



ECONOMIC ROLE OF ZAKAT IN REDUCING  
POVERTY AND INCOME INEQUALITY IN THE  
PROVINCE OF DKI JAKARTA, INDONESIA: CASE  
STUDY OF THE GOVERNMENT BOARD OF  
ZAKAT AND DOMPET DHUAFI REPUBLIKA

BY

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## ABSTRACT

Poverty and income inequality are still the major problems faced by Indonesia. Some scholars argue that economic development in the country had created a trade-off between economic growth and distribution. Therefore, the number of the poor for the last two decades did not fall significantly. Likewise, income inequality in the country tends to worsen. The Central Board of Statistics (2008) found that the gap between the rich and the poor is widened for the last decade. Given these facts, policies for alleviating poverty and reducing income inequality must be evaluated. The conventional distribution approach seems to fail in overcoming these two problems. Hence, the introduction of zakat mechanism is highly needed as an alternative approach to solve the problems. This research attempts to examine the economic role of zakat in reducing income inequality and poverty in the country, by taking a case study in the Province of DKI Jakarta. Three zakat institutions namely, the National Board of Zakat (BAZNAS), the Jakarta Board of Zakat (BAZIS DKI) and Dompot Dhuafa Republika, have been selected to represent the government as well as the private institution of zakat. A number of well-known inequality and poverty measures have been utilized including Lorenz curve, Gini coefficient, Atkinson index, headcount ratio, poverty gap and income gap ratios, Sen index, and FGT index. These comprise the analytical method of the study. After analyzing 1,195 households as the respondents of the research obtained from simple random sampling technique, this study finds that zakat fund has increased monthly income of the households by 8.94 percent. The income share of the bottom 40 percent of the respondents can be increased by 1.90 percent while that of the top 20 percent can be reduced by 2.20 percent. In general, the presence of zakat helps lower the income inequality by an average of 0.57 percentage points. However, when social welfare aspect is taken into consideration, the findings suggest that the presence of zakat has worsened the income loss of the respondents by an average of 12 percentage points. This contrasts the theoretical expectation. Furthermore, the existence of zakat is able to decrease the poverty incidence by an average of 16.79 percentage points. The depth of poverty can be reduced as the poverty gap and the income gap show the reductions of 13.90 percent and 13.72 percentage points, respectively. Similarly, the severity of poverty can also be lowered as evidenced from a 26.69 percentage points increase in the Sen index and a 36.70 percentage points increase in the FGT index. Given these findings, this study urges the government to integrate zakat in the national economic policy.

## ملخص البحث

إن قضية الفقر وعدم المساواة في الدخل لا تزال تمثل المشاكل الرئيسية التي تواجهها إندونيسيا. وبعض الخبراء يرى أن التنمية الاقتصادية في البلاد قد أنتجت مقايضة بين النمو الاقتصادي والتوزيع. ولذلك، فإن عدد الفقراء في العقدين الماضيين لا ينقص بشكل كبير. فضلاً عن ذلك، فإن عدم المساواة في الدخل في البلاد يميل إلى حالة التدهور. ووجد المجلس المركزي للإحصاء في إندونيسيا (2008) أن الفجوة بين الأغنياء والفقراء قد اتسعت على مدى العقد الماضي. ونظراً لهذه الحقائق، فإنه لا بد من عملية التقييم والمراجعة لسياسات تخفيف الفقر والحد من عدم المساواة في الدخل. ويبدو أن نهج التوزيع التقليدي قد فشل في التغلب على هاتين المشكلتين. وبالتالي، فإن هناك حاجة ماسة لإدخال آلية الزكاة بوصفها نهجاً بديلاً لحل تلك المشاكل. وهذه الدراسة تحاول أن تتناول الدور الاقتصادي للزكاة في الحد من عدم المساواة في الدخل والفقر في إندونيسيا، ويتم ذلك عن طريق اتخاذ دراسة حالة في منطقة جاكارتا العاصمة الخاصة (DKI). علماً بأن فيها ثلاث مؤسسات زكوية، وهي: المجلس الوطني للزكاة (BAZNAS) تحت إشراف الحكومة، ومجلس جاكارتا للزكاة (BAZIS DKI) تحت إشراف إدارة حكومية لمنطقة جاكارتا، ومؤسسة Dompot Dhuafa للزكاة التابعة لمؤسسة Republika، تلك الهيئات الثلاث تم اختيارها لتمثل مؤسسة زكوية للحكومة ومؤسسة زكوية أهلية. وقد تم استخدام عدد من المقاييس المعروفة في الإحصاء بما في ذلك مقياس منحى للورنر Lorenz، ومعامل جيني Gini، ومؤشر أتكينسون Atkinson، ونسبة عدد الموظفين، وفجوة الفقر ونسب الفجوة في الدخل، مؤشر سين Sen، ومؤشر FGT، فالدراسة تستخدم هذه الطريقة في التحليل. وبعد التحليل من مجموع استبانات تم توزيعها على 1,195 من الأسر والمستجيبين لأبحاث تقنية بسيطة من عينات عشوائية، فقد كشفت الدراسة عن أن صندوق الزكاة قد أثر في ازدياد الدخل الشهري للأسرة من 8,94 في المائة، كما أنها كشفت عن زيادة حصة الدخل من 40 في المائة من المجيبين أسفل من 1، 90 في المائة في حين يمكن أن تخفض من 20 في المائة أعلى من 2,20 في المائة. وعلى وجه العموم، فإن وجود الزكاة قد ساعد على خفض التفاوت في الدخل بمعدل 0,57 نقطة مئوية. ومع ذلك، عندما أخذ الجانب الاجتماعي في الاعتبار، فإن النتائج تشير إلى أن وجود الزكاة قد أثر في تفاقم فقدان الدخل من المشاركين بمعدل 12 نقطة مئوية، وهذه النتيجة في الحقيقة تتناقض مع التوقع النظري. وإضافة إلى ذلك، فإن وجود تلك المؤسسات الزكوية قد أسهمت في خفض نسبة الفقر بمعدل 79,16 نقطة مئوية. ويمكن تخفيض عمق الفقر وعدم المساواة في الدخل إلى حدود 13، 90 في المائة و13.72 نقطة مئوية على التوالي. وكذلك، يتجلى أيضاً من خلال الدراسة أن شدة الفقر يمكن أن تخفض من نسبة الزيادة 26.69 نقطة كما يتضح في مؤشر Sen وزيادة 36، 70 نقطة مئوية في مؤشر FGT. ونظراً لهذه النتائج، فإن هذه الدراسة تحت الحكومة على إجماع الزكاة ضمن قوانين السياسة الاقتصادية الوطنية.

