

## **TOWARD THE ADOPTION OF A GOVERNANCE MODEL IN ZAKAT FOUNDATIONS: THE CASE OF THE ALGERIAN ZAKAT FUND**

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**ABSTRACT:** *This study aims to clarify the developmental role of Zakat foundations, and the active role of governance principles and mechanisms in increasing their efficient performance, demonstrate the impact of the Algerian Zakat Fund on the Algerian economy and society, and to highlight the importance of the Algerian Zakat Fund governance in its ability to continuity and achieving the interests of the different parties. It concluded to the need to follow the latest methods and formulas to mobilize and update Zakat resources, establish institutional and legal mechanisms, raise the regulatory bodies efficiency for activating the economic, social and cultural role of Zakat foundations as State institutions which enjoy full autonomy and necessary powers in order to achieve their role in the Algerian society, and adopt specialized competencies to ensure seriousness and effectiveness in the management of the Algerian Zakat Fund in order to reassure people who give Zakat on the good management of Zakat resources properties.*

**KEYWORDS:** Zakat Foundations, Governance, Model, Algerian Zakat Fund

**Jel Classifications:** G21, G 34, G39.

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### **INTRODUCTION**

Zakat is a financial worship by which the Muslim is devout to Allah to meet the needs of poor people, by assisting them to live and providing them economic security; it is obligatory for the rich to cleanse themselves of selfish and stingy, chaste and purify their funds to provide psychological and financial security. Thus, Zakat increases social integration and eliminates poverty among the community members.

Zakat foundations governance have become very significant in the light of current developments, by applying the principles and basics of governance to improve the performance of Zakat projects, and developing the methods of supervision and control on the basis of clear basics to strengthen credibility in Zakat foundations activities.

#### **Study's Problematic:**

The problematic of this study is centered in the definition of Zakat foundations concept, importance and role in achieving the various dimensions of development, especially with the global trend towards the application of governance principles in Zakat foundations to activate their performance. Therefore, we try to answer the following major problematic :

**To what extent the adoption of an effective governance model in Zakat foundations is possible?**

The secondary questions branching from it are as follows :

- What is the developmental role of Zakat foundations?
- To what extent governance principles and mechanisms are applicable at Zakat foundations ?
- To what extent the Algerian Zakat Fund governance participates to its ability to continuity and achieving the interests of the various parties collaborating with it?

### **Study's Importance**

The importance of this study lies in the discussion of Zakat foundations and their developmental role, the work to establish controls and mechanisms to mobilize Zakat resources with their updates, the methods of expending the income on the deserving people, through regulatory legislations increasing public confidence, as well as the discussion of Zakat foundations governance, and the characteristics of the governance concepts application in achieving disclosure and transparency in their financial statements, for protecting people who give *Zakat* and all parties dealing with them.

### **Study's Hypotheses**

To address this topic, we put, at the beginning, the following hypotheses :

- Zakat foundations contribute to achieving development.
- The application of governance principles and mechanisms contributes to increasing the performance efficiency of Zakat foundations.
- The governance of the Algerian Zakat Fund helps it to continue and achieve the interests of the various parties dealing with it.

### **Study's objectives:**

This study seeks to achieve the following objectives:

- Identifying Zakat foundations in terms of their concept, characteristics and developmental role;
- Highlighting the great importance recently gained by Zakat foundations in achieving development in all its dimensions.
- Studying governance and its mechanisms as input to activate the Algerian Zakat Fund.
- Providing recommendations that may contribute in developing Zakat foundations through their governance and enriching these modern trends.

