

ENHANCING HOUSEHOLD WELLBEING THROUGH POVERTY AVOIDANCE: ROLE OF ZAKAT INSTITUTIONS

Mohamed Saladin Abdul Rasool^{1,2};Mohd Azmil Yusof^{1,2} ; Mohammad Nor Afandi Ibrahim²

^{1,2}Center of Islamic Philanthropy and Social Finance (CIPSF), Universiti Teknologi MARA (UiTM), Malaysia

²Universiti Teknologi MARA (UiTM), Malaysia

saladin@melaka.uitm.edu.my

ABSTRACT: *The main purpose of Islam is to ensure and promote the wellbeing of all humanity and to avoid harm. Specifically, relevant parties through Islamic welfare system play a pivotal role in dealing especially with the low-income group of people in assisting them in order to enhance their wellbeing. For this reason, Islamic organizations such as zakat institutions carry the responsibility of formulating policies to ensure various elements of wellbeing such as avoidance of poverty is achieved. Identifying factors that contribute to poverty can be used by zakat institutions as a guide to draw guidelines and programs to avoid poverty. The objective of the present paper is to identify the factors that are associated with poverty from the perspective of zakat recipients in Selangor, the most populated Muslim state in Malaysia. The present study employed a dataset derived from a survey consisting of 258 heads of household of the low-income group in the state of Selangor, which is also the most populated state in Malaysia. The multiple linear regression (MLR) analysis revealed two factors that influence poverty in this study, namely unemployed adults and number of households.*

Keywords: Wellbeing, poverty avoidance, zakat organizations

1. INTRODUCTION

The main purpose of Islam is to ensure and promote the wellbeing of all humanity and to avoid harm. Specifically, relevant parties through Islamic welfare system play a pivotal role in dealing especially with the poor in assisting them in order to enhance their wellbeing [34]. For this reason, Islamic organizations such as zakat institutions carry the responsibility of formulating policies to ensure various elements of wellbeing such as avoidance of poverty. In order to ensure that, zakat institutions are established to enhance the wellbeing of Muslim society through addressing the incidence of poverty especially among poor and low-income households. Despite the successes in reducing poverty in Malaysia (less than 4%), there are vulnerable sections of the population remain unchanged due to several disadvantaged circumstances which could be addressed by zakat institutions [14].

The objective of the present paper is to identify the factors of poverty avoidance from the perspective of zakat recipients in Malaysia that would facilitate policy makers especially zakat institutions in enhancing the wellbeing of low-income group. This paper is organized as follows. The next section outlines the literature review, while the methodology undertaken in this study is discussed in section 3. Section 4 presents the findings of the study. Finally, the conclusion of the study is presented in section 5.

2. LITERATURE REVIEW

Zakat institutions play a vital role in enhancing social wellbeing of a household. This was mentioned by various studies such as [32, 16]. An important step in poverty avoidance is to identify factors that contribute to poverty. These factors are outlined in Table 1. Identifying these factors is essential as it would assist policy makers in drawing appropriate policies to avoid household poverty. Policies and programmes should be derived to address the poverty determinants of the present and also the potential of the future known as the vulnerable poor [7]. In general, it can be concluded that the researchers have identified factors such as the age and gender of the household head, household size, level of education, employment type, location or area

of living, attitude or culture and other factors such as access to public services and amenities as significant variables related to poverty, as shown by Table 2. Identifying these factors would enable the relevant authorities to draw relevant policies that would be able to reduce the risk of poverty which would enhance the wellbeing of households.