## APPROVAL PAGE

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## **DECLARATION**

I hereby declare that this dissertation is the result of my own investigations, 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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Signature .....

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## **LIST OF ABBREVIATION**

BAZIS	Badan Amil Zakat dan Infak/Sedekah (The Board of Zakat and Infak/Sadaqah, refers to the Jakarta Board of Zakat)
BAZNAS	Badan Amil Zakat Nasional (The National Board of Zakat)
DDR	Dompot Dhuafa Republika
DKI	Daerah Khusus Ibukota (Special Capital Region)
FGT	Foster Greer Thorbecke
KEJAR PAKET	Kelompok Belajar Paket (Study Package Group)
TEKPD UI	Tim Evaluasi Kinerja Pembangunan Daerah Universitas Indonesia (University of Indonesia Team for Regional Development Performance Evaluation)

# CHAPTER ONE

## INTRODUCTION

### 1.1. BACKGROUND OF THE STUDY

Islamic economics has been experiencing an impressive development in recent decades. It emerged with the desire to implement the shariah rule in contemporary Muslim society. It is expected to offer better solution to the economic problems faced by most of the Muslim countries. This can lead to an increase in betterment of life. Islamic economics is still on the process of evolution. As a system it has not yet been established at the macro level. At the micro level, there are two main areas in which this new system has been evolved. These areas are Islamic banking and finance, and zakat collection and distribution. They can be taken into consideration as empirical evidence proving that the system can be gradually implemented. Many Muslim countries have tried to develop their own Islamic banking system as well as zakat system. One of which is Indonesia, the most populous Muslim country in the world.

Development of Islamic economic system and institution in Indonesia gained momentum during the severe economic crisis in Southeast Asia during 1997-1998. After the crisis in the region, welfare problems, such as poverty<sup>1</sup> and income inequality<sup>2</sup>, became the core tribulation faced particularly by Indonesia. Until today these two problems still exist. Table 1.1 below shows the fluctuation of the number of poor people in the country from 1996 until 2008.

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<sup>1</sup> There are a lot of definitions of poverty. One of which is “the standard of living below that of subsistence” (Pramanik, 1993).

<sup>2</sup> Income inequality can be defined as the extent of disparity between high income and low income households (New Zealand Social Report, 2008).

Table 1.1  
The Number and the Percentage of Poor People in Indonesia  
1996-2008

Year	No. of Poor People (million)			Percentage of Poor People to the whole Population		
	Urban (1)	Rural (2)	Urban+Rural (3)	Urban (4)	Rural (5)	Urban+Rural (6)
1996	9.42	24.59	34.01	13.39	19.78	17.47
1998	17.60	31.90	49.50 (45.55%)*	21.92	25.72	24.23
1999	15.64	32.33	47.97 (-3.09%)	19.41	26.03	23.43
2000	12.30	26.40	38.70 (-19.33%)	14.60	22.38	19.14
2001	8.60	29.30	37.90 (-2.07%)	9.76	24.84	18.41
2002	13.30	25.10	38.40 (1.32%)	14.46	21.10	18.20
2003	12.20	25.10	37.30 (-2.87%)	13.57	20.23	17.42
2004	11.40	24.80	36.10 (-3.22%)	12.13	20.11	16.66
2005	12.40	22.70	35.10 (-2.77%)	11.68	19.98	15.97
2006	14.49	24.81	39.30 (11.97%)	13.47	21.81	17.75
2007	13.56	23.61	37.17 (-5.42%)	12.52	20.37	16.58
2008	12.77	22.19	34.96 (-5.95%)	11.65	18.93	15.42