**Study's Divisions:** This study can be divided into the following axes:

**Axis one:** The developmental role of Zakat foundations;

**Axis two:** Zakat foundations governance;

**Axis three:** Mechanisms of governance and its role in activating the Algerian Zakat Fund.

## **DEVELOPMENTAL ROLE OF ZAKAT FOUNDATIONS**

## Definition of Zakat foundations

### The concept of Zakat foundations

Today, the creation of Zakat foundations in the Islamic world is an important step to apply the Islamic economy and return us to the right Islamic system ;Zakat foundations activation, at present, is required by religious, social and economic imperatives. Dr. Hussein Hussein Shehata defines Zakat foundations as « legal entities under the supervision of the State to collect Zakat and spend into its different recipients in accordance with the provisions and principles of the Islamic Shariah required by the conditions of the contemporary application of Zakat. They may be in the form of a fund, a house, a committee, an institution, association or so »(Shehata, 2004: 5). It is clear from the foregoing that Zakat foundations' purpose is religious, social and economic and they operate according to a set of procedures. Zakat is an individual duty while collecting and distributing it is a collective obligation.

### Zakat foundations' tasks and responsibilities

Zakat foundations collect Zakat from who must pay it and distribute it on its legal recipients as follows(Shehata, 2004: 7-8):

- Preparation of Zakat beneficiaries records in order to distribute Zakat income on them;
- Assistance in calculating Zakat according to accounting basis and models;
- Collection of Zakat from activities subject to Zakat;
- Distribution of Zakat on its legal recipients according to the priorities, imperatives and needs through Zakat recipients' files;
- Motivation of Muslims to fulfill Zakat on time, using lectures, conferences and symposia;
- Asking for the assistance of Fatwa bodies to answer individuals' inquiries;
- Organization of training courses to habilitate workers and raise their efficiency in Zakat field, resorting to scholars or Zakat foundations' Fatwa bodies;
- Completion of programs and periodic reports for Zakat for submission to the board of directors for rational decision-making.

### Zakat foundation screation legitimacy:

Zakat foundations are infrastructures for Islamic financial system under the Islamic State which globally implements the law of Allah. Zakat is considered the main resource to meet the needs of individuals in need in Islamic society, it is also an essential mean to achieve social solidarity only through institutional work of Zakat, as there are many needy people not known, and they do not ask people, as there are plenty of general recipients of Zakat income cannot be appreciated by individuals like FI-SABILILLAH recipient (people who have to carry out an obligatory deed, which has become obligatory on them and subsequently (due to loss of wealth) are unable to complete that obligation).Zakat foundation creation legitimacy is based on the following proofs(Shehata, 2004: 5):

**Islamic Shariah reference:** The State is required to conduct the Affairs of Zakat collection and expending as Allah the Almighty says «*Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah 's blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing* » (AT-TAWBAH (THE REPENTANCE) : 103).

Dr. Yusuf Al-Qaradawi considers the question of the rulers' guardianship on Zakat, in the State, that Zakat system is the Islamic State's function ; Islam has authorized the State, and not the individuals' consciences alone, to collect and distribute it on the deserving people, for a set of reasons that the Islamic Sharia should not neglect( AlQardawi, 2003: 756-758):

- Many individuals' consciences may die or become ill and wasted ; there is no guarantee for poor people if they let their right for such people;
- Taking the right from the government and not the person saves the poor's dignity and face, and takes care of his feelings from reminders or hurt ;
- Letting this task for individuals makes the distribution chaos ; more than one rich may just give to one poor, while he pays no consideration to another who is missed by everyone and may be poorer;
- Zakat expending is not limited to poor, needy and the wayfarers, but it is also for Muslims' public interests not appreciated by individuals, but the rulers and consultation people in the Muslim community, as to give those inclined their hearts, prepare equipment and people for Jihad in the way of Allah and equip advocates to communicate the message of Islam in the world;

Islam is a religion and a State, and the State needs money to establish its system and implement its projects; this money needs resources and Zakat is an important and permanent resource for Bait-Al Mal (Money House) in Islam.

**Legal reference:** Zakat regulation, collection and distribution is the function of the contemporary Islamic State as mentioned in the Constitution, particularly the article which stipulates that "Islam is the religion of the State". Therefore, Islamic countries in this era are invited to supervise Zakat collection, and develop the necessary legislations enabling them to achieve this purpose, as in taxation. If they have done so, they would have supervised the application of an important pillar of Islam, have financed social solidarity projects and have eliminated poverty and unemployment.

