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ALLEVIATING INTERGENERATIONAL TRANSMISSION OF POVERTY IN ZANZIBAR VIA ISLAMIC SOCIAL FINANCE

BY

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A thesis submitted in fulfilment of the requirement for the degree of Doctor of Philosophy in Islamic Banking and Finance

IIUM Institute of Islamic Banking and Finance
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OCTOBER 2018

ABSTRACT

In Zanzibar, 30.4 percent of the populations are living under the poverty line. Despite the fact that Zanzibar has recorded considerable success in ensuring basic needs of its people, persistent poverty remains as a big challenge in the Islands. The prevalence of persistent poverty in Zanzibar may be linked to financial exclusion which undermined the business activities as well as acquisition of adequate sustainable livelihood. Given this issue, this thesis investigates the impact of Islamic social finance on the alleviation of intergenerational transmission of poverty in Zanzibar. Having adopted positivism as its philosophical assumption, the researcher has mainly employed quantitative research approach with appropriate method of analysis for this study. The sample size for this study consists of 287 head of households from the Islands of Pemba and Unguja in Zanzibar, and survey questionnaire was used as data collection instrument. To achieve a credible study, Structural Equation Modeling (SEM), based on maximum likelihood estimation, and relevant analyses are used to analyse the collected data from relevant respondents. The results indicate that both involuntary and voluntary Islamic social finance exclusion barriers exist in the Islands, and they both significantly account for the financial exclusion of the households. Involuntary Islamic social finance exclusion was found to be a barrier to both the development of micro and small enterprises, as well as the acquisition of sustainable livelihood assets by the poor. However, voluntary Islamic social finance exclusion was found to have an impact on the development of micro and small enterprises, but not to the acquisition of sustainable livelihood assets. Finally, the study has offered several recommendations with regard to the means and practices of poverty alleviation in Zanzibar via Islamic social finance.

خلاصة البحث

كزت هذه الدراسة بصورة مباشرة على معرفة أثر التمويل الاجتماعي الإسلامي على تخفيف من حدة الفقر في زنجبار التي تعيش فيها حوالي 30.4 في المائة من السكان تحت خط الفقر. على الرغم من حقيقة أن زنجبار سجلت نجاحاً كبيراً في ضمان الاحتياجات الأساسية لشعبها، لا يزال الفقر المستمر يشكل تحدياً كبيراً في المنطقة. قد يرتبط انتشار الفقر المستمر في زنجبار بعدم إمكانية الحصول على التمويل المالي، مما نتج عنه تقويض الأنشطة التجارية فضلاً عن اكتساب سبل العيش والتنمية المستدامة. تبحث هذه الأطروحة في تأثير التمويل الاجتماعي الإسلامي على تخفيف انتقال الفقر بين الأجيال في زنجبار. بعد اعتماد الفلسفة الوضعية كافتراض فلسفي، استخدم الباحث بشكل أساسي نهج البحث الكمي مع طريقة التحليل المناسبة لهذه الدراسة. ويتألف حجم العينة لهذه الدراسة من 287 من الأسر التي تعيش في جزيرتي (بيمبا و أونقوجا) في زنجبار، واستُخدم الاستبيان الاستقصائي كأداة لجمع البيانات. لتحقيق دراسة ذات مصداقية، يتم استخدام نمذجة المعادلات الهيكلية (SEM)، على أساس الحد الأقصى لتقدير الاحتمال، والتحليلات ذات الصلة لتحليل البيانات التي تم جمعها من المستجيبين ذوي الصلة. وتشير النتائج إلى وجود عوائق استبعاد إجباري ومتطوع إسلامي في التمويل الاجتماعي في الجزر، وكلاهما يفسر بشكل كبير الإقصاء المالي لمعيشة الأسر من العينة المستهدفة للدراسة. ووجد أن اقصاء التمويل الاجتماعي الإسلامي غير الطوعي يشكل عائقاً أمام تطوير مؤسسات التمويل الأصغر، فضلاً عن اقتناء الفقراء لأصول سبل العيش المستدامة. ومع ذلك ، فقد وجد أن الإقصاء الاختياري للتمويل الاجتماعي الإسلامي له تأثير على تنمية المشاريع الصغيرة والصغيرة ، ولكن ليس على اكتساب أصول سبل العيش المستدامة. وأخيراً ، قدمت الدراسة عدة توصيات فيما يتعلق بوسائل وممارسات التخفيف من حدة الفقر في زنجبار عن طريق التمويل الاجتماعي الإسلامي.

