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Empirical Model of Poverty Alleviation in Islamic Economic Perspective: Evidence from Indonesia

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Abstract

This study aims to examine the model of poverty alleviation by analyzing several aspects that in Islamic economics are considered to have an effect on poverty alleviation. Using a sample of provinces in Indonesia, this study applies to panel data analysis. The novelty of this research is using more variables, including some aspects rarely discussed in previous empirical models. The results of this study indicate a significant negative effect of mandatory and charity transfer variables on the poverty level. Although using different proxies, the results of this study are in line with and confirm previous theories and empirical research regarding the effect of *zakat* on poverty alleviation. In addition, the variable of increasing income was also found to have a significant effect on poverty alleviation. This provides an overview for the government to be able to optimize the role of *zakat* and increase income to reduce poverty, for example, by integrating the distribution of *ziswaf* through the provision of working capital more broadly and integrated towards economic improvement and growth so that it will bring a greater multiplier effect. In addition, the results of this study also provide recommendations for researchers to complement the limitations of this study. The limitation of this study is the lack of proxies in describing aspects that become variables of poverty alleviation in Islam as a whole. Whereas in Islam, poverty and its alleviation are multidimensional things and are not limited to material aspects but also spiritual.

Keywords: *Islamic Economics, Poverty Alleviation, Ziswaf, Economic Growth*

Abstrak

Penelitian ini bertujuan menguji model pengentasan kemiskinan dengan menganalisis beberapa aspek yang dalam ekonomi Islam dapat berpengaruh terhadap pengentasan kemiskinan. Dengan menggunakan sampel data provinsi di Indonesia, penelitian ini menerapkan analisis data panel. Hasil Penelitian ini menunjukkan adanya pengaruh negatif signifikan variabel transfer wajib dan charity terhadap tingkat kemiskinan. Meskipun dengan penggunaan proksi yang berbeda, hasil penelitian ini sejalan dan mengkonfirmasi teori serta penelitian empiris sebelumnya terkait pengaruh zakat terhadap pengentasan kemiskinan. Hal tersebut memberikan gambaran pada pemerintah selaku pemangku kebijakan untuk dapat mengoptimisasi peran zakat dan peningkatan pendapatan dalam mengurangi kemiskinan, misalnya dengan integrasi penyaluran *ziswaf* melalui pemberian modal kerja secara lebih luas dan terpadu terhadap peningkatan dan pertumbuhan ekonomi sehingga akan mendatangkan multiplier effect yang lebih besar. Selain itu, penelitian ini juga memberikan anjuran bagi penelitian selanjutnya untuk melengkapi keterbatasan dalam penelitian ini. Adapun batasan dalam penelitian ini adalah kurangnya proksi dalam menggambarkan aspek-aspek yang menjadi variabel pengentasan kemiskinan dalam

Islam secara utuh. Padahal dalam Islam, kemiskinan dan pengentasannya merupakan hal yang multidimensi dan tidak terbatas pada aspek materi tetapi juga spiritual.

Kata Kunci: Ekonomi Islam, Pengentasan Kemiskinan, Ziswaf, Pertumbuhan Ekonomi

INTRODUCTION

Poverty is a crucial problem in the economy. Various programs have been implemented to relieve the community from the shackles of poverty. The issue of poverty alleviation is also a concern for academics and researchers. Many studies discuss poverty from various perspectives and methods.

In Islamic economics perspective, there are some aspects considered influential in poverty alleviation (Sadeq, 1997). The first aspect is the mandatory transfer instrument in the form of an obligation to pay zakat. As the third pillar of Islam, zakat has the potential to be an effective tool for alleviating poverty (Ayuniyyah et al., 2022). In line with that, various empirical studies have been conducted on the importance of zakat distribution in poverty alleviation both qualitatively and quantitatively (Abdullah et al., 2015; Ayuniyyah et al., 2022; Hafandi & Helmy, 2021; Mariyanti & Mahfudz, 2016; Purbasari et al., 2020; Shaikh, 2016).