Table 1: Factors Associated With Poverty: Summary of Previous Studies

Factors	Researchers/Authors
Age of household head	[35, 24]
Household size or dependency ratio	[22, 27, 35, 33, 11, 5, 24]
Gender	[9, 26]
Employment type	[2, 18, 30, 5]
Educational attainment	[27, 2, 18, 22, 15, 35, 12, 5, 24, 6, 26, 10]
Area/location	[8, 3, 15, 4, 24]
Attitude/culture	[31, 17, 11]
Other factors such as access to public services, amenities and health	[22, 15, 27, 2, 18, 28, 30, 13, 25, 24]

3. METHODOLOGY

This quantitative research study consists of employed data derived from a random survey using proportionate random sampling comprising of low-income household heads aided by a close-ended questionnaire in Selangor, the most populated state in Malaysia. These household heads were recipients of zakat aid in Selangor. The dataset of 258 respondents of the study was run through Statistical Package for Social Science (SPSS). Besides descriptive statistics and correlation analysis to present the poverty incidence in the present study, multiple linear regression (MLR) analysis was used to determine the contributions of each of the significant predictors or independent variables towards the variance in the criterion or dependent variable. The dependent variable for the present study is the poverty gap proxied by PLI Sufficiency (PS), z' as the adequacy of income, y as the household income and k as the poverty line income or the necessities of the household, as explained by:

$$z = \{1 - (y / k)\} * 100\%$$

OR

$$z' = (y / k) * 100\%$$

The independent variables included in the MLR analysis were demographic variables such as age, gender and marital status of household heads. It is also important to note that variables such as the number of working adults and the duration of receipt of zakat aid are the variables that were lacking in the literature. They consist of continuous and categorical type of data. Dummy variables were created for qualitative or categorical predictors. The MLR was used to explain the variability of the dependent variables. Equation (1) represents the multiple linear regression (MLR) model with twenty one predictors for HAK Sufficiency.

$$y_i = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \beta_{10}X_{10} + \beta_{11}X_{11} + \beta_{12}X_{12} + \beta_{13}X_{13} + \beta_{14}X_{14} + \beta_{15}X_{15} + \beta_{16}X_{16} + \beta_{17}X_{17} + \beta_{18}X_{18} + \beta_{19}X_{19} + \beta_{20}X_{20} + \beta_{21}X_{21} + \epsilon_i \dots\dots\dots (1)$$

where $Y_i = PS$,

$X_1 =$ Age, $X_2 =$ Gender, X_3 - $X_6 =$ Marital status, X_7 - $X_{11} =$ Job status, $X_{12} - X_{17} =$ Education level, $X_{18} =$ Household size, $X_{19} =$ Duration of aid, $X_{20} =$ Number of children, $X_{21} =$ Not working adult, and ϵ is the model error estimated to be normally distributed with constant variance.

4. RESULTS & DISCUSSION

4.1 Descriptive Analysis

Table 2 shows that more than half of the respondents were female, with a percentage of 57.4% (148), and 42.6% (110) were male. In terms of respondents', about 46.5% of respondents were in the group of 45 to 60-year-olds. This is followed by 29.5% and 24% of respondents in the group below 45 years old and above 60 years old, respectively. Based on marital status, the majority of the respondents were married (56.6%), followed by widows (30.2%), divorcees (7.4%) and separated (5.4%). In terms of household size, 61.2% of the respondents had 3 to 6 people in their household, followed by 25.6% and 13.2% of households having less than 3 and more than 6 people in their household, respectively. The percentage distribution of respondents' education level shows that about 43.8% of respondents have UPSR (primary school education) which was the highest. Table 2 shows that more than one-third of respondents do not work (39.5%) followed by the self-employed (25.6%), those with a part-time job (2.5%), those with a permanent job (9.7%), retirees (2.7%), and others (1.9%). Table 3 further sheds light on the family aspect where 48% of respondents have 3 to 5 children, followed by 27% of respondents having more than 5

Table 2: Demographic Profile of Respondents

Item	Frequency	%
Gender		
Male	110	42.60
Female	148	57.40
Age		
<45 years	76	29.50
45-60 years	120	46.50
>60 years	62	24.00
Marital Status		
Married	146	56.60
Single	1	0.40
Widowed	78	30.20
Divorced	19	7.40
Separated	14	5.40
Household size		
1-2	34	13.20
3-4	79	30.60
5-6	79	30.60
>6	66	25.60
Education Level		
UPSR	113	43.80
PMR	42	16.30
SPM	48	18.60
STPM	7	2.70
Certificate	2	0.80
No formal education	46	17.80
Employment Status		
Self-employed	66	25.6
In permanent employment	25	9.7
Do not work	102	39.5
Retirees	7	2.7
Part-time/Contract	53	20.5
Others	5	1.9
No. of Children		
0-2	64	24.8
3-5	124	48.0
>5	70	27.2
Duration of Aids (years)		
1-5	205	79.5
6-10	43	16.6
>10	10	3.9

