



THE ROLE OF ZAKAT IN POVERTY ALLEVIATION  
AND INCOME INEQUALITY REDUCTION:  
A CASE STUDY OF WEST JAVA, INDONESIA

BY

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## **ABSTRACT**

This dissertation aims to analyse the role of zakat distribution programmes in eradicating poverty from the material and spiritual dimensions. Zakat is also expected to reduce income inequality among groups in urban and rural areas. The research takes the case study of 1,300 zakat beneficiaries managed by the National Zakat Board of Indonesia (BAZNAS) in five different areas in West Java Province, namely Bogor City, Bogor Regency, Depok City, Sukabumi City and Sukabumi Regency. BAZNAS acts as the coordinating institution of zakat in Indonesia. The study uses a modification of the Centre of Islamic Business and Economics Studies (CIBEST) model that assesses poverty from both the material and spiritual dimensions. In addition, the Deciles method, Gini coefficient and Atkinson index are also employed to measure the effect of zakat on income inequality reduction among the zakat beneficiaries under consideration. Based on the CIBEST model and income inequality measures, this study suggests that the present zakat distribution programmes can help alleviating poverty and reduce income inequality among the zakat beneficiaries in urban and rural areas. This study is expected to demonstrate how zakat can contribute to the overall development of the country. A number of policy recommendations are made for the government to optimise the role of zakat on economic development not only from the material perspective but also from the spiritual point of view.

## ملخص البحث

يهدف هذا البحث إلى تحليل دور برنامج توزيع الزكاة في حلّ مشكلة الفقر مادياً وروحياً، ومشكلة التفاوت في الدخل بين المجموعات في المناطق الحضرية والريفية، ويتناول البحث 1300 حالة من حالات مستحقي الزكاة في خمس مناطق مختلفة في ولاية جاوة الغربية؛ هي: مدينة بوغور، ومنطقة بوغور، ومدينة ديبوك، ومدينة سوكابومي، ومنطقة سوكابومي، وتديرها الهيئة الوطنية للزكاة (BAZNAS) التي تُنسق أعمال الزكاة في إندونيسيا، وتتوسّل الباحثة تعديل نموذج مركز الدراسات التجارية والاقتصادية الإسلامية (CIBEST) الذي يُقيّم الفقر مادياً وروحياً، إضافة إلى: طريقة ديسيلز، ومعامل جيني، ومؤشر أتكينسون؛ لقياس تأثير الزكاة في خفض التفاوت في الدخل بين المشاركين، واستناداً إلى نموذج CIBEST ومقاييس عدم المساواة في الدخل؛ يشير البحث إلى أن برامج توزيع الزكاة الحالية يمكن أن تخفف إلى حدّ كبير من الفقر، وتقلل من التفاوت في الدخل بين مستحقي الزكاة في المناطق الحضرية والريفية، ومن أهم نتائج البحث أن الزكاة تسهم في تنمية الدولة، وتعرض الباحثة بعض التوصيات تتعلق بالسياسة العامة للحكومة؛ لتحسين مكانة الزكاة في تنمية الاقتصاد مادياً وروحياً في آن معاً.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This dissertation is dedicated to my beloved parents, husband and daughter*

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## LIST OF ABBREVIATION

BAZNAS	<i>Badan Amil Zakat Nasional</i> (National Zakat Board)
BAZ	<i>Badan Amil Zakat</i>
CHAID	Chi-square Automatic Interaction Detectors
CIBEST	Centre of Islamic Business and Economics Studies
DR	Dependency Ratio
LAZ	<i>Lembaga Amil Zakat</i> (Private Zakat Institution)
MSC	<i>Mustahiq</i> Service Center
(r.a.)	<i>Radiyallahu ‘anhu/’anha</i> (May Allah be Pleased with Him / Her)
(s.w.t.)	<i>Subhānahu Wata’ālā</i> (The Most Glorified, The Highest)
(s.a.w.)	<i>Sallallahu ‘alayhi wasallam</i> (May Peace Be Upon Him)
ZCD	Zakat Community Development

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

As the third pillar of Islam, zakat plays important role in both the spiritual and material dimensions. From spiritual aspect, Hafidhuddin (2002) argued that zakat is able to improve faith and piousness to God of both payers and recipients as mentioned in *Quran* (2: 2-3). This can be understood as the word “zakat” stems from Arabic word, which means to increase (*al-namā*), to purify (*al-taharatu*) and to bless (*al-barakatu*). By fulfilling this obligation, one is aiming to achieve blessing, purification and the cultivation of good deeds (Hafidhuddin, 2002). Besides, according to Ataina and Achmad (2010), the meaning of growth of zakat is that by paying zakat, it would result to the escalation of property in this world and also development of religious merit in the hereafter.

