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A PROPOSED *MAQĀṢID AL-SHARĪʿAH* BASED MEASUREMENT OF SOCIO-ECONOMIC PROSPERITY: A COMPOSITE INDEX FOR OIC COUNTRIES

BY

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ABSTRACT

This thesis proposed a *maqāṣid al-sharīʿah* based composite index to measure the performance of socio-economic prosperity of OIC member countries. The thesis employed al-Imām al-Ghazālī (d.505) and al-Imām al-Shātibī (d. 790)'s *maqāṣid al-sharīʿah* framework which was further extended to socio-economic context by contemporary Islamic economist, Mohammed Umar Chapra. The research was strengthened by empirical testing of the *maqāṣid al-sharīʿah* theory using a multivariate statistical technique called confirmatory factor analysis (CFA). The CFA analysis was conducted using a sample of 325 responses to a predetermined questionnaire distributed to Muslims aged 18 years and above. The empirical results of the analysis confirmed the hypothesized relationship among the five universal *maqāṣid* (preservation of *dīn*, *nafs*, *nasl*, *māl* and '*aql*). Further, the researcher proposed a structural equation model (SEM) for the socio-economic development from a *maqāṣid al-sharīʿah* paradigm. After the empirical confirmation of the *maqāṣid al-sharīʿah* theory, the researcher developed and proposed a *maqāṣid al-sharīʿah* based composite index of socio-economic prosperity for the OIC members. The index consisted of 5 dimensions of *maqāṣid al-sharīʿah* (preservation of *dīn*, *nafs*, *nasl*, *māl* and '*aql*). The indicators of each sub-indices are based on the data attributes available in the form of secondary data in publicly accessible databases. A total of 101 measurement indicators are included in the construction of the index. The OIC countries are ranked according to the performance in terms of their achievement of *maqāṣid al-sharīʿah*. The results portrayed overall composite index ranking and individual *maqāṣid* index ranking (*dīn* index, *nafs* index, *nasl* index, *māl* index and '*aql* index). The findings of the indexes revealed that the OIC members are performing comparatively lower in the area of preservation of '*aql* and *māl.* Further, the results based on three key OIC member regions (Africa, Asia and Middle East) showed that the Middle East performed better than the other two regions, and Africa was the lowest performing region. The key contribution of the thesis is in the form of methodological contribution where the researcher proposed a way of constructing a *maqāṣid al-sharīʿah* based composite index which could be used to measure the socio-economic policy performance in the OIC member nations. The thesis further contributed by empirical testing of *maqāṣid al-sharīʿah* theory which is tested by conforming to the reality which was signified by a representative sample of Muslims.

خلاصة البحث

طرحت هذه الدراسة مؤشرا مركبا مبنى على مقاصد الشريعة (الإسلامية) لقياس أداء الرخاء الإقتصادى–الإجتماعى لبلدان أعضاء منظمة المؤتمر الإسلامى. استخدمت الدراسة الإطار النظرى لمقاصد الشريعة لكل من الإمام الغزالى والإمام الشاطبى والذى تم تمديده لاحقا في مجال الإقتصادى–الإجتماعى للعالم الاقتصادى الإسلامي المعاصر محمد عمر تشابرا. وتم تعزيز هذه الدراسة بالإختبار التجريبي لنظرية مقاصد الشريعة باستخدام تقنية إحصائية متعددة المتغيرات تسمى التحليل العاملي التوكيدي (CFA). وقد أجري هذا التحليل باستخدام عينة من 325 إستجابة لإستبيان محدد سلفا والذى تم توزيعه على المسلمين الذين تتراوح أعمارهم ما بين 18 سنة وما فوقها. وأكدت النتائج التجريبية من التحليل العلاقة المفترضة بين مقاصد (الشريعة) العالمية الخمسة (الحفاظ على كل من الدين، والنفس، والنسل، والمال، والعقل). علاوة على ذلك، اقترح الباحث نمذجة المعادلة الهيكلية (SEM) للتنمية الإقتصادية–الإجتماعية من نموذج المقاصد الشريعة. بعد التأكيد التجريبي لنظرية مقاصد الشريعة، وضع الباحث واقترح مؤشرا مركبا مبنى على مقاصد الشريعة لقياس الرخاء الإقتصادى–الإجتماعى لبلدان أعضاء منظمة المؤتمر الإسلامى. ويتكون هذا المؤشر الأبعاد الخمسة للمقاصد الشريعة (الحفاظ على كل من الدين، والنفس، والنسل، والمال، والعقل). وتستند علامات كل مؤشر فرعي على سمات البيانات المتاحة في شكل بيانات ثانوية في قواعد البيانات المتوفرة للجمهور. و في بناء المؤشر قد شملت ما مجموعه 101 من علامات القياس. و تم تصنيف بلدان منظمة المؤتمر الإسلامي وفقا للأداء من حيث تحقيقهم لمقاصد الشريعة. صورت نتائج الدراسة تصنيفا لمؤشر مركب عمومى، و تصنيفا لمؤشر المقاصد الفردية (مؤشر الدين، و مؤشر النفس، و مؤشر النسل، و مؤشر المال، و مؤشر العقل). وأظهرت نتائج المؤشرات أن أعضاء منظمة المؤتمر الإسلامي يؤدون أقل نسبيا في مجال الحفاظ على العقل والمال. علاوة على ذلك، فإن النتائج المبنية على الأقاليم الثلاثة الرئيسية لمنظمة المؤتمر الإسلامي (أفريقيا وآسيا والشرق الأوسط) أظهرت أن الشرق الأوسط لديه أداء أفضل من أداء الإقليمين الأخرين، وكان أفريقيا أدنى إقليم فى الأداء. والمساهمات الرئيسية لهذه الدراسة هي في شكل المساهمة المنهجية حيث اقترح الباحث وسيلة لبناء مؤشر مركب مبني على مقاصد الشريعة والذي يمكن استخدامه فى قياس أداء السياسات الاقتصادية–الاجتماعية في دول أعضاء منظمة المؤتمر الإسلامي. إضافة إلى ذلك، لقد ساهم الدراسة بإختبارات تجريبية لنظرية مقاصد الشريعة ليكون تأكيدا للواقع والذي مثله عينة نموذجية من المسلمين.

APPROVALPAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degree at IIUM or other institutions.

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Signature…….…….. Date ……

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Affirmed by Ismail Nizam

..... ……..

Signature Date

To

My loving mother, Shareefa Umar

My loving father, Idrees Muhammad

My loving wife, Fathimath Mauroofa

My loving kids, Maaz Ismail Nizam, Nazaan Ismail Nizam and Alya Ismail Nizam

And

All those who place truth above self

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LIST OF ABBREVIATIONS

AGFI	Adjusted Goodness-of-Fit
ALS	Average Least Squares
AMOS	Analysis of Moment Structure
AVE	Average Variance Extracted
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
ChiSq	Chi-Square
ChiSq/df	Normed Chi-Square
CR	Composite Reliability
C.R.	Critical Ratio
DES	Differential Emotion Scale
DF	Degree of Freedom
et al.	(et al*ia*): and others
Etc	(*et cetera*): and so forth
EU	European Union
EUC	European Union Commission
GFI	Goodness-of-Fit Index
GLS	Generalized Least Squares
HDI	Human Development Index
ML	Maximum Likelihood
MLE	Maximum Likelihood Estimation
MSCI	*Maqāṣid al-Sharīʿah* Composite Index
NFI	Normed Fit Index
OECD	Organization for Economic Cooperation and Development
OIC	Organization of Islamic Countries
OLS	Compared to the Ordinary Least Squares
PCA	Principle Component Analysis
RMSEA	Root Mean Square Error of Approximation
SD	Standard Deviation
SE	Standard Error
SMC	Squared Multiple Correlations
SWB	Subjective Well-being
TLI	Tuker-Lewis Index
WLS	Weighted Least Squares

TRANSLITERATION TABLE

ء	’		ع	‘
ب	b		غ	Gh
ت	t		ف	F
ث	th		ق	Q
ج	J		ك	K
ح	ḥ		ل	L
خ	kh		م	M
د	d		ن	N
ذ	dh		هـ	H
ر	r		و	W
ز	z		ي	Y
س	s		ـَ	A
ش	sh		ـِ	I
ص	ṣ		ـُ	U
ض	ḍ		ـَ+ا	ā
ط	ṭ		ـِ+ى	ī
ظ	ẓ		ـُ+و	ū

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

The Gross Domestic Product (GDP) of a nation is a measure of its total economic output at market value. As such, GDP is a well-established lead indicator of systems of economic indicators. The importance of GDP has grown beyond its primary-technical and theoretically-designed functions. The GDP has been used widely as the main indicator to gauge the economic performance of modern economies. Similarly, it has also become like a 'default' indicator of social progress. For years, the social consequences of economic policies are of no concern because economic analysis was believed to be conductible in isolation from other facets of human existence. With this mindset, economic policies have taken minor consideration towards equating the economic good with the wider common good of the society. The trend is no different in Muslim societies. Muslim societies seemed to have taken GDP as a 'given' perfect product of the conventional economic thought to gauge economic status of their societies. I shall argue in this thesis why this has happened as such, and why we need another measurement of economic status, from an Islamic economic point of view, based on the theory of *maqāṣid al-sharīʿah.*

