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## **Contribution of the Algerian Zakat Fund in financing start-ups: A prospective study**

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**Abstract**---In this article, we are trying to give a forward-looking view of the possibility of integrating the Algerian Zakat Fund into the structures supporting start-ups, with the support of a type of start-up institution that I am entitled to zakat investors and innovators, and we are referring to what is the Algerian Zakat Fund, what are the start-up institutions, and some forms of funding of the Algerian Zakat Fund for Emerging Enterprises (the formula for speculation, participation, leasing, advanced payment sales (bai Salam)). In our view, the Algerian Zakat Fund can finance start-ups, not only at the start-up stage, or only after the start-up, but can be supported and financed at the other stages of the life cycle of Startup institutions. This can be done by raising and developing the proceeds of zakat, respecting the legitimate controls on the investment of zakat funds and respecting the specificities of those institutions.

**Keywords**---Algerian Zakat Fund, Start-up Institutions, Finance Images.

**Introduction**

The new trend in modern economic development is to rely on Start-up institutions and to focus on their role in generating growth and development through their

multispectral economic activities, given the effectiveness of their flexibility and rapid adjustment to changes in the economic environment, in contrast to the previous view that large giant industries and enterprises should be adopted as a gateway to overall economic development.

Algeria is one of the countries that has moved towards this kind of development, and investment and support for start-up institutions have become priorities for Algeria's economic decision-makers in order to contribute to the acceleration of development and the strengthening of the domestic production machinery. In this context, a Ministry of Start-up Institutions and Innovation was established by Presidential Decree No. 20/01 of 02/01/2020 and was designated the Ministry of Small Enterprises, Star-up Enterprises and the Knowledge Economy and appointed a Minister Delegate for Start-up Institutions, thus demonstrating the importance attached by the authorities to this type of institution. On 15/09/2020, Executive Decree No. 20/254 was issued establishing a national commission to give the mark of "a Start-up institution," "an innovative project" and "a business incubator," and to define its functions, composition and functioning.

The main problems facing Start-up enterprises are the problem of financing, and the support structures for Start-up enterprises at the level of Algeria: the National Agency for Support and Employment of Youth (ANSEJ), the National Unemployment Insurance Fund (CNAC), the National Investment Development Agency (ANDI) and the National Micro-Lending Agency (ANGEEM). In our view, the Algerian Zakat Fund can contribute to the development and upgrading of start-ups for innovative investors, particularly to addressing the most important problems of start-up enterprises, namely, financing. From the above, the forms of research can be presented as follows:

How could the Algerian Zakat Fund for Start-up Institutions be financed through the use of Islamic funding formulas?

The following sub-questions arise from this problem:

- To what extent does the Algerian Zakat Fund contribute to the financing of Start-up institutions through co-profit and loss financing formulas?
- To what extent does the Algerian Zakat Fund contribute to financing of emerging institutions through fixed-income funding formulas?

### **The Importance of the topic:**

The importance of the topic stems from:

- The significant role played by socially and economically start-up enterprises through job creation and support for large enterprises, as not necessarily start-ups compete with large enterprises but they can serve as supporting organizations for start-ups;
- The major problem for start-ups is financing, which is the main engine of activity.
- Integration of the Algerian Zakat Fund into economic development;

### **Research Structure:**

In order to respond to the problem of research, we have divided our research into the following key elements:

- I. Concepts on the Algerian Zakat Fund and the Start-up institutions:
  1. Definition of the Algerian Zakat Fund;
  2. Definition of Start-up institutions;
- II. Funding modalities for the Algerian Zakat Fund for Start-up Institutions
  1. Funding of the Algerian Zakat Fund for Start-up Enterprises in Co-Profit and Loss-Based Forms of Finance;
  2. Financing of the Algerian Zakat Fund for Start-up Enterprises with fixed-income funding modalities

### **Chapter One: Concepts about the Algerian Zakat Fund and the Start-up institutions**

We're going to try to briefly touch upon some of the concepts about the Algerian Zakat Fund and some of the concepts about the Start-up institutions.

#### **First, what is the Algerian Zakat Fund:**

We will focus on the definition of the Algerian Zakat Fund, the organizational levels of the Algerian Zakat Fund, and finally the oversight tools.

