

## **DEBT TAKING AND CHARITY-GIVING AMONG LOW-INCOME HOUSEHOLDS: STRENGTHENING RESILIENCE IN ISLAMIC PERSPECTIVE**

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### **ABSTRACT**

Households' financial problem was perceived to be solved by taking other source of fund such as debt. In Islam, taking debt should be considered as the last resource when other sources were not available. Islam gives solution for those who have financial problems. Giving just small amount of money would give *barakah* to the giver. Charity-giving is not privilege for the wealthy, but also for those in dire conditions. This paper attempts to explore whether low-income households' perception on consecutive debt influences their perception on regular charity-giving, especially to achieve stipulated outcomes, i.e. households' financial resilience. Structural Equation Modelling (SEM) is employed to analyse 1780 data from respondents across six areas in Indonesia. Low-income households perceived consecutive debt taking to have negative relationship with regular charity-giving and positive relationship with outcomes (households' financial condition and lifestyle satisfaction). Meanwhile, regular charity giving has negative relationship with the outcomes when consecutive debt taking intervene the relationship. Financial education and selection of financing institution have been proven to correlate with variables that influence both regular charity-giving and consecutive debt-taking behaviours. As a recommendation, charity education or sharing values should be included in the current financial education program. Formal financial institutions and social finance institution should also encourage supervision and continuously give financial education to social funds receivers.

**Keywords:** *Debt-taking, Charity-giving, Low-income Households*

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## I. INTRODUCTION

Financial inclusion is among the ways to promote financial resilience in household domestic life. However, it should be complemented by skills that are prevailed by targeted group. Some researchers found that it is not only about financial management, but also beyond it, which affect resilience in finance, i.e. psychological reasons such as attitude towards debt and financial expectation (Ahmed, Ismail, Sohail, Tabsh, & Alias, 2010; Brown, Garino, Taylor, & Price, 2005; Keese, 2012).

In Indonesia, psychological issue has emerged as some of low-income people were found begging as their solution to their financial problem. Sudrajat (2016) revealed that at least seven beggars were caught by hand to have income more than six million rupiah (around USD448), even one of them had 20 million rupiah in his pocket. Instead, they should be giving zakat and become *muzakki*<sup>4</sup> (zakat payer) with that amount of money in their hand. This fact implies that they would prefer taking money rather than giving money as their attitude towards money. By taking money, it also would imply that more money could be achieved from external sources other than internal source.

Low-income group in Indonesia, who had disposable income less than five million rupiah, was also found to have the biggest portion of debt-service ratio among other groups in Indonesia (Bank Indonesia, 2014). The reason was logic that they need extra money, other than from internal source of fund to fulfil their needs. They would get extra money from external source, such as family and friends, or other financial institutions. Santoso and Sukada (2009) found that non-bank institutions become more popular in Indonesia from 2001 to 2009, as consumer financing from non-bank institutions was increasing. Households' financial problem was, then, perceived to be solved by taking debt.

In Islam, taking debt should be considered as the last resource when other sources were not available. Debtor should have a strong intention to repay the money, no matter how much the amount of debt is. Once debtor avoid repaying the money or does not have any intention to repay back, even for a small amount of debt, it could not be repaid.

Islam also gives solution for those who have financial problem. It is suggested to give charity rather than taking money. Giving just small amount of money would give *barakah* to the giver. Charity-giving is not privilege for the rich people, but also for those in dire conditions (Qur'an, 3:133-134).

Arsyianti and Kassim (2016) suggest that debt per income affects regular charity-giving positively where debtors with lower debt per income ratio are more likely to give charity regularly. How do low-income households perceive debt and charity in their life? This paper attempts to explore whether low-income households' perception on consecutive debt-taking influences their perception on regular charity-giving especially in order to achieve stipulated outcomes, i.e. households' financial resilience.

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4. Muzakki is zakat payer. In Indonesia, Zakat Management Act No. 23/2011 divides muzakki into two, i.e. individual Muslim and legal entity (corporation).

## **II. LITERATURE REVIEW**

In accordance with financial resilience, individuals need to show appropriate behaviours related to cash management; credit and debt management; planning for various life cycle events such as marriage, education, retirement, estate planning; and consumerism. Individuals' attitude is a subjective perception that leads to proper behaviour towards personal financial wellness. Financial knowledge is also a significant component of subjective perception. In the theory of knowledge-attitude-behaviour (KAB) model, it is stated that financial knowledge can influence financial attitudes and lead to better financial behaviour, thus better financial wellness (Joo, 2008).

### **2.1. Theory of Planned Behaviour**

One of the theories that explain the behaviour of humans is theory of planned behaviour (TPB). TPB was developed by Ajzen (1991). TPB framework tries to predict and to understand human behaviour. TPB is an extension of the theory of reasoned action (TRA) (Ajzen, 1991). TRA was introduced by Fishbein in 1967. According to the TRA, a behaviour of an individual is determined by his/her intention in performing a particular behaviour. The intention is determined by attitude towards the behaviour, the subjective norm, and the relative importance between attitude and the subjective norm (Xiao, 2008).

Later, the theory of planned behaviour was developed, and perceived control was added to the model to determine the behaviour intention and behaviour. Based on this model, the theory was then renamed theory of planned behaviour (Ajzen, 1991). According to this theory, behavioural intentions are influenced by attitudes towards the behaviour, subjective norms, and perceived behavioural controls. In turn, behavioural intention influences one's behavioural patterns (Ajzen, 1991; Ajzen & Fishbein, 1969).