children and 24% having less than 3 children. Table 3 also shows that 79.5% of respondents have received assistance for less than 5 years. This is followed by 16.6% and 3.9% of respondents having received it for between 6 to 10 years and more than 10 years, respectively.

There are three main categories of household members: adults, children aged between 7 and 17 years old, and children aged between 1 and 6 years old. Table 3 shows that 67% of households have less than 2 unemployed adults (except for household heads), followed by 32.2% of households having between 2 and 3 unemployed adults and 0.8% of households having more than three unemployed adults. More than 50% of households have less than 2 children between 7 and 17 years old. Similarly, more than

85% of households have less than 2 children between 1 and 6 years old. It is obvious that the majority of households have less than 2 members in all the three categories of household members. Table 4 shows that 86.8% of the respondents in this study are not poor. Thus, this study is essential to address the problem of the important low income group as they could also be labelled as the vulnerable poor who become poor due to internal factors such as loss of jobs, sickness and calamities and also external factors such as economic turmoil, crisis in exchange rate of currencies and natural disasters.

4.2 Multiple Linear Regression Analysis (MLR)

Based on Table 5 and Table 6, the regression analysis results show that the regression model is significant The R-square of the model is 0.074. This indicates that two predictors (household size and non-working adults) explain about 7.4% of the variation of PS. However, age, gender (male), marital status (married, bachelor, widow/widower, divorced), household size, duration of aid and number of children failed to meet the selection criteria (p-value > 0.05). The final estimated model is:

$$\hat{Y} = 17.922 - 2.089 * \text{household size} - 3.464 * \text{non-working adults}$$

Based on the model, the determinants of PS are the household size and non-working adults. It can be concluded that the PS is about RM2.089 lower with the increase of every household member the other variables are held constant. Besides, it is RM3.464 lower for those with an increase of every one non-working adult while other variables are held constant. Both of these dependent variables are negatively associated with PS or poverty gap. This explains that when the household size increases, the income in general increases, thus reducing the poverty gap. These findings are similar to studies undertaken by authors such as [2, 35, 30, 5] who argued that a household size would be negatively correlated with the poverty gap. Another variable that is significant that is related to PS is a non-working adult. However, the magnitude of the

coefficient is bigger probably due to increasing expenses of an adult but with no income.

Table 3: Categories of Household Members

No. of persons	Unemployed adults (%)	Children 7-17 years (%)	Children 1-6 years (%)
<2	67.0	52.0	88.7
2-3	32.2	33.3	10.9
>3	0.8	14.7	0.4

Table 4: Incidence of Poverty

Adequacy Level of Income	HAK (%)
Less than 50% (Destitute)	0.4
50-99% (Poor)	12.8
100% and above (Not poor)	86.8

In this study, issues pertaining to employment are obvious. Thus, the relevant authorities should take into consideration this matter in considering steps to overcome poverty among zakat recipients. It is essential to identify ways to address this subject as it would facilitate the policymakers in addressing poverty from the perspective of policy implications. For instance, unemployment among adult household members is a common reason associated with poverty as revealed in this study. Given the importance of employment for poverty reduction, job-creation should occupy a central place in national poverty avoidance strategies in order to enhance the wellbeing of the society in general.

In brief, there should be effort of providing the low-income group with the necessary skills and assets that will enable them to take full advantage of any expansion in employment potential. Thus, wealth is preserved through investment and entrusting it in the hands of productive person for equitable distribution of income so as to raise the living standard of the haves not [19, 21, 1, 23]. In this way, the overall wellbeing of the society could be enhanced.