1. **Definition of the Algerian Zakat Fund:**  
The Algerian Zakat Fund is an institution operating under the trusteeship of the Ministry of Religious Affairs and Waqfs, which guarantees legal coverage on the basis of the regulated law and is an institution of a religious and social nature.
2. **Organizational levels of the Algerian Zakat Fund:**  
The Algerian Zakat Fund is made up of three organizational levels, and that's what the next schedule builds<sup>^</sup>
3. **Oversight tools for the Fund's activity:**  
Each citizen and agency can access the Fund ' s income and the zakat ' s earnings and how they are distributed by:
  - Placing detailed lists at the disposal of any body or association for access to Zakat channels;
  - Detailed reports published in all media;
  - Publication of the figures in detail on the Ministry's website;
  - Adoption of the Zakat Fund Bulletin as a public information tool accessible to all entities and individuals.

#### **Second: WHAT ARE THE EMERGENCY INSTITUTIONS:**

At this point, we will address the definition of Start-up institutions, offering some definitions and the definition of Algerian legislators, and finally we will come up with a definition of our own, and on that basis the forms are addressed, as well as some of the characteristics of Start –up institutions.

#### **1. Definition of Start-up institutions:**

With regard to the definition of Start-up enterprises, there is no agreed uniform definition, so we will try to offer some definitions, including the definition of Algerian law.

**Termonological definition:**

The meaning of a Start-up institution literally and as an English term is UP-START, which consists of two split words to START, which means "start" and "up" to "growth."

**The term in French is:**

Jeune entreprise vatrice dans le secteur des nouvelles technologie.

New enterprises in the new technology sector.

Some definitions:

- Eric Reis defines it is: "a humanitarian/human institution that aims to hijack a good product or new service under conditions of 4uncertainty . "
- And he defines itTisserand Barthole It is "a modern, innovative 5enterprise, often with a small workforce."
- Ripasas defines it Heinschel is an enterprise with a history of no " 6more than 10 years "
- There are those who defined it as : " a newly established institution that " .7 aims to embody a new, active idea in a high-risk environment
- also defined as "those innovative institutions in the field of information and communication technologies in order to create and market new 8 technologies."
- It was also defined as "a modern institution based on technology and innovation in order to develop an unknown product or service in order to 9create new markets. "
- "identification Paul Graham The emerging institution: "through Start up = growth That is, a start-up enterprise is only a rapidly growing enterprise, while using technology is a high-risk enterprise

It has some kind of exit plans, all of which depend on the growth of the institution 10. In other words, innovative young enterprises in the modern technology sector, or innovative young enterprises of a technological nature.

**c. Definition of Algerian legislator:**

Algeria's legislature defined it in accordance with article 11 of Executive Decree No. 20-254 of 15/09/2020: the enterprise shall be awarded an enterprise's mark if the following conditions are met:

- The Start-up institution must be subject to Algerian law.
- The institution must not be more than eight years old.

The enterprise's business model must be based on products, services, business model or innovative idea.

- The annual turnover of the institution must not exceed the amount determined by the National Committee.
- The capital of the company must be at least 50% owned by natural persons, certified investment funds or other institutions with a Start-up enterprise.
- The growth potential of the institution must be large enough.
- There should be no more than 240 workers.

By virtue of article 11 of Executive Decree No. 20 of 254, the Algerian legislature has given general criteria for granting an enterprise Start-up mark. These criteria are the number of workers, the number of jobs, the proportion of capital owned, the age of the enterprise, the standard of innovation is not required as a prerequisite and no sector has been identified for the enterprise to acquire a Start-up mark.

Accordingly, a comprehensive definition of Start-up enterprises can be given as a newly Start-up institution active in all activities seeking to grow and expand rapidly with the aim of offering a product or service or of offering an innovative and new product or service.