**Social and economic necessity:** Zakat foundations play an important role in activating Zakat duty, especially in achieving the objectives of overall development in the Islamic community, so it is necessary to set up and organize Zakat foundations and ensure the components and ingredients of their success and effectiveness in contemporary conditions.

The importance of Zakat foundations lies, on the one hand, in that a part of Zakat income is seasonally collected such as crops and fruits Zakat, and another part is collected at the end of the year, while the needs of individuals and society, which are funded through Zakat income, continue all the year. All this entails establishing Zakat foundations to collect it from individuals in time, then distribute it on the legitimate recipients during the year. In addition, there are many Muslims in need to motivation to pay Zakat, and help them to calculate it(Shehara, 2004: 7).

On the other hand, there is a large number of Muslims need a motivation to pay Zakat in all ways and means, and some of them need assistance in calculating the value of Zakat, and this requires Zakat foundations under the supervision of competent bodies designed to promote solidarity and charity in society.

**Zakat foundations and development process:** Zakat foundation plays an important role in many areas to achieve development of different dimensions can be summarized as follows:

**Economic role of Zakat foundations and its impacts on macroeconomic indicators:** Zakat Foundation is one of most foundations have played an important role in the economic, social, political and cultural life by its accumulated resources to cover expenses relating to many important areas of Islamic communities. It is usually simply seen by some people without go deeply into the knowledge of its civilizational essence and its effects. So, it has been neglected in most Islamic countries and has counteracted in others. We will try to highlight its importance in achieving economic and social stability as a mechanism of fiscal policy characterized by its specific nature, in terms of its revenues and the allocation of its expenditures(Salhi, 2012:10).

**The role of Zakat foundations in the balance of aggregate supply and demand:** The evolution of Zakat foundations and the increasing size of their resources cause positive balancing movement between aggregate supply and demand, so the more incomes and revenues generated by Zakat Foundation sevolv, the more purchasing capacity grows leading to increase aggregate demand, which contribute to revitalize the aggregate supply of goods and services expanded, in turn, as the growing of Zakat competency projects that contribute to ensuring beneficiaries ' needs for goods and services either directly or indirectly. This leads to a qualitative change in the dynamics of aggregate demand and supply and will affect the resources allocation and the development factors steering toward production at community priorities circle.

Through the positive role of Zakat foundations in the flow of the rich categories entering to the poor categories in society to ensure marginal efficiency under multiple formats, by contributing to reducing luxury consumption among the wealthy classes and increasing purchasing capacity, so the effective demand for Zakat Foundations' workers and beneficiaries of their allocations, which increases the supply of goods and services, thereby, increasing revenues and profits of economic companies, as well as the activation, expansion and development of their production(Salhi, 2012: 12).

**The role of Zakat foundations in balancing the State budget:** Zakat resources contribute to the positive influence on the general State budget. Interm of public expenditures, they contribute to reducing public spending by the growing size of resources that provide goods, services and social assistance; the reduction is estimated by the volume of resources across their temporal extension, enabling the State to reach the public expenditures rationalization from the input of involving Zakat foundations in investment and efficient consumption fields(Salhi, 2012:11). These resources contribute to positive and qualitative influence on public revenues by reducing the resources intended for financing some areas that can be established through Zakat foundations, particularly the resources related to taxes, loans, inflationary financing, and the rationalization of the State's size, that the more its costs increase and the weight shifts to the national economy, the more the public savings increase and the costs of the State's role in performing its social functions decrease.

**The role of Zakat foundations in promoting aggregate investment:** Zakat foundations invest to grow capitals through improving businessmen's outlooks for the future of the market, because Zakat, by redistributing income and a part of wealth in favor of the poor and needy, leads to increase demand for consumer goods, and to encourage investors to increase investments to meet growing demand for goods and services. This raises the marginal efficiency of capitals and the volume of the aggregate investment in the society.

It is clear from the foregoing that Zakat foundations cause positive effects linked to the evolution of economic activity and the reduction of the overall costs incurred by the State in the

establishment of the projects necessary for goods and services production, so, the aggregate investment increases at the national level(Hijazi, 2004: 25).