The second aspect is the existence of work orders to generate income. An increase in income allows a person to increase his purchasing power and standard of living. In other words, income escalation can increase a person's level of welfare so that he can escape from poverty. Thus, macroeconomic growth will occur with an increase in the gross domestic product (GDP), which can reduce the aggregate poverty level in the region. Several studies showed a significant negative effect on the poverty level (Affandi & Astuti, 2014; Erlando et al., 2020; Michalek & Jan Vybostok, 2019; Mohammed et al., 2021).

The next aspect is the role of the state. The state is obliged to create programs and facilities that can overcome the problem of poverty, guarantee a decent life for the poor, and provide the economic facilities needed to become a source of livelihood for the poor (Rahman & Siradjuddin, 2020). In Islam, the state must have resources that are managed as public wealth and used for the benefit of the state (Rahman & Siradjuddin, 2020). Then, the fourth aspect is the fair functional distribution of income. The priority of poverty alleviation, according to the Islamic economic concept, is to overcome the causes of poverty itself through the escalation of wealth distribution (Rahman & Siradjuddin, 2020). The unequal distribution of income is the main cause of the existence of poverty

(Wu et al., 2015). According to (Yao et al., 2004), the effect of income inequality on poverty is higher than the effect of increasing the average income per capita.

In addition, inequality occurs not only in income distribution but also in access opportunities. In fact, lack of access to opportunities can affect a person's economic condition. One way to increase income or wealth equality is to focus on equality of opportunity (Hipsher, 2019). Therefore, the fifth aspect in this research is the aspect of equal opportunity. Providing equal opportunities also means providing access to education for everyone. A good quality formal education will broaden horizons and increase job opportunities with better and safer pay and general welfare.

Then, in an effort to reduce poverty, Islam has provisions that regulate the issue of ownership of certain resources that affect the lives of many people. So, the next aspect that becomes the focus of this study is control of ownership over certain resources. One of these resources is water. Water has been identified as an essential resource for all life, production and development. The lack of access into water is associated with poverty (Biltonen & Dalton, 2003). In line with that, according to Pandey et al. (2022), the availability of access to water has a significant impact on various dimensions of human life (Pandey et al., 2022)

The last aspect is the prevention of harmful malpractice. Islam stipulates ethics that prohibits its people from taking actions that can harm themselves and others, including in the economy. This can be seen from the prohibition of gambling, theft, hoarding, bribery, usury, acquisition of property that is not right, and so on (Sadeq, 1997). In line with that, according to (Palokoto et al., 2020), crime can also cause a poverty trap which results in the economy being in high crime and low production. Thus, poverty alleviation in Islam also views the obligation to prevent harmful economic practices.

In empirical studies, several models of poverty alleviation in Islam have been found, such as the research by Affandi & Astuti (2014) which examines Ibn Khaldun's multidimensional theory model on poverty alleviation, research by Mariyanti & Mahfudz (2016) which examines the role of the government, ZIS, and BMT. on poverty alleviation, or Senadjki & Sulaiman (2015) research on the influence of Islamic values and principles on poverty alleviation.

However, there are still some limitations in these studies, for example in the study of Affandi & Astuti (2014), the study did not accommodate the role of zakat as one of the variables in the poverty alleviation model. Whereas in Islam

zakat plays an important role as an income redistribution instrument that can affect poverty alleviation (Abdullah et al., 2015; Ahmed, 2004; Badan Amil Zakat Nasional, 2020; Hafandi & Helmy, 2021; Mariyanti & Mahfudz, 2016; Rahman & Siradjuddin, 2020; Sadeq, 1997; Shaikh, 2016).

In the empirical model of Mariyanti & Mahfudz (2016), the model does not accommodate the functional distribution of income variables, even though the distribution of income is important, because it could macroeconomically a country shows growth, but on the other hand the poverty rate does not decrease and even increases due to economic inequality (Ahmed, 2004; Mariyanti & Mahfudz, 2016; Mohseni-cheraghlo, 2015).

