



UNIVERSITI PUTRA MALAYSIA

**ECONOMIC ROLE OF ZAKAT IN REDUCING INCOME INEQUALITY
AND POVERTY IN SELANGOR**

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**ECONOMIC ROLE OF ZAKAT IN REDUCING INCOME INEQUALITY
AND POVERTY IN SELANGOR**

By

PATMAWATI BTE HJ IBRAHIM

**Thesis Submitted to the School of Graduate Studies, Universiti Putra
Malaysia, in Fulfilment of the Requirement for the Degree of
Doctor of Philosophy**

May 2006



**TO THE LOVING MEMORY OF MY PARENTS
HJ IBRAHIM BIN HJ EHSAN
AND
HAJJAH JUMINAH BTE HJ ABD AZIZ
Who did more than I could to them**

ESPECIALLY

**TO MY BELOVED HUSBAND
MOHD HARON BIN KASMANI
who is always there for me
in my happiness and pain
lending me a helping hand
and a shoulder to lean on**

**TO MY BELOVED CHILDREN
NABIL, IEMAN AND 'AQILAH
You are all my heart and soul**



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the Degree of Doctor of Philosophy

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May 2006

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Faculty : Economics and Management

This study attempts to examine the economic role of zakat as a mechanism to reduce income inequalities and poverty in the state of Selangor. The target population of this study is the fuqara and *masakin* categories of the Pusat Zakat Selangor (PZS) zakat recipients. Purposive sampling procedure is applied to collect primary data related to zakat recipients from the poor and needy category of the nine districts of Selangor. Inequality and poverty maps are derived based on the collected data. These facilitate an examination of the most affected area of income inequality and an analysis of poverty within the context of selected socio economic variables.

The effects of zakat distribution on income inequality and welfare loss are examined by using Lorenz curve, Gini coefficient, and the Atkinson index. The first two measures make no explicit use of any concept of social



welfare represent a positive measure. The Atkinson index which represents a normative measure of inequality, takes into account, the social welfare and income loss incurred from unequal income distribution. The effects of zakat distribution on poverty are analyzed within the context of burden of poverty; specifically in terms of incidence, intensity and severity of poverty. These are examined using five major indices of poverty, which include the household count ratio, average poverty gap, income gap, Sen index and FGT index.

Empirical findings of the positive measures of the Lorenz curve and Gini coefficient indicate the positive contributions of zakat distribution in reducing income inequality. However results related to the Atkinson index show that the current practice of zakat distribution increases income inequality, increases income loss, and reduces social welfare. On a positive note though, the analysis reveal that zakat distribution reduces poverty incidence, reduces the extent of poverty and lessens the severity of poverty. Hence, experimenting five simulations pertaining to the different models of zakat distribution in attempt to offer alternative zakat distribution model in terms of greatest reduction in income inequality and maximization of social welfare extend this study. The best model of zakat distribution identified is based on *had-kifayah*. The above findings together with the identification of the group most affected by income inequality and poverty

will pave the way towards policies for a more effective and efficient utilization of scarce zakat resources.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan ijazah Doktor Falsafah

**PERANAN EKONOMI ZAKAT DALAM MENGURANGKAN
KETAKSEIMBANGAN AGIHAN PENDAPATAN DAN KEMISKINAN DI
SELANGOR**

Oleh

PATMAWATI BTE HJ IBRAHIM

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Kajian ini bertujuan untuk menganalisis peranan institusi zakat dalam mengurangkan ketidakseimbangan agihan pendapatan dan seterusnya mengatasi masalah kemiskinan, dikalangan masyarakat miskin Muslim khususnya di negeri Selangor. Kaedah persampelan bertujuan telah digunakan untuk mendapatkan maklumat primer dari para penerima agihan zakat asnaf fakir dan miskin dari sembilan buah daerah di Selangor. Peta ketidakseimbangan agihan pendapatan dan peta kemiskinan diperolehi melalui data yang terkumpul. Ini akan membantu mengenalpasti kawasan-kawasan dan kumpulan penduduk yang sangat terancam dengan ketidakseimbangan agihan pendapatan dan kemiskinan berasaskan angkubah –angkubah sosioekonomi yang terpilih.



Kesan agihan zakat terhadap ketidakseimbangan agihan pendapatan dan kebajikan masyarakat akan dikaji berdasarkan Keluk Lorenz, Koefisien Gini, dan indeks Atkinson. Keluk Lorenz dan koefisien Gini tidak mengambil kira aspek kebajikan, mewakili ukuran positif. Manakala indeks Atkinson yang mengambil kira aspek kebajikan dan kerugian pendapatan disebabkan oleh ketidakseimbangan agihan pendapatan mewakili kaedah pengukuran normatif. Kesan agihan zakat terhadap masalah kemiskinan pula dianalisis dalam konteks beban kemiskinan meliputi kadar kemiskinan, jurang kemiskinan, dan tekanan kemiskinan. Ini akan dianalisis menggunakan lima indeks kemiskinan yang utama, iaitu nisbah kemiskinan, jurang kemiskinan, jurang pendapatan, indeks kemiskinan Sen, dan indeks kemiskinan FGT.