**Zakat foundations' role in the fields of recruitment and employment:** Zakat Foundations, as an independent institutions by their regulatory powers and legitimate authority, will positively affect employment and recruitment levels, either on workers and experts at these foundations or on investment activities and consumption dynamics, leading to a positive impact in the areas of recruitment and employment.

**Financial and investment role of Zakat foundations:** Zakat foundations play a prominent role in promoting production and service mini-and-small projects, as well as they increase, regenerate and evolve productive assets through influencing investment dynamics.

**Zakat foundations' role in providing funding support for public and private projects:** Zakat foundations directly help in reducing poverty and unemployment through providing free funding for mini-and small-projects' owners, this can be done through establishing Efficient Projects Fund whose task is the investment expending of Zakat to ensure permanent income for professionals and craftsmen through the funding support allocated by this Fund that can assume the collection of Zakat resources arising from the evolution of public and private efficient businesses, as well as it may assume the task of "Al QuardAlhacen (the good loan) to develop them and cope with difficult situations resulting from the economic conditions especially in the crisis periods.

The Fund provides assistance to projects that are necessary for economic and social development, whose owners and craftsmen are unable to implement them because of their high costs or low profits(Salhi, 2012:6).

**Zakat foundations' role in investment risks guarantee of mini-and-small projects:** Zakat foundations can play an important role in hedging investment risks for mini-and small projects through establishing a fund to cover investment risks in these Zakat projects. For this purpose, the people in debt recipient is guaranteed which will increase the motivation towards investment, investment risk and the establishment of economic projects(salhi, 2012: 7).

**Zakat foundations' role in rehabilitating entrepreneurs:** Zakat foundations will, under the recent developments, contribute to find qualified human capital to develop economic projects; they will allocate a portion of their funds for training and qualifying entrepreneurs to enable them to manage their projects, which will prevent them from Zakat aids, so that the Fund can play a prominent role in supporting these projects.

**The social role of Zakat foundations and their impact on the investment climate:** Zakat foundations contribute in social development through the provision of appropriate investment climate and the achievement of social stabilization that promotes economic competitiveness as follows:

**Zakat foundations and their role in sustainable development:** Zakat resources help in solving social problems that objective economic systems have failed in treating them, by providing education opportunities, health care and the access to services and essential commodities, through their significant role in improving the cultural and social level of the Islamic community's members despite their degradation at the recent time.

**Zakat foundations and their role in the eradication of poverty:** The poverty problem can be classified in economic problems, because the meaning of poverty is the inability of financial resources for the individual or for society to meet economic needs, poverty is also a social problem as it affects a range of community and disable them from taking part in community development( Alqardawi,1997: 17). Zakat foundations can fight poverty and control it in the whole society.

**Provision of necessities to disadvantaged low-income categories of the society:** Zakat foundations have contributed to humanitarian fields linked to meeting the necessities and sufficiency of low-income categories; sufficiency margin is linked to the time circumstances and place conditions. Therefore, there is a dynamics in the requirements order scale commensurate with social and economic progress levels. The Islamic Fiqh (Islamic jurisprudence) is famous by its opinions relating to securing those precautions permanently each year or during life in different direct or indirect ways(Salhi, 2012:17)..

**Reduction of the inequality gap in the distribution of wealth and incomes:** Zakat resources increasing over a long period of time leads to transfer wealth from rich to poor classes, so that substantial resources would be constituted to ensure the needs of the poor category, which narrows the gap between the society categories, and reduces the severity of the class struggle between them.

It can be said that one of the reasons for the success of Zakat, as a means of income and wealth redistribution, is that it is imposed on all developing funds reaching Nisab (Excess or surplus the minimum amount liable for paying Zakat, usually the excess after fulfilling ones needs), so it is characterized by comprehensiveness application base widening. Because it is annually repeated, it is a tool of income and wealth redistribution(Musnad, 2013: 4).

