowdfunding, investors in this model receive ownership shares in the company in exchange for their financial contributions. Consequently, firms raise capital through the issuance of equity securities, while investors expect to generate financial returns through appreciation in the value of their shares if the venture succeeds.

3.6 Stock Market Financing

Stock market financing becomes available during the more advanced stages of a startup's development. Under this financing mechanism, firms raise long-term capital through the issuance of common shares, preferred shares, or long-term corporate bonds to finance strategic expansion and long-term investment projects (Abdel Ghaffar & Qriyaqis, 2000, p. 540).

4. Review of the Literature

In recent years, academic literature has devoted increasing attention to crowdfunding platforms as one of the most significant financial innovations emerging from financial technology (FinTech). Research has primarily focused on examining their role in providing alternative financing sources for startups and small and medium-sized enterprises (SMEs), particularly in response to the financing constraints that limit access to conventional financial institutions. Most studies have investigated how crowdfunding platforms mobilize individual savings and connect investors with entrepreneurs through digital environments characterized by efficiency, transparency, and relatively low transaction costs, thereby reshaping contemporary financing systems.

Within this context, **Faraj Allah and Hammadi (2026)** examined the **Ethis Crowd** platform as an advanced model of Islamic crowdfunding. Their study was based on the premise that crowdfunding platforms constitute an effective solution for addressing the financing gap experienced by startups, particularly during their early stages when business risks are high and access to bank financing is limited. The findings demonstrated that Ethis Crowd performs not only a financing function but also generates economic and social value by combining investment efficiency with compliance with Islamic principles. The authors further emphasized the importance of strengthening regulatory frameworks and promoting greater integration between crowdfunding platforms and conventional financial institutions to ensure the long-term sustainability of this financing model.

These findings are consistent with those reported by **Guimache and Kettaf (2022)**, who investigated Islamic crowdfunding platforms as contemporary financing instruments supporting economic development through a case study of the **Ethis** platform in the Asian market. Their study concluded that the platform successfully financed numerous housing and development projects, thereby improving living standards and narrowing the financing gap between public and private investments. Unlike previous studies focusing primarily on startup financing, this research highlighted the broader developmental impact of Islamic crowdfunding, demonstrating that its contribution extends beyond financing entrepreneurial ventures to encompass wider economic and social development objectives.

From a different perspective, **Ezangina (2019)** analyzed **crowdinvesting** as an innovative financing mechanism supporting small and medium-sized enterprises in Russia. The study focused on the institutional and regulatory evolution of this market and identified its principal characteristics, including the mobilization of small-scale investments, the existence of intermediary digital platforms, and the generation of financial returns for investors. The findings indicated that market expansion depends heavily on the effectiveness of the legal and regulatory environment, while the absence of comprehensive regulatory frameworks constitutes one of the primary obstacles limiting market development. Consequently, academic interest has progressively shifted from operational aspects of crowdfunding platforms toward the institutional environment governing their efficiency and sustainability.

Similarly, **Obaidia and Arar (2025)** examined the relationship between crowdfunding platforms and innovation in Islamic banking through a case study of the **Beehive** platform in the United Arab Emirates. Their study demonstrated that advances in financial technology have facilitated the emergence of innovative financing models that extend beyond the traditional boundaries of Islamic banking by introducing specialized digital platforms operating according to Sharia-compliant financing principles. The authors concluded that deferred financing and peer-to-peer (P2P) financing models represent the most suitable mechanisms for advancing Islamic crowdfunding, thereby fostering financial innovation and expanding financing opportunities available to entrepreneurial ventures.

Adopting a broader perspective, **Talem (2022)** explored the complementary relationship between financial technology and the Islamic financial industry. The study identified Islamic crowdfunding platforms as one of the most prominent FinTech applications capable of transforming Islamic financial services. The findings revealed that integrating digital technologies into Islamic finance has expanded financial inclusion by reaching populations traditionally excluded from the formal financial system. Moreover, digital innovation has enhanced the efficiency of financial services while reducing the limitations associated with conventional financing mechanisms, thereby reinforcing the strategic importance of financial technology in the development of the Islamic financial industry.

Overall, the existing literature demonstrates broad consensus that crowdfunding platforms have become innovative financing mechanisms capable of addressing financing constraints, promoting entrepreneurship, supporting startup development, contributing to economic growth, and expanding financial inclusion. Most studies further agree that the success of crowdfunding platforms depends largely on the maturity of the regulatory environment, the quality of digital infrastructure, the flexibility of financing models, and their capacity to build trust between entrepreneurs and investors.