In this case, empirical studies on poverty alleviation in the Islamic perspective are still limited and only partially related to the variables that are the object of research. Thus, referring to previous studies, the authors intend to complete it by proposing a more complete empirical model of poverty alleviation and analyzing the level of poverty in Indonesia as a country with the largest Muslim community in the world but the number of poor people in September 2020 was 27.55 million people or around 10.19 percent (Badan Pusat Statistik, 2021)

RESEARCH METHOD

This study uses a quantitative approach by using panel data analysis. Based on data sources, this study uses secondary data in the form of annual reports from the Central Statistics Agency (BPS), the National Amil Zakat Agency (BAZNAS), and the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance which are accessed through the official website of the institution. The form of the panel data regression equation in this study is as follows:

$$POV_{it} = \beta_0 + \beta_1 TRNSFR_{it} + \beta_2 INCOM_{it} + \beta_3 STATR_{it} + \beta_4 DSTRB_{it} + \beta_5 EQUAL_{it} + \beta_6 OWNRS_{it} + \beta_7 MALPR_{it} + \varepsilon_{it}$$

<i>POV</i>	: poverty rate
<i>TRNSFR</i>	: mandatory transfer and charity (national zakat index)
<i>INCOM</i>	: increasing income (GDP growth)
<i>STATR</i>	: state responsibility (government social expenditure)

DSTRB : fractional distribution of income (minimum wages rate)
EQUAL : equal opportunity (educational participation)
OWNRS : control of ownership (water accessing rate)
MALPR : prevention malpractices in economy (economic related crimes rate)
It : times and sections
 ε : error

In panel data regression, there are three models, namely Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). The Common Effect estimation model is the simplest panel data estimation technique because it only combines time series data and cross-section data (Widarjono, 2013). The Fixed Effect Model (FEM) estimation model is a panel data estimation technique that uses a dummy variable to capture differences in characters between the sections studied as intercepts (Widarjono, 2013). Meanwhile, in the Random Effect Model (REM) estimation model, parameters that differ between sections and between times are included in the error. This model helps us to estimate panel data where disturbance variables may be interrelated between sections and over time (Widarjono, 2013). In this case, to be able to find out which model is the most appropriate estimation, it is necessary to select a panel data model based on statistical considerations. In this case, the model selection is done by using the Chow test, Hausman test, and the Lagrange-Multiplier test. After finding the best model, the next step is to conduct a series of hypothesis testing using t test for partial analysis, F test for simultaneous analysis, and coefficient of determination test to see the Goodness of Model in this study.

RESEARCH FINDINGS AND DISCUSSION

Descriptive Analysis

The following is a descriptive analysis of these variables which are presented in tabular form as follows:

Table 1. The Descriptive Analysis Table

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
POV	0,104531	0,097400	0,231200	0,036100	0,048627
INCOM	0,024615	0,036500	0,188300	-0,154200	0,041640
DSTRB	14.60694	14,63192	15,01268	14,10642	0,216956
EQUAL	0,620809	0,624750	0,732900	0,509600	0,055036

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
OWNRS	0,779121	0,770950	0,973600	0,438300	0,112073
MALPR	6,652513	6,597800	8,623710	4,653960	0,913291
TRNSFR	0,542596	0,565000	0,780000	0,160000	0,122006
STATR	25,44660	25,41336	27,93707	22,49991	1,248795

Based on the table 1, it can be explained that the percentage of the number of poor people (POV) in 2017 to 2020 shows the average value of all samples of 10.4531% with a standard deviation of 4.8627%. Meanwhile, the lowest value is 3.61%. while the highest value is 23.12. The data related to other variables can be observed as shown in the table.