## **Chapter two: formulas for funding the Algerian Zakat Fund for Emerging Institutions**

In this area, we will explain how the Algerian Zakat Fund can contribute to the financing of start-ups by using Islamic financing formulas based on profit-sharing and loss (mutualization and participation, farming) and two types of fixed-return financing (rent, advance payment sale)

### **I. Co-profit and loss-based financing**

#### **1. Speculative financing (Modaraba):**

The Zakat Fund contributes to the financing of start-ups in the form of speculation, as follows:

We know that there are many beneficiaries who have the expertise and professional competence to perform institutions where they employ their intellectual and technical expertise and skills. However, the problem of capital is a barrier to exploiting their abilities and realizing their aspirations, which they are passionate about, but by speculation, this problem is virtually fading away by being a speculator and by the body responsible for managing zakat funds acting as the head of money. Here, the Zakat Fund plays the role of a supporting institution (the head of money), the distribution of profits between the Zakat Foundation and the beneficiaries (the speculators), the bulk of the profit being the share of the spectacle, and all of it according to the agreement.

Poor investors are thus able to realize their ambitions, employ their expertise and earn an income that pays for life, expand their activity and set up institutions on their behalf by reinvesting their profits. The best type of speculation applied is financing in a speculative form that ends with ownership to achieve the requirement of ownership.

#### **2. Co-financing (Mosharaka):**

The Zakat Fund contributes to the financing of institutions established in the form of participation before the launch phase and after the launch phase, as follows:

many of the beneficiaries usually have financial resources in the form of fixed assets: shops, land...However, they are not sufficient to establish their own start-ups or to meet their needs during the course of the activity, such as debt. For example, (El Gharemon), at the same time, do not favour lending from traditional

banks because of the interest rate that increases the cost of financing or because of religiousness, and, moreover, because they have a right to such funds, participation is the best alternative because it provides financing plus risk sharing among the parties involved as well as income or income from the project outcome.

Also, participation is proportional to the financing of start-ups because many of the eligible have the experience and skills to carry out their activities, but there is insufficient financial resources to set up their institutions -- as we have mentioned earlier -- and at the same time they want control and confidentiality in their work, and they can reconcile the combinations through their engagement with the Zakat Fund by means of the declining participation formula, in which the Zakat Foundation's share is gradually becoming eligible and thus achieving the benefits of the Fund.

The property clause.

#### **4. Farmer-style financing:**

In this case, Who has only agricultural land, or he owns agricultural land and he has invented a modern agricultural machinery or machinery. By applying that innovation to his land, he establishes an innovative agricultural start-up, which requires money. The Zakat Fund can intervene to finance all activity or contribute part of the total amount of financing in the form of farming, which is reflected in the provision of part or all of the rehabilitation requirements or the costs of applying innovation.

Thus, the Zakat Fund is shared with him in the form of a farmer and, in return, the other entitled party provides land and work if he is an expert in the field of agricultural land service, although not so, it is agreed with another party (another entitled) that calls farms to work on the land for a return. The Zakat Fund therefore contributes to converting the arid lands of the beneficiaries into productive and green lands and enabling the grafted receivable to achieve its ambition, work and continuity.

## **II. Funding in fixed-return formats**

### **1. Advance payment Sale formula financing (Baii Salam):**

The Zakat Fund can support Start-up institutions through the advance payment formula as follows:

The Zakat Fund first provides a workshop for the inventive, eligible and able-to-work poor wishing to establish a Start-up institution, if they do not have a place to do their job, and then equips the workshop with all or part of the machinery and equipment required by it and other support - in accordance with the professional and professional qualifications of the eligible poor and the requirements for the application of the idea; - The Zakat Fund (Muslim) then enters into a simple advance payment contract with that poor, recognized entitlement to make a certain item with specific specifications, with the price (Advance payment capital) handed over to the Board of the Contract, thereby providing the poor receivable with the necessary money to begin its work. Goods

supplied by that poor Muslim who is entitled at the request of the Zakat Fund are either:

- It is intended for other beneficiaries who need it, such as the commodity being the instruments of work needed by other beneficiaries to engage in their activity, thereby creating an atmosphere of cooperation between the beneficiaries indirectly, having been in no way beneficial to society

The goods are supplied to businesses belonging to the Zakat Fund for sale of the goods, and the resulting profits include zakat funds, increasing the proceeds of zakat and widening the circle of Zakat beneficiaries;

- It is addressed to non-receivers of zakat (Muslim) who have entered into a simple peace contract with the Zakat Fund (which plays an intermediary role between the recognized receivables and the delivered customers) and, at the same time, another simple advance payment contract is concluded with the same qualities as those required of the non-receiving recipients with the first Muslim receivable.