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DECLARATION

I hereby declare that this thesis 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 thesis is dedicated to my family, friends, and other well-wishers for their supports in its entire ramifications toward making my dream of acquiring a Ph.D. degree a reality.

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious, the Most Merciful. All praise belongs to almighty Allah, the lord of the entire universe. All my thanks go to Almighty Allah for giving me the opportunity, strength, knowledge, and wisdom to complete this programme.

My sincere appreciation goes to my supervisor, Assoc. Prof. Dr. Adewale Abideen Adeyemi, for his patience, constructive comments, and constant support for my PhD study. I am equally indebted to my respected co-supervisor, Prof. Dr. Mustafa Omar Mohammed, for his fatherly and valuable contribution towards accomplishing this particular programme. Their guidance meant a lot to me from the start to completion of this thesis. I pray to Allah to shower His mercies on both of them and increase their knowledge and lifespan with good health in this world; so that they can contribute to the development of Ummah and humanity, amen. I must also express my sincere gratitude and appreciation to the Dean of Institute of Islamic Banking and Finance, Assoc. Prof. Dr. Syed Musa Alhabshi, former Deputy Dean (Academic and Student Affairs), Prof. Dr. Rusni Bt Hassan, and all lectures and administrative staffs who have contributed significantly to this great academic achievement.

Also, I am deeply indebted to the Zanzibar University for the sponsorship received for my doctoral programme. More so, many thanks go to the members of the Tanzanian Students Union in the International Islamic University Malaysia for their valuable support for my study. Let me as well acknowledge the support of the staffs of the Waqf and Trust Commission, Zanzibar. Moreover, I thank the staffs of the Second Vice-President's Office-Zanzibar for their supports at various stages of my studies. Of the respondents for whom research instruments were administered, friends, students, and colleagues who assisted with the administration of the research instruments and edited numerous drafts of this thesis, I say a very big thank you.

Many thanks to my beloved parents, my father Ussi Hamad Ussi and my mother Fatma Rashid Khalid, my late father in-law, Ali Abdalla Ali (may Allah grant him the highest paradise (Al- Jannat Firdaus)), and my mother in-law, Hadia Ali Said. I am also highly indebted to all my brothers and sisters, as well as well-wishes for showing their love throughout of my study; I say thanks to you all. May Almighty Allah grant all of us happiness, bless our family, and give us long life and prosperity, amen. In particular, my special thanks go to my brother, Mr. Habib Ussi Hamad, for his sincere advice, concerns, and moral supports.

Finally, this study would have been impossible without the love, affection, support, patience, sacrifice, advice, as well as continued encouragement I received from my beloved wife, Ukhty Mwana Ali Abdalla; for your information, is to you my love belong. This appreciation would not be completed without documenting a special thanks to my sons, Akhtar and Azhar, may Allah reward you all immensely, amen.

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LIST OF ABREVIATIONS

AGFI	Adjusted Goodness of Fit Index
AMOS	Analysis of Moment Structures
ASC	African Studies Centre
ASV	Average Shared Variance
AVE	Average Variance Extracted
CBN	Central Bank of Nigeria
CFA	Confirmatory Factor Analysis
CFI	Comparative fit index
CGAP	Consultative Group to Assist the Poor
CMIN	Minimum Chi-square
CR	Composite Reliability
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DEA	Data envelopment Analysis
DFID	Department for International development
DoE	Department of Environment
DPRN	Development Policy Review Network
DW	Deutsche Welle
EFA	Exploratory Factor Analysis
EU	European Union
FDIs	Foreign Direct Investments
FGD	Focus group discussion
FI	Financial Inclusion
GDP	Gross Domestic Product
GFI	Goodness-of-fit index
HBS	Household Budget Survey
IFMR	Institute of Financial Management and Research
IGTP	Intergenerational transmission of poverty
IRTI	Islamic Research and Training Institute
ISF	Islamic Social Finance
IsMF	Islamic Microfinance
IWIM	Integrated Waqf-based Islamic Microfinance
JPAID	Journal of Poverty Alleviation and International Development
LTI	Tucker Lewis index
MDG	Millennium Development Goal
ME	Microenterprises
MFIs	Micro Finance Institutions
MIFC	Malaysia international Islamic Finance Center
MKUZA I& II	Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Zanzibar
MSE	Micro and Small Enterprises
MSMEs	Micro, Small and Medium-sized Enterprises (MSMEs)
MSV	Maximum Shared Variance
NGO	Non-Government Organization
OECD	Organization for Economic Co-operation and Development
OIC	Organization of Islamic Cooperation