Estimation Procedure

Before analyzing the results of the model estimation, the first step that needs to be done is testing and determining the panel data estimation model to choose the best model to be used in this study, namely the Chow Test, Lagrangian Multiplier Test and Hausman Test. The estimation results of the three models are as follows:

Table 2. The Results of Chow Test, LM Test, and Hausman Test

Tests	Value	Probability	Results
Chow Test	F-Statistic	566.26153	FEM
Hausman Test	Chi-Square statistic	4.134340	REM
LM Test	Breusch-Pagan	142.9107	REM

Based on table 2, the selection of the panel data estimation model in the regression equation in this study is the Random Effect Model (REM) which uses the generalized least square (GLS) method with the following estimation results:

Table 3. The Results of Random Effect Model (REM)

Variable	Coefficient	Std Error	Prob	Results
TRNSFR	-0.009449	0.004369	0.0331	Significant
INCOM	-0.035549	0.014226	0.0142	Significant
STATR	-0.000342	0.000763	0.6553	Not sig.
DSTRB	-0.013249	0.010793	0.2226	Not sig.
EQUAL	0.154575	0.146437	0.2938	Not sig.
OWNRS	-0.011909	0.010524	0.2606	Not sig.

Variable	Coefficient	Std Error	Prob	Results
MALPR	0.001198	0.002248	0.5953	Not Sig.
Prob. T-Stat			0.000205	
R. Squared			0.248842	

Based on table 3, the relationship between exogenous variables and endogenous variables in this study can be formulated as follows:

$$POV_{it} = 0,218107 - 0,009449 TRNSFR_{it} - 0,035549 INCOM_{it} - 0,000342 STATR_{it} - 0,013249 DSTRB_{it} + 0,154575 EQUAL_{it} - 0,011909 OWNRS_{it} + 0,001198 MALPR_{it} + \varepsilon_{it} \dots(4.1)$$

T-test Results

Partial analysis is used to see the individual effect of each variable. Based on Table 3. above, the test results using the Random Effect Model (REM) model show a significant negative relationship between the mandatory & charity transfer variable (TRNSFR) and the increasing income variable (INCOM) on the poverty level (POV). It means that an increase in mandatory & charity transfers as well as an increase in income will have an effect on reducing the poverty rate. So that, these things can be a solution to poverty alleviation in Indonesia. Meanwhile, the variables of the role of the state (STATR), functional distribution of income (DSTRB), equal opportunity (EQUAL), ownership control (OWNRS), and prevention of malpractice in the economy (MALPR) did not significantly affect the poverty level (POV).

F-test Result

Based on the estimation results of the equation with the REM model in Table 3. above it can be concluded that simultaneously the variables TRNSFR, INCOM, STATR, DSTRB, EQUAL, OWNRS, and MALPR have a significant effect on poverty levels in 26 provinces in Indonesia. This can be seen from the F-Statistic probability value of 0.000205 which is smaller than the 5% (0.05) significance level used in this study. In other words, the combination of these variables simultaneously affects the poverty rate in 26 provinces in Indonesia, as the research sample, in the period between 2017 and 2020. Thus, the combination of variables in this research model can affect the poverty rate, so that it can be a solution in poverty alleviation efforts.

Coefficient Determination Test Result

The R-Squared value is 0.248842 or 24.9%. This means that the independent variables in the equation are only able to explain the dependent variable by 24.9% and the remaining 75.1% is influenced by other variables that are not included in the model. This indicates that the poverty alleviation model is still limited in this study, thus allowing further research to combine other variables or proxies to improve this poverty alleviation model.