Despite the valuable contributions of previous studies, their primary focus has been on the financial, developmental, technological, and regulatory dimensions of crowdfunding platforms, while comparatively limited attention has been devoted to their role in enhancing the **financial stability of startups**. Existing research has largely concentrated on evaluating the effectiveness of crowdfunding in providing financial resources or promoting economic development, with relatively little emphasis on examining how such financing contributes to strengthening startups' financial stability through improved liquidity management, reduced financial distress risk, diversification of financing sources, and enhanced organizational resilience in environments characterized by high levels of uncertainty.

Accordingly, the present study addresses this research gap by adopting a distinct analytical perspective that explicitly links crowdfunding platforms to the financial stability of startups. It investigates how these platforms contribute to strengthening financial resilience, improving capital structures, and enhancing firms' capacity to withstand financial shocks while achieving long-term sustainability. Unlike previous studies that primarily considered crowdfunding as an alternative source of finance, the present research conceptualizes crowdfunding as a **strategic mechanism for promoting financial stability**, thereby providing a novel theoretical and practical contribution to the existing body of knowledge.

III. Section Two: The Contribution of Crowdfunding Platforms to Enhancing the Financial Stability of Startups

The financial and banking sector contributes to financial stability by effectively performing its core functions in supporting economic and social development while minimizing the likelihood of internal and external financial crises. Nevertheless, practical experience has repeatedly demonstrated that achieving sustainable financial stability remains a challenging objective due to the dynamic nature of financial markets and the increasing frequency of economic shocks.

1. Definition of Financial Stability

From an economic perspective, **financial stability** refers to the ability of the financial system to withstand crises and absorb financial shocks. A financial shock may be defined as an unexpected event that threatens economic activity or undermines public confidence in the efficiency and credibility of the financial system. Consequently, financial stability should not be interpreted as the absence of volatility or change, but rather as the capacity of the financial system to maintain its essential functions and recover effectively regardless of the magnitude of the disturbance.

Financial stability has also been defined as **a condition in which the financial system—including the banking sector and major financial markets—is resilient to shocks and capable of performing its fundamental functions, such as financial intermediation, facilitating economic transactions, operating payment systems, and managing financial risks** (Ben Daya & Safari, 2020, p. 581).

At the firm level, financial stability refers to **the ability of an enterprise to secure adequate financial resources over the long term and allocate them within an appropriate capital structure that ensures financial equilibrium**. Such stability enables the firm to meet its financial obligations, particularly short-term liabilities, as they become due, thereby avoiding financial distress that could ultimately result in business failure or bankruptcy (Massoud, 2021, p. 199).

2. The Importance of Financial Stability for Startups

Financial management seeks to maintain a continuous state of financial equilibrium by balancing two complementary objectives. On the one hand, firms aim to maintain adequate liquidity to ensure the smooth execution of daily operations. On the other hand, they strive to maximize profitability by investing available financial resources efficiently while minimizing excessive reliance on debt financing in order to reduce the risks associated with financial obligations and potential default (Massoud, 2021, p. 199).

For startups in particular, financial stability constitutes a fundamental prerequisite for sustainable growth and long-term competitiveness. Its importance can be summarized as follows:

- **Ensuring Business Continuity:** Financially stable startups are capable of covering their operating expenses—including salaries, rent, procurement costs, and service payments—without delays, thereby ensuring the uninterrupted continuity of business operations.

- **Supporting Strategic Decision-Making:** Financial stability provides management with greater confidence to make long-term strategic decisions, including market expansion, business diversification, and the development of innovative products and services.
- **Strengthening Investor and Lender Confidence:** Investors, financial institutions, and other capital providers are generally more willing to finance financially stable firms because they are perceived as presenting lower levels of investment risk and stronger repayment capacity.
- **Enhancing Resilience to Economic Shocks:** Financially stable startups are better equipped to absorb unexpected economic disruptions—such as market volatility, pandemics, regulatory changes, or macroeconomic crises—without jeopardizing their operational continuity or long-term survival.
- **Improving Relationships with Suppliers and Customers:** The ability to meet financial commitments on time strengthens relationships with suppliers, enhances corporate reputation, and contributes to building long-term business partnerships based on credibility and trust.
- **Increasing Operational Efficiency:** Financial stability enables startups to invest in infrastructure, digital transformation, technological innovation, and employee training, thereby improving operational efficiency, productivity, and overall profitability.
- **Attracting and Retaining Human Capital:** Financially stable organizations are generally more attractive to highly qualified employees. Employment security enhances employee morale, increases organizational commitment, and contributes to lower staff turnover rates, ultimately strengthening the firm's long-term competitive advantage.