Behaviour itself is not an outcome since it only contributes partly to the outcomes (Ajzen & Fishbein, 1980). Outcomes result from both one's own behaviour and other possible factors in many situations. Consecutive debt-taking might lead to bad liability performance and increased debt service ratios, given other factors remain stable. In terms of bad liability or insolvency, DeVaney (1994) has studied financial ratios as predictors of household insolvency in the United States (US). By using Survey of Consumer Finance data in 1983 and 1986 and utilising Logistic Regression method and Classification Tree procedure (CART), it was found that liquidity, asset to liability ratio, and debt payment over disposable income (debt service) ratios appeared to be the most useful indicators to predict insolvency of households.

Xiao and Wu (2008) have examined factors affecting consumer behaviour in conducting debt management plan. They found that attitude and PBC affected the actual behaviour, but subjective norm did not. In addition, they found that satisfaction with the service also contributed to the actual behaviour. Meanwhile, demographic factors did not affect actual behaviour directly. Rather, it is indirectly affecting behaviour through other factors (attitude, perceived behavioural control, subjective norms, and intention).

Attitude, perceived behavioural control and subjective norms influence specific behaviour through intention. Intention reflects the motivation of an individual

to perform specific behaviour. It measures how strong the motivation is as well as how much effort an individual makes to perform such behaviour. Attitude, perceived behaviour, and subjective norm are independently prompting influence (Ajzen, 1991).

Outcomes are consequences for having specific behaviours as stated in the Theory of Social Production Function (Lindenberg, 1996). Outcomes of low-income households to be predicted are consecutive debt-taking and regular charity-giving. Consecutively taking debt influences insolvency capability of household reflected by financial ratios to achieve physical financial well-being as mentioned by DeVaney (1994). Meanwhile, regular charity-giving influences social well-being satisfaction as elaborated in the theory of social production function. Arsyianti and Kassim (2015) found that debt service ratio significantly influenced regular charity-giving behaviour, while Arsyianti and Beik (2015) found that charity per income did not significantly influence debt service ratio.

## 2.2. Debt-taking Behaviour

Keese (2009) found that being indebted and over-indebted may fall in the same area of discussion. Somebody can be over-indebted when they immensely depend on external financial source including social security, and their disposable income cannot cover their debt due to their behaviour in taking debt consecutively without paying it back. Investopedia.com (2016) defines debt as borrowing money from another party, which one could not afford in normal circumstance and need to be paid back later. However, being indebted does not mean over-indebted although the debt service ratio (DSR) is high, since a lender would not give a qualified financing scheme to a borrower who has 43% of DSR subject to several circumstances.<sup>5</sup>

In term of third party, source of funds, Matin, Hulme and Rutherford (2002) state that the poor cannot rely on charity-taking in emergency situation. The three methods they use in emergency circumstances are selling assets, taking loans from pawn broking, and withdrawing small savings. In Islamic viewpoint, as narrated by at-Tirmidhi (2344, 36:41), a bird flying in the morning with an empty stomach and going back with a full stomach is described as manageable living. Furthermore, one should have work ethics and obey Islamic rule (Qur'an 9: 105; 67:15), or otherwise, instead of receiving blessings, one will suffer from calamities (Qur'an 7:95-96). One of the calamities is suffering from a heavy debt, as narrated by an authentic hadith in Bukhari (6369, 80:66) in hadith. By using cross-section and time series approach, Rinaldi & Sanchis-Arellano (2006) also found that household arrear to payment obligation might cause them to become more vulnerable in their income and wealth.

As behaviour is affected by attitude as suggested by Ajzein (1991), Pattarin and Cosma (2012) divide attitude into cognitive, emotion, and behaviour elements. Therefore, debt attitude includes the stance of someone in taking debt, even if the consecutive debt taking is encountered for fulfilling family needs and the debtor

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5. Investopedia. (2017). Total Debt Service Ratio. Retrieved from [http://www.investopedia.com/terms/q/qualifying\\_ratios.asp](http://www.investopedia.com/terms/q/qualifying_ratios.asp)

has no worry in taking the debt. Bagozzi, Baumgartner, and Yi (1989) point out that attitude is about trying to do something rather than the actual behaviour itself. Meanwhile, attitude factors consist of favourable, neutral, and unfavourable appraisal towards consecutively taking debt behaviour. It is developed from belief that people hold and should include cost and benefit effects (Ajzen, 1991).

In term of subjective norm, Ajzen (1991) suggests that the role of important others, including spouse, parents, close friends, and siblings, is important in influencing behaviour, which consists of the prompting of referent individuals or groups. The referents give approval or disapproval towards taking debt consecutively. Subjective norms are strengthened by normative belief that the important others approve or disapprove regarding taking debt consecutively, as well as motivation to comply when the debtors-to-be cares whether the referents approve or disapprove. Therefore, the subjective norms consist of whether their spouses, parents, close friends, and siblings' agreement is considered important or not.

Perceived behaviour control has important role in controlling belief that comprises resources and opportunities, as well as obstacles and impediments (Ajzen, 1991). It refers to debtors' experience or second-hand experience of performing consecutively taking debt. Pattarin and Cosma (2012) suggest that better feeling in life and idea can influence this factor. Therefore, perceived behavioural control consists of elements measuring whether better life motivates the debtors in taking debt consecutively. It also relates to the idea of taking debt consecutively in the sense of having something now but the payment is made later. Taking debt consecutively also points out that somebody or some institution like insurance or *amil*<sup>6</sup> can cover any debt, so it is easy for a debtor to take debt consecutively (Keese, 2009; Xiao & Wu, 2008).

Intention reflects debtor's willingness to take debt consecutively (Ajzen, 1991). Brennan, Zevallos and Binney (2011) found that debt as a way of life carries the willingness to take debt consecutively. Meanwhile, Brennan et al. (2011) see willingness as being promoted by survival in society.