PRATIO	Parsimony ratio
RBI	Reserve Bank of India
RMR	The root means square residual
RMSEA	The Root Means Squared Error of Approximation
SEM	Structural Equation Modeling
SLA	Sustainable Livelihood Asset
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
SR	Social Responsibility
SRMR	Standardized Root Mean Residual Value
UFA	Universal Financial Access
UII	University Islam Indonesia
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
US	United State
WTCZ	*Waqf* and Trust commission Zanzibar
ZI	*Zakat* Institution
ZPRP	Zanzibar Poverty Reduction Plan
ZSGRP	Zanzibar Strategy for Growth and Reduction of Poverty

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Poverty is one of the main social concerns of many countries around the world. According to the World Bank's (2016) estimate on poverty, 10.7 percent of the world's population are living on less than US$1.90 a day and most of them are from developing and less developed countries. In some cases, even developed countries are not spared from the menace of poverty. For example, data from the Census Bureau (2014) indicates that 15.5 percent of the United State population, or 48.7 million individuals out of 315 million total population in 2013, are poor.

Moreover, more than two-thirds of the world's poor people are living in Asia, and nearly half of them are domiciled in Southern Asia (World Bank, 2009). The most affected areas with which up to 80 or 90 percent of poor are in the rural areas (IFAD, 2010). Poverty has been the main cause of hunger, malnutrition, illiteracy, diseases, and social problems around the world. According to Asia Development Bank (2012), hunger affects nearly 60 percent of the Asian population who are 65 percent extremely poor and 81 percent of their children are underweight.

While this is the case in Asia, the situation in Africa is much more the same, if not alarming; particularly in the rural areas which account for 70 percent of the poverty incidence (Thomas & Zuberi, 2012). Tanzania, which is the focus of this study, is no exception. More than 28.2 percent of Tanzanians are poor as in 2012. In 2016, the World Bank report emphasizes that approximately 70 percent of Tanzanians continue to live on less than US$2.00 a day. In Zanzibar which is semi-autonomous part of Tanzania and almost 100 percent *Muslims*, poverty remains a big

challenge. For example, poverty level increased to 40.2 percent in 2010 from 17.6 percent in 2009.[1] A survey conducted by the Zanzibar Household Budget Survey 2014/2015 shows that 30.4 percent of the Zanzibar population (approximately 443,540 people) is living on less than TZS 53,377 (USD 25) a month (ZHBS, 2016).

According to Borgen Project (2014), about one-fifth and a quarter of the population of people living in the developing countries is faced with hunger and malnutrition respectively. In Tanzania, the issue of hunger is mentioned by the 2010 Global Hunger Index which ranks the situation as "alarming". According to Tanzania Demographical Health Survey (DHS) (2015/2016), 34 percent of children under the age five are stunted (shorter than their age); five percent are wasted (thin for their height) and 14 percent are underweight (thin for their age).

The DHS also corroborates the trend observed by the Tanzania National Survey (TNS) for Zanzibar; the statistics of malnutrition show that 35 percent of children below five years are stunted, 25 percent are underweight and six percent are wasted (TFNC, 2014). Also, poverty has an impact on education attainment in Zanzibar. For example, 40 percent of Zanzibaris are illiterate with 60 percent of these being women (ZPRP, 2002). In addition, the data from the Household Budget Survey (2014/2015) shares the statistics that 42.5 percent of the head of household in Zanzibar has no education.

Generally, poverty can be broadly classified into absolute and relative poverty. The former refers to the poor's inability to meet basic survival needs, such as food, clothing and shelter, while the latter reflects inequalities resulting in unemployment, low income, poor health care coverage, and lack of education. Surprisingly, half of the world extreme poor are living in Sub-Saharan Africa, according to the World Bank

[1] The speech of the Minister of Finance ZANZIBAR 2016, Dr. Khalid Salum Mohamed

(WBG, 2016). Similarly, Roser and Ortiz-Ospina (2017) contend that the world population living in absolute poverty have increased significantly over a period 195 years (1820-2015). In the 1820, notwithstanding the population of the world was just under 1.1 billion people, more than 1 billion lived in extreme poverty. It is clearly indicated that poverty is not a static; rather, a dynamic social menace capable of transferring from one generation to another through different factors (Bellani & Bia, 2016) Transferring of poverty from generation to generation is referred to as intergenerational transmission of poverty (IGTP) (Adewale, 2010).