Discussion

The results of this study found that the mandatory transfer and Charity variables proxied by the National Zakat Index (IZN) had a significant negative effect on the poverty level. These results are in line with the theory expressed by Ahmed (2004), Rahman & Siradjuddin (2020), and Sadeq (1997) where zakat has an important role in alleviating poverty. In addition, empirically the results of this study strengthen previous studies which found that zakat has a significant effect on poverty alleviation (Abdullah et al., 2015; Ayuniyyah et al., 2022; Mariyanti & Mahfudz, 2016; Mohammed et al., 2021; Shaikh, 2016)

This is in accordance with the theory which states that giving in the form of zakat, infaq and alms will essentially grow. Empirically this is because when someone gives zakat or other social funds to people in need, the funds will be used immediately for both consumptive and productive purposes. Then the use of these funds will drive other economic activities and bring added value, so that it can affect the level of poverty. More than that, the results of this study can also be a recommendation for the government as a policy maker to be able to further optimize the role of zakat more broadly.

This study also found that the variable of increasing income which is proxied by the growth of GRDP per capita has a significant negative effect on the poverty level. Theoretically this is in accordance with the opinion of Rahman & Siradjuddin (2020) and Sadeq (1997). While empirically the results of this study are supported by research by Affandi & Astuti (2014), Erlando et al. (2020), Michalek & Jan Vybostok (2019), and Mohammed et al. (2021) who found that economic growth had an effect on poverty levels.

In this case, economic growth will automatically be followed by a vertical flow from the rich to the poor. Thus, the effect of economic growth on poverty reduction is the effect of the flow, which means that the poverty rate will

decrease on a small scale from the total benefits arising from economic growth (Soleh, 2015). Therefore, this study recommends the need for a reassessment of the direction of economic growth, so that the impact can really be felt by every element of society, especially the poor who need it.

The variable of state responsibility which is proxied by the total social assistance budget has no effect on the poverty level. This is theoretically different from the opinion of Rahman & Siradjuddin (2020) and Sadeq (1997) and empirically from the research of Affandi & Astuti (2014), Erlando et al. (2020), Fadly et al. (2021), Lu et al (2020), and Mariyanti & Mahfudz, 2016) which show a significant relationship between the government's role on the poverty level. However, this study is supported by several previous studies (Anderson et al., 2018; Melati & Burhany, 2021; Ridha et al., 2021)

In this case, according to Anderson et al. (2018) differences in research results on the influence of the role of the state on poverty are due to a number of reasons, such as differences in the types of expenditures considered and how they are managed. Furthermore, government spending on transfers and subsidies can have a negative effect on poverty by increasing the real income of poor households, but it also depends on how well targeted and how they are financed (Anderson et al., 2018)

Furthermore, this study shows that the functional distribution of income as measured by the provincial minimum wage (UMP) has no significant effect on poverty alleviation. This is generally different from the theory, where Islam views the importance of a fair functional distribution of income (Affandi & Astuti, 2014; Sadeq, 1997). However, according to Neumark (2015) minimum wages only target low-wage workers, not low-income families. Because the increase in the minimum wage does not affect sectors where the minimum wage does not apply (Gindling & Terrell, 2010). Meanwhile in Indonesia, based on 2021 data from the Ministry of Manpower, the percentage of the number of formal workers in Indonesia is only 40.55 percent, and the rest is 59.45 percent.

Next, this study shows that equal opportunity has no significant effect on increasing income. This is different from the theory which states that one way to increase income or wealth equality is to focus on equality of opportunity (Hipsheer, 2019). Meanwhile, according to Harper et al. (2003) in an effort to eradicate poverty, it is necessary to provide and maintain equal opportunities for the entire population, including through the provision of education. Empirically

this is also different from the results of research by Awan et al. (2011) which states that access to education has a negative effect on poverty levels, and research by Tilak (2010) which states that education levels play an important role in development.

However, the results of this study are supported by research by Amaliah (2015) and Situmorang & Susanti (2020). In this case, the rationalization that can be raised regarding the results of this study is as Daly & Fane (2002) argued that the weakness in the use of education as an effort to alleviate poverty is the fact that at every level of education other than elementary school, the proportion of students from rich families who enrolled is higher than the proportion of students from poor families. Thus, the net benefits of subsidies for education will be channeled more to the rich, not to the poor (Daly & Fane, 2002).