3. Factors Influencing the Financial Stability of Startups

Achieving financial stability requires the implementation of sound financial and managerial policies, together with the ability to respond effectively to changes in the external environment. The determinants of financial stability can generally be classified into **internal factors**, which are largely within the firm's control, and **external factors**, which originate from the business environment in which the firm operates.

3.1 Internal Factors Affecting Financial Stability

Several internal factors play a crucial role in ensuring the long-term financial stability of startups, including the following:

- ❖ **Sound Financial Management:** Effective financial management constitutes one of the primary determinants of financial stability. Sound financial planning, accurate budgeting, transparent financial reporting, and efficient cost control ensure that financial resources are allocated to the most profitable activities. Moreover, a robust internal control system minimizes financial waste, fraud, and managerial inefficiencies, thereby strengthening the firm's financial position.
- ❖ **Capital Structure:** The financial stability of a startup largely depends on maintaining an appropriate balance between debt financing and internally generated funds. Excessive reliance on borrowed capital increases financial obligations and places additional pressure on cash flows, whereas greater dependence on equity financing reduces financial risk and enhances the firm's flexibility in responding to economic uncertainties and financial crises.
- ❖ **Operational Efficiency:** The efficiency with which a startup manages its day-to-day operations directly influences its financial stability. Higher operational efficiency reduces operating costs, improves profitability, and increases the firm's capacity to expand its activities while maintaining resilience against market fluctuations and financial challenges.

3.2 External Factors Affecting Financial Stability

In addition to internal determinants, several external factors significantly influence the financial stability of startups.

❖ **Economic and Political Environment:** Business performance is strongly influenced by macroeconomic and political conditions, including political stability, inflation rates, and interest rate fluctuations. Sudden changes in these variables may adversely affect business planning, operating costs, revenue generation, and overall financial performance.

❖ **Market Competition:** Highly competitive markets exert considerable pressure on prices and profit margins, potentially reducing financial performance and weakening financial stability. Consequently, startups must adopt effective marketing strategies, pursue product or service differentiation, and continuously innovate to maintain sustainable profitability and long-term competitiveness.

❖ **Quality of Accounting Information Systems:** Accounting information systems provide reliable financial information that supports informed managerial decision-making. Weak or inefficient accounting systems may generate inaccurate financial information, leading to inappropriate financial decisions that ultimately undermine organizational financial stability.

❖ **Organizational Adaptability:** Startups possessing high levels of organizational flexibility are better able to adjust their strategies in response to changing market conditions and uncertainty. The ability to respond rapidly to technological developments, evolving customer preferences, and competitive pressures significantly enhances financial resilience and long-term stability.

4. The Role of Crowdfunding in Enhancing the Financial Stability of Startups

Crowdfunding has emerged as an innovative financing mechanism capable of strengthening the financial stability of startups through several complementary channels.

4.1. Providing Flexible Alternative Sources of Finance

Crowdfunding offers startups an effective alternative to conventional bank financing, which is often difficult to obtain because of stringent lending requirements and high financing costs. By facilitating access to more flexible funding sources, crowdfunding reduces dependence on costly debt financing and other high-risk financial instruments.

4.2. Reducing Financial Risk

Startups are inherently exposed to high levels of business and financial risk. Crowdfunding contributes to risk mitigation by distributing financial risk across a large number of investors rather than concentrating dependence on a single lender or financing institution. This diversification reduces financial pressure and enhances the firm's resilience in the event of adverse market conditions or unexpected financial losses.

4.3. Improving Cash Flow and Liquidity

Crowdfunding provides entrepreneurs with timely access to financial resources and, in many cases, enables firms to receive funds before production or commercialization begins. This early access to liquidity improves cash flow management, facilitates more effective resource planning, and reduces the likelihood of liquidity shortages that could disrupt business operations or generate additional financing costs.

4.4. Enhancing Financial Independence

Many crowdfunding models enable startups to raise capital without relinquishing ownership or managerial control of the business. Unlike venture capital financing, which generally requires equity participation and active investor involvement, reward-based and donation-based crowdfunding

preserve entrepreneurs' independence while providing the financial resources necessary for business development.

4.5. Market Validation and Failure Risk Reduction

Crowdfunding campaigns enable entrepreneurs to obtain direct market feedback before officially launching a product or service. This early validation process allows startups to assess market demand, refine product offerings, and identify potential weaknesses, thereby reducing the probability of commercial failure and strengthening long-term financial stability.