It has become the 'revealed' standard to compare and judge world economic status, that of nations and regions in terms of a small set of economic indicators. The core of those indicators has been the GDP. The quintessence of this mindset is simple. The Gross Domestic Product and other economic indicators with somewhat similar

underlying theories do provide a powerful frame of reference to perceive the world of economic activities. Daly and Cobb (1994) observe that this brings together

'*Economists, politicians, financiers, humanitarians, and the general public* 'and they all assume that GDP is '*closely bound up with human welfare'*. This thesis does not deny this. Undoubtedly, there are very good reasons for focusing on the economic aspects of our existence. Even from an Islamic point of view, focusing on economic aspects is an important part of our lives. For this reason, the protection of wealth (*māl*) has been listed as one of the five *maqāṣid al-sharīʿah*. Additionally, Islamic law has a number of penalties imposed on crimes of economic nature such as theft, robbery, cheating, unfair competition and employment of oneself in permissible job is considered as worship.

However, there are also other things we can and should consider in judging the status of a nation in the world and its citizen's quality of life. Our culture need not and should not be so biased. We should remind ourselves that no part of official statistics is 'revealed' divinely. Furthermore, GDP has elements within its framework, which are called 'regrettable'. These regrettable elements from a *sharīʿah* perspective are things such as non-*halal* production, inclusion of destructible items such as abusing nuclear weapons, environmental degradation caused by economic activities, etc. Socio-economic indicators measure what they do because they were constructed that way by the scholarly communities.

In light of all that, this thesis is about the very subject matter that is also at the core of economics – the human welfare. This thesis provides *a maqāṣid al-sharīʿah* based measurement of the status of a nation's development and well-being (welfare) which integrates economic, environmental and other social dimensions within the

various constructs of the measurement. Focusing on welfare in our measurement is very crucial as (Sen, 1991), an eminent welfare economist, said: *'The term "social welfare (...) refers to the "ethical value" or the "goodness" of the state of affairs of the society'*. In fact, welfare is one of the most central ideas surrounding human existence (Rescher, 1972). The notion is so fundamental that Islamic *sharīʿah* scholars have included welfare as one of the objectives of Islamic law, which is *maslahah* (can be translated as common public good or welfare or quality of life). It deserves scholarly attention in its own right, but even more so in the dominance of the GDP as the core of measuring the status of a nation. If measuring the collective welfare (common good or quality of life or *maslahah*) of societies in terms of GDP has become the default mode, then this thesis is about exposing the subject matter to renew and deeper scholarly attention. It provides an alternative set of indicators based on the theory of *maqāṣid al-sharīʿah*, which encompass an array of multiple facets of our lives.

1.2 PROBLEM STATEMENT

A measurement of our actions in terms of action effectiveness and efficiency is essential. For this reason, individuals, organizations and communities set objectives and strategize actions towards achieving those objectives. Similarly, Islamic *sharīʿah* has outlined clear objectives for humanity to measure their actions in terms of efficiency and effectiveness. However, Muslims have long neglected the *maqāṣid al-sharīʿah* in measuring the performance of individuals and Muslim communities. As a result of this, the honour (*al-ʿird)* of Muslim *Ummah* has declined drastically over generations. The protection of honour (*al-ʿird*) of the Muslim *ummah* has been included by some scholars as the sixth dimension of the *maqāṣid al-sharīʿah* theory

(Kamali, n.d). The theoretical framework is well developed by classical Muslim scholars based on the authentic sources of Islamic *sharīʿah*. However, a framework for measuring the objectives at individual and community level is yet to be developed. Some attempts have been made to measure the *maqāṣid al-sharīʿah* at a business entity level such as Islamic banks. At the broader sense of community, such a framework is a dire necessity for number of reasons. *Maqāṣid al-sharīʿah* looks at the society in a holistic view, encompassing individuals and their collective actions in relation to the environment and other creations of Allah (*swt*).