Bagozzi et al. (1989) have quoted some intention definitions that are related to volitional, determination, purpose, willingness, deliberateness to accomplish or attain. Meanwhile, Ajzen and Fishbein (1969) predicted intention as a respect or perception towards performance to a certain act. Ajzen (1991) mentions further that intention is related to the extent of how hard and how much effort that an individual is willing and planning to exert. Biasness overestimation of likelihood to perform the act might exist and result in inconsistencies (Gopi & Ramayah, 2007). The likelihood of change in intention exists when the interval period is greater.

### 2.3. Charity-giving Behaviour

Charity has a wider scope than donation. It includes blood donation, other than monetary donation (Kashif, Sarifuddin, & Hassan, 2015). Lichtenberg (2009)

6. *Amil* is the agent of zakat funds. It collects, distributes, and manages all zakat and charity funds so it can be circulated in the society.

found that “charity” comes from “caritas” in Latin which means love. It promotes welfare, education, religion, as well as initiatives benefited by society (Shaikh & McLarney, 2005).

Charity giving is commanded not only on those who are able but also on those who are afflicted (Qur'an, 3:134). Allah has also highlighted the commandment to the believers to give charity before their life ends, because once they are dying, those who have never paid charity will regret and request Allah to postpone their death so that they can give charity (Qur'an, 63:10). Irrespective of man's economic condition, whether in richness or in poverty, charity giving is important in human life.

According to Nesbit, Christensen, Tschirhart, Clerkin and Paarlberg (2013); Pharoah and Tanner (1997); and Prouteau & Sardinha (2013) charity is given regularly. As also studied by other researchers (Smith et al., 2010; Wiepking & Maas, 2009; Wiepking et al., 2009; Wright, 2001; Beldad et al., 2015), charity is given on a monthly basis. The term “regularly” means to explore more on the intention (Beldad et al., 2015). Beldad et al. (2015) determine the factors influencing intention of repeated donation or the donors' willingness to continue donating among Dutch and American donors in particular to certain institutions.

Reward, on the other hand, will be given for charity giving behaviour as much as 700 times (Qur'an 2:261). Giving charity is also described in the Qur'an (35:29-30) as trading that would never incur any losses. Prophet Muhammad (pbuh) as reported by Abu Dawud (Abu Dawud 2865, 18:4) also stated that among the best charities is when one expects survival and fears poverty. Combining those verses and hadith, it can be concluded that charity giving can be the way to overcome indebtedness and other life difficulties faced by humans including those who are in the low-income group. Poverty will not prevent a poor person from making charity giving as his/her lifestyle.

As a solution offered by Islam, charity scheme can successfully assist low-income households experiencing financial hardship. The Meranti Regency, which is located in the Riau Province of Indonesia, is one of the best examples of the implementation of a charity programme that has resulted in charity recipients being successfully transformed into charity givers. A hundred and thirty six (136) poor households whom were categorized as *mustahiq*<sup>7</sup> (zakat<sup>8</sup> recipients)

7. *Mustahiq* comprises eight groups of people as stated in the Qur'an, 9:60. They are the poor, the needy, the officials (appointed) over them, those whose heart are made to incline (to truth) or *muallaf*, the ransoming of captives, those in debts, those in the way of Allah and the wayfarer.

8. Zakat is a charity-giving obliged for Muslim whose wealth has been exceeded specific amount called *nisab*. Present perfect sentence here is used because the wealth also needs to be held within specific haul, i.e. one year. The indicator of wealth *nisab* can be approached through one's monthly income. As stated in Hafidhuddin (2002, p. 97), it is called “zakat of profession”. *Nisab* “zakat of profession” in Indonesia derived from an equal amount of 653 kilograms of paddy or wheat, which are collected every month when Muslims received their income. There is no haul in “zakat of profession” since it is derived from zakat of agricultural, where Muslim farmers whose production output exceeded *nishab* are obliged to pay zakat right away during the harvest time (Qur'an, 6:141). The nature is the same as employee or entrepreneur or any other profession who usually calculate their income in monthly periodic. Collected zakat funds, then, must be distributed to *mustahik*, the recipients of zakat funds.

have become *muzakki* (zakat payers) in a model that combined debt, savings, and charity<sup>9</sup> organized by BAZNAS Meranti. BAZNAS Meranti is an *amil* institution of the Meranti Regency Board of Zakat. Aside from Meranti district, de Oliveira, Eckel and Croson (2012) also studied the contributions of low-income people to their low-income peers, showing that low-income community can be developed through contributions, either donations or volunteering activities, between and among each of them.

In the context of theory of planned behaviour, attitude in regularly giving behaviour consists of benefit and cost elements in doing so. Charity, which financially looks like a shortfall of our wealth, can empower the society through convincing programmes done by many philanthropic organisations in Indonesia (Fernandez, 2009; Rohima, Suman, Manzilati, & Ashar, 2013). The power is even stronger when people start giving regularly since the programmes are not depleted in one shot, except for the elderly. Otherwise, any disputable action may cause the programme to fail (Erb, 2006). Nesbit et al., (2013) and Bekkers and Wiepking (2007) suggest that regular charity-giving would help the community. Thus, if someone has been regularly giving charity to, for example a religious organisation, he/she would never stop giving even though that organisation has collapsed. He/she could find another organisation to accommodate his/her behaviour. In the Qur'an Surah ar-Rum verse 39, Allah compares *riba* with charity that even though *riba* looks like is increasing our wealth, *riba* actually decreases it, but charity that looks like it is decreasing wealth, is actually increasing it.

External influence locus of control (Bekkers & Wiepking, 2007; Bekkers & Wiepking, 2010; Kashif, Sarifuddin, & Hassan, 2015) and positive expectancy of success (internal motive) were also assessed in regular charity-giving behaviour (Ajzen, 1991; Kashif et al., 2015). Thus, the lesser level is when the respondents were not willing to give charity monthly, no external locus of control, and negative expectancy of success in regular charity-giving behaviour.

