

TAZKIA *ISLAMIC* *FINANCE &* *BUSINESS*

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Determining the Real Causes of Financial Crisis in Islamic Economic Perspective: ANP Approach

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Abstract

Objective – The purpose of this study is to determine the real causes of financial crisis from Islamic economic perspective.

Methods - This study applies Analytic Network Process (ANP) to determine the real causes of financial crisis from Islamic economic perspective to be able to formulate the real solutions to end financial crisis.

Results - The ANP results show that the real causes of financial crisis from Islamic economic perspective are Social Instability (EXTERNAL FACTOR), Speculation (MISBEHAVIOR), Ineffective Fiscal System (UNSUSTAINABLE FISCAL SYSTEM), Hedonism (MISBEHAVIOR), Fractional Reserve Banking System (UNSTABLE MONETARY SYSTEM), Political Instability (EXTERNAL FACTOR), Corruption (POOR GOVERNANCE), Interest Rate (UNSTABLE MONETARY SYSTEM), Fiat Money (UNSTABLE MONETARY SYSTEM), and the Wrong Man in the Wrong Place (POOR GOVERNANCE). These main real causes should be removed gradually in order to systematically and gradually improve the stability of financial system so that financial crisis will not reappear again and again in the future.

Conclusions -Financial crisis would not happen under Islamic economic system if all Allah's laws in financial dealings were followed. Financial crisis in conventional economic system could be prevented or lessened by gradually adopting Islamic economic and finance laws and regulations, partly or fully, especially the main pillars of Islamic financial system, namely the prohibition of ribā (usury or interest), prohibition of maysir (gambling and game of chance or speculation) and prohibition of gharar (excessive uncertainty), in their many forms.

Keywords: Financial crisis; Islamic economic perspective; ANP

Abstrak

Tujuan - Tujuan dari penelitian ini adalah untuk Menentukan penyebab riil krisis keuangan dari perspektif ekonomi Islam.

Metode - Penelitian ini menggunakan Analytic Network Process (ANP) untuk Menentukan penyebab riil krisis keuangan dari perspektif ekonomi Islam untuk dapat merumuskan solusi nyata dalam mengatasi krisis keuangan.

Hasil – Hasil dari penggunaan metode ANP dalam penelitian ini menunjukkan bahwa penyebab sebenarnya krisis keuangan dari perspektif ekonomi Islam adalah ketidakstabilan Sosial (*EKSTERNAL FACTOR*), Spekulasi (*MISBEHAVIOR*), Sistem Fiskal Yang tidak Efektif (*UNSTABLE MONETARY SYSTEM*), Hedonism (*MISBEHAVIOR*), *Fractional Reserve Banking System* (*UNSTABLE MONETARY SYSTEM*), ketidakstabilan politik (*EKSTERNAL FACTOR*), Korupsi (*POOR GOVERNANCE*), Tingkat Suku Bunga (*UNSTABLE MONETARY SYSTEM*), *Fiat Money* (*UNSTABLE MONETARY SYSTEM*), dan *the Wrong Man in the Wrong Place* (*POOR GOVERNANCE*). Berbagai penyebab utama ini harus dihilangkan secara bertahap untuk meningkatkan stabilitas system keuangan secara sistematis dan berkelanjutan sehingga krisis keuangan tidak akan muncul dan berulang-ulang lagi di masa depan.

Kesimpulan - Krisis keuangan tidak akan terjadi di bawah sistem ekonomi Islam jika semua hukum Allah dalam urusan keuangan telah diikuti. Krisis keuangan dalam sistem ekonomi konvensional dapat dicegah atau dikurangi dengan secara bertahap mengadopsi hukum ekonomi, keuangan dan peraturan Islam, sebagian atau seluruhnya, terutama pilar utama dari sistem keuangan Islam, yaitu larangan riba (riba atau bunga), larangan maysir (perjudian atau Spekulasi) dan larangan gharar (ketidakpastian yang berlebihan), dalam berbagai bentuknya.

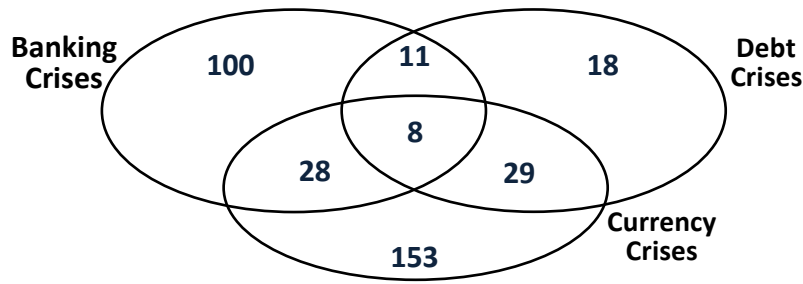
Kata kunci: Krisis Keuangan; perspektif ekonomi Islam; ANP

1. Introduction

In the 20th century, financial crises have occurred one after another since the demise of gold standard regime in 1915. The crises have subsided in the period under Bretton Woods Agreements (BWA) in 1950-1972. The BWA finally collapsed in 1971, when the US unilaterally terminated the convertibility of US Dollar to gold. Following the collapse of BWA, financial crises have resurfaced more frequently started in England (banking crisis in 1973-74), industrial countries (deep recession in 1978-1980), developing countries (debt crises in 1980-1982), US and UK (great crash of stock exchange in 1987), Mexico (financial crisis in 1994), Asian countries, Russia, Brazil and Argentina (financial crisis and hyperinflation in 1997-1999).

The latest global economic turmoil was global financial crisis since August 2007 triggered by subprime mortgage crisis in the USA, which has made tens of financial institutions in troubles and some of them have gone bankrupt, such as Lehman Brothers and Bear Sterns in the US, as well as Northern Rock Bank in the UK (Lietaer, *et al.*, 2009). This global financial crisis has been called by leading economists as the worst financial crisis since the Great Depression of the 1930s. Recently, this contagious global financial crisis has just caused crises in some European countries, such as Greece, Portugal, and Italia.

Since the collapse of Bretton Woods Agreements there have already been more than 431 financial crises, which covers 147 banking crises, 218 currency crises (10 episodes in 2008-2011), and 66 sovereign debt crisis, including 68 twin crises and 8 triplet crises (Laeven and Valencia, 2012), that happened not because of cyclical or managerial failures, but because of structural failures in various countries under very different regulatory systems as well as at different stages of economic development (Lietaer,*et al.*, 2009). However, the conventional solutions only dealt with the symptoms, not the root systemic causes of the crisis.



Source: Laeven and Valencia (2012), with correction

Fig 1. Simultaneous Crises 1970 – 2011

It seems that they still failed to learn the lessons on determining the real causes of financial crisis. Even though the crisis has been repeating again and again, none of those countries became economically stronger and more stable. Crises are subjects which are not only so much discussed, but are also so much misunderstood and denied. Hamidi (2012) even stated that “then, which of the crisis will you deny?”

Therefore, the objective of this study is to determine and examine the root causes of financial crisis, from Islamic economics perspective, using qualitative method Analytic Network Process (ANP), to be able to capture all tangible and intangible variables which cause financial crisis.

Under Islamic economic perspective, financial crisis could occur due to natural causes and man-made (or human error) causes. Natural financial crisis could happen due to natural disasters and natural business cycle. Meanwhile, man-made financial crisis could happen when the balance in real and financial sectors and their stakeholders are disrupted due to the transgressions of God’s laws in financial dealings, especially in the abandonment of main pillars of financial system, namely prohibition of *ribā* (usury or interest), prohibition of *maysir* (gambling and game of chance or speculation) and prohibition of *gharar* (excessive uncertainty), in their many forms. Allah says in Al Qur’an at surah *Thaahaa* [20]:124. Other reminder is mentioned in hadiths by Ath-Thabrani and Al Hakim: “When fornication and usury have been widespread in a community, then they (inhabitants) have allowed Allah’s punishment to themselves.”

The abandonment of the prohibition of *riba* could take the forms of: 1) interest system; 2) fiat money system; 3) fractional reserve banking system; 4) leverage system; 5) derivatives; and 6) credit card system. The abandonment of the prohibition of *maysir* could take the forms of: 7) speculation in stock trading; 8) speculation in foreign exchange trading; 9) speculation in commodity trading; 10) speculation in real estates; and 11) other speculation in any markets. Meanwhile, the abandonment of the prohibition of *ghharar* could take the forms of: 12) complexity in transactions; 13) complexity in the structure of financial products; 14) securitization; 15) hedging; and 16) insurance products (See Appendix A).

Moreover, misbehaviors of economic actors in the markets, such as self-interest, monopoly, hoarding, price control, manipulation, asymmetric information, no distributive justice, unfairness, greed, etc. could also trigger or propagate financial crisis (See Appendix A). Financial sector is a part of economy that supports real sector so that economic activities (especially in production and trade) can run and excel smoothly without any hindrance.

Studies on current global financial crisis from Islamic economic perspective are many but not as plenty as those of conventional economic perspective. The Task Force on Islamic Finance and Global Financial Stability, organized by Islamic Development Bank – IDB, published a report on Islamic finance and global financial stability (2010), which discussed the resilience of Islamic finance against global financial crisis. The report pointed out the need for regulatory reform and the adequacy of the existing international financial architecture and the search for a more enduring solution, where Islamic finance could contribute to global financial stability. There was one special volume of International Journal of Islamic and Middle Eastern Finance and Management, volume 3 number 4 (2010) which comprised of 8 papers discussing various topics on global financial crisis from Islamic perspective, conceptually and empirically. There was a compilation book by Islamic Economic Research Center, King Abdul Aziz University - IERC-KAU (2009), which included 18 papers of prominent Islamic economic and finance scholars discussing Islamic views on global financial crisis from the root causes in different

markets up to the proposed solutions. There are also many studies from various journals which discuss financial crisis from Islamic perspective. The summary can be read in appendix A.

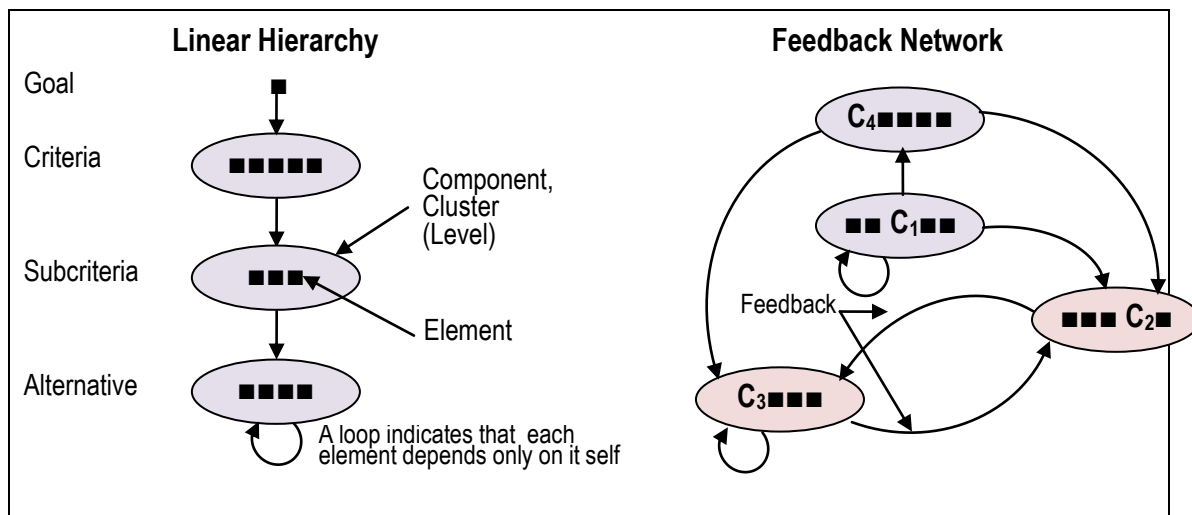
Scholars of Islamic economics have agreed on fundamental real causes of financial crisis, namely, the transgression of God's laws, especially on economic dealings, including *ribā* (usury or interest), *maysir* (speculation or gambling) and *gharar* (excessive uncertainty) in their many forms (See Appendix A). However, they have also some diverse views on other real causes of financial crisis. In summary, the real causes of financial crisis from Islamic perspective from these studies could be divided into five groups, namely: 1) misbehaviors of economic actors, including greediness, self-interests, hedonism, speculation, criminal acts and expectation; 2) external factors and events which are exogenous, including business cycle, natural disaster, contagion, international monetary system, political instability and social instability; 3) poor governance in public and private institutions, including poor administration, corruption, price control, lack of regulation, lack of disclosure and wrong man in the wrong place; 4) unstable monetary/financial system, including interest system, fiat money, fractional reserve banking system, leverage system, product derivation and credit creation through credit card; and 5) unsustainable fiscal system, including unsustainable fiscal deficit, excessive tax, excessive sovereign debt, excessive spending, poor inventory management of strategic commodities and ineffective fiscal system.

2. Methodology

This study will apply qualitative method Analytic Network Process (ANP) in three steps. First, in-depth interviews with scholars and experts of Islamic economic and finance are conducted to fully comprehend the real problems and identify the real causes of financial crisis. Second, the results of the preliminary stage are used to develop an appropriate ANP network and relevant questionnaires to glean the necessary data from seven scholars and experts of Islamic economic and finance. Third, ANP analysis is applied to prioritize key real causes of financial crisis and to set policy strategies in order to formulate optimal policy recommendations.

Saaty (1999) defined analytic network process (ANP) as a general theory of relative measurement used to derive composite priority ratio from individual ratio scale reflecting relative measurement of interconnected elements within control criteria. While, Azis (2003) described ANP as a mathematic theory that allows one to deal systematically with dependence and feedback and that can capture and combine tangible and intangible factors by using ratio scale. ANP is a new approach in decision making process that provides general framework in treating decisions without making any assumption about independency of elements in higher level from elements in lower level and about independency of elements within the same level. Moreover, ANP uses network without having to determine level as in hierarchy used in Analytic Hierarchy Process (AHP), which is a starting point of ANP. The main concept of ANP is influence, while the main concept of AHP is preference. AHP with its dependency assumptions on clusters and elements are a special cases of ANP.