Table 5: Summary of Regression Results ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	161778.480	2	80889.240	11.338	0.000
Residual	1819276.621	255	7134.418		
Total	1981055.101	257			

Table 6: Summary of Regression Results

Model	R	R Square	Adjusted R square	Standard error of estimates	Durbin-Watson
2(a)	0.286	0.082	0.074	84.46548	1.805

5. CONCLUSION

This study has identified factors related to income such as working household members as an important factor related to poverty avoidance that would have an impact on the wellbeing of households. Basically, in promoting human well-being, it is closely related to the human needs fulfilment, within which stands the life purpose at its core, the better the needs are fulfilled, the higher the individual's overall

wellbeing which consists of physical and social needs [20]. Thus, it is vital for Islamic institutions to devise appropriate policies to enhance wellbeing primarily through enhancement of income. This is essential to maintain trust between the society and these institutions as mentioned by [28] who stresses that, ideal Islamic organizations such as zakat institutions, should be able to distribute zakat efficiently and effectively to the low-income groups with the intent to

enhance their wellbeing. One effective way is to introduce productive zakat distribution methods instead of merely giving financial aid to the targeted group.

6. REFERENCES

- [1] Ahmed, U., Mustafa, O. M., Ogunbado, A.F (2015). Accessibility to Basic Healthcare Services and Its Implications on Maqasid Al-Shariah: A study of Muslim Community in Uganda. *IOSR Journal Of Humanities And Social Science (IOSR-JHSS)* Volume 20, Issue 3, Ver. V1 (Mar. 2015), PP 66-73
- [2] Amis, P. (1995). Making sense of Poverty in IIED. Urban Poverty: Characteristics, Causes and Consequences. *Environment and Urbanization*, 7(1), 145-157.
- [3] Anand, S. (1983). *Inequality and Poverty in Malaysia*. Oxford: *Oxford University Press*.
- [4] Ariffin, J. (1997). *Poverty Amidst Plenty: Research Findings and The Gender Dimension in Malaysia*. Kuala Lumpur: *Pelanduk Publications*.
- [5] Awan, M. S., & Iqbal, N. (2010). Determinants of Urban Poverty: The Case of Medium-Sized City in Pakistan. *Working Papers & Research Reports*, 2010.
- [6] Awan, M. S., Waqas, M., & Aslam, M. A. (2011). Multidimensional Poverty in Pakistan: Case of Punjab. *Journal of Economics and Behavioral Studies*, 2(8), 133-144.
- [7] Awan, M. S., Waqas, M., & Aslam, M. A. (2012). Multidimensional Measurement of Poverty in Pakistan. *MPRA Paper No.* 41532.
- [8] Aziz, U. A. (1964). Poverty and Rural Development in Malaysia. *Kajian Ekonomi Malaysia* 1(1), 70-105.
- [9] Choudhury, M. A. (1995). *The Epistemological Foundations of Islamic Economic, Social, and Scientific Order*.
- [10] Dartanto, T., & Otsubo, S. (2013). Measurements and Determinants of Multifaceted Poverty: Absolute, Relative, and Subjective Poverty in Indonesia.
- [11] Hanson, G. H. (2007). Globalization, Labor Income, and Poverty in Mexico. In *Globalization and poverty* (pp. 417-456). *University of Chicago Press*.
- [12] Harun, M. F. M. (2006). *Peminggiran dan Kemiskinan Orang Asli di Negeri Perak*. Unpublished doctoral dissertation. UKM, Bangi, Selangor, Malaysia.
- [13] Harun, M. F., & Abdullah, A. F. (2007). *Kemiskinan Mengikut Teori Konvensional dan Perspektif Islam*. Shah Alam, Selangor: *UPENA*.
- [14] Hatta, Z. A., & Ali, I. (2013). Poverty reduction policies in Malaysia: Trends, strategies and challenges. *Asian Culture and History*, 5(2), 48.