**Contribution to achieving social solidarity:** Zakat foundations work to expand the areas of social solidarity which forms the bedrock of community cohesion and to ensure social stability which helps social development and progress. Solidarity Zakat resources that constantly grow has formed one of the Islamic communities characteristics in the period associated with civilizational characteristics; the more ideological and ethical aspects have developed, the more the Zakat foundation's role in achieving social solidarity and society stability extremely needed by our contemporary communities has evolved(Salhi, 2012:18).

## ZAKAT FOUNDATIONS GOVERNANCE

### The concept of Zakat foundations governance

There are many definitions of governance by organizations and bodies; it is defined by the Organization for Economic Cooperation and Development as “governance is a set of relations between the foundation's management and Board of Directors, shareholders and other parties related to it. It makes clear the mechanism by which the foundation's objectives, the achievement's means and control are explained. Therefore, that good governance provides to both the Board and the Executive Management incentives to reach the objectives that are in the foundation's interest and its shareholders, and it facilitate finding effective control, and thus helps the foundation to rationally exploit its resources to achieve its fixed objectives in the so-called performance efficiency”( Kirkpatrick, 2006). The World Bank defines it “the way in which

power is exercised in the conduct and management of the State's economic and social resources for development”(Rachdi: 4).

Dr. Tareq Abdelal Hammad (2007), defines it as “the system by which the organization’s works and control are guided at the highest level in order to achieve its objectives and meet the necessary standards of responsibility, integrity and transparency”.

The Islamic Financial Services Council defines it under the standard of guiding principles for the governance of foundations that offer Islamic financing services as “a set of institutional and regulatory arrangements by which Islamic financial services foundations ensure that there is legitimately effective and independent supervision”( Bouhrawa & Boukrosha , 2015: 108).

Therefore, the governance of Zakat foundations can be defined as “the determination of the relationship between Zakat Foundations (the collectors of Zakat) and who gives Zakat which leads to confide in Zakat foundations, through improving its functioning, distributing fairly and effectively on their legitimate recipients, and using them in investment projects contributing to reduce poverty and unemployment”.

It is clear from the foregoing that the governance is a system includes a set of legal, administrative and economic requirements governed by mechanisms seeking to link economic objectives to social ones, contribute to the governance of Zakat foundations for rational use of resources, activate the right of accountability, and integrate the interests of individuals, Zakat projects and society in general, as each country seeks to prosper and grow Zakat foundations to increase employment opportunities, health care and education for the welfare of the community.

### **Objectives of Zakat foundations governance**

The good governance of Zakat foundations contributes to performance support, provide the appropriate investment climate and achieve community stability, through access to the following objectives(Alasraj, 2012: 11):

- Strengthening transparency in all accounting transactions and procedures and financial audit, so that the financial and administrative corruption is reduced;
- Ensuring the operational, financial and monetary audit of Zakat foundations;
- Laying effective control on Zakat foundations performance and strengthening accountability and trust;
- Increasing the confidence of the current and prospective people who give Zakat in Zakat foundations;
- Taking into consideration the interests of various parties and activating communication with them.

### **Principles of Zakat foundations governance**

Zakat foundations governance system can adopt guiding principles of the governance of foundations offering Islamic financial services developed by the Islamic Financial Services Council in Malaysia, so that these principles achieve what follows:

- Assisting Zakat foundations to implement their tasks with efficiency achieving economic and legitimate (according to the Islamic Sharia) requirements for investing Zakat resources;
- Separating powers and conflicting positions to ensure clear mechanisms for assuming responsibility and accountability when collecting and distributing Zakat;

- Giving a neutral opinion by Sharia control bodies in Zakat foundations about their transactions;
- Completing the institutional and Sharia framework of Zakat foundations.

### **Zakat foundations governance determinants:**

Two groups of determinants can be defined on which depends the proper application of Zakat foundations governance as follows:

**External determinants:** external determinants include laws regulating the economic activity of the State, through which Zakat foundations operate namely:

- Regulatory boards' efficiency: by consolidating control on foundations and verifying the accuracy and integrity of data and information;
- Laws and regulations governing work in markets such as foundations laws, labor laws and investment laws;
- Efficient financial system providing necessary and appropriate funding for various projects and helping Zakat foundations to continue
- General climate for investment and structured funding for the activities of Zakat foundations

The importance of external determinants is that their existence ensures the implementation of laws that lead to good management of Zakat foundations, which reduces risks.