Meanwhile, the ownership control variable, which is proxied by the percentage of the population with access to water, has no effect on the poverty level. This is different from the theory presented by Biltonen & Dalton (2003) and Pandey et al. (2022) which states that there is a strong relationship between water availability and poverty. However, empirically the results of this study are in line with research Sumardjoko & Akhmadi (2019) which found that access to decent water had no effect on poverty alleviation. The interpretation that can be raised from this result is due to the fact that water management in Indonesia is carried out not only by the government but also by the private sector or corporations.

This is in accordance with the research of Al-Hmoud & Edwards (2005) which found that an increase in the number of private investment in the water sector will increase the accessibility and use of water, but does not have a significant effect on socio-economic conditions (Al-Hmoud & Edwards, 2005). Therefore, increasing access to decent water does not have any implications for poverty alleviation. Because to get this access, people have to sacrifice part of their income.

The variable of preventing harmful economic malpractice in this study has no significant effect on the level of poverty. This is different from the theory which states that in Islam, all economic practices that produce something that is socially harmful must be prevented because it will produce wealth at the expense of others (Sadeq, 1997). This empirically also differs from research of Burdett et al. (2004) which found a correlation between high crime and poverty levels.

3 However, the results of this study are in line with the research of Sari & Azhar (2019) which found that crime has no causal relationship to poverty and vice versa. The argument that can explain this result is the possibility that this type of crime tends not to be fully reported Palokoto et al. (2020). In this case, the 2017-2020 Criminal Statistics used in this study only displays data on all crime incidents reported by the public or actions whose perpetrators were caught red-handed by the police (Palokoto et al., 2020). Thus, if the public is reluctant to report the crime incident and is not handled by the police, then the crime is not included in the incident data, and the resulting data tends to be under-estimated.

Nevertheless, the combination of variables used in this study simultaneously has an influence on the percentage of the poor in Indonesia. This means that the poverty alleviation model in the Islamic perspective used in this study can simultaneously be a strategy in poverty alleviation. As for the partial results of several variables that have no effect, it indicates certain conditions that cause these variables do not play a maximum role as explained in the discussion or because of limited proxies in describing the variables in question in their entirety.

CONCLUSION

In this study, the aspects that have a significant effect on the poverty level are the mandatory and charity transfer variables which are measured by the National Zakat Index (IZN) and the income increase variable which is measured by the growth of GRDP per capita. This is certainly very interesting, considering the mandatory and charity transfer instruments in the form of zakat obligations and other alms suggestions which incidentally are one of the uniqueness of the Islamic economic system. Meanwhile, the variable of increasing income which in Islam is manifested in the form of work orders, prohibitions on being extravagant and excessive (*tabdzir*), until the recommendation not to beg is an effective means to increase productivity so that it can generate more added value and increase income. This provides an overview for the government as policy makers to be able to optimize the role of zakat and increase income in reducing poverty, for example by integrating the distribution of *ziswa*f through the provision of working capital more broadly and in an integrated manner towards economic improvement and growth so that it will bring a greater multiplier effect. Another example is the creation of a creative industry cluster or center that is tailored to

the potential of the poor community in an area. This is also a challenge for *amil* zakat institutions and other social funds. This recommendation is a big challenge for institutions in the management and distribution of *ziswaf* funds to create a more optimal impact through the integration of *ziswaf* distribution and economic growth to alleviate poverty. The integration is expected to create an optimal and sustainable impact.

The limitations in this study are the inability of proxies to describe aspects that become variables of poverty alleviation in Islam as a whole. In this case, Islam views poverty as multidimensional and not limited to economic conditions. Moreover, poverty and wealth in Islam are not only related to material aspects, but also include spiritual aspects. However, this is certainly very difficult to measure with empirical models. It is hoped that further research will complement these limitations by analyzing both material aspects and spiritual aspects.

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