In AHP network, there are levels of goal, criteria, sub criteria, and alternative, where each level has its own elements. Meanwhile, in ANP network, level in AHP is called cluster that can consist of criteria and alternative which now is called node (see Fig 2.). With the feedback, alternatives can depend on criteria, like in a hierarchy, but it can also depend on other criteria. Furthermore, those criteria themselves can depend on alternatives and other criteria (see Fig 2.). Meanwhile, feedback improves priority which derived from judgment and makes prediction more accurate. Therefore, the result of ANP is expected to be more stable. From feedback network in Fig 2., it can be seen that the parent node or element and nodes to be compared can be in different clusters. For example, there is a direct link from parent node cluster C4 to the other clusters (C2 and C3), which called outer dependence. Meanwhile, there is parent node and nodes to be compared lie within the same cluster, so that this cluster will be connected with itself and create loop link. This is called inner dependence.



Source: Saaty and Vargas (2006)

Fig2. Comparisons of Hierarchy and Network

In a network, element of the cluster can be a person (e.g. an individual in Bank of Indonesia) and element in another cluster can be also a person (e.g. an individual in the parliament). Element in one cluster can influence other elements in the same cluster (inner dependence) and can also influence elements in other clusters (outer dependence) with respect to each criteria. The intended output of ANP is to determine the overall influence from all elements. Therefore, all criteria must be configured and set their priority in a framework of control hierarchy or network. After that, do the comparison and synthesis to obtain the order of priority from these criteria. Then, we derive the influence from element in feedback system with respect to each criterion. Finally, the results of these influences are weighted according to the important level of the criteria, and summed them up to get overall influence from each element.

Seven AHP pillars can be used as starting point of ANP¹. ANP is a combination of two parts. First part consists of control hierarchy or network from criteria and sub criteria that control interaction. The second part is network of influences among elements and clusters. AHP and ANP utilize ratio scale. Priorities in ratio scales are fundamental number which makes basic arithmetic operation possible, such as addition and subtraction within the same scale, multiplication and division of different scale, and combination of both operations by weighting

¹ For more details, see Thomas L. Saaty "The Seven Pillars of the Analytic Hierarchy Process" (2003).

and adding different scales to obtain unidimensional scale. It should be noted that ratio scales are also absolute scales. Both of them are derived from pairwise comparisons using judgments or derive from pairwise dominance ratios using actual measurements. When using judgments, in AHP one asks “which one is more preferred or more important?” while in ANP one asks “which one has greater influence?” The second question obviously requires factual observation and knowledge to produce valid answer. This makes the second question more objective than the first one.

There are three related basic principles of AHP/ANP, namely decomposition, comparative judgments, and hierarchic composition or synthesis of priorities (Saaty, 1994).

1. **Decomposition.** The principle of decomposition is applied to structure a complex problem into a hierarchy or network of clusters, sub clusters, sub-sub clusters, and so on. In other words, decomposition tries to model the problem into AHP/ANP framework.
2. **Comparative Judgments.** The principle of comparative judgments is applied to construct pairwise comparisons of all combinations of elements in a cluster with respect to the parent of the cluster. These pairwise comparisons are used to derive ‘local’ priorities of the elements in a cluster with respect to their parent.
3. **Hierarchic Composition or Synthesis.** The principle of hierarchic composition or synthesis is applied to multiply the local priorities of the elements in a cluster by the ‘global’ priority of the parent element, producing global priorities throughout the hierarchy or network and then adding the global priorities for the lowest level elements (usually the alternatives).

3. Results and Analysis

3.1 Model Construction

Problem identification of this study follows extensive literature survey, so that the ANP model of this study is structured into five clusters of problems, including all real causes of financial

crisis viewed from Islamic economic perspective, so that the conceptual framework of this study can be read in Fig 3.

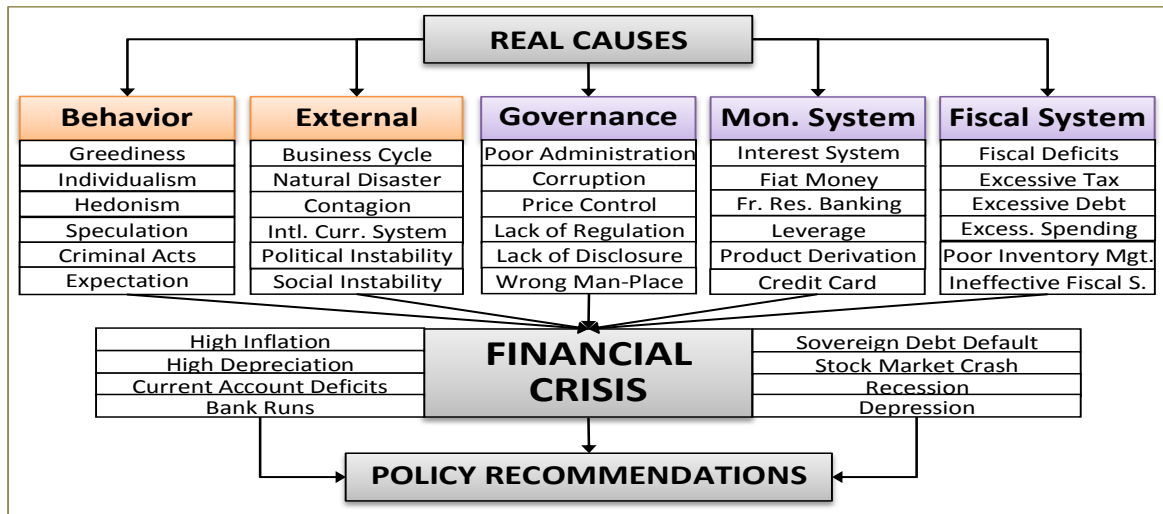


Fig 3. The Real Causes of Financial Crisis

Based on the above conceptual framework, the corresponding ANP network for the real causes of financial crisis can be seen in Fig 4.

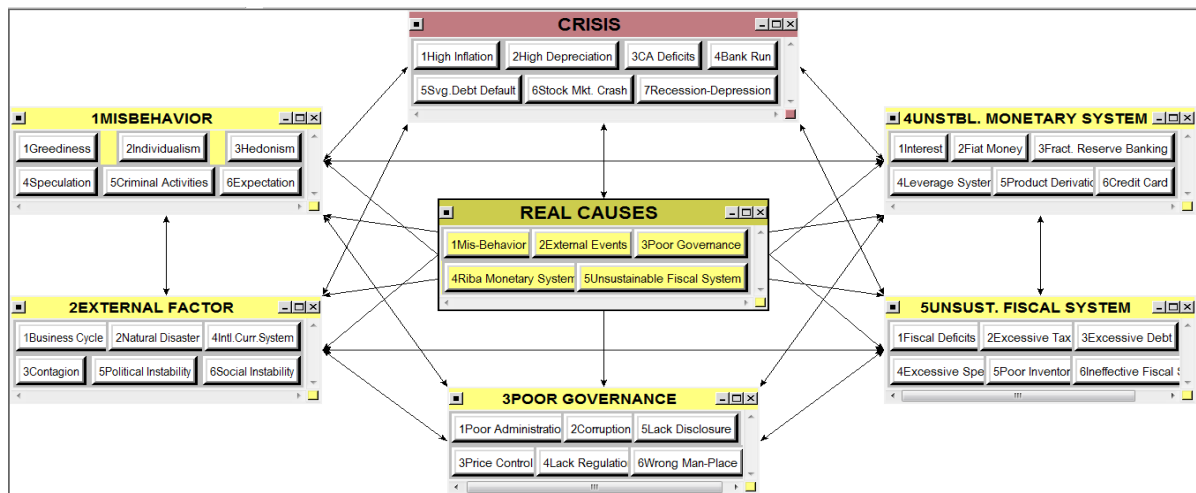


Fig 4. ANP Network for the Real Causes of Financial Crisis

3.2 Model Quantification

In this second phase, primary data surveys to the most knowledgeable respondents (seven Islamic economics and finance experts) are conducted to fill out pair-wise questionnaires. To simplify the original rather complicated pair-wise questionnaires and to maintain consistency,

modified pair-wise questionnaires are used as shown in Fig 5. Meanwhile, the respondents are equipped with a show card describing the scale and the ANP network.

The application of modified pair-wise questionnaire significantly reduces the time required for in-depth interviews with respondents and provides consistent results. Moreover, geometric means from seven respondents are calculated for each pair-wise question, so that we have one geometric mean response from seven respondents, which will be entered to ANP model and synthesized.

ROOT CAUSES (1Misbehavior) – CRISIS

How much each type of CRISIS (listed below) is caused by ROOT CAUSES especially due to 'MISBEHAVIOR' of economic actors.

CRISIS	SCALE								
	1	2	3	4	5	6	7	8	9
1HIGH INFLATION									
2HIGH DEPRECIATION									
3CURRENT ACCOUNT DEFICIT									
4BANK RUN									
5SOVEREIGN DEBT DEFAULT									
6STOCK MARKET CRASH									
7RECESSION-DEPRESSION									

Fig 5. Samples of Simplified Pair-wise Questionnaires

3.3 Results

Table 1 in the Appendix B shows the summary results of ANP for all clusters, which are shown in two figures, i.e., 'normalized by cluster' and 'limiting'. Value in 'normalized by cluster' column shows relative value of each element to other elements in the cluster, where the total value of all elements in one cluster equals to one. Values in 'limiting' column show relative values of each element to the entire network, where the total value of all elements in ANP network equals to one.

[Insert Table 1]

The general ANP results show that the main real causes of financial crisis from Islamic economic perspective (see Fig 6.) are Poor Governance (0.243), Unsustainable Fiscal System

(0.241) and Unstable Monetary System (0.199). These results are slightly different from those of Ascarya (2013a) using SEM (structural equation modeling), where Unsustainable Fiscal System (loading factor 0.60) is the first main real cause, followed by Poor Governance (loading factor 0.53) and Unstable Monetary System (loading factor 0.51).

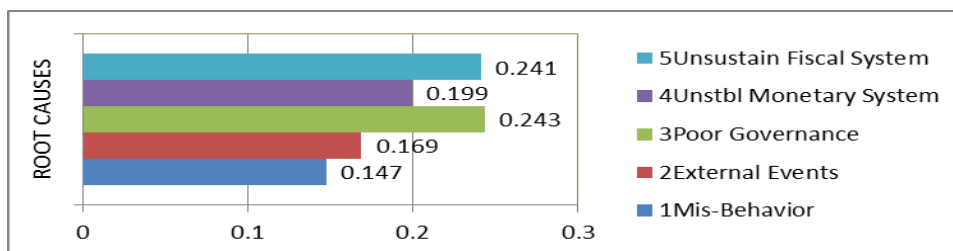


Fig 6. General Real Causes of Financial Crisis

The detailed ANP results show that the main real causes of financial crisis from Islamic economic perspective (see Fig 7.) are Social Instability (0.0410), Speculation (0.0402), Ineffective Fiscal System (0.0400), Hedonism (0.0357), Fractional Reserve Banking System (0.0346), Political Instability (0.0318), Corruption (0.0301), Interest Rate (0.0301), Fiat Money (0.0301), and Wrong Man in the Wrong Place (0.029). In summary, real causes of financial crisis which stand out are Corruption and Wrong Man in the Wrong Place (POOR GOVERNANCE), Ineffective Fiscal System (UNSUSTAINABLE FISCAL SYSTEM), Fractional Reserve Banking System, Interest and Fiat Money (UNSTABLE MONETARY SYSTEM), Social Instability and Political Instability (EXTERNAL FACTOR) and Speculation and Hedonism (MISBEHAVIOR).

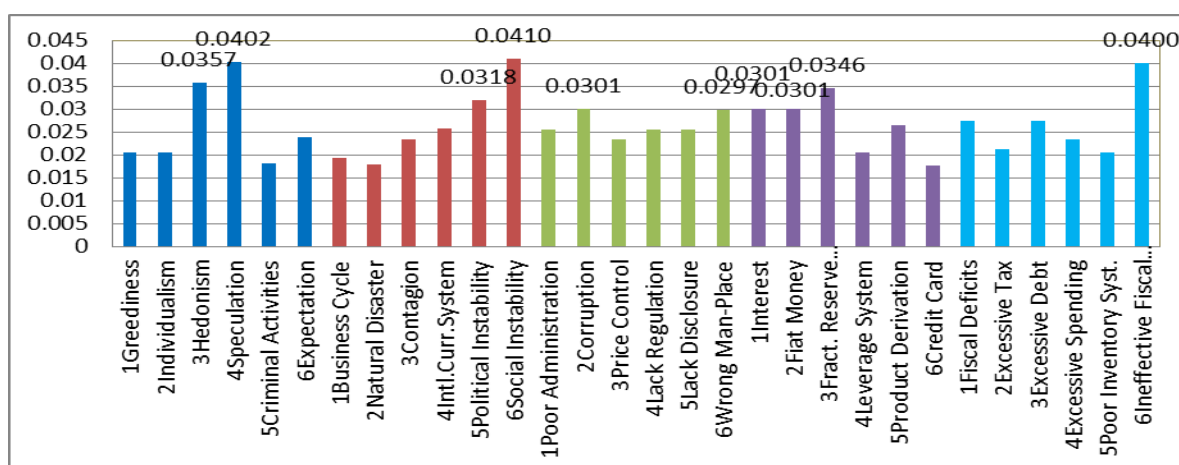


Fig 7. Detailed Real Causes of Financial Crisis

3.4 Analysis

POOR GOVERNANCE, especially Corruption and Wrong Man in the Wrong Place, has become the main real causes of financial crisis. Corruption is prohibited in Islam, which is stated in several surah in Al-Qur'an, such as surah Al-Maidah [5]:38, surah An-Nisaa [4]:29, surah Ali Imraan [3]:161. Corruption is mentioned in Al-Qur'an surah Huud [11]:85. Corruption prohibition is also recorded in several Hadits. For example, hadits narrated by Al-Baihaqi (no.18582), Imam Malik (no.866) and IbnuMajah (no.2840) as follows. *"Hand over even the needle and thread, for stealing from the spoils is disgrace, fire, and ignominy on the Day of Rising for people who do it"*. Meanwhile, one management rule in Islam is to place the right man in the right position. For example, It is mentioned in one hadits narrated by Imam Muslim in Al-Nawawi's *Riyad-us-Saliheen* chapter 81, about one companion who ask Rasulullah SAW for a position as government official, as follows. *Abu Dharr (May Allah be pleased with him) reported: Messenger of Allah (sallallaahu 'alayhiwasallam) said to me, "O Abu Dharr, I see that you are weak and I like for you what I like for myself. Do not rule over (even) two persons, and do not manage an orphan's property."* Abu Dharr was not the right man for the position he asked, so that Rasulullah SAW refused his request.