In terms of perceived behavioural control, the factors consist of control belief that comprises resources and opportunities, which has been stated in the Qur'an Surah al-Baqarah (2) verse 261-262 that Allah will multiply the rewards for those who spend their property in the way of Allah. Thus, it will improve a Muslim's life, making it better than before. Alternatively, it may become an obstacle and an impediment, for example, a household may feel that giving charity is costly; therefore, it cannot make life better, only worse. Such perception can come from households' experience or their acquaintances' experience of giving charity regularly. Cicognani, Mazzoni, Albanesi and Zani (2014) elaborate that social well-being can be achieved through empowerment and sense of community. Perceived behavioural control factors represent opportunities and experiences.

Beldad et al. (2015) found that regular charity-giving as a way of life and a means for survival in society has uplifted donors' intention to give charity. Charity donors who emphasize on quality of life tend to engage with self-sacrificing behaviour. In some cases, the intention to perform behaviour may only be

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9. Charity in this term is different from zakat. This charity can be done by any Muslims without any requirement of *nisab* and haul like zakat.

influenced by two factors (attitude and subjective norm, attitude and perceived behavioural control, or subjective norm and perceived behavioural control) while in other cases all three factors may affect the intention (Ajzen, 1991).

Furthermore, even though demographic factors do not directly influence behaviour, these factors are statistically significant in affecting behaviour. Many studies related the outcomes to financial behaviour (Sahi, 2013; Stone & Maury, 2006; Mewse, Lea, & Wrapson, 2010; Lusardi, 2008; Lea, Webley, & Walker, 1995; Livingstone & Lunt, 1992; McKee-Ryan et al., 2005; Xiao & Yao, 2014; Schlegelmilch, Love, & Diamantopoulos, 1997). Socioeconomic demography factors, then, consist of education level, age, marital status, and number of dependent. Also included are employment status, province of origin, religious activity, and gender of household head. Other demographic variables are charity per income, their future expectation of domestic economy, home ownership, income, financial education, and financing and charity institutions that respondent chose.

### III. METHODOLOGY

#### 3.1. Data

As the research covers different areas in Indonesia, collecting data requires quite a comprehensive effort. Forty six (46) trained-enumerators helped with the data collection process. They were trained before conducting the survey to get the same perception and eliminate bias. All data collection process lasted about four months, from April to August 2016. 300 questionnaires were distributed equally to all selected areas (Aceh, Jabodetabek, Yogyakarta, Berau, Central Sulawesi, and Eastern Nusa Tenggara). This resulted in 1,800 distributed questionnaires to targeted respondents. At the end, from the data collection process, 1780 (1800-28+5+1+1+1) questionnaires were duly completed and judged useful for this research.

Before embarking on further survey, Questionnaire A was tested for validity and reliability test. Cronbach's alpha test showed an adequate number for the questionnaire to be proceeded with a reliability value of 0.825. Meanwhile, validity test for each question was done by looking at whether corrected item-total correlation value exceeded  $r$ -table for 178 (180-2) which was 0.12. The result obtained depicts that all questions in the questionnaire had more than 0.12 in their corrected item-total correlation, thus were valid.

#### 3.2. Method

Structural Equation Modelling (SEM) is used to examine a series of inter-relationships simultaneously. SEM combines factor analysis and multiple regression analysis (Hair et al., 2006). The method allows testing hypotheses (confirmatory) among latent/construct and observed variables (Byrne, 2009; Hair et al., 2006). It is widely used in social sciences such as education, behaviour, and psychology, but it is also not limited to economists, biologists, medical researchers, and marketing experts (Abduh 2012). Convenient statistical programme used in this research for performing SEM is LISREL (Linear Structural Relationships) 8.8. Another software used is SPSS 17.0, especially for descriptive analysis.

The scale of measurement can be seven unipolar scale (Ajzen, 1991; Xiao & Wu, 2008) or five-grade Likert scale (Pattarin & Cosma, 2012; Chien & Devaney, 2001). However, for multivariate regression used in survey research, each indicator should be kept approximately equal in observation size and Hair et al. (2006) recommended 20 observations per indicator. Therefore, to minimise measurement error when imposing too many scale while respondents only accurately respond to a few, this research used the five-point Likert scale.

### 3.3. Empirical Model

The effect of consecutive debt taking towards regular charity-giving behaviour is elaborated through a model consists of eleven latent variables. Those are Attitude towards Consecutive Debt-taking behaviour (ATT), Subjective Norms towards Consecutive Debt-taking behaviour (SN), Perceived Behaviour Control towards Consecutive Debt-taking behaviour (PBC), Intention towards Consecutive Debt-taking behaviour (INT), Behaviour of Taking Debt Consecutively (CDT), Attitude towards Regular Charity-giving behaviour (ATTc), Subjective Norm towards Regular Charity-giving behaviour (SNC), Perceived Behaviour Control towards Regular Charity-giving behaviour (PBCc), Intention towards Regular Charity-giving behaviour (INTc), Behaviour of Giving Charity Regularly (RCG) and Outcomes. Among those variables, socioeconomic demography variables are denoted as an independent latent variable since they are not affected by any other latent variables. The rest 11 variables are dependent latent variables. From 53 observed variables, only 43 of them have been significantly proven in building the constructs. Spouse's influence is added back to subjective norm item because even though its contribution is very low towards consecutive debt-taking behaviour, theoretically, spouse should be involved in households' financial issue.