In the Western research world, a number of commitments and effort to improve the measurement of human well-being in terms of socio-economic metrics are underway. Since their efforts are not guided by a revealed paradigm like that of an Islamic civilization, most of the efforts made in the past are problematic. The most recent efforts being made do not address the matters that concern us the most. Until today, the most widely used measure of economic activity and human well-being is the Gross Domestic Product (GDP) and its various domains (Stiglitz *et al*, 2009). Stiglitz *et al* (2009) argue that GDP measures market production and yet, it is often being treated as a measure of economic well-being. Stiglitz Commission report identifies a number of flaws in the current measurements of economic progress (which will be discussed in detail, later in the Chapter 2).

From an Islamic point of view, apart from technical and operational flaws of conventional measures, there are other numerous problems in the current measurements which are detrimental to the civilization of humankind on earth. For example, GDP figure is accounted by taking account of production of wine, tobacco and other harmful products which is in grave violation of the *maqāṣid al-sharīʿah*. It also includes wealth generated by illegal means such as gambling and *riba*-based

financing. Therefore, from an Islamic point of view, the objective of *māl* will be incorrectly measured if conventional measures such as GDP are used for measuring it (GDP must be purified). The concept of *māl* is a very complicated concept in the modern economy, where the financial world has become very complex in terms of types of financial institutions and the range of services. Thus, in order to understand the relationship of *māl* with the other four *maqāṣid* and the implications, a background in finance is essential. Therefore, we find it very relevant to the area of my studies.