UNSUSTAINABLE FISCAL SYSTEM, especially Ineffective Fiscal System, has become the main real causes of financial crisis. Al-Qur'an has mentioned in several verses, such as surah Al-Israa' [17]:29 about balanced budget, surah Huud [11]:85 about excessive tax, surah An-Nisaa [4]:9 about excessive government debt for the next generation, surah Al-Furqaan [25]:67 about excessive government spending, surah Al-An'am [6]:141 about not to waste by extravagance and surah Al-Israa' [17]:26-27 about not to spend wealth wastefully. There are also some hadits on fiscal system. Hadits narrated by Ahmad (no.16976) mentions about excessive tax, as follows. *"One who wrongfully takes an extra tax (sahib maks) will not enter Paradise."* Hadits narrated by Al-Baihaqi (no.11027) talks about excessive debt. Hadits narrated

by Imam Bukhari (no.1272) discusses about leaving surplus wealth for the next generation is better than otherwise. Hadits narrated by Al-Baihaqi (no.6161) talks about living managed budget with chastity is better than riches with extravagance.

UNSTABLE MONETARY SYSTEM, especially Fractional Reserve Banking System, Interest Rate and Fiat Money, has become the main real causes of financial crisis. These three elements are the main pillars of conventional financial system which contain *ribā*(usury) and are prohibited in Islamic economic perspective. *Ribā* is prohibited in several stages, in line with the readiness of the society of that era. In the first stage in Makkah, surah Ar-Rum (30:39) says that *ribā*(interest) will deprive wealth from Allah's blessings, while sadaqah (charity) will raise Allah's blessings manifold. In the second stage in the early Madinah period, it is mentioned in surah An-Nisaa (4:161) that *ribā* is severely condemned (which is in line with *ribā* prohibition in previous scriptures) and those who take *ribā* are threatened with severe punishment from Allah. In the third stage in the second or third year of Hijrah, surah Ali Imran (3:130-133) enjoins Muslims who believe to keep away from *ribā*, if they desire Islamic wellbeing. In the fourth stage close to the completion of Prophet's mission, surah Al-Baqarah (2:275-281) severely condemns those who take *ribā*, establishes a clear distinction between trade and *ribā*, and requires Muslims to annul all outstanding *ribā*, instructing them to take only the principal amount, and forego even this in case of the borrowers' hardship (Chapra, 1985).

EXTERNAL FACTOR, especially Social Instability and Political Instability are exogenous variables which become the main real causes of financial crisis where the government and regulator do not have control over them. People who make instability in the society are warned in Al-Qur'an surah Al-Maidah [5]:33. It is also narrated in some hadiths, such as one narrated by Imam Muslim: "*Whoever comes to you when you are in one union (of a country) and wants to undermine your solidarity (wants to divide the unity/community), you should fight him (or them).*"

MISBEHAVIOR of economic actors, especially Speculation and Hedonism has become the main real causes of financial crisis. Speculation or gambling or *Maysir* is prohibited in Islam in several stages. In the first stage, gambling is considered as great sin which also contains some benefit, but the sin is greater than the benefit (Surah *Al-Baqarah* [2]:219). In the second stage, gambling is described as satan handiwork, so that believers should avoid gambling in order to be successful (Surah *Al-Maidah* [5]:90). In the last stage, gambling must be stopped and prohibited since it hinders someone from the remembrance of Allah and from the prayer (Surah *Al-Maidah* [5]:91). Meanwhile, Hedonic way of live is warned by Al-Qur'an in Surah *At-Takaatsur* [102]:1-8. Allah warns that people who piling up worldly things will have diverted live and will be questioned in the Day of judgment (they indulged in, in this world), and finally will be punished.

Therefore, solutions to avoid next financial crisis are fight corruption and assign the right man in the right place (good governance), correct ineffective fiscal system and incorporate Islamic fiscal instruments, such as zakat and waqf (stable fiscal system), replace fractional reserve banking system with 100 percent reserve banking system, riba system with profit-and-loss sharing system, and replace fiat currency with real currency of gold and silver (stable monetary system), as well as ban all speculative activities and restrict hedonic way of life.

4. Conclusion

Financial crisis would not happen under Islamic economic system if all Allah's laws in financial dealings were followed. Financial crisis in conventional economic system could be prevented or lessened by gradually adopting Islamic economic and finance laws and regulations, partly or fully, especially the main pillars of Islamic financial system, namely the prohibition of *ribā*(usury or interest), prohibition of *maysir* (gambling and game of chance or speculation) and prohibition of *gharar* (excessive uncertainty), in their many forms.

The first controlled main real cause of financial crisis is Speculation or *maysir* (next to uncontrolled Social Instability), so that the prohibition of speculation in all markets, especially

in financial markets should become the first priority. At the end, all of these real causes should be removed gradually in order to systematically and gradually improve the stability of financial system so that financial crisis will not reappear again in the future.

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AppendixA

VARIABLE	DEFINITION
	REFERENCES
MIS-BEHAVIOR	
1 Greediness	<i>Excessive wants to own worldly things (such as, wealth, status and power) for one's self, which are far beyond basic needs and comfort.</i>
	Almoharby (2011: p.102), Smolo & Mirakhor (2010: p.379), Chapra (2008: p.2), Hassan & Kayed (2009: p.36), Farooq (2009: p.8), Ahmed (2009: p.20), Siddiqi (2009: p.3)
2 Individualism	<i>Moral stance where interests of individual should achieved precedence over community or state.</i>
	Siddiqi (2009: p.4)
3 Hedonism	<i>Believe or idea that all people have the right to do everything in their power to achieve the greatest amount of pleasure possible to them.</i>
	Almoharby (2011: p.106), Siddiqi (2009: p.3)
4 Speculation	<i>The practice of engaging in risky financial transactions to profit from short or medium term fluctuations in the market value of a tradable goods, such as a financial instrument.</i>
	Trabelsi (2011: p.17), Almoharby (2011: p.106), Ghoul (2011: p.58-59), Ahmed (2010: p.307), Hassan & Kayed (2009: p.36), Farooq (2009: p.8), Siddiqi (2009: p.8), Seidu (2009: p.29), Al-Masri (2009: p.290), Chapra (2008: p.16), Chapra (2007: p.164&166), Meera & Larbani (2004: p.10-11), Ahmed (2001: p.30), Oguz & Tabakoglu (1991: p.66), Zarqa (2009: p.247)
5 Criminal acts	<i>Actions in financial markets which led to a deliberate violation of rules and regulations to gain abnormal profit, such as monopoly, hoard, fraud and corruption.</i>
	Hassan & Kayed (2009: p.36), Mirakhor & Krichene (2009: p.29), Seidu (2009: p.30), Ali (2006&2007: p.26), Garcia, et al (2004: p.1), Bashar (1997: p.48), Sabzwari (1984: p.3)
6 Expectation	<i>Believe that is centered on the future performance in financial markets, may or may not be realistic, which exist due to permissibility of speculation.</i>
	Siddiqi (2009: p.8)
EXTERNAL FACTOR	
1 Business cycle	<i>The business cycle is the upward (expansions) and downward (contractions) movements of economic activities (business fluctuations) in production, trade and finally GDP (gross domestic product) around its long-term growth trend.</i>
	Q.S.Yusuf:43-49, Seidu (2009: p.29), Al-Jarhi (2004: p.23), Oguz & Tabakoglu (1991: p.64& 72)
2 Natural disaster	<i>Shocks resulted from a number of natural factors, such as earthquake, tsunami, twister, floods, or other natural calamities.</i>
	Chapra (2007: p.167), Oguz & Tabakoglu (1991: p.69)
3 Contagion	<i>Shocks that initially affect only one or a few financial institutions or a particular region of an economy, spread to the rest of financial sectors and other countries whose economies were previously healthy, in a manner similar to the transmission of a medical disease.</i>
	Smolo & Mirakhor (2010: p.376), Hassan & Kayed (2009: p.37)
4 International currency system	<i>International monetary system based on multiple (unstable and unfair) fiat currency system (of each nation) and US\$ fiat money as international currency, all with no back up assets.</i>
	Trabelsi (2011: p.17), Meera & Larbani (2004: p.12), Ahmed (2001: p.10)
5 Political	<i>Shocks that cause instability in political aspects, such as loss of confidence in state, inequality, violation of human rights and unrests, which hinder or halt economic</i>

instability	<i>activities.</i> Trabelsi (2011: p.17), Ghoul (2011:p.58-59); Oguz & Tabakoglu (1991: p.69)
6 Social instability	<i>Shocks that cause instability in social aspects, such as widespread criminality, corruption and poverty, which hinder or halt economic activities.</i> Ghoul (2011: p.58-59), Hassan & Kayed (2009: p.38)
POOR GOVERNANCE	
1 Poor administration	<i>Poor management or control of an organization, especially managerial functions of local to central government and public institutions.</i> Seidu (2009: p.30), Al-Masri (2009: p.293), Ali (2006 & 2007: p.23), Iqbal & Khan (2004: p.2)
2 Corruption	<i>Spiritual or moral impurity, abuse or deviation which is conducted for his/her/their personal gain, such as bribery, embezzlement, dishonest, and fraudulent conducts.</i> Hassan & Kayed (2009: p.36), Al Masri (2009: p.293), Farooq (2009: p.8), Siddiqi (2009: p.3), Seidu (2009: p.30), Ali (2006&2007: p.11), Garcia, et al.(2004: p.1), Iqbal & Khan (2004: p.96)
3 Price control	<i>Forms of governmental restrictions on the prices of certain goods and services in the market to maintain their affordability, to prevent price increase during shortages and to slow inflation.</i> Ibnu Qudamah <u>in</u> Bashar (1997: p.32), Khan & Thaut (2008: p.11), Azid, et al.(2008: p.61), Iqbal & Khan (2004: p. 1), Kahf (2000: p.9), Oguz & Tabakoglu (1991: p. 64), Hadits Abu Dawud no.3453 and Hadits Tirmidzi no.1314
4 Lack of regulation	<i>The absent of necessary administrative law and procedures to assure the proper working of market mechanisms.</i> Othman, et al.(2012: p.10), Trabelsi (2011: p.23), Smolo & Mirakhor (2010: p.372), Ahmed (2009: p.15), Hassan & Kayed (2009: p.37), Mirakhor & Krichene (2009: p.29), Seidu (2009: p.30), Al-Masri (2009: p.293), IAIE (2009: p.267), Ali (2006&2007: p.10 & 27), Iqbal & Khan (2004: p.2)
5 Lack of disclosure	<i>The absent of necessary openness, transparent information and reporting in order to reduce asymmetric information or biased between/among market players.</i> Smolo & Mirakhor (2010: p.372), Iqbal & Khan (2004: p.2)
6 Wrong man in the wrong place	<i>Assignment of unqualified person for certain position or job.</i> Ali (2006&2007: p.24), Iqbal & Khan (2004: p.2)
UNSTABLE MONETARY/FINANCIAL SYSTEM	
1 Interest system	<i>The application of interest rate in economic transactions, where borrowers have to pay a predetermined percentage of principal for the use of money that they borrow from their lender.</i> Othman, et al. (2012: p.10), Trabelsi (2011: p.17), Ghoul (2011: p.58-59), Ahmed (2010: p.307), Smolo & Mirakhor (2010: p.375), Hassan & Kayed (2009: p.50), Mirakhor & Krichene (2009: p. 9), Siddiqi (2009: p. 6), Seidu (2009: p. 29), Al-Masri (2009: p.289), Thaker & Azam (2009: p.10), IAIE (2009: p.267), Chapra (2008: p.3), Chapra (2007: p.162), Meera & Larbani (2004: p.12), Iqbal & Khan (2004: p.2), Ahmed (2001: p.30), Oguz & Tabakoglu (1991: p.66), Zarqa (2009: p.251)
2 Fiat money	<i>Money that derives its value from government regulation or law. Its face value is higher than its intrinsic market value.</i> Trabelsi (2011: p.17), Thaker & Azam (2009: p.10), Hassan & Kayed (2009: p.37), Meera & Larbani (2004: p.10)
3 Fractional reserve banking system	<i>Practice where banks lend out more than what they have in deposits. Multiple credit and monetary expansion can be produced through small changes in base money via the system of fractional reserve requirements. A small reserve base supports a large quantity of deposits and credit.</i> Othman, et al.(2012: p.12), Trabelsi (2011: p.17), Farooq (2009: p.8), Mirakhor & Krichene (2009: p.14-15), Thaker & Azam (2009: p.10), Meera & Larbani (2004:

	p.10), Garcia, <i>et al.</i> (2004: p.1)
4 Leverage system	<i>The concept refers to the use of small amounts of equity capital to contract loans multiple of the amount of equity. In a modern financial system, generally all financial institutions—banks and non-bank financial institutions—are highly leveraged.</i>
	Trabelsi (2011: p.17), Ahmed (2010: p.318), Smolo & Mirakhor (2010: p.372), Hassan & Kayed (2009: p.36), Mirakhor & Krichene (2009: p.26), Siddiqi (2009: p.3), Seidu (2009: p.28), Ahmed (2009: p.15), Chapra (2008: p. 2), Chapra (2007: p. 165&166)
5 Financial product derivation	<i>Financial product which derives its value from the value of underlying entities such as an asset, index, or interest rate--it has no intrinsic value in itself, such as credit default swaps (CDS) or collateralized debt obligation (CDO).</i>
	Trabelsi (2011: p.17), Ahmed (2010: p.308), Smolo & Mirakhor (2010: p.378), The Task Force on Islamic Finance and Global Financial Stability/TFoIFGFS (2010: p.26), Hassan & Kayed (2009: p.36), Siddiqi (2009: p.8), Seidu (2009: p.39), Ahmed (2009: p.18), Al-Masri (2009: p.290), Chapra (2008: p.16)
6 Credit creation through credit card	<i>Credit card gives new purchasing power to its holder by creating new credit out of nothing, similar to money creation in fractional banking system.</i>
	Trabelsi (2011: p.17), Al-Masri (2009: p.292&293), Obaidullah (2005: p.51)
UNSUSTAINABLE FISCAL SYSTEM	
1 Unsustainable fiscal deficit	<i>Government runs a budget where a government's expenditures always exceed the revenues that it generates in a long run.</i>
	Othman, <i>et al.</i> (2012: p.10), Chapra (2008: p.16), Ali (2006&2007: p. 9), Chapra (2007: p. 163), Iqbal & Khan (2004: p.1&5)
2 Excessive tax	<i>Condition where financial charge or other levy imposed upon a taxpayer by government administration is abnormally high.</i>
	Chapra (2007: p.163), Iqbal & Khan (2004: p.39)
3 Excessive sovereign debt	<i>Condition where the government heavily borrows externally to fill the gap of its fiscal deficits.</i>
	Othman, <i>et al.</i> (2012: p.9), Chapra (2007: p.163), Ali (2006&2007: p.9), Iqbal & Khan (2004: p. 34 & 95), Khan (2001: p.253)
4 Excessive spending	<i>Government runs a budget where it has very high expenditures compare to its revenues.</i>
	Seidu (2009: p.31), Chapra (2007: p.163), Iqbal & Khan (2004: p.1), Khan (2001: p.239)
5 Poor inventory management of strategic commodities	<i>Inventory management, for strategic commodities to minimize the negative impacts of demand and supply shocks, is ineffective or non existence.</i>
	Chapra (2007: p.163), Oguz & Tabakoglu (1991: p.64)
6 Ineffective fiscal system	<i>Overall fiscal system does not work properly, where part of revenues do not go to public exchequer, while part of expenditures do not really spent for public purposes.</i>
	Chapra (2007: p.163), Iqbal & Khan (2004: p.96), Khan (2001: p.238-239),

Appendix B

A.1. Table 1. ANP Results

Name	Limiting	Normalized By Cluster	Name	Limiting	Normalized By Cluster
CRISIS					
High Inflation	0.018708	0.10757	Saving Debt Default	0.020557	0.1182
High Depreciation	0.029688	0.17071	Stock Market Crash	0.022523	0.12951

C. Account Deficits	0.020557	0.1182	Recession-Depression	0.041939	0.24115
Bank Run	0.019941	0.11466			
REAL CAUSES					
Mis-Behavior	0.004272	0.14739	Unstable Monetary Syst.	0.005782	0.19948
External Event	0.004887	0.1686	Unsustainable Fiscal Syst.	0.00699	0.24116
Poor Governance	0.007054	0.24337			
MIS-BEHAVIOR			UNSTABLE MONETARY SYSTEM		
Greediness	0.020501	0.12911	Interest	0.030097	0.1888
Individualism	0.020501	0.12911	Fiat Money	0.030097	0.1888
Hedonism	0.035694	0.22479	Fract. Reserve Banking	0.034634	0.21726
Speculation	0.040212	0.25325	Leverage System	0.020465	0.12838
Criminal Activities	0.018156	0.11434	Product Derivation	0.026563	0.16663
Expectation	0.023721	0.14939	Credit Card	0.017558	0.11014
EXTERNAL EVENT			UNSUSTAINABLE FISCAL SYSTEM		
Business Cycle	0.019414	0.12207	Fiscal Deficits	0.027389	0.17127
Natural Disaster	0.017788	0.11185	Excessive Tax	0.021259	0.13294
Contagion	0.023332	0.1467	Excessive Debt	0.02736	0.17109
Intl.Curr.System	0.025696	0.16157	Excessive Spending	0.02339	0.14626
Political Instability	0.031836	0.20017	Poor Inventory Syst.	0.020499	0.12819
Social Instability	0.040975	0.25764	Ineffective Fiscal Syst.	0.04002	0.25025
POOR GOVERNANCE					
Poor Administr.	0.025606	0.1601	Lack of Regulation	0.025606	0.1601
Corruption	0.030106	0.18823	Lack of Disclosure	0.025606	0.1601
Price Control	0.023271	0.1455	Wrong Man-Place	0.029747	0.18599

Batik Painting Employees' Welfare In Yogyakarta (An Analysis Of Maqasid Sharia Framework)

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Abstract

Objectives - The main purpose of this study is to analyze the implementation of welfare concept from the Islamic Economic perspective in Sub Sector Batik Painting Industry in Yogyakarta.

Methods - This is an explanatory research study with analytical descriptive of kashif analytical. This study uses rational-empirical approach (deductive). The research begins with empirical facts of an event/phenomenon that shows the number of batik industry in Yogyakarta. Maqasid Sharia is used to analyze the object of the research. Therefore, this study can be categorized as empirical-rational (inductive). The study was conducted in Yogyakarta that consists of 5 districts, namely: Sleman, Bantul, Kulon Progo, Gunung Kidul and Yogyakarta.

Results - Maqasid sharia as an indicator of welfare has been implemented in most of the batik painting industry in Yogyakarta, with the highest order is *hifzhul-‘aql*, followed by *hifzhul-maal*, *hifzhun-nasl*, *hifzhun-nafs*, and the lowest is *hifzhud-din*. By order of the area of application, the highest is Kulon Progo (70.31%), followed by Yogyakarta (70.26%), Bantul (70.25%), Sleman (60.09%) and the lowest is Gunung Kidul (50.29%).

Conclusion - Based on the analysis of socio-economic welfare, as much as 64.7% of employees were able to meet the needs of their family life, while the remaining 33.3% were classified as *mustahiq* (poor) which require serious attention. Based on the analysis of Ibn Khaldun's concept on welfare, Batik industry in Yogyakarta has not fully implemented the welfare yet. It is characterized by the application of distributive justice between the owner and the employees are still not in accordance with the Hadith of the Prophet, which is 1: 2.

Keywords: Islamic Welfare, Maqasid Sharia, batik painting

Abstrak

Tujuan - Tujuan utama dari studi ini, untuk menganalisis implementasi konsep kesejahteraan dari sudut pandang ekonomi Islam pada Industri Batik Tulis di Yogyakarta.

Metode - Studi ini adalah explanatory riset dengan menggunakan analisis deskripsi dari analisis kasif. Studi ini menggunakan pendekatan rasional empiris (deduktif). Penelitian ini dimulai dengan fakta empiris atas kejadian atau fenomena yang terjadi pada sejumlah industri batik tulis di Yogyakarta. Maqasid Shariah digunakan untuk menganalisis obyek penelitian ini. Studi ini dilakukan di Yogyakarta yang memiliki 5 kabupaten yaitu, Sleman, Bantul, Kulon Progo, Gunung Kidul dan Yogyakarta kota.

Hasil - Berdasarkan hasil analisis dengan menggunakan indikator kesejahteraan menurut Islam, diketahui bahwa penerapan Maqasid Shariah pada industri Batik Tulis di Yogyakarta secara berurutan adalah sebagai berikut; tertinggi *hifzhul-‘aql*, *hifzhul-maal*, *hifzhun-nasl*, *hifzhun-nafs*, dan paling rendah *hifzhud-din*. Adapun jika dilihat berdasarkan wilayah, penerapan kesejahteraan ekonomi menurut Islam, berdasarkan tingkat kekafannya adalah, Kulon Progo (70.31%), Yogyakarta (70.26%), Bantul (70.25%), Sleman (60.09%) dan yang tidak kafah Gunung Kidul (50.29%).

Kesimpulan - Berdasarkan hasil analisis kesejahteraan ekonomi, diketahui bahwa 64,7% karyawan yang di wawancara, termasuk dalam golongan mampu, sedangkan 33,3% termasuk miskin dan membutuhkan perhatian. Berdasarkan hasil analisis dengan menggunakan konsep Kesejahteraan Ibnu Khaldun, diketahui bahwa implementasi kesejahteraan menurut Islam, di Yogyakarta belum kaffah. Penerapan keadilan distribusi antara pemilik industri dengan karyawannya belum sesuai dengan Hadits Nabi, yaitu 1:2.

Kata kunci: Kesejahteraan, Islam, Maqasid Shariah, Batik Tulis

1. Introduction

Batik is an Indonesian cultural heritage known since the 4th century AD. Batik culture is heavily influenced by Hinduism of India, which continues to evolve in Majapahit era (GP. Roufer, 2009). Since October 2, 2009, UNESCO officially recognized batik as Indonesian original product. Recognition is also reinforced to the world that Indonesia is the world center of batik.

Various motifs and types of batik found in Indonesia. There are hundred motifs and types throughout Indonesia, which can be categorized into five (5) major patterns, namely: Batik kraton, Batikpesisir, Batik Andalas, Dayak and Melayu. Java is the island that has various Batik motifs and types, therefore it is identified as the center of batik industry in Indonesia.

Public interest in batik will encourage batik industry in many regions, not only in Yogyakarta. The development of batik industry in Yogyakarta is expected to improve welfare of its people. The data below shows the growth of batik industry in Yogyakarta:

Table 1
Number of Batik Painting Industry in Yogyakarta 2014

No	District/City	Industry Number	Employee Number
1	Bantul	11	53
2	Sleman	24	120
3	Gunung Kidul	10	45
4	Kulon Progo	82	157
5	Yogyakarta	29	64
6	Total	156	439

Source: BPS processed

Based on the table above, it can be seen that the Kulon Progo is an area that has the highest number of batik industry compared to other regions. Based on the data collected, it is known that the batik industry in Yogyakarta during the last 5 years has increased and significantly grown. Because of rapid growth, the Government is committed to continually advancing the batik industry in Indonesia, especially in Yogyakarta.

Increasing the number of Yogyakarta batik industry would theoretically improve the welfare of its people. Welfare has always been the hope of every human being. During this time the welfare of the individual is measured by the ability to meet the needs of feasible life. Welfare emphasis is on food and clothing or be financially. In fact, some people who successfully meet the needs of their economies, but they are not prosperous. Based on this background, the researchers conducted a study on how the implementation of welfare according to Islam (*maqasid shariah*) in the batik painting industry in Yogyakarta. This study seeks an answer whether *maqasid shariah* have been implemented on the lives of employees in Yogyakarta batik industry?

Efforts to achieve welfare for all people are not new in the community. Every human being always strives to achieve and improve welfare. Welfare definition that has been understood by humans is a situation where individuals meet all their basic needs. The basic requirement is that the availability of food, drink, clothing, housing, health preserved and the continuity of education to the desired stage. The indicator used to measure welfare still use the size of the material, so most people are stuck in a hedonistic life, exaggerated, and encourage them to be greedy. Often in the hunt for riches they forget to health, so that welfare cannot be achieved overall.

Welfare and economic development is expected to create prosperity which is equitable for every human being. Every individual has the right to achieve prosperity in life. Every effort is made to achieve the welfare of individuals through the world of work. As social beings, humans are always in need of help from others in his work. The meeting between people who are striving for a welfare life with work, led to the birth of business organizations. Through business organizations are expected to create quantitative and qualitative welfare in the lives of its members. Every human being is always trying to achieve and improve welfare. Definition of welfare is a situation where individuals meet all of their basic needs, which refers to the

availability of food, drink, clothing, housing, health and sustainability of education until the desired stage.

The indicator used to measure welfare still use the material dimension with the assumption that if a person's needs and desires materially fulfilled, then the spiritual needs will also be met. The concept of well-being in dictionary Indonesian starting from the word peace means prosperity, quiet and safe (free of all distractions). Social welfare is a portrait of people in a prosperous state. This idea is reinforced in Decree No. 13 of 1988, which states that welfare is the social order of life and livelihood of both material and spiritual are suffused with a sense of security, decency and peace inside and outside, which allows every citizen to meet the needs of spiritual, social, physical their families, and communities to uphold human rights and obligations in accordance with Pancasila.

Welfare according to Islam has a wider range than in conventional economic welfare. In the view of Islamic economics, welfare is not only the fulfillment of all the needs and desires of the people economically in the world, but includes the fulfillment of the people in the world and also in the hereafter, which is characterized by peace of mind. Man who attain peace of mind is a clever man who always grateful for all the blessings given by Allah SWT. Gratitude is always evident in every side of his life was polite and civilized, always feel the presence of God in every step. Peace of mind to encourage positive behavior because *qolbu* manage reason and desires, so that each of their actions benefits themselves and the people. Quietness and peace of one's soul also make a person concerned about the environment,, to people in need, and to the natural surroundings. Qolbu that control mind will be able to control the destructive lust, thus making life calm and peaceful (siz, 2009).

Ghozali in Sulaiman (2002: 37) stated that human needs include three requirements,they are: primary (*dharuriyyat*), secondary (*hajiyyat*) and complementary (*tahsiniyyat*). Furthermore, he said that the main purpose of the application of sharia is a matter of religion, life, mind,

offspring, and wealth. Wealth means anything that is concerned with the economy. In terms of discussing various human problems, Ghazali always refer to the concept *maslahah* (welfare) as a goal. The objective of *maslahah* is achieving the goal of *sharia* that located at: 1. religion protection (*Hifzhud-Din*), 2. Life protection (*Hifzhun-nafs*), 3. Sense protection (*Hifzhul-'Aql*), 4. Offspring protection (*Hifzhun-Nasl*), and 5. Property protection (*Hifzhul-Maal*).