Mueller (1996), Diamantopoulos and Siguaw (2000), and Wijanto (2008) mentioned that measurement model shows the relationship between manifest (observed) variables and its latent variable. Meanwhile, the structural model indicates relationship among latent variables. In notation, they can be described in the following equations.

$$\boldsymbol{\eta}_{(mx1)} = B_{(mxm)} * \boldsymbol{\eta}_{(mx1)} + \boldsymbol{\Gamma}_{(mxn)} * \boldsymbol{\xi}_{(nx1)} + \boldsymbol{\zeta}_{(mx1)} \quad (1)$$

Equation 1 shows relationships among latent variables. Where:

$\eta$  (Eta) indicates endogenous latent variable. Such as Attitude towards Consecutive Debt-taking behaviour (ATT), Subjective Norms towards Consecutive Debt-taking behaviour (SN), Perceived Behaviour Control towards Consecutive Debt-taking behaviour (PBC), Intention towards Consecutive Debt-taking behaviour (INT), Behaviour of Taking Debt Consecutively (CDT), Attitude towards Regular Charity-giving behaviour (ATTc), Subjective Norm towards Regular Charity-giving behaviour (SNC), Perceived Behaviour Control towards Regular Charity-giving behaviour (PBCc), Intention towards Regular Charity-giving behaviour (INTc), Behaviour of Giving Charity Regularly (RCG) and Outcomes.

	behaviour (INTc), Behaviour of Giving Charity Regularly (RCG) and Outcomes.
$\xi$ (Psi)	indicates exogenous variables: Socioeconomic demography factors (A1, A9, A12, A13, and A15).
B (Beta)	indicates structural coefficients from endogenous latent variable to another endogenous latent variable.
(Gamma)	indicates structural coefficients from exogenous latent variable to endogenous latent variable.
$\zeta$ (Zeta)	indicates structural error terms.

$$\mathbf{y}_{(px1)} = \boldsymbol{\Lambda}_{y(pxm)} * \boldsymbol{\eta}_{(mx1)} + \boldsymbol{\varepsilon}_{(px1)} \quad (2)$$

$$\mathbf{x}_{(qx1)} = \boldsymbol{\Lambda}_{x(qxn)} * \boldsymbol{\xi}_{(nx1)} + \boldsymbol{\delta}_{(qx1)} \quad (3)$$

Equations 2 and 3 show relationships between manifest variables and its latent variable (x for exogenous, y for endogenous). Where:

$\lambda$ (Lambda)	indicates loading between latent variable and its manifest variables ( $\lambda^x$ for exogenous, $\lambda^y$ for endogenous)
$\delta$ (Delta)	indicates measurement error for exogenous variable
$\varepsilon$ (Epsilon)	indicates measurement error for endogenous variable

Input matrices use asymptotic covariance matrices due to *polychoric* data type. By using LISREL 8.8, according to validity and reliability tests, significant manifest variables are A1 (Education), A9 (Income), A12 (Financing institution), A13 (Charity institution), and A15 (Financial education).

In accordance with the Theory of Planned Behaviour, we cannot run the model by using LISREL 8.8 unless we exclude Attitude towards Consecutive Debt-taking Behaviour (ATT), Attitude towards Regular Charity-giving Behaviour (ATTc), Subjective Norm towards Regular Charity-giving Behaviour (SNC), and Perceived Behaviour Control towards Consecutive Debt-taking Behaviour (PBC) latent variables. The rests are remained.

Subjective Norm towards Consecutive Debt-taking Behaviour (SN) factor consist of C24 (spouse), C25 (parents), and C27 (close friends). Manifest variables of Perceived Behaviour Control towards Regular Charity-giving Behaviour (PBCc) are D35 (makes life better), D36 (contribution to society), and D37 (take benefit from developed society). Variable Intention towards Consecutive Debt-taking Behaviour (INT) consists of three indicators, which are E38 (way of life), E39 (survival in society), and E40 (will definitely take debt). Meanwhile, Intention towards Regular Charity-giving Behaviour (INTc) consists of three indicators, which are E44 (way of life), E45 (survival in society), and E46 (will definitely give charity). The perceived behavioural control itself is affecting the behaviour directly, without mediator of intention.

Consecutive Debt-taking Behaviour (CDT) variable comprises three observed variables. They are E41 (important to fulfil family needs), E42 (important to feel satisfied), and E43 (important to practice true spirit in Islam). Regular Charity-giving Behaviour (RCG) variable comprises three observed variables. They are E47

(important to contribute), E48 (important to feel satisfied), and E49 (important to practice true spirit in Islam). However, performing true spirit of regular charity-giving in Islam, based on respondents' perspective, is not proven to be significant in this model. Regular Charity-giving behaviour is merely based on contributing to society and feeling satisfied.

Outcomes variable eventually consist of liquidity ratio (F50), assets per liabilities ratio (F51), debt-service ratio or debt burden (F52) and satisfaction with lifestyle (F53). Construct Outcomes is highly reliable according to the reliability test.

The initial model of this study searches for 73 parameters with 26 observed variables, 7 latent variables. Thus, the model is identified as over-identified where estimated parameters are smaller than predicted data (Wijanto, 2008), which gives several alternative predictions for each parameter. It makes the degree of freedom become positive (predicted data – estimated parameters > 0).

A9 (income), A13 (charity institutions) and A15 (financial education) have insignificant relationships with other exogenous variables, as we can see from Figure 1 that they are marked by red colour. Details of the model are shown in Figure 1.