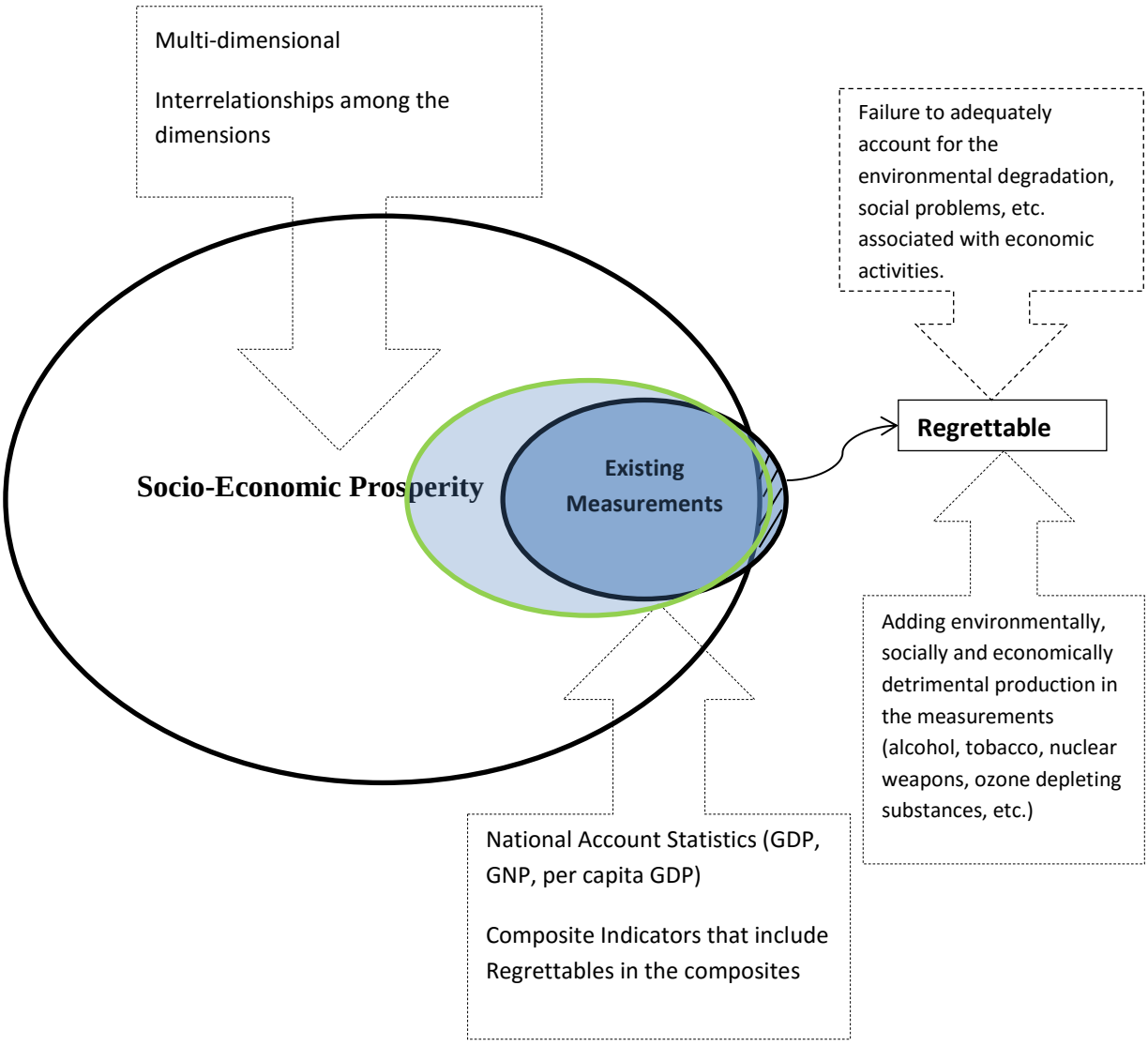

Figure 1.1: Diagrammatic Illustration of the Problem Statement

The figure 1.1 provides a summary of the problem statement. The smallest oval shape inside the bigger ovals represents the existing measurements of socio-economic prosperity which is largely inadequate to capture the broad concept of socio-economic prosperity (the largest oval). The portion of the smallest oval shape bulging out of the largest oval shows the problems associated with the current measurements such as inclusion of environmentally and socially detrimental economic activities in the calculation of GDP. The purpose of this study is to reduce these negative aspects in the measurements and to extend the measurement deeper into the socio-economic concept, capturing more details in the measurement. As a result of the above flaws in the present mechanism of measurement of human progress, financial crisis has been striking the world without advance alerts. The reason, as Stiglitz *et al* (2009) argued, is inadequacy of existing measurement of financial and economic activities. A *maqāṣid al-sharīʿah* based composite index takes into account deep array of *sharīʿah* based metrics which could prevent such crisis coming unalarmed.

1.3 RESEARCH QUESTIONS

The following broad research questions reflect the core of this endeavor:

- What are the problems with GDP as a measure of development and well-being?
- Is the correlation between the dimensions of the theory of *maqāṣid al-sharīʿah* statistically significant? (Here, focus is on testing the relationships between the 5 universal *maqāṣid,* namely *din*, *nafs*, *nasl wal ʿird*, *māl and ʿaql).*
- How to develop a *maqāṣid al-sharīʿah* based measurement of nation's socio-economic prosperity (developing a composite index to rank countries)?

- What is the level of achievement of *maqāṣid al-sharīʿah* in OIC member countries?

1.4 RESEARCH OBJECTIVES

1. To investigate why we need another measurement of economic status, from a point of view of Islamic economic thought whose foundation should be based on the theory of *maqāṣid al-sharīʿah.*
2. To test the correlation between the constructs of the theory of *maqāṣid al-sharīʿah* statistically (empirically). (Here, focus is on testing the relationships between the 5 universal *maqāṣi,* namely *din*, *nafs*, *nasl wal ʿird*, *māl and ʿaql).*
3. To propose *a maqāṣid al-sharīʿah* based measurement of the status of a nation's development and welfare which integrates economic, environmental and social dimensions.
4. To assess the level of the achievement of *maqāṣid al-sharīʿah* in OIC member countries.

1.5 CONTRIBUTIONS OF THE THESIS

A question of special attention is whether it is possible to construct measure and present a *maqāṣid al-sharīʿah* based measurement that could rival GDP. However, the purpose of rivaling GDP would not necessarily lie in replacing it, but rather in complementing it with an independent *maqāṣid al-sharīʿah* check. With this background, this thesis can be described as Applied because it was motivated by a real world problem of inadequate measurements of socio-economic progress and the findings of the current study can be used for the policy development by the government and private sector agencies. This thesis is Exploratory because the directions, methods and outcome are not clear at the outset, and Multidisciplinary

because it looks into more than one direction for answers (the variables in the study are related to various aspects of human life and can be integrated with knowledge in various fields such as economics, Islamic law, *fiqh*, ecological economics, management, sociology, psychology, etc.). The contribution of this thesis to the body of knowledge can be seen as both methodological because it shows a way to capture a social phenomenon and substantive because it describes that phenomenon.

1.6 ORGANIZATION OF THE THESIS

The thesis is structured into 6 chapters. Chapter 1 gives brief summary of the whole project. Chapter 2 is the extensive and comprehensive literature review of the related topics. Chapter 3 details the conceptual framework and the hypothesis. Chapter 4 gives the process and procedure of the whole research project, entitled by Research Methodology. Data Analysis and Discussions are presented in Chapter 5 and finally, Chapter 6 gives recommendations, policy implications and the conclusions of the study.