In conclusion, indicators of welfare in Islam are how we are able to achieve *maqasid Shariah* and apply it in their daily lives, so that the welfare of the world hereafter be met. Welfare indicator is the achievement of the people's welfare in terms of: religion, life, sense, family/offspring, and property.

2. Methodology

This study uses rational-empirical approach (deductive). The research begins with empirical facts of an event/phenomenon that shows the number of batik industry in Yogyakarta. Yogyakarta batik industry has significantly contributed to the country's economy by increasing employees' income, job opportunities for the people and increasing foreign exchange. Empirical facts were studied and a number of problems were found. The existing problems were then analyzed according Islamic economy through the concept of *maqasid al-Shariah* welfare. The results were expected to be a reference to find a good solution.

Maqasid Sharia is used to analyze the object of the research. Therefore, this study can be categorized as empirical-rational (inductive). This study uses quantitative approach supported by qualitative and intuitive approach (*Kashif*). *Kashif* and qualitative approach are used in this study to reveal the application of *maqasid Shariah* for employees in Yogyakarta batik industry. Thus it can be seen the level of employees' welfare according to Islam. Quantitative approach is used to determine the relationship among the indicators of welfare variables. Therefore, this study can be categorized as a combination of quantitative, qualitative and *Kashif* approaches. If viewed from the nature of the problem, this study can be categorized into survey research

because it takes samples from the population and uses questionnaires as data collection tool. (Singarimbun, 1995)

The technique used in the design of this study include: First, primary data analysis, i.e. data obtained directly from the source. In this case, the primary data is employees response related to the research. Second, secondary data analysis based on the analysis of internal and external data sources that have been documented.

Location of Studies

The study was conducted in Yogyakarta that consists of 5 districts, namely: Sleman, Bantul, Kulon Progo, Gunung Kidul and Yogyakarta. The choice of location is based on the consideration that Yogyakarta is an area that has a high historical and cultural related to the development of batik and Islam. Additionally, Yogyakarta as a cultural tourist center is one of the purposes of doing business.

Population And Sample

The population in this study is employees of batik painting industry in Yogyakarta. The Number of batik painting industry employees in Yogyakarta are 439 people. Number of samples determination is based on the formula of Soekidjo Notoadmodjo (2005: 92). By using the formula, the number of samples in this is 219 respondents.

Sampling techniques

The Sampling technique used in this study is *probability sampling* with random sampling technique. *Probability sampling* is chosen because it provides an equal opportunity for each element to be selected as sample .

Dynamic Model

According to Chapra (2001: 126-128), the development model for industry, is a model that linkage with socio-economic life of the society. This model connects all the variables of political and socio-economic importance, namely Sharia /The Law (S), the regulatory governance of the industry (G), human or *rijal* (N), property or *mal*(W), development or *imarah* (g) and justice or *al-adl* (j). Model of the relationship between these variables is known as Recycling Justice (*Circle of Equity*), which is shown in Figure 1 below.

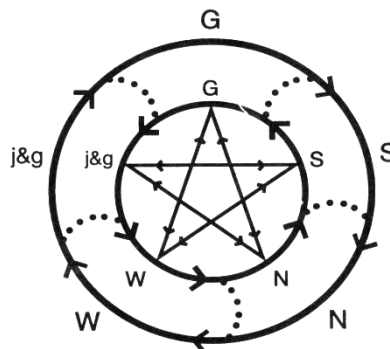


Figure 1 CIRCLE OF EQUITY

Source: Chapra, Umer. *Future of Islamic Economy*. 2001

The analysis put forward by Ibn Khaldun, functionally expressed by Chapra (2001 : 126-128, in Zadjuli, 2009: 47) provides clarity about the relationship between G, S, N, W, g and j with the eventual goal to create welfare (*falah*) physically and mentally here and hereafter as follows:

$$G = f(S, N, W, g \text{ and } j)$$

G = Authority of batik industrial owner

S = Sharia compliance Domestic industry rule

N = Human Resource

j and g = justice and growth

W = Wealth or possessions

Two of the most important relationships in the chain of causality are the growth (g) and justice (j). Growth is very important because there is a tendency in society, where people do not want

to stop, they want to move on. Growth is not only referring to the economy, but all aspects of human development such that each variable enriches other factors such as G, S, N and W which, in turn, these factors will be enriched by the second, thus contributing to the welfare or true happiness for humans (N) and guarantee not only the survival but also the progress in civilization (Chapra, 2001: 128).

The equation does not capture the dynamics model of Ibn Khaldun, but simply reflects its cross-discipline character to include all the main variables discussed. In this equation, G is seen as an endogenous variable, because one of the main concerns of Ibn Khaldun is explaining (factors) that cause the fall and rise of a dynasty (state) or civilization. Based on the theory of Ibn Khaldun, strengths and weaknesses of an industry depends on the strengths and weaknesses of the authority rules it contains. In keeping with long-term survival, authority of industrial owner (G) must guarantee the welfare of employees (N) by providing the right environment to actualize growth (g) and justice (j) through the implementation of sharia/home industrial rules (S) and equal development and distribution of wealth (W).

Definition of Maslahah

Maslahah concept that will be used as reference in this study can be further explained as follows:

1. Safety of faith/religion (Hifzhud-din)

Al-Ghazali puts al-din in the first place of *maqasidShari'ah*. Al-din is fundamental in putting human relations and allowing humans to interact with each other in balance and caring to help strengthen the welfare of all human beings. Religion is a moral filter to allocate and distribute resources according to the rules of brotherhood, social justice, and economic. Religion can also be a motivation that gives strength directly lead to the fulfillment of the needs and the distribution of income (Chapra, 1999: 9-10).

2. Safety of Life (Hifzhun-nafs)

Sharia puts the human soul and every creature that animate in a respectable position. For if the soul is not placed in a respectable position, and then the damage will happen on this earth. Islam has arranged neatly to ensure that no single soul abolished without a definite cause. Is forbidden to kill themselves and others, and a ban on insulting is one part of the obligation to take care of myself.

Development of the human soul can be done through several stages (Zadjuli, 2008). At the beginning of the human soul is in a state *lawamah*, that the human spirit is at its farthest from the light of God. After the increase, then the human spirit move in a state of *amarah* (anger) is the human soul began to approach the light of God but confined by lust *amarah*. The next stage of the human soul towards *Muthmainah* circumstances that people have started to reduce anger and cares about goodness. *Muthmainah* later stage, *rodhiyah/mardhiyah* and ultimately the achievement of the human soul occupies we were the circumstances in which the human soul has been in the perfection of the spirit and the belief that emits light of God.

3. Safety of sense (Hifzhul-'Aql)

Al-'Aql ranks third in the Maqasid Shariah. Human mind can make judgments and choices for the good of themselves and society. Shariah protects it so that people have opportunities to develop their society towards piety and goodness. The rules were created in Islamic law aimed at cleansing the human sense of something that may interfere with its potential as the most valuable tool for humans. For example, the prohibition against drinking and liability study is an effort to protect the safety of sense. Safety sense needs to be done in order to achieve the welfare of sense, one with continually learn and develop knowledge in accordance with the development, but it does not conflict with al - Qur'an and Hadith.

4. Safety family/offspring (Hifzhun -nasl)

The obligation to protect the honor of the family or offspring of something contaminates the Shariah's fourth goal. By protecting human dignity, then Islam can perpetuate the good name and the sanctity of every member of society. In this way taken to the public safe from all disturbances that can manifest serenity and peace. Through this protection, welfare and purity in society can thrive. In this context, the rules of marriage and the prohibition of adultery is one way to protect the honor, the safety of the family and offspring.

5. Safety of property (Hifzhul-maal)

The property of human should be protected in the Islamic Shariah, so there is no deprivation and ill-treatment among men in society. In addition the property could be used for the development of individuals and societies for the better. With the protection of human rights on his property, it is expected humans can utilize the property to save al Din for the sake of humanity. This is the reason for Islam against the act of stealing and seizing property of others, as well as the obligation to ensure the halal wealth in order to protect property.

According to Al-Ghazali, the property is placed at fifth in the maqasid Shariah because the property is not a goal, but a tool in the realization of welfare. If the property as a goal is feared will lead to the occurrence of injustice, inequality and its impact is reduced public welfare. Meanwhile, life, sense, and the offspring are related to the welfare of mankind. Everything needed to make three for everyone should be considered a necessity. Fulfillment of all these requirements will make all members of present and future generations to live a peaceful, comfortable, and healthy and made a major contribution towards the realization and perpetuation falah and hayyat thayyibah (Chapra, 1999: 11).

3. Results and Discussion

DISCUSSION

Characteristics of Respondents

Characteristics of respondents include Length of Work, Position, Gender, Age, Education, and Zakat, Infaq and Shodaqah expenditure per year. Number of Respondents are 219 people, 105 of them are deemed complete and was compiled by researchers.

Length Of Work

Based on finding in the study terms of length of work on batik painting industry sub-sector in Yogyakarta (DIY) 58 respondents (55 %) have worked between 5 to 10 years, 38 respondents (36 %) have worked more than 10 years, and 9 respondents (9 %) have worked less than 5 years.

Position

Based on finding in the study in terms of positions in the sub-sector of batik painting industry in Yogyakarta (DIY), 53 respondents (50 %) are batik painters, 19 respondents (18%) are salespersons, 18 respondents (17%) are laborers, and 15 respondents (15%) are foremen.

Gender

Based on finding in the study, it can be seen that 78 respondents (74 %) who work in the sub-sector of batik painting industry in Yogyakarta (DIY) are female, and 27 respondents (26 %) are male.

Age

Based on finding in the study, it can be seen that the characteristics of respondents by age are dominated by the age group of 36-45 years 42 respondents (40%), followed by the group of 26-35 years 22 respondents (21%), and above age group 46-50 years 18 respondents (17%), and 14 respondents (14%) age group between 15-25 years, and the last age group over 50 years 9 respondents (7%).

Level of Education

Based on finding in the study it can be seen that the characteristics of respondents by education level are dominated by high school as many as 45 respondents (43%), junior high school as many as 23 respondents (22%), then Diploma as many as 19 respondents (18%), elementary school as many as 18 respondents (17%), and there is no Bachelor degree respondent.

ZIS expenditure (Zakat, Infaq and Shodaqoh)

Based on finding in the study, it can be seen that the characteristics of respondents by level of expenditure for ZIS, less than 2.5 % of the average income as many as 68 respondents (65 %), and expenditure for ZIS 2.5 % - 5 % of the average income as many as 37 respondents (34 %).

Validity Test and Reliability Instruments

Testing the validity and reliability of the instrument was conducted to measure the extent to which the precision and accuracy of a measuring instrument in performing measuring function. Testing is done by correlating the scores of items with a total score variable that has been corrected. A high correlation coefficient indicates compatibility between the function item with the overall study. Data were tested as many as 105 respondents using SPSS 18. Based Masrun (1979) in Solimun (2005) states that when the positive correlation coefficient greater than 0.3 then the relevant indicator is considered valid. The analysis technique used is the Pearson Product Moment Correlation. In testing the validity of the value can be seen from the corrected item total correlation.

Variable of Employees' Welfare

Variable of employees' welfare consists of five indicators which are developed into fourteen question items. Based on the measurement results of the fourteenth items, wherein each item question is measured using Product Moment correlation, indicates that all items have positive correlation and above 0.3. Results of detailed calculations for each item of Pearson correlation coefficient variable of employees' welfare can be seen in the following table:

Table2
Validity Test on Employees Welfare Variable

Indicator	Corrected Item- Total Correlation	Remark
addin1	0.833	Valid
addin2	0.808	Valid
addin3	0.848	Valid
addin4	0.250	Not valid
alaql1	0.704	Valid
alaql2	0.837	Valid
annafs1	0.859	Valid
annafs2	0.680	Valid
annafs3	0.868	Valid
maal1	0.615	Valid
maal2	0.874	Valid
maal3	0.628	Valid
annas11	0.832	Valid
annas12	0.743	Valid

Source: results of validity test

Based on the table 2 is known that there is a single indicator variable employee benefits that are not valid. Theoretically it is not too significantly affect the measurements, therefore, the indicators used to measure the welfare of employees can be fully used.

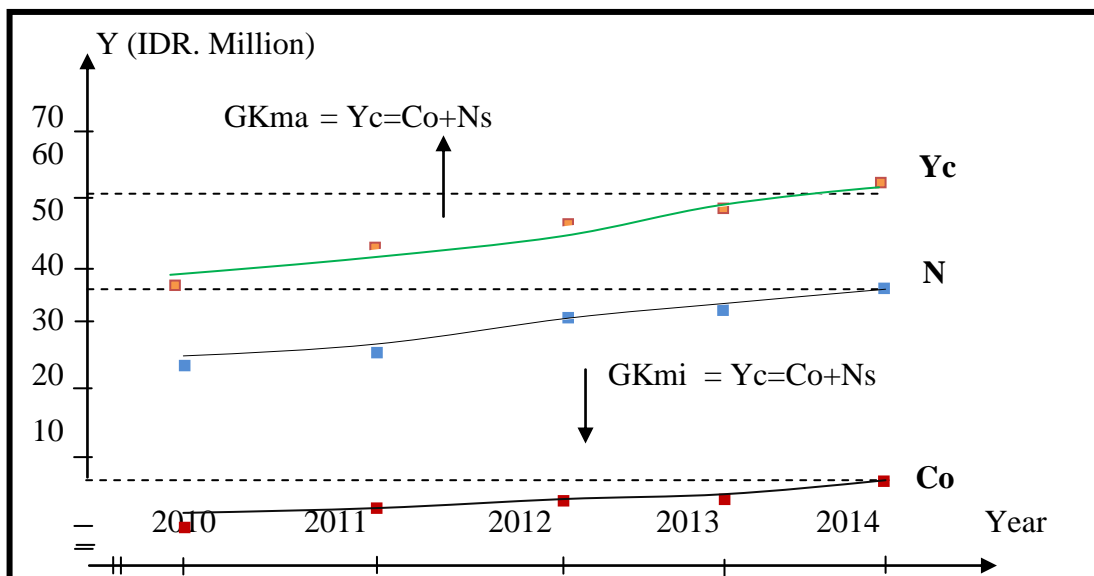
ANALYSIS OF WELFARE

Welfare according to the concept of maqasid Sharia is not measured by the amount of property owned by a person, but how he gets fortunes of the world and the hereafter. Fortune of the world and the hereafter become a destination for Muslims in search of livelihood. The signs of Muslim blessings or good fortune in the world and the hereafter are measured by five (5) blessing called the maqasid Shariah.