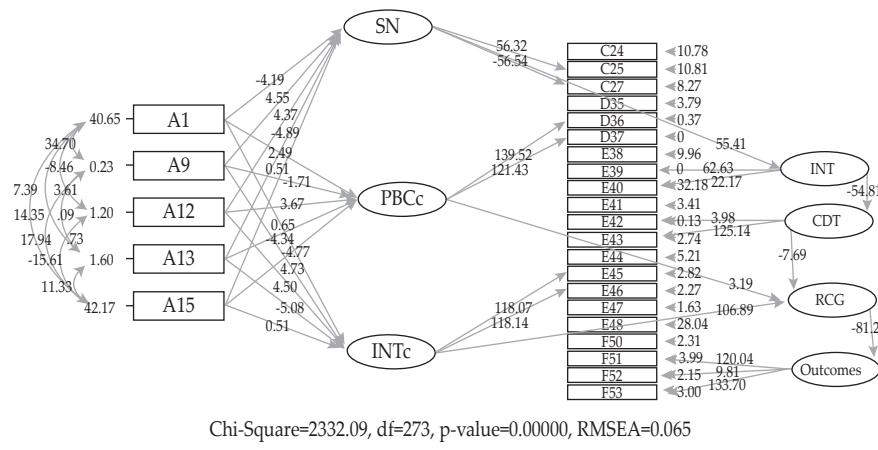


Figure 1. Initial Model of Consecutive Debt-taking Behaviour towards Regular Charity Giving Behaviour

## IV. RESULT AND FINDING

### 4.1. Demographic Characteristics

Table 1 depicts the demographic characteristics of respondents from Survey Questionnaire.

Table 1.  
Demographic Characteristics of Respondents

Variable	Cluster	Frequency	Valid Percent
A1 (Education level)	< SMA (0) >= SMA (1)	1081 699	60.7 39.3
	Total	1780	100.0
A2 (Age)	< 45 y.o (0) >= 45 y.o (1)	758 1021	42.6 57.4
	Total	1779	100.0
	Missing	1	
	Total	1780	
A3 (Marital status)	Not married (0) Married (1)	233 1547	13.1 86.9
	Total	1780	100.0
A4 (Household size)	>= 4 (0) < 4 (1)	1077 703	60.5 39.5
	Total	1780	100.0
A5 (Employment status)	Unemployed (0) Employed (1)	1069 711	60.1 39.9
	Total	1780	100.0
A6 (Origin)	Big cities (0) Small towns (1)	358 1422	20.1 79.9
	Total	1780	100.0
A7 (Charity per income)	>= 2.5% (0) < 2.5% (1)	512 1268	28.8 71.2
	Total	1780	100.0
A8 (Expectation of future economy condition)	Worried (0) No worries (1)	1031 749	57.9 42.1
	Total	1780	100.0
A9 (Income)	< USD80 (0) >= USD80 (1)	946 834	53.1 46.9
	Total	1780	100.0
A10 (Religious activity)	No (0) Yes (1)	437 1343	24.6 75.4
	Total	1780	100.0
A11 (Gender)	Female (0) Male (1)	406 1374	22.8 77.2
	Total	1780	100.0
A12 (Financing institution)	Formal (0) Informal (1)	620 1160	34.8 65.2
	Total	1780	100.0
A13 (Charity institution)	Formal (0) Informal (1)	76 1704	4.3 95.7
	Total	1780	100.0
A14 (Home ownership)	Rent (0) Own (1)	494 1286	27.8 72.2
	Total	1780	100.0

Table 1.  
Demographic Characteristics of Respondents (Continued)

Variable	Cluster	Frequency	Valid Percent
A15 (Financial education)	No (0)	1370	77.0
	Yes (1)	410	23.0
	Total	1780	100.0
A16 (Consecutive debt-taking)	No (0)	719	40.4
	Yes (1)	1061	59.6
	Total	1780	100.0
A17 (Regular charity-giving)	No (0)	575	32.3
	Yes (1)	1205	67.7
	Total	1780	100.0

Consecutive debt taking is proven to be affecting regular charity-giving behaviour at the level of performing the behaviour. Whenever low-income households have consecutive debt-taking behaviour, it affects their behaviour on giving charity regularly.

All indicators have factor loadings more than 0.30. However, validity (VE) and reliability (CR) tests should be executed. Validity test is measuring the extent of items reflecting the theoretical latent construct. It provides confidence in the accuracy of measurement taken from the sample which represents the actual score in the population.

The total of all squared standardised loading factors ( $\sum_{i=1}^n \lambda_i^2$ ) per latent variable divided by the number of items per latent variable would result in a variance extracted value. It is the average squared factor loadings. VE of 0.5 indicating that on average, error remains half and half with variance explaining latent structure.

The strongest VE and CR are given by perceived behavioural control towards regular charity giving behaviour or PBC<sub>c</sub> latent structure, 96.09% and 0.98 respectively. Apparently, perceived behavioural control can be represented by the idea of contribution D36 (1.00), benefit from developed society D37 (0.99), and better life D35 (0.95). It is reliable throughout different periods for low-income households in Indonesia.

The second top reliable construct is consecutive debt-taking behaviour or CDT that has VE valued at 94.14%. Its CR is 0.98, which depicts its internal consistency is highly reliable. The behaviour is represented by the importance of being satisfied (E42), practising the true spirit in Islam (E43), and fulfilling family needs (E41).

The third top valid construct is Outcomes latent structure, 92.18% and 0.98, respectively. Apparently, financial well-being can be represented by debt service ratio F52 (0.97), assets per liabilities ratio F51 (0.94), lifestyle satisfaction F53 (0.96), and liquidity ratio F50 (0.97).

The next top reliable construct is intention towards regular charity-giving behaviour or INT<sub>c</sub>. Its VE and CR are 90.28% and 0.96 respectively. Giving charity regularly as a way of life E44 (0.93), giving charity regularly as a means to survive in society E45 (0.95), and strong intention to give charity regularly E46 (0.97) represent the intention of low-income households in Indonesia to give charity regularly.

Another reliable construct is regular charity-giving behaviour or RCG which has VE valued at 85%. Its CR is 0.92, which is represented by the importance of feeling satisfied (E48) and the importance of contributing to society (E47). Meanwhile, SN or subjective norm towards consecutive debt-taking behaviour has VE and CR valued at 70.06% and 0.88, respectively. Its construct reliability is represented by spouse's influence (C24), parents' influence (C25), and close friends' influence (C27).