**Internal determinants:** they include internal laws and regulations within Zakat Foundations; they are the way of decision-making and the allocation of responsibilities and powers between the parties concerned with the application of governance, which reduces conflicts between the interests of these parties (Abawahdeh, 2012: 26).

**Basic factors of Zakat foundations governance:** They are the prerequisites for the good application of Zakat foundations governance. We summarize them as follows (Alasraj, 2012: 12):

- Establishment of legal and legislative framework to regulate the administrative performance of Zakat foundations;
- Variety of regulators on the performance of projects funded by Zakat foundations;
- Identification of the tasks and responsibilities of the administrative and organizational structure in Zakat foundations;
- Providing the necessary information to invest Zakat resources;
- Designation of committees to follow up the performance of Zakat projects.

## **MECHANISMS OF GOVERNANCE AND ITS ROLE IN ACTIVATING THE ALGERIAN ZAKAT FUND**

### **Algerian Zakat Fund and its developmental role**

**Information about of the Algerian Fund of Zakat:** It is a religious and social foundation created in Algeria in 2003 and operating under the supervision of the Ministry of Religious Affairs and Waqf (endowments); it is a charitable foundation aimed at achieving solidarity a society.

Its first application was in the province of Annaba and SidiBelabbes by opening an account for the Masjid to receive Zakat funds in the form of money orders. After a year, it was generalized to all provinces of the country.

In its organizational levels, the Algerian Zakat Fund consists of( Masdor & Kalmine, 2014:7):

**-National Committee:** It is the organizing body of the Fund; it formulates and follows-up the national policy of Zakat and exams litigations, as well as it contains members of the supervisory committees which monitor the work of the province committees.

**-Province committee (at each province) :**its task is the final study of eligible files for subsidies and Fund's loans.

**-Basal committee (at each district):** Its task is the identification of Zakat recipients in the district.

The work of the Algerian Zakat Fund is divided into two main parts:

**Collection:** It is done through postal accounts open at each province of the country; the Imam can be a mediator between people who give Zakat and this current postal account provided that he gives for these people receipts in return of the received amounts, or signs with the Masjid's committee on minutes indicating the amount collected in the Masjid and which will be obligatory lied in the postal account( Bertima & Abdeli, 2014:7).

**Distribution:** Zakat Funds are distributed as follows :

- 50% is allocated to the poor and needy;
- 37.5% for QardAlhacen (Good loans);
- 6% is allocated to conduct the basal committees in the districts;
- 4.5% is allocated to conduct the province committees;
- 2% is allocated to the National Committee of Zakat.

**Development of Zakat outcome:** Zakat outcome fulfilled for the Fund has seen considerable development; the following table shows the evolution of the volume of Zakat Fund national outcome during a decade.

**Table 1: The evolution of the volume of Zakat Fund outcome during the period 2003-2014. Unit: DZD**

Year	Annual outcome of Zakat
2003	56122571,95
2004	239853995,98
2005	508656551,75
2006	686440187,46
2007	732514125,32
2008	654451244,60
2009	936683237,40
2010	899192808,57
2011	1179063793,74
2012	1306642511,54
2013	1294152265,34
2014	1318759818,43

Source: Ministry of religious affairs and Wakf (endowments), 2014.

Through table 1, we note the evolution of the Fund's total outcome during the period 2003 until 2007; the value has increased from 56122571,95 DZD to 732514125,32 DZD, before declining after that, dropping to 654451244,60 DZD in 2008. After, it has decreases to 654451244,60 DZD in 2008, then it has risen again to 936683237,40 DZD in 2009, and continued to rise to 318759818,43 DZD in 2014.

**Projects financed by Zakat Fund:** If the province outcome exceeds five (5) million Algerian dinars, 37.5% of the funds are allocated to the investment in the formula “QardAlhacen” (good loan); the total amount aimed at investment in 2013 reached about 3090371143.51 DZD, distributed on approximately 718 beneficiaries.