Through the foregoing, the Zakat Fund, using the advance payment sale formula to provide financing for the Start-up institution, has provided liquidity to the recognized beneficiary (the innovative investor) while preserving his dignity without informing him of his compassion and compassion, because in it (the advance payment sale formula) he feels paid for his effort.

The advance payment sale formula also solves the problem of marketing to the Muslim entitled (innovative investor) because he is not fully aware of the intended market and who is unable to determine the amount of the demand, by concluding an advance payment sale contract with the Zakat Fund, which is virtually fading away.

## **2. Lease funding:**

The Zakat Fund is supported for start-ups in the form of rent, which in this case takes the role of tenant. There are two types of rent:

**A. Operational leasing:** the tenant (investor or inventor) receivable applies to the Zakat Fund for rental of an asset (equipment, real estate, etc.) and, upon approval, the Zakat Fund owns the asset to be leased to fulfill the property requirement and the purchase value of that asset to be paid from the zakat funds. A lease is entered into between the Zakat Fund and the eligible investor lessee, in which the installments and duration of the lease are agreed upon. For the duration of the lease, ownership of the asset remains with the Zakat Foundation, and the lessee has the right to use that asset only. After the expiration of the lease period, the asset is returned to the Zakat Foundation for rehiring from other receivables, so that a number of eligible investors can benefit from a single asset that is valid for use;

## **B. Financial lease (end-of-ownership lease)**

The same steps taken in the operating lease are applied to this type, i.e., the tenant investor is applying to the Zakat Fund for rental of a particular asset and after approval, the Zakat Fund owns the asset to be leased in a particular asset and then enters into a contract between it and the leased receivable. The

difference between this type and the previous type is that the lessee may own the asset upon expiration of the lease period and after payment of its value and rental premiums. This type is considered to be the best because it meets the condition of ownership.

Through the above, the lease formula contributes to solving the most important problems posed by the problem of financing faced by investors in general and by poor investors in particular. This formula enables the investor entitled to the zakat to rent and benefit from the asset without having to own the asset and pay its value immediately, thereby providing self-salary liquidity through which other requirements for the activity are obtained.

It also allows a poor investor to own the leased asset during or at the end of the lease term and benefits from tax concessions (tax breaks). In contrast to these formulas, the leasing institution has advantages, in this case in the Zakat Fund, where the latter is able to generate returns (profits), thus allowing it to replace and replace the capital assets it leases with new capital assets, thereby preserving and developing Zakat funds.

## **Conclusion**

From what we see above, the Algerian Zakat Fund can finance start-ups, provided that the creative investor or investor is in the category of zakat beneficiaries, in addition to respecting the controls on the investment of zakat funds, reconciles the content of the financing formula with the specificities of those institutions, raises the proceeds of zakat and adopts the following recommendations:

- Control of seasonal crops of crops prior to their collection;
- Control of the amounts to be collected from the tender of trade;
- The inclusion of ostriches in the categories of zakat to be collected and the establishment of the legal and administrative mechanisms and arrangements that they require;
- The establishment of a national office to oversee the collection and distribution of zakat, which is financially independent, subordinate to the head of Government and has a state-level reach;
- Strengthening the Fund's legislative work in terms of transparency through instructions, leaflets and laws in order to gain credibility in society and thereby increase the number of bankers through the Fund;
- Sensitization and information sessions to bring in new entrepreneurs and investors;
- Using Friday speeches and mosque lessons to encourage citizens to support the Fund;
- The establishment of warehouses for the collection of zakat-based items that are self-saving at the municipal and state levels, taking into account the nature of the area; The introduction of the juror's opinion in the sowing zakat to make it more useful for the beneficiaries.
- The establishment of a steering board comprising the ministries that have a bearing on Zakat income and all related matters, preferably the Ministry of the Interior, the Ministry of Religious Affairs and Waqfs, the Ministry of Finance, the Ministry of Trade, the governors of accounts, the Ministry of Health, representatives of charitable civil society organizations that have a

bearing on Zakat, and study offices to study the feasibility of the projects in question;

- The use of legitimate insurance schemes to manage the risk of investment of zakat funds;
- Establishment of a scientific authority to provide legal advice on the proposals put forward;

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