- [15] Johari, M.Y. and Kiong,C.S.(1991). "An Overview of Urban Poverty in Sabah", in *Johari, M.Y. (ed), Urban Poverty in Malaysia*, Sabah: *IDS*
- [16] Kefeli, Z., Johari, F., Ahmad, N., Daud, S. N. M., & Zaidi, M. A. S. (2017). Factors Affecting Quality of Life of Medical Assistance Recipients of Zakat Fund in Malaysia. *International Journal of Economics, Management and Accounting*, 25(1), 125-140.
- [17] Laderchi, C. R. (2000). The Monetary Approach to Poverty: A Survey of Concept and Methods. *QEH Paper Series*, 58, 1-19.
- [18] Moser, C. (1995). Women, Gender and Urban Development Policy: Challenges for Current and Future Research. *Third World Planning Review*, 17(2), 223-243
- [19] Mustafa Omar Mohammed (2006). The Objectives of Islamic banking: a maqasid approach. Paper presented at International Conference on Islamic Jurisprudence and Challenges of the 21st Century, International Islamic University Malaysia.
- [20] Nor, H. M. M. (2017). Islam and Social Well-Being: Maintaining Economic Security and Beyond. *Media Syari'ah*, 18(1).
- [21] Ogunbado, A. F. (2011). "Mechanisms of poverty eradication: An Islamic perspective". *The Islamic Quarterly*, Vol. 55, No. 4, (2011). pp. 295-315.
- [22] Onn, F. C. (1989). Kemiskinan bandar di Malaysia: Profil dan kedudukan pada 1980an. *Ilmu Masyarakat*, 15, 43-58.
- [23] Possumah, T.B. (2016). Had Kifayah Zakah and Adequacy of Income Redistribution. A Proposal Framework. *International Journal of Zakat. Vol 1 No.1*. November 2016, 36-49.
- [24] Rodriguez, J. G., Martinez, M. G., Santoyo, L. S., Lozano, M. Q., & Weber, G. Y. (2010). Chronic and Transient Poverty in Mexico. *Economics Bulletin*, 30(4), 3188-3200.
- [25] Rupasingha, A., & Goetz, S. J. (2007). Social and Political Forces As Determinants of Poverty: A Spatial Analysis. *The Journal of Socio-Economics*, 36, 650-671.
- [26] Saidatulakmal, O., & Riaz, M. (2012). Impact of Housing Environment on Poverty, *The Journal Economics and Sustainable Development*, 3(8): 155-156.
- [27] Shirazi, N. S. (1996). Targeting, Coverage and Contribution of Zakat To Households' Income: The Case of Pakistan. *Journal of Economic Cooperation among Muslim Countries*, 17(3-4), 165-186.
- [28] Shireen, M. H. (1998). *Income Inequality and Poverty in Malaysia*. *Landham: Rowman and Littlefield Publishers*.
- [29] Suhaib, A.Q. (2009). The contribution of Zakat in The Social Development of Pakistan. *Pakistan Journal of Social Science*, 29(2),313-334
- [30] Tamura, Y. (2003). *Redistribution Policies for The Rural Poor of Developing Countries: Towards More Equitable Development*. Kuala Lumpur: *University Malaya Press*.
- [31] Tsakloglou, P., & Papadopoulos, G. (1998). Who Are The Poor in Greece? Analysing Poverty under Alternative Concepts of Resources and Equivalence Scales. *Journal of European Social Policy*, 8, 229-252.
- [32] Wahid, H., Ahmad, S., & Kader, R. A. (2004). Kesan bantuan zakat terhadap kualiti hidup asnaf fakir dan miskin. *The Journal of Muamalat and Islamic Finance Research*, 1(1), 155-166.

- [33] World Bank (2002). World development report 2001/2002: Attacking poverty. New York. *Oxford University Press*.
- [34] Zakiyah, Z. (2011). Islamic welfare system dealing with the poor in rural area. *Indonesian Journal of Islam and Muslim Societies*, 1(1), 37-67.
- [36] Studies (IKMAS), UKM.
- [35] Zin, R. M. (2002). The Asian Financial Crisis and Its Impact on Poverty and Inequality in Malaysia. *Institute of Malaysian International Studies Working Paper 23*. Bangi, Selangor: Institute of Malaysian International