The concept of IGTP refers to a transmission of poverty from one generation to another in such that, poor parents are likely to have poorer children who, in sequence, are predicted to become poor adults in themselves. According to Jenkins and Siedler (2007a), intergenerational transmission of poverty is all about persistence of poverty across generations. In such instance, individuals who experienced poverty during childhood and adolescence are highly susceptible to being poor in adulthood relative to their cohorts that grew up in affluence. There is widespread concern that material disadvantage is transmitted across generations from parents to children (Jenkins & Siedler 2007b).

Grundiza and Vilaplana (2013) explain the meaning of intergenerational transmission of poverty as the persistence of low level of education, low ability to make ends meet, or the economic situation "not at work" of individuals through two generations from parents to their children. From this definition, there are three individual factors interlinked to one another and important for analysing the causes of intergenerational transmission of poverty. For instance in the EU-28, 22.0 percent of current adults are within the low level of education, 15.9 percent of current adults are

within the low education and low ability to make ends meet, and 9.3 percent of current adults have low education and are not at work (Grundiza & Vilaplana, 2013).

More so, a study conducted by Bellani and Bia (2013) retrospectively used the module on intergenerational transmission of 2005in which case questions relating to parental demographics such as education, age, occupation were asked to guage the susceptibility of children to being poor in adulthood. The result obtained indicate that being poor in childhood decreases significantly with the level of income at adulthood (of around 3,000 euro on average), but there is an increasing probability of being poor by upward of three percent.

Similarly, Bellani and Bia (2016) in their study on over 27 European countries noted that the probability of IGTP in adulthood increases by five percentage points in the risk of being poor in adulthood and a decrease of five percent in the adult equivalent income. Moreover, Bellani and Bia (2016) revealed further that the prevalence of IGTP increases likely exclusion from secondary education by 12 percentage points on average, which also accounts for almost 35 percent of the total effect on adult income.

In Sub-Sahara African, the intergenerational transmission of poverty has resulted from many factors in the society. Among these factors are inequalities, lower investments in the education, discrimination based on ethnicity or gender, and others (Smith, 2006). Similarly, a pilot study conducted in Ghana and Gambia in 2003 shows that young and low-income people in Ghana and Gambia involved in a variety of work activities from child labour. According to Cooper (2010), in Zimbabwe fathers may neither transfer cattle to sons for their bride wealth nor assign a significant portion of their farmlands until a stage where the former's own physical capacity is considerably diminished. Cooper (2010) indicates that intergenerational transfers of

property should be considered in terms of several different and potentially competing interests among family members, and indeed between family members of different generations.

Specifically, Zanzibar as a part of Tanzania has also been affected by the problem of intergenerational transmission of poverty for a long period of time despite of the efforts that have been taken to deal with the problem of poverty in general. To address this concern, a survey conducted by Household Budget Survey in 2014/2015 showed that 74.3 percent of the people living in rural areas are more affected by this problem of IGTP due to their believe that having many children in the family is among the ways of being rich. Their expectation is that at least some of these children will succeed in their future life and help their parents. However, the problem starts from the parents by failing to provide quality secondary education or even primary education for their children.

More importantly, dependency ratio is also a leading cause of intergenerational transmission of poverty in Zanzibar. Kessy and Omar (2017) justify that population structure of Zanzibar is dominated by children and youth, and has high dependency ratio (86 percent in 2014/2015).This that shows large households are more likely to have higher dependency ratio than smaller households. Apart from dependency ratio, education level is another factor which contributes to the existence of Intergenerational transmission of poverty. The data of HBS 2014/2015 shows that, in Zanzibar, there is a decrease in the population with no education from the young aged group from 41.2 percent to 27.4 percent, and subsequently to 17.2 percent from 2004/2005, 2009/2010, and 2014/15, respectively.