Intention towards consecutive debt-taking behaviour or INT construct has VE and CR valued at 51.86% and 0.74, respectively. Taking debt consecutively as a way of life E38 (0.85), taking debt consecutively as a means to survive in society E39 (0.83), and strong intention to take debt consecutively E40 (0.38) represent the intention of low-income households in Indonesia to take debt consecutively.

Another model to test the relationship between consecutive debt-taking and regular charity-giving is done through measuring the influence of intention towards consecutive debt-taking behaviour towards the behaviour of giving charity regularly. The Theory of Planned Behaviour states that intention drives behaviour, so this study tries to elaborate cross intention-behaviour between those two behaviours.

All significant latent variables from validity test, reliability test, and initial model are used. The results show that intention towards regular charity-giving behaviour is affected only by demography variables. Meanwhile, intention towards consecutive debt-taking behaviour is influenced by subjective norm towards that behaviour only, which is affected by socioeconomic demography variables. Those two intentions are proven to be significantly affecting the behaviour of giving charity regularly in order to achieve stipulated outcomes. Perceived behavioural control towards regular charity-giving behaviour also significantly drives regular charity-giving behaviour.

Second modification model indicates that demography variables affects behaviour through intention of regular charity-giving, perceived behavioural control of regular charity-giving and subjective norm of consecutive debt-taking behaviour. It also indicates that intention to do consecutive debt-taking behaviour leads to regular charity-giving behaviour. They relate positively.

However, RCG has negative relationship with outcomes after the influence of taking debt consecutively. Thus, the effect is negative on financial ratios and lifestyle satisfaction. It may occur when the estimations of outcomes are based on material aspect, i.e. financial ratios and lifestyle satisfaction.

In terms of goodness-of-fit tests, its results are better than the previous model; despite subjective norm towards consecutive debt-taking behaviour has a negative error variance. Therefore, consecutive debt-taking behaviour is proven to give influence towards regular charity-giving either by both performing behaviour of taking debt consecutively and having intention to take debt consecutively to finally achieve the outcomes.

In the context of validity and reliability test, the result indicating relationship between consecutive debt-taking and regular charity-giving is better at performing the behaviour (first modification) rather than at intention level only. Therefore, interpretation of model will use the first modification model, not the second modification. Details of structural equation of modification model are elaborated in Table 2.

Table 2.  
Relationship between Consecutive Debt-taking and Regular Charity-giving

Structural Equation	$R^2$
<b>Outcomes = -0.90*RCG</b>	<b>0.81</b>
<ul style="list-style-type: none"> <li>Regular charity-giving behaviour negatively affects the outcomes.</li> <li>Regular charity-giving behaviour can explain 81% of total variance of outcomes; another 19% is explained by other variables.</li> </ul>	
<b>RCG = -0.23*CDT +0.79*INTc +0.031*PBCc</b>	<b>0.98</b>
<ul style="list-style-type: none"> <li>The behaviour of taking debt consecutively negatively influences the behaviour of giving charity regularly.</li> <li>Intention towards consecutive debt-taking behaviour positively affects the behaviour of giving charity regularly.</li> <li>Perceived behavioural control towards regular charity-giving behaviour positively affects the behaviour of giving charity regularly.</li> <li>Intention towards regular charity-giving, intention towards consecutive debt-taking, and perceived behavioural control towards regular charity-giving can explain 98% of total variance regular charity-giving behaviour; another 2% is explained by other variables.</li> </ul>	
<b>CDT = - 0.88*INT</b>	<b>0.77</b>
<ul style="list-style-type: none"> <li>Intention towards consecutive debt-taking behaviour negatively affects the behaviour of taking debt consecutively.</li> <li>The intention can explain 77% of total variance consecutive debt-taking behaviour; another 23% is explained by other variables.</li> </ul>	
<b>INT = 0.98*SN</b>	<b>0.96</b>
<ul style="list-style-type: none"> <li>Subjective norm towards consecutive debt-taking behaviour positively affects the intention towards consecutive debt-taking behaviour.</li> <li>Subjective norm can explain 96% of total variance of intention towards consecutive debt-taking behaviour; another 4% is explained by other variables.</li> </ul>	
<b>INTc = - 3.98*Edu + 6.81*Income + 2.95*FinInst - 2.37*ChInst</b>	<b>0.99</b>
<ul style="list-style-type: none"> <li>Education attainment (higher) negatively affects the intention towards regular charity-giving behaviour.</li> <li>Income (higher) positively affects the intention towards regular charity-giving behaviour.</li> <li>Financial institution (informal) positively affects the intention towards regular charity-giving behaviour.</li> <li>Charity institution (informal) negatively affects the intention towards regular charity-giving behaviour.</li> <li>Socioeconomic demography variables can explain 99% of total variance intention towards regular charity-giving behaviour.</li> </ul>	
<b>PBCc = 0.10*Edu - 0.19*FinInst - 0.21*FinEdu</b>	<b>0.046</b>
<ul style="list-style-type: none"> <li>Education attainment (higher) positively affects the intention towards regular charity-giving behaviour.</li> <li>Financial institution (informal) negatively affects the intention towards regular charity-giving behaviour.</li> <li>Financial education (acquire) negatively affects the intention towards regular charity-giving behaviour.</li> <li>Socioeconomic demography variables can explain 4.6% of total variance perceived behavioural control towards regular charity-giving behaviour, another 95.4% is explained by other variables.</li> </ul>	
<b>SN = -4.06*Edu +6.89*Income +2.93*FinInst -2.41*ChInst</b>	<b>0.99</b>
<ul style="list-style-type: none"> <li>Education attainment (higher) negatively affects the intention towards regular charity-giving behaviour.</li> <li>Income (higher) positively affects the intention towards regular charity-giving behaviour.</li> <li>Financial institution (informal) positively affects the intention towards regular charity-giving behaviour.</li> <li>Charity institution (informal) negatively affects the intention towards regular charity-giving behaviour.</li> <li>Socioeconomic demography variables can explain 99% of total variance intention towards regular charity-giving behaviour.</li> </ul>	