*Notes:* \*: figure in parentheses show the percentage point increase (+) or decrease (-) based on previous year

Source: Central Board of Statistics (2008)

From the table above, it can be observed that during 1996-1999 the number of poor people both urban and rural has risen from 34.01 million to 47.97 million (41.05 percent increase). This was a direct impact of the South East Asian financial and economic crisis. However, during the period of 2000-2005, the number of poor people fell from 38.70 million (19.14 percent, vide column 6) to 35.10 million (15.97 percent, vide column 6). It indicated the economic progress of the country in its post-crisis recovery efforts.

In the year 2006, the number of poor people started to rise again, from 35.10 million to 39.30 million (11.97 percent increase). Central Board of Statistics found that this increase was caused by oil price hike in the year 2005 which disturbed the world economy. Inflation in the nation was grown by 17.10 percent. This forces the

people to fall below the poverty line and join the rank of the poor<sup>3</sup>. Although the government was able to lower the poverty incidence<sup>4</sup> in the two consecutive years, it was made possible by the favourable oil price in the world. Generally, during 1996-2008 the average reduction in the incidence of poverty appears to be 1.28 percent. But if we exclude two abnormal years, i.e. 1998 and 2006, showing a jump in the poverty incidence, the average decline in poverty incidence for eight years excluding 1998, 2002 and 2006, appears quite impressive (4.07 percent). Some scholars argue that this figure indicated that government poverty alleviation program did not have significant impact as stated by Susilowati *et al* (2007)<sup>5</sup>.

The Table 1.1 above also provides evidence that the incidence of rural poverty in the country was higher as compared to the incidence of urban poverty. It is interesting to note that during the period of 1996 – 2008, the number of poor people in the rural areas was reduced while in the urban area it was increasing. However, in terms of percentage, both rural and urban poverty are decreasing although marginally. These figures also show that rural poverty is worst than the urban poverty.

The income inequality measured by Gini ratio<sup>6</sup> of the country, as can be observed from the Table 1.2, has been fluctuating during the period of 1996-2007. The Gini ratio, which combines income inequality of both urban and rural areas in the nation, tends to decrease in the period of 1996-1999 from 0.356 to 0.311. It means that income distribution in the nation was moving towards more equal distribution.

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<sup>3</sup> Central Board of Statistics. 2008. July, Official Statistical News. Jakarta.

<sup>4</sup> The poverty incidence, which shows the number of the poor, is calculated based on the poverty line per capita made officially by the Central Board of Statistics.

<sup>5</sup> Susilowati, Sinaga, Limbong and Erwidodo (2007) argued that economic development in Indonesia had created a trade-off between economic growth and distribution. Therefore, the number of poor people for the last two decades did not fall significantly. In 1985 for instance, the incidence reached 24.2 percent while in the year 2006 it stood at 17.75 percent. Its total reduction was only 6.45 percent in two decades.

<sup>6</sup> Gini ratio is one of the effective measures of income inequality. Explanation of this concept can be found in the Chapter Three.

However, after the 1998 crisis, Gini ratio started to worsen until 2007. The finding suggests worsening income distribution during 1996-2007.

When urban inequality is compared to rural inequality, the data shows that during 1996-2007 income inequality in the urban area is higher than that in the rural area. However, the pattern of income distribution in both areas is not following linear path.

Table 1.2  
Gini Ratio in Indonesia Based on Areas  
1996-2007

Year	Gini Ratio		
	Urban	Rural	Urban+Rural
1996	0.362	0.274	0.356
1999	0.326	0.244	0.311
2002	0.330	0.290	0.329
2005	0.338	0.264	0.343
2006	0.350	0.276	0.357
2007	0.374	0.302	0.376

Source: Central Board of Statistics (2008)

Another research conducted by Kuncoro as cited in Hafidhuddin (2009) also portrayed similar figure of income inequality in the country. The economic growth experienced during the period of 2000-2006<sup>7</sup> has widened the income gap between the rich and the poor. He found that the bottom 40 percent of the population experienced 20.92 percent of the total income while the top 20 percent received 42.19 percent of the total income in the year 2000. Nevertheless, in the year 2006, the bottom 40 percent of the population received only 19.20 percent, which is lower than the initial position, while the top 20 percent enjoyed 45.72 percent of the total income, which is higher as compared to the year 2000. Hence, the share of the top 20 percent increases at the cost of the share of the bottom 40 percent.

<sup>7</sup> Economic growth rates of Indonesia in the year 2000 and 2006 are 4.90 percent and 5.50 percent, respectively. During this period, Indonesia enjoyed impressive economic growth.