The welfare of employees in terms of the financial is calculated based on the average income and expenditure per month compared to gold price. The interesting thing in this case is that the employees who are mostly women are not the main income earner in the family, so the revenues gained from working in the batik industry just as an addition to the family income.

To determine the socio-economic welfare of Muslim families in Yogyakarta, whether classified as poor or prosperous at a particular place and time uses boundary hijab poverty and prosperity

according to the Islamic economic perspective Zadjuli (2006: 17). The approach used in introducing and measuring Zadjuli hijab limit poverty and prosperity under Islam can be seen in Figure 2 below:



Sumber : Zadjuli (2006a: 17)

Keterangan :

Y = Gross National Product (GNP)

Gkma = Garis Kemakmuran

Gkmi = Garis Kemiskinan

Figure1 Boundries Of Prosperity And Poverty According To Islam

$Y_c = Co + Ns$ = Boundaries of income to determine the muzakki

(prosperous) dan mustahiq (poor) family

Co = Income for the minimum consumption per family

Ns = Income as boundary conditions to expend zakat

Figure1 shows that the average value of poverty and prosperity in Yogyakarta grows from IDR 45,695,848.00 in 2008 to IDR 60,534,000.00 in 2012. The growth in value is caused by an increase of mustahiq spending and an increase in gold price. Based on these calculation, it can be seen the percentage of employees in Yogyakarta batik in the category mustahiq (poor and needy) and muzakki (those who can afford to pay tithes).

The research data show that in 2014, the respondents were classified as prosperity, which is located on the line of prosperity (Gkma) is 68 out of 105 respondents, or 64.7%, while respondents who are under the poverty line (GKMI) is 37 out of 105 respondents, or 33.3%. Data from this study concluded that 64.7% of employees in Yogyakarta batik industry were

among those able to meet the needs of their family life, while the remaining 33.3% were classified as mustahiq (poor) which require serious attention.

The results showed that the management of batik industry with the highest level of kafah is Kulon Progo (70.31%), followed by Yogyakarta (70.26%), Bantul (70.25%), Sleman (60.09%) and the kafah lowest level is Gunung Kidul (50.29%). The level of kafah is seen from the average of respondents' answers.

Furthermore, the data obtained and analyzed using the theory propounded by Ibn Khaldun. This theory provide clarity about the relationship between the G, S, N, W, g and j where the end goal is to create welfare (Falah) physically and spiritually in the world and the hereafter as follows:

$$G = f(S, N, W, g \text{ and } j)$$

Where :

G = Owner batik industry

S = internal rules of Islam batik industry

N = Employees (respondents)

j and g = equity and growth

W = Employee Welfare

Two of the most important relationships in the chain of causation are the industry's growth (g) and justice (j). Industrial growth is very important because the normal tendency of human lives do not want to stop, they continue to advance innovation, develop or decline. The growth of batik painting industry does not only refer to the increase in business turnover, but all aspects of employees' welfare growth as such that each variable enriches other factors such as G, S, N and W and, in turn, these factors will be enriched by a second, thus contributing to the welfare or happiness for the employees (N) and ensure not only the survival but also the progress of civilization (Chapra, 2001: 128).

Ibnu Khaldun concept in micro-economic can be implemented in the management of Batik industry. In this case, G analogous to industrial owner, and N is the employees who work in

industrial environments Batik, while W is the welfare of employees within the industrial environment. Based on the results of the study, it can be seen that the welfare model according to Ibnu Khaldun has been implemented in managing the batik industry in Yogyakarta, but its implementation has not been *kaffah*, which is characterized by average score of only 4.32 assessment, below the highest score (5). Implementation of the welfare in the batik industry in Yogyakarta which has not been *kaffah* is evidenced by the implementation of distributive justice between the owner and the employees that are still not in accordance with the Sunnah of the Prophet. Based on the study of the sunnah of the Prophet, the distributive justice accepted is 1:2, while the batik industry the ratio is 1: 30. If the net income of the owner of the industry is 30 million, workers get 1 million rupiah. Earnings ratio is far from being exemplified by the Prophet. This proves that the implementation of sharia has not been *kaffah*. The income gap shows that distributive justice in the batik industry in Yogyakarta is not yet *kaffah*.

Application of distributive justice has uneven less optimal impact on the welfare of employees. This is an evidence that supports the theory of Ibn Khaldun about Circle of Equity that was developed by Chapra and perfected in its application in micro economy by Zadjuli. Furthermore, in assessing the welfare according to Islam, there are three levels, namely sufficiency, happiness, and blessing (Imam Suroso Zadjuli, 2000). Sufficiency means the fulfillment of food, clothing and housing. Happiness is synonymous with comfort inside and outside, while a blessing to have a more comprehensive sense that is the fortune in the world and the hereafter. Blessing is a form of welfare as true according to Islam, so in this study the indicators used to measure employee benefits batik industry is *hifzhud-din*, *hifzhul-‘aql*, *hifzhun-nafs*, *hifzul-maal* and *hifzhu-nasl*.

Based on interviews and questionnaires given to respondents, it can be concluded that the highest indicators of the welfare of employees in batik industry in Yogyakarta is *Hifzhul-‘Aql*, the salvation of mind with an average score of 4.19. This means that employees in Yogyakarta batik industry to work with the aim to master the science of batik and they also give priority to

the quality rather than quantity. Patience, perseverance and sincerity in doing the work are being priorities to employees in Yogyakarta batik.

For more details, it can be seen in the following figure 2

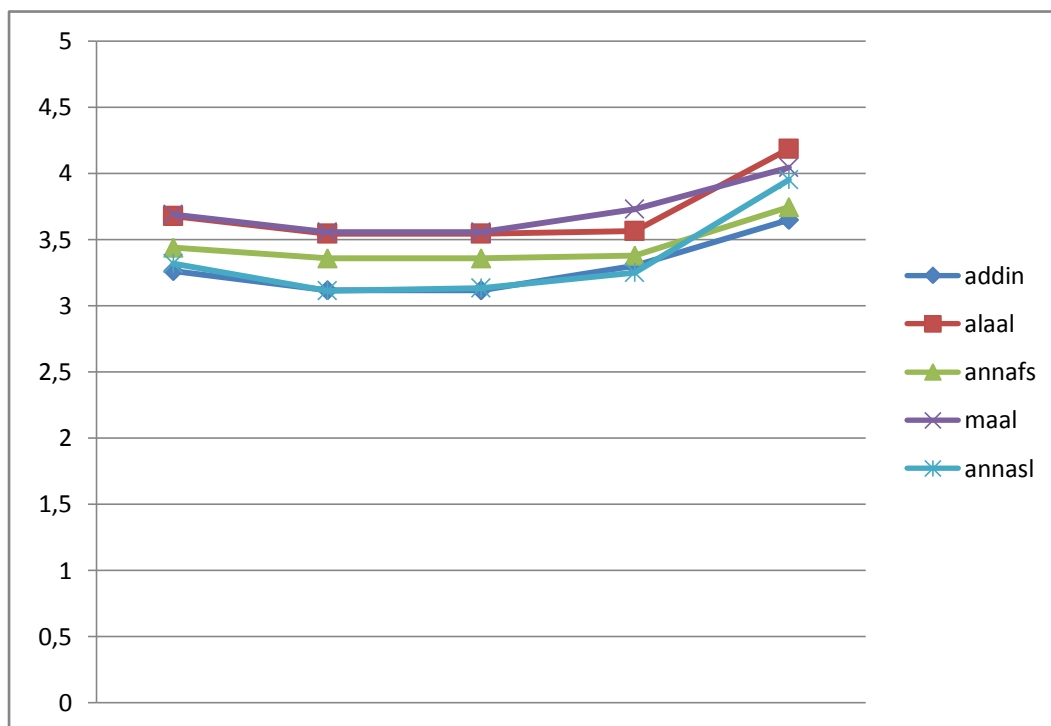


Figure 2 Dynamics of Welfare Year 2010 – 2014

Figure 2 shows that the highest indicator of employees' welfare in the batik painting industry sub-sectors in Bantul is *Hifzu- 'Aql*, i.e. the safety of mind with an average score of 3.702. It means that the employees of Batik painting industry prefer to take priority on the science of batik in their work according to Javanese ideology *alon-alon waton kelakon*, which means they have to be patient, diligent, and sincere to the will of Allah.

The second highest indicator is *Hifzhul-maal* with an average score of 3.676. This suggests that adequate food, clothing and housing is one of the reasons the employees to work. Although, in terms of quantity, the value of revenue from income batik cannot be categorized as high, but they are comfortable and true to the work, by continuing to improve their knowledge and skills. Most employees in the batik industry in Yogyakarta are women. They work with the motive to

support their families, so that batik income is not the only source of household income. Wealth is necessary for human survival in the world, but Islam teaches that wealth is not the main thing, which is embodied in the order of priority indicators of welfare according to Islam. Islamic teachings on the priority have been proven by the employee welfare batik, Yogyakarta. Most employees do not seek wealth batik as their work orientation. They work just to hope enough income to meet their needs, not for wealth. This proves that the average employee working in the batik industry does not intend to get a big salary or material wealth.

The third highest indicator was Hifzhun-nasl with an average score of 3.281. This time the batik industry employees work in their homes or in industries that are around the house. They can do their job at home while taking care of the household. Prosperity viewed from the standpoint of employees batik, is working with no pressure, it is fully compatible with most of the motivation of the employees who work for more than helping the economy of the family, filling time and fulfill their belief that work is worship.

Furthermore, the fourth indicator is the high perceived- hifzhun-nafs. Hifzhu-nafs is security and comfort in life, which is one measure to determine the level of welfare. The results in this study indicate that the safety and comfort of work is not too became the focus of attention of employees and also batik industry leaders, so fourth place is perceived to measure welfare. This is reasonable because the risk of workplace accidents in the batik industry is relatively small. In addition, the average employee batik also works at their homes.

The last indicator is the lowest perceived Hifzhud-din which is the safety of life or beliefs. This thing is quite apprehensive because in the middle of the jealous implementation of life based on the teachings of the Prophet was still there on Islamic beliefs weak. Weak confidence levels of batik employees, of course, influence the behavior of those in religious life. This shows that the religious life of each employee batik industry is still far from kaaffah.

4. Conclusion

1. The application of *maqasid sharia* as an indicator of welfare according to Islam has been implemented in most of the batik industry, with the highest order *hifzu-aql*, *hifzu-maal*, *hifzu-nasl*, *hifzu-nafs*, and the lowest is *hifz hud--din*.
2. By order of the area of *maqasid sharia* application, the highest order is Kulon Progo (70.31%), followed by Yogyakarta (70.26%), Bantul (70.25%), Sleman (60.09%) and most not *kaaffah* is Gunung Kidul (50.29%)
3. Based on the analysis of socio-economic welfare, as much as 64.7% of employees were able to meet the needs of their family life, while the remaining 33.3% were classified as *mustahiq* (poor) which require serious attention.
4. Based on the analysis of the welfare concept of Ibn Khaldun, Batik industry in Yogyakarta has not been fully (*kaaffah*) implemented yet. It is characterized by the application of distributive justice between the owner and the employees is still not in accordance with the Hadith of the Prophet, which is 1: 2.
5. Based on the results of this study, it can also be identified that the application of *maqasid sharia* as the indicator of welfare according to Ibn Khaldun in the sub-sector of batik painting industry in Yogyakarta has been implemented in majority of batik companies, especially in terms of the increasing scientific practice of batik. The practice has been implemented among Muslimah leaders as managers, motivators and decision makers on the one hand and employees as executors of the work on the other hand. The application of *maqasid al-sharia* for the last 5 years (2008-2012) has increased significantly that influence the improvement in incomes

RECOMMENDATIONS

1. Advice for Batik Industry:

Batik entrepreneurs should improve the welfare of its employees in accordance with *maqasid sharia* and the concept of Ibn Khaldun. In addition, employers should continue to develop its

business, without ignoring its impact on the environment. It is intended to keep Indonesia as the world's center of batik, can improve the welfare of employees and the surrounding community, as well as the surrounding nature.

2. Recommendations for Government

The government should protect the batik industry by disseminating and enforcing copyright law, so the copyright work is not hijacked by others. In addition the government should organize an exhibition of batik as a means for entrepreneurs/artisans to introduce his works. The government should build a museum of batik as a tools for people to deepen the knowledge of batik.

3. Suggestions for further research

Future research can expand the research object not only on batik painting but also batik cap and batik printing as well as expand the scope of research to throughout Indonesia or Southeast Asia.

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A Critical Review on Interest Rate as A Tool of Monetary Policy

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Abstract

Objectives: This research is aimed to critically review the relationship between interest rate and economic downturn

Methods: Meta-analysis.

Results: The existing monetary policy will always create higher inflation rate overtime triggering economic crisis in the long run. This is not merely about how the monetary authority strictly manages the supply and demand for money in the economy.

Conclusion: This paper concludes that interest rate give negative contribution to the economic growth.

Keywords: interest rate, economic downturn, monetary policy, meta-analysis

Abstrak

Tujuan: Penelitian ini dimaksudkan untuk mengkritisi hubungan antara tingkat bunga dan penurunan ekonomi.

Metode: *Meta-analysis*.

Hasil: Kebijakan moneter yang sekarang berlaku akan selalu menciptakan tingkat inflasi lebih tinggi dan memicu krisis ekonomi dalam jangka panjang.

Kesimpulan: Penelitian ini menyimpulkan bahwa suku bunga berkontribusi secara negative terhadap pertumbuhan ekonomi.