The projects financed by the Fund are subject to specific conditions which were identified due to specificity of the Fund’s transactions:

- Projects of social interest: The funded projects move the poor destitute from poverty and lack of income to production status and ability to give Zakat in return. In addition, it finances projects contribute to build the society; these projects are 100% halal(Masdor, 2003: 30).
- Projects of economic interest: Through their positive impact on unemployment, purchasing power and inflation; all these phenomena are seriously influenced by mini-and-small projects. Consequently, priority in funding is reserved for medical projects, because they ensure treatment at a lower cost; this is the basic requirement in financing any project by Zakat funds. In addition, they provide permanent jobs, and ensure while ensure continuity in cash flows because medical projects are often profitable.
- Craft projects: Such as construction, decoration ... these projects provide jobs and guarantee profitability, with relatively lower cost.
- Service projects: Such as study offices, telephone and computer services, automatic laundry, nurseries, and simple training services such as sewing; these projects have the same features as the previous ones (permanent jobs – guaranteed profits – low cost). In addition, they meet market needs, support economic activities, and provide good investment environments.
- Productive projects : As garment, furniture ... Etc.; productive projects generate significant profits, and provide jobs, but they need huge funds, and high-costs because the prices of equipment and machineries are high.
- Agricultural projects usually: The Fund usually finances the projects of livestock, aviculture and beekeeping, but it rarely finances remediation projects or farms because of their high-cost, varying flows according to the crop and high hazards (drought, crop damage due to the inability to sell the yield)( masdor & Kalmine, 2014: 10).

The efforts of the Ministry of Religious Affairs and Waqf(endowments), the high number of people who give Zakat, and the growing outcome of Zakat have led to increase the investment earnings of Zakat Fund.

**Qard Alhacen(Good loan)Financing:** It is the most used way by Zakat Fund to finance projects to help the poor, and it is often used to ensure the continuity of simple investment activities, and to keep jobs associated with those activities.

QardAlhacen(Good loan) financing is done to two cases( Masdor & Kalmine, 2014: 11):

- Case one: The financed people are insolvent and they are exempt from payment.

- Case two: The financed people request extension of repayment, if it is proved that they are solvent.

This financing is aimed at the following areas:

**Mini projects financing:** This financing includes housewives, handicapped people who are able to work, as well as unemployed youth; the National Commission of Zakat Fund defines a limit for this type of financing, and the Bank will directly pay the supplier (no relation between the supplier and the beneficiary).

**Supporting projects secured at the Loan Guarantee Fund:** These loans are resulted through an agreement between the Fund and the Ministry of Religious Affairs and Waqf (endowments), with consultation with the Al Baraka Bank of Algeria which is a member of the Loan Guarantee Fund of small and medium-sized enterprises (Mubarak & Shekhar, 2013: 10).

**Helping enterprises in debt that are capable of recovery:** the Bank determines a list of the beneficiaries of this type of financing by identifying their needs, to what extent they are recoverable and how to pay those debts; the encasement include only the principal, but not the interests paid to banks.

**Creation of companies between the Fund of Zakat Investment and Al Baraka Bank of Algeria:** These projects are resulted by agreement between the Al Barak Bank of Algeria and the Ministry of Religious Affairs and Waqf (endowments); the Bank shall determine the size and quality of the projects supposed to be done. Unemployed capable to work will benefit from these projects.

After approval by the Zakat Fund and Al Baraka Bank of Algeria, the financing is granted to the beneficiary, the latter repays the loan in different ways, depending on the parties involved in the funding process (Masdor, 2003: 10).

- If the parties of the funding process are the Bank and the poor financed, exemption from repayment of six months is granted, then he starts to repay the loan installments depending on the contract.

In case of third party, the National Agency for Conducting Mini Loans, the financed repays 70% of the good loan, benefits from the exemption for one year, then he repays depending on the contract.

After repayment of the Bank's loan, the financed starts to repay the Agency's loan, with 3 years of exemption.