The revolution government of Zanzibar (RGoZ) through the Ministry of Finance and Economic Affairs has suggested different strategies and policies to

reduce poverty in the Islands. In the year 2000, Zanzibar launched the Zanzibar Development Vision of 2020 which gives a blueprint of social, political, cultural, and economic philosophy of the government. The drive of the vision is the eradication of absolute poverty and attainment of sustainable development. The Zanzibar Poverty Reduction Plan (ZPRP) is the first generation of national development framework to implement the vision of 2020 and was launched in 2002. This strategy worked for three years up to 2005 and divided into three areas, namely; macro-economic, provision of social services, and good governance. It focuses on reducing income poverty, improving human capabilities, survival and social well-being, and containing the extreme vulnerability; however, the strategy was faced with a lot of obstacles in its implementation (ZSGRP, 2010)

The impediments in execution, and lack of proven evidence of success of the ZPRP as highlighted by the stakeholders during a review process culminated into the launching of the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP I).[2]This is a second generation of the national development framework to implement Vision 2020 which was launched in 2007 and worked for three years up to 2010. The main focus is to ensure attainment of sustainable growth, reduction in both income and non-income poverty among the citizens of Zanzibar. Moreover, the ZSGRP (2007-2010) also provides support for small and medium enterprises (SMEs) through business development supports. Although some achievements have been recorded from this strategy, poverty nonetheless, remains a big challenge in the islands of Zanzibar (Khatib, 2015).

[2] In its Kiswahili also known as Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Zanzibar (MKUZA I).

Moreover, another strategy was launched for the Vision 2020 in the year 2010; The Zanzibar Strategy for Growth and Reduction of Poverty II (ZSGRP II)[3] is a five years strategy plan (2010 to 2015). The reasons for implementing this strategy are to improve the areas that are found to be lacking or inadequately covered in MKUZA I. In addition, the strategy aims to increase access to business development services with affordable financial services.

Apart from protecting human rights, the strategy aims to empower all members of the society in order to enable them to realize their potentials in contributing to their livelihoods. This is because the livelihood assets[4] are the most valuable assets if used properly, and could help sustain the present and future generations. However, they are hindered by the failure in gaining access to financial resources needed to invest in new business (Hassan, 2013).

More recently, small and medium enterprises (SME's) in Zanzibar are still faced with the problem of financial support, technological inadequacy, financial management and management capability, and skills (Makame, 2014). These problems that are faced by SMEs in Zanzibar are attributed to some of the following reasons; (a) 98.4 percent of small businesses in Zanzibar are formally owned by sole proprietors, and (b) only 3.4 percent of small businesses are registered under Business Registrations and Licensing Agency (BRELA) (NBSR, 2012). So, it is very difficult to be eligible for access to formal financial services.

In addition, there is a lack of livelihood assets management strategies and the roles in livelihood assets acquisition in Zanzibar (Jayaweera, 2010). According to the 2014 Youth Map Assessment's report, the policies/strategies established in Zanzibar

[3] or MKUZA II in its Kiswahili acronym,
[4] Are the resource bases of the community and of different categories of households. The different types of assets can be human, natural, financial, physical and social.

(ZPRP 2002, ZSGRP 2007-2010, and ZSGRP 2010-2015) fail to prepare youth to take advantage of livelihood opportunities in Zanzibar. Therefore, the policies introduced by the government of Zanzibar for poverty alleviation seems to have failed; as such, there is a need to look for another alternative.

To alleviate intergenerational transmission of poverty, a combination of positive, preventive, and corrective measures have been suggested from time to time by various researchers. Researchers expect society to take such positive measures via Islamic social finance (*zakat, Waqf, sadaqah* and Islamic microfinance) as the dimensions toward poverty alleviation. According to Mohd Ali, et al. (2015), allocation of the perfect amount of *zakat* distribution to eliminate poverty and offering the alternative *zakat* distribution model is the best way to reduce income inequality and to maximize the social welfare in Zanzibar. For this reason, Nadzri, et al. (2012) suggest that effective use of *zakat* institution for poverty alleviation would improve if collaborated with other institution, like Islamic microfinance. Therefore, the integration of Islamic social finance sectors can be an alternative instrument/institution to alleviate intergenerational transmission of poverty.

Islamic social finance offers an Islamic platform whereby its financing can be better leveraged to reduce vulnerability (Obaidullah & Shirazi, 2017). The primary objective of Islamic social finance is to meet the needs of the poor and to make a dent on their ever rising level of poverty (Obaidullah & Shirazi, 2015). This mechanism – Islamic social finance – is becoming increasingly linked to the developmental architecture that explores opportunity in the humanitarian sector. The statistics from the World Humanitarian Summit held at Istanbul in 2016 show that the Islamic finance industry's assets are presently estimated to be worth USD 2 trillion and are forecast to rise to USD 5 trillion by 2020 (WHS, 2016). This expectation can be