Kata kunci: suku bunga, penurunan perekonomian, kebijakan moneter dan *meta-analysis*.

1. Introduction

Monetary policy refers to the government policy which relates to supply of money in the economy for the purpose to promote economic stability and growth (Mankiw, 2013). Many research papers give highly attention on monetary policy due to its significant effects to the whole social life of economic, e.g. aggregate demand as well as real gross domestic product (GDP), level of unemployment rate, exchange rates, investment, and etc. The instability on monetary sector, in the other words, will also destabilize the macroeconomic which triggers business cycle. This implies that monetary sector which rules the creation of money plays vital role in the economy.

Regarding the issues of monetary policy, a big debate among different schools of thought can be addressed into two points, i.e., (1) how to explain economic instability (business cycle) phenomenon and (2) how to maintain its (monetary) stability in order to achieve high economic growth.

Neoclassical economics believes that real variable shock is the culprit of this instability; meanwhile Keynesian economics argue that low aggregate demand responsible for it. In 1936, the advocates of Keynes proposes IS-LM graph to explain that interest rate will equate the supply and demand both from two sectors, i.e. goods and services market (real sector) and money market (monetary sector). In other words, interest rate becomes a powerful monetary tool to maintain economic stabilization.

Oppositely, heterodox economics represented by Austrian school heavily criticizes Keynes's thought. They propose a theory so-called Austrian business cycle (ABC) to explain the monetary instability. They argue that the (low) interest rate policy in banking industry must responsible for this undesired condition. At this point, an essential question arises; how about Islam economics school views on the role of interest rate as a monetary policy tool in order to promote economic growth and stability? The issue of interest rate is important, especially in Islamic economics. This is due to the very objective of sharia (maqasid al-sharia) will never be

reached if interest rate is the base of the economic system (Meera and Larbani, 2004). Dusuki and Abozaid (2007) state that maqasid al-sharia represents the whole picture of Islam. According to Al-Ghazali, there are 5 elements of maqasid al-shari'ah that must be safeguarded, i.e. life (sovereignty), faith, intellect, posterity, and wealth. Technically speaking, when policy of an indebted country is driven by the creditor country, thus the decision will not consider the domestic people's aspirations. In other words, the sovereignty of the indebted country is owned by the lender. Thus, the policy prescribed for the people of an indebted country is basically created by the lender country's wants.

As of Chapra (1996) also argues that all major religions- including Hinduism, Judaism, Christianity and Islam- have strictly prohibited interest, which indirectly implies to a question that the application of interest rate as a main tool for stabilization may perhaps be one of the major reasons for this destabilization. Considering these different views, this paper is proposed to critically review the relationship between interest rate and economic downturn by applying meta-analysis procedures.

2. Research Objective and Methodology

2.1 Objective and Paper Contributions

This paper is designed to critically review the relationship between interest rate and economic fluctuation from an Islamic point of view. Most similar previous studies on this issue are dominated by econometrical analysis; however, there are only small numbers of articles that discuss about Islamic monetary policy. In addition, the author discovers that there is no research conducted observing monetary policy from an Islamic perspective investigated by using meta-analysis. Therefore, this article review will contribute to the literature's study of monetary policy from Islamic economics.

This paper is divided into 4 parts as follows. Part 1 explores the background of the research; part 2 discusses the research method and the data; and part 3 analyzes critically the current monetary

policy from Islamic perspective. Some conclusions and policy implications are presented in part 4.

2.2 Methodology

Given the objectives of this research, data requirements and the availability of time and resources, this study will employ meta-analysis procedures as methodology. Meta-analysis was firstly developed in 1970s by Glass (1976) in the study area of psychology. Field and Gillet (2010) examine meta-analysis as a statistical tool for estimating the mean and variance of some empirical previous study which has same research question. It is utilized to analyze the proposed hypotheses quantitatively, i.e. to combine the estimation of independent studies. By statistically combining the similar estimations, the research paper may precisely improve the precision and quality analysis of article review.

To do so, the data are gathered from the estimated data from multiple previous independent studies and extracts its size (Zang, Fu, Cai, and Lu, 2014). Cohen (1988) defines effect size as “*the degree to which the phenomenon is present in the population or the degree to which the null hypothesis is false...the larger the value of effect size, the greater the degree to which the phenomenon under study is manifested*” (p. 9-10). The effect sizes will then be standardized and subjected to null-hypothesis testing to determine the strength of the relationships which is formulized, as follows (Cooper, 2009):

$$r = \sqrt{\frac{t^2}{t^2 + df_{error}}} \quad (1)$$

Where,

t = the value of the t-test for the associated comparison

df_{error} = the degrees of freedom associated with the error term of the best t-test

The use of *r-index* is the most appropriate metric for expressing an effect size when the researcher is interested in describing the relationship between two continuous variables. Afterwards, the total *effect size* is calculated by finding the average weighted *r-index*; that is transformed to its corresponding z-score, z_i , as follows:

$$z. = \frac{\sum_{i=1}^k (n_i - 3) z_i}{\sum_{i=1}^k (n_i - 3)} \quad (2)$$

Where,

n_i = the total sample size for the *i*th comparison

The formula to obtain a confidence interval for the average z-score, as follows:

$$Cl_{z95\%} = z. \pm \frac{1.96}{\sqrt{\sum_{i=1}^k (n_i - 3)}} \quad (3)$$

3. Critical Review

3.1. Qualitative Survey of The Role of Interest Rate in the Economy

There are several channels how interest rate influence the economy which can be traced from the macroeconomic variable; such as inflation, unemployment and GDP growth. Many scholars have investigated this relationship empirically. Rehman and Ghaffari (2012) apply both Granger causality and Empirical Bayes to investigate the effectiveness of interest rate as a policy variable to fight inflation. The finding shows that the interest rate is a useless policy tool which has no power to reduce inflation. He also suggests that central bank should never use high interest rate to against inflation; indeed the existence of interest rate must be eliminated from the system.

In fact, the prevailing financial system is, indeed, to promote the spirit of *zero sum game*. As exemplified by Meera and Larbani (2009), the international debt purposing to improve the people' wellbeing will never be paid back in aggregate. They illustrate the total amount of money supply in the global economy, says US\$ 15,000 billion, lent to

some low-income countries which plus 10 percent (per year) of interest rate. After the due date, the indebted countries should pay US\$ 16,500 billion; however the total existing money is only US\$ 15,000 billion. If the extra money US\$ 1,500 is not printed to be injected in the system, thus (some) borrower countries will be trapped into debt crisis. That is to say, unlucky default countries are always born.

In the other side, there are several channels how interest rate influence the rate of unemployment. First, the increasing of interest rate will push the cost of production into higher level causing number of investments go down. In some cases this declining encourages some closure of the business unit affecting the number of retrenchment of employed workers rise. Second, to cover the increasing in production cost, the producer will increase the price of produced goods and services causing the rate of inflation go up (Aliero, 1992). Empirically, Basu et.al., (2001) show that in the U.S. there is a positively relationship between unemployment rate and interest rate risk by using GARCH model. Similarly, Dogrul and Soytaş (2010) forecast by applying Toda-Yamamoto procedures, they find that in the long run the rise of interest rate will cause the number of unemployment rise in Turkey.

Even so, in some countries there is a possibility of negative relationship between interest rate and unemployment. When the interest rate falls down, hence the number of unemployed people will rise up, vice versa. The rationale reason behind this phenomenon can be explained by *Phillips curve* theory proposed by A.W. Phillips in 1958. He reported evidence of an inverse relationship between the rate of increase in wages and the rate of unemployment. By comparing rates of rise in wages with the rate of unemployment rates in Britain spans from 1861 to 1957, he found that as the labor market tightened, and the unemployment rate fell, money wages tended to rise more

rapidly. Because wage increases are closely correlated with price increases, thus this relationship was widely interpreted as a trade-off between inflation and unemployment (Cashel, 2004).

The follower of Austrian economics even more specifically addresses that credit expansion -induced by low interest rate- contributes significantly negative to the economy (GDP) in the long run, both for developed and developing countries. Islam, for sure, highly pays attention to the matter of credit as hadith narrated by ‘Usama ibn Zaid *radhiyallahu’an* that the Prophet *shallallahu `alaihi wa sallam* as having said “*Beware; there can be an element of interest in credit*”. In today world, this hadith has empirically proven in the works of Anker (2011), Bjerkenes, *et.al* (2010), Helmensson and Selleby (2009) and many others. To be precise, when the monetary authority decides to expand the economy by lowering the short term interest rate, the investors (or entrepreneurs) then think that this low rate is a good indicator to exercise their project. They then propose a bank to borrow more money in order to be invested, particularly in physical capital. In the long run, the volume of money supply in the economy rises up causing prices to go up. The entrepreneurs who invest in the project find that the price of goods and services are going up, causing producer price compared to consumer price increases. This condition then pushes the cost of production to rise. To maintain the stability of the profit, producers may raise the price of their products or reduce their volume of production, causing GDP to go down. People naturally will reject this decision by reducing their volume consumption. Eventually, the earned profit falls and the whole investment goes down into the first stage of production, extending the process of production. The production structure becomes more roundabout as a result. This may

serve as the reason why the relationship between low interest rate (as well as price) and GDP is negative.

By following Austrian economists' thought, it is also found that the interest rate contributes negatively to GDP of developed countries due such as Canada, Japan and United Kingdom (UK). The estimated coefficient regressions result verify that the interest rate has significantly negative relationship to the economy (Gross Domestic Product, GDP), i.e.; the increasing of 1 percent interest rate is likely to decrease GDP by about 0.358 percent (Canada), 0.25 percent (Japan), and 0.075 percent (UK) (Putriani, 2013).

The introduction of money through interest-based banking system must take strict control; otherwise high inflation will arise. In essence, a rise in the volume of money supply in current system is triggered by the application of interest rate as price of money in the form of debt or credit from the banking industry as well as capital market. Either central banking or banking industry may produce money in today economy system.

3.2. A Synthesis of the Role of Interest Rate in the Economy

“If adulteries and usury have been done explicitly in a country, then the people of that country have invited upon themselves the punishment of Allah.”¹

In regards with above hadith, many empirical researches find the harm effect of interest rates as major monetary policy instrument. Economic difficulties, or even macroeconomic turbulence, may become one of His punishments to disobedience people at large. Every economic crisis, indeed, will always bring misery to the whole society (Sherman, 1991). This sub-chapter synthesizes this matter from quantitative perspectives by applying meta-analysis

¹ Sahih al-Jami', no. 679

Table 1 Result of Meta-Analysis²

No. of observations	: 19
Weighted average Zi	: 0.476
CI _{z95%}	: 0.520 ± 0.432
Conclusion	: There is negative relationship between interest rate and GDP

Author's calculation

There were about 100 articles has been observed; however, only 19 results of independent studies which can be proceeded. This due to meta-analysis needs to collect each of estimated coefficients from independent studies which employ same methodology. Focus of observation was on the coefficient of the long run relationship between interest rate and economy. Table (4.1) summarizes the result of weighted average Z used to calculate average *total effect size*. The average Zi was 0.476 with 95% confidence interval ranging from 0.432 to 0.520. Thus, this result rejects the null hypothesis that there is no negative relation between interest rate and economy. In other words, this finding empirically supports the above hadith and the argument of advocate of ABC theory and Islamic perspective as well as previous studies that interest rate contributes negatively to the economy, indeed.

4. Conclusion

The existing monetary policy will always create economic crisis, though the supply and demand of money is strictly managed. It will, however, never preserve the objective of Islam, i.e. *maqasid al-shari'ah*. Keynesian school divides 3 functions of money, i.e. medium of exchange, precautionary, and speculation. It is noteworthy to highlight, if money is proposed to be a mean of speculation, it implies that money should have price. This may be the reason why Keynes put interest rate as price of money which becomes

² Detail calculation (see: Appendix)

the fundamental theory of time value of money. And, this Keynes's system is unfortunately prevailed today. Since the philosophical underpinning of current system is capitalist system, thus it will only serve the interest of capitalists, not Muslims.

An increase of inflation rate overtime, as one of characteristic in economic downturn, is essentially fueled by the system of interest rate. Inflation, as generally known, is caused by an increase of money supply exceeding the growth of real output. Technically speaking, when money supply is increased, people generally have more to produce for goods or services. However, if the real economic does not develop –the same volume of production– as much as the increasing in the supply of money, in consequence, the price of goods and services goes up. It then generates a diminishing in purchasing power parity. At this point, the rise of price such products does not because these products are scarcer than before, but it caused by the abundant of dollar in the economy. In short, the current definition of inflation, however, has an implicit meaning.

Having reviewed and synthesized related articles by applying meta-analysis procedures, this paper has qualitatively and empirically showed that interest rate harms the economy. Whatsoever the monetary authority hardly set the rate of inflation as well as strictly manages the money supply, in the end of the day the prevailing interest-rate based system will definitely situate the economy plunges towards decline and destruction. In short, either the previous or the next economic crisis is intentionally to be created (to serve the interest of capitalist) by the prevailing system.