From material aspect, zakat can help reduce the social gaps between groups in society by minimising the income inequality that arises primarily from a failure on the part of market institutions. This is clearly indicated in *Quran* (59: 7): “...*In order that it may not (merely) make a circuit between the wealthy among you.*” Abduh (2009) was of the opinion that this verse shows the concept of justice in Islam. Accordingly, Islam does not encourage perfectly equal distribution like in socialism or perfectly functional distribution under liberal-capitalism. It rather puts concern on how each individual can fulfil their basic needs and wealth should not be dominated in the hands of few people only. Zakat, hence, is important to achieve social justice in the distribution of wealth and income.

Zakat is also an effective instrument for overcoming the problems of poverty, which are in line with classical and recent research including Al-Qaradawi (1993), Pramanik (1993), Shirazi (1994), Hafidhuddin (2002), Dagowara (2009), Ahmad (2012), Gallant (2013), Khattak (2013), Siddiqui (2013), Ali and Aziz (2014), Ololade et al. (2014), Abdullah et al. (2015), Beik (2015), Zaenal (2018), Almarzoqi et al. (2018), El Ayyubi and Saputri (2018) and many more.

It is clearly stated in *Quran* (9: 60) that of the eight categories of zakat recipients (i.e. *asnafs* in Arabic), six are for the direct benefit of poor or low-income earners. Pramanik (1993) explained the specific claimants of zakat beneficiaries are the poor, the needy, the travellers, those newly revert to Islam, debtors, the freeing captive, the cause of Allah and the administrators of zakat fund. He was of the opinion that the last two groups are not likely poor, although the travellers in some cases may not also belong to poor class.

From historical perspective, Syahhatih (1989) explained that during the Caliphate of Umar bin Abdul Aziz, proper management of public policy including the issue of zakat distribution was conducted by the Caliph, hence, the problem of poverty and income inequality can be solved. At that time, zakat was managed by trusted and professional ‘*āmil*<sup>1</sup> institutions and became one of the economic tools used to promote social welfare. This supports the transparency and reliability of zakat institutions to optimise the role of zakat in alleviating poverty and reducing income inequality.

Having recognised the important role of zakat institutions, the Government of the Republic of Indonesia established the *Badan Amil Zakat Nasional* (BAZNAS), or the National Zakat Board. The establishment of BAZNAS is based on the Presidential

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<sup>1</sup> ‘*Āmil* refers to a group of people who devote their time to managing the collection and distribution of zakat funds. In *Quran* 9: 60 it is stated that ‘*āmil* is also classified as a zakat beneficiary.

Decree No. 21/2001 and Zakat Management Act No. 38/1999 and complements the existing private zakat institutions called *Lembaga Amil Zakat (LAZ)*. BAZNAS performs several functions such as the planning, organising, controlling and reporting the process of national zakat collection and disbursement. After being in force for twelve years, Zakat Management Act No. 23/2011 replaced the previous Act with some vital alterations, such as strengthening the role of BAZNAS and fostering synergy and collaboration between BAZNAS and other zakat stakeholders (Hafidhuddin et al., 2015). The current management of zakat in Indonesia mainly refers to the latest Act (Zaenal, 2018).

One of the important tasks of BAZNAS is realising the main objectives of zakat, which is to alleviate poverty and reduce income inequality. This can be achieved through a number of poverty-focused mechanisms. The present zakat distribution programmes are channelled into five sectors including economy, education, Islamic preaching and advocacy, health and social humanity as presented in the following Table 1.1 (Centre of Strategic Studies – The National Board of Zakat, 2019).

Table 1.1 National Zakat Distribution based on Sectors, 2016–2017

No.	Sectors	Total Distribution in 2016 (in million USD)*	Percentage (%)	Total Distribution in 2017 (in million USD)*	Percentage (%)	Types of Programmes
1.	Economy	34.41	18.30	61.58	20.33	Production
2.	Education	58.82	31.28	65.72	21.96	Consumption
3.	Islamic Preaching	29.20	15.53	68.35	22.56	Consumption
4.	Health	15.77	8.39	28.85	9.52	Consumption
5.	Social Humanity	49.84	26.51	78.44	25.89	Consumption
TOTAL		188.04	100.00	302.94	100.00	

Sources: Center of Strategic Studies – The National Board of Zakat (2019)

\*1 USD equals to IDR14,331 on 19 June 2019.