The above table shows us the significant structural equation of this study. Socioeconomic demography variables are significantly proven to affect behaviour indirectly through subjective norm towards consecutive debt-taking behaviour, perceived behavioural control towards regular charity-giving behaviour, and intention of regular charity-giving behaviour. Financial education has positive relationship in shaping the regular charity-giving behaviour through perceived behavioural control towards regular charity-giving. Only financing institution (A12) and education attainment (A1) have significant relationship with all its endogenous latent variables. Financing institution (informal) has negative relationship with intention towards regular charity-giving behaviour and subjective norm towards consecutive debt-taking behaviour, which indicates that the more likely respondents select informal institution, the less likely they have intention to give charity and the less likely they depend on important others' opinion towards consecutive debt-taking behaviour. Furthermore, financing institution has positive relationship with perceived behavioural control towards regular charity-giving behaviour, which indicates that the more likely respondents select informal institution, the more likely they depend on their personal experience towards regular charity-giving behaviour.

Results of this study highlight that consecutive debt-taking behaviour affects positively to outcomes that are financial and social well-being, when it is tested with no regular charity-giving behaviour intervention. Similarly, regular charity-giving behaviour influences the outcomes positively when it is tested with no consecutive debt-taking behaviour intervention.

The results point out a different recommendation when there is an intervention. Consecutive debt-taking behaviour has a positive relationship towards outcomes when intention of regular charity-giving intervene the relationship. Meanwhile, regular charity-giving behaviour has a negative relationship towards outcomes when consecutive debt-taking behaviour intervene the relationship. It may imply two interpretations. First, respondents have perception that if consecutive debt-taking and regular charity-giving are combined, they prefer consecutive debt-taking behaviour more than regular charity-giving in the context of achieving the outcomes. Respondents depend on consecutive debt-taking to acquire and build their assets.

On the other hand, the second interpretation is related with the condition when the intention of regular charity-giving is increasing, respondents will decrease their consecutive debt-taking behaviour, so does the outcomes. It may happen because financial and psychological indicators which three out of four indicators are based on material aspect calculate the outcomes. The indicators are financial ratio and satisfaction in lifestyle. The result shows that this construct is valid and reliable overtime and the model shows an adequate (more than 70%) representative of low-income households' perception.

The result of relationship between regular charity-giving behaviour towards outcomes after consecutive debt-taking behaviour intervention also explains that low-income households perceive regular charity-giving as a burden financially. It is reflected in the phenomena that when respondents increase the consecutive debt-taking behaviour, the regular charity-giving behaviour will decrease and the outcomes will increase.

Financial education, in the context of regular charity-giving behaviour that intervenes by consecutive debt-taking behaviour, has negative relationship in shaping the regular charity-giving behaviour through perceived behavioural control (experiences) towards regular charity-giving. In addition, financial education also has negative relationship to perceived behavioural control towards regular charity-giving, but eventually has positive relationship indirectly through intention towards regular charity-giving in the attempt to influence consecutive debt-taking behaviour. This indicates that the more likely respondents acquire financial education, the less likely they depend on personal experience and intention to give charity regularly for them taking debt consecutively as well as giving charity regularly. This result also implies that our financial education more effective for somebody to have a chance in taking debt consecutively than giving charity regularly.

In the attempt to influence regular charity giving behaviour, financing institution (informal) has negative relationship with intention towards regular charity-giving behaviour and subjective norm towards consecutive debt-taking behaviour. This indicates that the more likely respondents select informal institution, the less likely they have intention to give charity and the less likely they depend on important others' opinion towards consecutive debt-taking behaviour. Furthermore, financing institution has positive relationship with perceived behavioural control towards regular charity-giving behaviour, which indicates that the more likely respondents select informal institution, the more likely they depend on their personal experience towards regular charity-giving behaviour. Meanwhile, financing institution negatively influence perceived behavioural control towards regular charity-giving behaviour in the attempt to influence consecutive debt taking behaviour. It indicates that the more likely respondents select informal institution as their source of fund, the less likely they depend on personal experience of regular charity-giving to influence their consecutive debt-taking behaviour.

## **V. CONCLUSIONS**

Initially, Theory of Planned Behaviour in this context cannot be confirmed because the conceptual model cannot be run, unless modifications are made. Nonetheless, literatures show that socioeconomic demography factors can influence behaviour through indirect relationship that is confirmed by the above models. Theory of Social Production Function is confirmed because behaviours can influence outcomes of low-income households in Indonesia.

Consecutive debt-taking behaviour has been proven negatively affecting regular charity-giving behaviour of low-income households in Indonesia. Furthermore, consecutive debt-taking behaviour has also proven to be negatively affected by regular charity-giving behaviour at its intention level. Financial education and selection of financing institution have been proven to have relationships with variables that influence both regular charity-giving and consecutive debt-taking behaviours. It eventually affects the outcome construct that is represented by financial ratios and satisfaction in lifestyle.

As this study suggests that financial education of financial inclusion especially on debt-taking and charity-giving behaviour would be significant if subjective norm or other supporting parties, who give influence into their financial decisions, are included, intensive supervision from formal financial institutions and social finance institutions is highly recommended. At the same time, it is recommended that institutions encourage their customers to gradually decrease the debt-taking behaviour and give more charity in order to be less dependent as addition to current financial education program. Even though, they seem to perceive taking debt is more reliable in improving their financial condition rather than giving charity. Academician and practitioners should promote Islamic values more actively, not only about financial matters, but also about spirituality and psychology matters. Since the result of this study shows that financial education gives only conventional education, or only about conventional financial issues, they give negative impact towards regular charity-giving behaviour. Therefore, spiritual and psychological aspects should be included in their education.

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