4.6. Building a Community of Supporters and Future Customers

Beyond providing financial resources, crowdfunding facilitates the creation of a community of supporters, early adopters, and potential customers. This network contributes to future revenue generation, strengthens customer loyalty, and provides startups with a more stable foundation for sustainable growth.

4.7. Promoting Corporate Governance and Transparency

Successful crowdfunding campaigns require a high degree of transparency regarding business objectives, financial information, project implementation, and expected outcomes. Consequently, startups seeking crowdfunding are encouraged to adopt stronger governance practices, improve financial reporting, and enhance accountability. These governance improvements constitute essential internal determinants of long-term financial stability.

IV. Conclusion

This study examined the importance of strengthening the financial stability of startups, particularly in light of the financing challenges they encounter during the early stages of their development. The findings demonstrate that the adoption of innovative financing mechanisms, especially crowdfunding, contributes significantly to strengthening the financial position of startups and enhancing their long-term sustainability and competitiveness.

The study yielded the following key findings:

- Innovative financing mechanisms—including **crowdfunding, angel investment, and venture capital**—play a significant role in bridging the financing gap experienced by startups, particularly during the establishment stage. These financing mechanisms should therefore be viewed as complementary to, rather than complete substitutes for, conventional financing.
- Innovative financing instruments improve the financial stability of startups by diversifying financing sources and reducing the financial distress associated with excessive dependence on a single source of funding. Consequently, they enhance startups' capacity to survive, expand, and achieve sustainable growth over the medium and long term.
- Crowdfunding and other innovative financing instruments generate benefits that extend beyond financial support. They also foster innovation and entrepreneurial dynamism by enabling entrepreneurs to validate their business ideas in the marketplace, attract early adopters and supporters, and strengthen the credibility of their ventures in the eyes of potential investors.
- The development of digital infrastructure, the widespread adoption of electronic payment systems, and increased digital awareness among entrepreneurs and individual investors directly enhance the effectiveness of crowdfunding platforms and other innovative financing mechanisms while expanding their accessibility and utilization.
- Government support measures—including tax incentives, flexible regulatory frameworks, and entrepreneurship support programs—strengthen investor confidence in innovative financing mechanisms, thereby contributing positively to the financial stability and growth potential of startups.

- Integrating innovative financing instruments, such as crowdfunding, angel investment, and venture capital, into the national financing ecosystem and linking them with business incubators and national entrepreneurship support agencies can substantially improve startup success rates while contributing to the diversification of the national productive base.
- Innovative financing mechanisms provide startups with greater financial flexibility and facilitate access to capital without the constraints typically associated with conventional bank financing.
- Clear legal and regulatory frameworks governing innovative financing mechanisms enhance the confidence of both entrepreneurs and investors while reducing legal and financial risks associated with these financing models.
- Crowdfunding has emerged as a promising financing instrument capable of effectively addressing the financing needs of startups throughout various stages of their development.

Based on these findings, the study proposes the following recommendations:

- Develop a comprehensive legal and regulatory framework governing innovative financing mechanisms—including crowdfunding, venture capital, and angel investment—to ensure the protection of the rights and interests of entrepreneurs, investors, and platform operators.
- Simplify administrative procedures by reducing documentation requirements, digitalizing application processes, and establishing clear deadlines for processing financing requests in order to encourage entrepreneurial activity and reduce bureaucratic barriers.
- Strengthen collaboration between the public and private sectors through the provision of direct financing, investment guarantees, and risk-sharing mechanisms that reduce the probability of startup failure while increasing the attractiveness of investment in entrepreneurial ventures.
- Provide continuous technical, managerial, and legal support following the financing stage to enhance project success and reduce business failure rates during the early stages of development.
- Organize awareness campaigns and specialized training programs targeting young entrepreneurs to improve their understanding of financing sources, innovative financing mechanisms, and the preparation of investment-ready business projects.
- Strengthen university business incubators by providing additional financial and technical resources and organizing practical workshops that assist students in transforming innovative ideas into financeable entrepreneurial ventures while reinforcing collaboration between Algerian universities, research centers, and the business sector.
- Expand fiscal incentives—including tax exemptions, tax reductions, and additional financial incentives—for innovative startups in order to improve financial performance, increase profitability, and stimulate investment.
- Encourage financial institutions to adopt flexible financing models specifically tailored to the needs of technology-based startups and other innovative entrepreneurial ventures.
- Continuously monitor the financial performance of startups benefiting from innovative financing mechanisms through advanced financial analysis tools to evaluate financing effectiveness and ensure sustainable business growth.

Declarations

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