**The role of governance in activating the Algerian Fund of Zakat:** The rules of governance play a fundamental role in achieving economic efficiency to invest Zakat funds; the Fund's Management must provide the necessary information for the different parties in time to gain their trust, which contributes to increase its resources and exploit them in a way allowing to achieve social justice and contribute to economic development.

Thus, the system of governance plays a major role in improving the performance of the Algerian Zakat Fund as it is summed up:

- Commitment to rational governance system will lead to the development of the Fund, overcome problems, increase its competitiveness, and achieve its financing and Sharia objectives.
- Adopting governance principles in the Algerian Fund of Zakat, leads to provide similar information, and exercise overall control to assess performance.
- Governance aims to achieve individual and societal interests which are dedicated in the Islamic Sharia.
- The application of governance to increase confidence in Zakat projects.

**Requirements of the Algerian Zakat Fund governance:** They are:

**Ensuring sound basis for collecting and distributing Zakat:** by developing sound rules for distributing Zakat outcome in ways preserving the dignity of the poor and needy, and ensuring compliance with ethical and professional rational conduct rational of the administrators of this process.

**Considering transparency:** The administrators of the Algerian Zakat Fund should transparently disclose information and data relating to the collection and distribution of Zakat funds, in order that people who give Zakat ascertain the extent to which their funds are faithfully and efficiently invested.

**Ensuring equity in the distribution of Zakat resources:** The Algerian Zakat Fund must distribute Zakat on its recipients.

**Social responsibility of the Algerian Fund of Zakat:** The cohesion of societies depends on the dominance of social responsibility ensuring solidarity and sharing of all societal categories, the sense of this civilized behavior is set up by Zakat especially if Zakat foundations are deep-rooted in society, and draw their strength and confidence from the societal environment; thus, Zakat foundation is considered as legal person with its efficacious strength in making and building social cohesion (Benmansour & bezzawia, 2013: 16).

**Ensuring autonomy:** The Algerian Zakat Fund must stay away from all internal and external pressures that affect the good performance of its duties. So, it must set up the principle of autonomy to achieve its strategic objectives.

**Application of the principle of accountability:** By emphasizing the responsibility of the Board of Directors in the compliance with laws, the application of ethical standards, the acceptance and strengthening of all methods of control and review to ensure the Fund's management efficiency.

## CONCLUSION

In this study, we reviewed and analyzed the role may be played by Zakat foundations in modern economies from financial and investment role, especially in the field of mini-and small enterprises support, and covering the risks of investing in such projects, as well as we highlighted the importance of Zakat resources and their effects on macro-economic mobility relating to the rationalization of the State's role and the stability of its budget, in addition to the social role and its repercussions on stability in society.

It has become clear for us the great importance of applying governance mechanisms for the success of Zakat foundations, and their contribution to enhancing the confidence of people dealing with such foundations. The Algerian Zakat Fund should adopt a clear governance system based on transparency, credibility and accountability to allow equitable distribution of Zakat resources, achieved projects and disbursements of each project.

At the conclusion of this study, we must emphasize the following points:

- The establishment of institutional and legal mechanisms and raising the efficiency of the regulatory bodies for activating the economic, social and cultural role of Zakat foundations as State institutions which enjoy full autonomy and necessary powers to achieve their role in the Algerian society;
- Zakat foundations must follow the latest methods and formulas to mobilize Zakat resources and update them, as well as the methods of distributing the outcome to the recipients through regulating legislations that increase the confidence of people;
- The Algerian Zakat Fund should adopt a governance system that would contribute to greater effectiveness;
- The need for revising the administrative and regulatory framework of the Algerian Zakat Fund in order to achieve efficiency and necessary flexibility in collecting and distributing Zakat;
- The interest to the rehabilitation and training of human resources working in Zakat foundations;
- The need for adopting a governance model that promotes transparency and disclosure to distribute responsibilities between the various regulators and supervisors;
- The interest to studies on Zakat as an important economic sector;
- Launching wide information campaign through various media or holding conferences and symposia in order to explain the major developmental effects of Zakat foundations.

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