Hasil kajian empirikal dari keluk Lorenz dan Koefisien Gini menunjukkan sumbangan positif agihan zakat dalam mengurangkan ketidakseimbangan agihan pendapatan. Bagaimanapun, berdasarkan indeks Atkinson yang mengambil kira aspek kebajikan mendapati bahawa agihan zakat yang dilaksanakan sekarang semakin meningkatkan ketidakseimbangan agihan pendapatan, meningkatkan kerugian pendapatan masyarakat dan seterusnya mengurangkan taraf kebajikan sosial. Bagaimanapun, dari sudut yang positif, agihan zakat masa kini telah berjaya mengurangkan masalah kemiskinan dengan mengurangkan kadar kemiskinan,

mengecilkan jurang kemiskinan dan seterusnya berjaya mengurangkan tekanan kemiskinan dalam masyarakat.

Kajian diteruskan dengan melakukan lima simulasi berkaitan dengan pelbagai model agihan zakat untuk mengenal pasti bentuk agihan yang terbaik yang akan mengurangkan ketidakseimbangan agihan pendapatan dan seterusnya meninggikan taraf kebajikan masyarakat. Hasil simulasi mendapati bahawa bentuk agihan yang memberi kesan terbaik dalam mengurangkan ketidakseimbangan agihan pendapatan dan meningkatkan kebajikan sosial masyarakat adalah berdasarkan *had-kifayah*. Dapatan di atas, berserta maklumat dari peta ketidakseimbangan agihan pendapatan dan peta kemiskinan yang dapat mengenalpasti kumpulan yang sangat terancam dengan ketidakseimbangan agihan pendapatan dan kemiskinan ini akan membantu kearah penggubalan dan pelaksanaan polisi yang lebih berkesan dalam menggunakan dana zakat yang terhad.

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I certify that an Examination Committee met on 4th May 2006 to conduct the final examination of Patmawati bte Hj Ibrahim on her Doctor of Philosophy thesis entitled “Economic Role of Zakat in Reducing Income Inequality and Poverty in Selangor” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.

PATMAWATI BTE HJ IBRAHIM

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LIST OF ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
AIM,	Amanah Ikhtiar Malaysia
BCIC	Bumiputera Commercialized and Industrialized Community
CIC	Commercial and Industrial Community
CPI	Consumer Price Index
EPU	Economic Planning Unit
GDP	Gross domestic product
HIV	Human Immune Deficiency Virus
IADP	Integrated Agricultural Development Plan (IADP),
ICT	Information Technology,
JAKIM	<i>Jabatan Kemajuan Islam Malaysia</i>
KADA	Kemubu Agricultural Development Authority
KAFA	<i>Kelas Agama Dan Fardu Ain</i>
KEDA	Regional Development Authority of Kedah,
JENGKA	Regional Development Authority of Jengka
KEJORA	Kemajuan Johor Tenggara
KESEDAR	Southern Kelantan Development Authority
KETENGAH	<i>Kemajuan Trengganu Tengah</i>
KPLB	<i>Kementerian Pembangunan Luar Bandar</i>
KWSP	<i>Kumpulan Wang Simpanan Pekerja</i> (Employment Provident Fund)



LKIM	<i>Lembaga Kemajuan Ikan Malaysia</i>
LTH	<i>Lembaga Tabung Haji</i>
MADA	Agricultural and Fishery Development Authorities,
MAIS	<i>Majlis Agama Islam Selangor</i>
MARA	<i>Majlis Amanah Rakyat</i>
MDG	Millennium Development Goals
MZSB	MAIS Zakat Sdn. Bhd..
NAP	National Agricultural Policy
NDP	New Development Policy
NEP	New Economic Policy
NGO	Non-Governmental Organization,
NPC	National Productivity Center
NVP	National Vision Policy
OECF	Overseas Economic Cooperation Fund
OPP1	First Outline Perspective Plan
OPP2	Second Outline perspective Plan
OPP3	Third Outline Perspective Plan
PBUH	Peace Be Upon Him
PERDA	Penang Regional Development Authority
PLI	Poverty Line Income,
PMR	<i>Peperiksaan Menengah Rendah</i>
PPP	Purchasing Power Parity