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Appendix

Weighted average Z	0.476
CI_Z95%	$0.476 \pm 1.96 \sqrt{1996}$
CI_Z95%	0.520
CI_Z95%	0.432
CI_Z95%	0.520 ± 0.432

Conclusion Reject the Ho that there is no relation between R and GDP

Detail Formula: see subchapter 2.1. Methodology

No	Author	tstat	Coef	def	R _{et}	r-index	ni	zi	ni-3	(ni-3)zi
1	Independent study 1	-5.88406	-0.00812	123	0.00138	0.46867	124	0.5084	121	61.5164
2	Independent study 2	-4.50633	-0.00356	419	0.00079	0.21500	420	0.2184	417	91.0728
3	Independent study 3	-163.449	-0.89897	36	0.00550	0.99933	37	4.0005	34	136.017
4	Independent study 4	-10.5	-0.02100	95	0.00200	0.73291	96	0.935	93	86.955
5	Independent study 5	-7.54717	-0.16000	95	0.02120	0.61224	96	0.7125	93	66.2625
6	Independent study 6	-8.33333	-0.07500	95	0.00900	0.64984	96	0.775	93	72.075
7	Independent study 7	-47.0588	-0.08000	95	0.00170	0.97922	96	2.2782	93	211.8726
8	Independent study 8	3.123616	1.69300	95	0.54200	0.30519	96	0.3152	93	29.3136
9	Independent study 9	-0.08411	-0.36000	34	4.28000	0.01442	35	0.0144	32	0.4608
10	Independent study 10	-10.6471	-0.36200	40	0.03400	0.85975	41	1.2924	38	49.1112
11	Independent study 11	-0.43447	-0.30500	30	0.70200	0.07908	31	0.0792	28	2.2176
12	Independent study 12	-0.23684	-0.09000	99	0.38000	0.02380	100	0.0238	97	2.3086
13	Independent study 13	-0.00076	-0.00500	83	6.56500	0.00008	84	0.0001	81	0.0081
14	Independent study 14	-0.08936	-0.35806	147	4.00710	0.00737	148	0.0074	145	1.073
15	Independent study 15	-0.0513	-0.25114	147	4.89590	0.00423	148	0.0042	145	0.609
16	Independent study 16	-0.0118	-0.07483	147	6.34218	0.00097	148	0.001	145	0.145
17	Independent study 17	-5.79611	-0.46369	111	0.08000	0.48201	112	0.5256	109	57.2904
18	Independent study 18	-0.05719	-0.30200	42	5.28100	0.00882	43	0.0088	40	0.352
19	Independent study 19	-9.28571	-0.02600	101	0.00280	0.67863	102	0.8266	99	81.8334
	Total					7.122	2053	12.5267	1996	950.4940

The Urgency of the Regulation of Certification as an Attempt to Optimize the Human Resources in Developing Indonesia's Sharia Insurance

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Abstract

Objectives - The development of Islamic insurance in Indonesia contributed to economic growth in 2014. The principle of mutual cooperation and *tabarru* contract is a characteristic of Islamic insurance. The Opportunity to increase the role of Islamic insurance as an economic entity is done by utilizing various aspects of human resource readiness. Human Resource are required to have a comprehensive understanding of Islamic insurance in order to create compliance with Islamic principles for product and services offered. It can provide legal protection against the Takaful participants. Issues to be examined is how the readiness of the relevant regulatory certification and how Regulatory model certification appropriate human resources in order to develop Islamic insurance in Indonesia.

Methods -The method used is a normative juridical that through the efforts of an inventory of rules and descriptive analytical. To obtain the appropriate regulatory models, a legal comparison method is employed.

Results - Based on the research results, the regulation of certification is required and should include the human resources, starting from a selling agent to the management as a decision maker. This regulation will push the entire human resources involved in the Islamic insurance industry to has the capacity and capability in providing services to the public, and to ensure and guarantee that the services offered comply with Islamic principles. Association of Islamic Insurance Indonesia was initiated concerning certification provisions, but has not been followed by a strong regulations readiness as a legal basis.

Conclusion -Therefore we need a comprehensive regulation and it must be issued by Indonesian Financial Services Authority.

Keywords: regulation – certification of human resources – sharia insurance development

Abstrak

Tujuan - Perkembangan asuransi syariah di Indonesia memberikan kontribusi terhadap pertumbuhan ekonomi pada tahun 2014. Prinsip *mutual cooperation* dan penggunaan akad *tabarru'* merupakan ciri dari asuransi syariah. Peluang meningkatkan peran asuransi syariah sebagai entitas ekonomi dilakukan dengan cara memanfaatkan berbagai aspek diantaranya kesiapan sumber daya manusia. Diperlukan sumber daya manusia yang memiliki pemahaman secara komprehensif tentang asuransi syariah agar tercipta kepatuhan terhadap prinsip syariah untuk produk jasa yang ditawarkan. Hal ini dapat memberikan perlindungan hukum terhadap peserta asuransi syariah. Permasalahan yang akan dikaji adalah bagaimana kesiapan regulasi terkait sertifikasi dan bagaimana model regulasi sertifikasi sumber daya manusia yang tepat dalam rangka mengembangkan asuransi syariah di Indonesia.

Metode - Metode penelitian yang digunakan adalah yuridis normative yaitu melalui upaya inventarisasi aturan dan bersifat deskriptif analitis. Untuk memperoleh model regulasi yang tepat, digunakan pula metode perbandingan hukum.

Hasil - Berdasarkan hasil penelitian diperoleh hasil bahwa Regulasi sertifikasi diperlukan dan harus mencakup sumber daya manusia di mulai dari agen penjual sampai pada manajemen perusahaan sebagai pengambil keputusan. Regulasi ini akan mendorong seluruh sumber daya manusia yang terlibat dalam industri asuransi syariah memiliki kapasitas dan kemampuan dalam memberikan pelayanan kepada masyarakat, serta memastikan dan menjamin bahwa jasa yang ditawarkan patuh pada prinsip syariah. Asosiasi Asuransi Syariah Indonesia sedang mengagagas mengenai ketentuan sertifikasi, namun belum diikuti oleh kesiapan regulasi yang kokoh sebagai landasan hukum.

Kesimpulan - Oleh karena itu diperlukan regulasi yang komprehensif dan dikeluarkan oleh Otoritas Jasa Keuangan Indonesia.

Kata Kunci: Regulasi, Sertifikasi Sumber Daya Manusia, Perkembangan Asuransi Syariah

1. Introduction

The change of world's economic order as the impact of global economic crisis, which is predictably caused by the excessive financing practices (lending and borrowing), the issuance of non-transparent financial securities and the failure of governance at the level of both institution and system (Myers, DIFSS 2012) have greatly influenced the regional and national economic orders of many countries in the world including Indonesia. The change of the global economy is signified by the growth of Islamic financial institutions that is believed to be able to act as an alternative solution from the global economic crisis. These last few years, the financial institutions and Islamic banking in the world have substantially grown by 10-15% per year managing assets of not less than US\$2 trillion which in 1985 were only US\$ 10 billion. There are now 500 financial institutions and Islamic bankings operating worldwide. The Islamic financial institutions have been growing side by side with conventional financial institutions that are previously well established in certain countries. In Malaysia, the Islamic financial institutions and bankings are planned to achieve 25% market shares in 2015. Indonesia, one of the countries that is included in the *Islamic Finance Emerging Market* along with North Africa and Turkey, will certainly take advantage of this growth momentum (Asaria, DIFSS2013). The Islamic financial industries here refer to banking, insurance, capital markets, money markets, investment management sector and other financial institution services (Ghani & Hussainn, 2009; 9-10).

As a part of Islamic financial institutions, Islamic insurance industry at the global level is growing with the contribution of US\$12.4 billion through 143 sharia insurance companies (179 companies including sharia insurance units) (Asaria: 2013). In Indonesia, the growth of sharia insurance companies also demonstrates the increasing trend. In 2014, there are 45 sharia insurance companies and sharia units offering sharia insurance products and contributing around 15-20% of all sharia financial institutions and banking, which was previously recorded only

4.8% contribution in 2012.¹ The data indicate that the sharia insurance industry has developed although it has not been optimum yet. The industry is expected to be a part of the Indonesian economy in the future. The development of the sharia financial institutions In Indonesia, including sharia insurance, gives implications to at least two things as the supporting factors for sharia economic business. Those are the availability of qualified human resources recognizing sharia principles and the strong regulation as a legal basis for the activities of sharia insurance industry. The regulation of sharia insurance, particularly related to the certification of human resources, is urgently needed considering that the system of Indonesia's positive law has changed due to the development of sharia economy in Indonesia. Because of the enactment of sharia system and institution in Indonesia, it can be said that there has been dualistic legal economy, which means that there are more than one legal system regulating the same object: the well established conventional economic legal system and the Islamic economic legal system. The dualistic legal economy has juridical implication to the regulatory development, for example in banking activity both of the Act No: 10 of 1998 on the Amendment Act No: 7 of 1992 on Banking and the Act No: 21 of 2008 on Sharia Banking are enacted. By analogy to banking, in addition to the Act No: 40 of 2014 on Insurance, the possibilities that there will be another regulation on sharia insurance or a regulation used as a legal umbrella for sharia economic activities, particularly for non-banking sharia financial industry. Both of the legal systems run simultaneously.

Human resources are one of the significant capitals to ensure that the insurance activities comply with the principles of sharia. In context of Indonesia, the availability of qualified human resources that comprehend sharia economic, more specifically sharia insurance, is one of the obstacles confronted by both industry and the Financial Services Authority (OJK). Sharia Non-Bank Financial Industries Division (INKB) of OJK admitted the lack of competent human resources to control non-bank financial institutions including sharia insurance and it

¹Data obtained from interview with the Director of IKNB Directorate Sharia-OJK and the Chair of AASI dated 21 May 2014.

caused poor supervision.² On the contrary, The Association of Indonesian Sharia Insurance (AASI), an association that supervises industries, has not facilitated the mechanism of the availability of human resources that understand sharia comprehensively.

The lack of human resources in the field of sharia economy has a close relationship to the role of education in Indonesia. Nowadays, most universities particularly faculties of economics have included courses on sharia economics. In fact, the knowledge of sharia economics is not needed only by the students in faculties of economics, but also the students in faculties of law. I find this based on my experience as one of the lecturers in a faculty of law. Courses on banking law, capital market law, financial law, investment law and selected topics on agreement law are not enough to fulfill the students' demand on the comprehensive knowledge if the courses are given only from the conventional law perspectives. The course contents of economic law still refer to economic law developed in the system of common law. On the other side, the need of graduates mastering the law of sharia economy is increasing along with the development of sharia financial institutions and bankings.

The problem in education is one of the difficulties to develop the human resources. In 2010 the Association of Islamic Economists (IAEI) stated, “the number of human resources in sharia bankings and finances from sharia economic department remains small. Most of them were graduated from conventional economic departments. It shows a mismatch between the knowledge learned and the profession in practice (Abubakar, 2010: 165)”

To change educational system supporting the development of sharia economy in Indonesia, a strong political will is required from the government. Recognizing the principles of sharia is urgently needed considering the significance of sharia insurance industries to ensure that their sharia mechanisms, products and contracts have to comply with the principles of sharia (*sharia compliance*). In practice, companies engaged in sharia insurances are in the form of Limited Liability Company (LLC). Therefore, the compliance with sharia principles is obligatory for every sharia insurance company, considering the Act No: 40 of 2007 on Limited

²Based on Interview with Muchlasin, director of Sharia Non Financial Industries Division on May 21st 2014

Liability Company as *lex generalis* in which the company is required to elaborate the principles of good corporate governance. The good corporate governance is based on *transparency, accountability, responsibility, independency* and *fairness*. Furthermore, to ensure that the principles of sharia are implemented, Article 109 of the Act on Limited Liability Company regulates the existence of Sharia Supervisory Board (DPS), assigned to supervise companies that run sharia principle-based business. The DPS is assigned to supervise LLC business activities to assure that they follow the principles of sharia. The governance of sharia insurance corporate should be run transparently, so public expectation of sharia-based products can be achieved. Technically, the assurance that the human resources are competent can be certified through the mechanism which is applied for all human resources engaged in sharia insurance business, mainly the management and insurance agents. In addition, it is necessary for society to get transparent information related to the offered products, mechanisms and contracts as a basis for legal relation between insurance companies and insured participants.

The society absolutely need to get the information assuring that the sharia insurance products, mechanisms and contracts are free from the prohibited *riba, masyir* and *gharar*. On the contrary, the conventional insurance is assumed to fully contain such prohibited things, particularly *gharar* or uncertainty (Ali, 2008:7-17). There are several things to notice relating to the conventional insurance. Firstly, the insurance companies will carry out the obligation to compensate losses experienced by the insured participants if “uncertain events” occur. If the uncertain events do not occur, the premium will be the rights of the companies. Secondly, the legal position of the paid premium will be transferred to the related companies as their asset, which can be used in the interests of the companies. Commonly, the funds are invested, including an investment with interest-based income. Therefore, it can be concluded that the mechanisms of conventional insurances are notably different from sharia insurance. Sharia insurance is based on the principles of mutual cooperation between the insurance companies and the insured participants (Abubakar, 2013; 604-613).

The mutual cooperation must be stated in a contract as a legal basis for the relationship between both parties. Consequently, it has to be assured that the prohibited items in sharia economy are accommodated in the contract and executed well.

2. Methods

2.1. Approaches and Research Specification

The study is a Normative Legal research with analytic description. The purpose of the normative legal research is to identify law *in concreto*, that is a research purposed to find a regulation for resolving certain matters and to find where the legal regulation is (Hanitijo, 1988 : 22). Additionally, the comparison method is employed to compare the law in Indonesia and the law in another country, which already has such regulations. The research also employs an analytic descriptive method, which means that the purpose of the study is to describe secondary data that is supported by primary data relating to the urgency of the certification regulation for human resources in sharia insurance business.

2.2. The Research Steps and Data Collection Techniques

The study is a combination between library research and field research. The library research is purposed to study, examine and search the secondary data in the forms of primary legal sources, secondary legal sources and tertiary legal sources.

The primary legal sources are as follows:

- The 1945 Constitution
- Act No: 21 of 2011 on Financial Services Authority
- Act No. 40 of 2014 on Insurance Business
- Government Regulation No: 39 of 2008 on the Second Amendment to Government Regulation No: 73 of 1992 on Insurance Business Management as the last amendment by the Government Regulation No: 81 of 2008.

- Regulation of the Minister of Finance No: 18/PMK.010/2010 on the Implementation of Basic Operating Principles of Insurance and Reinsurance Business with Sharia Principles.
- Regulation of the Minister of Finance No: 11 /PMK.010/ 2011 on Financial Health of Insurance and Reinsurance Business with Sharia Principles.
- Fatwa DSN No:21/DSN-MUI/X/ 2001 concerning the General Guidelines for Sharia Insurance
- Fatwa DSN No: 50 /DSN-MUI/III/2006 concerning Mudharabah Musytarakah Contract.
- Fatwa DSN No: 51/DSN-MUI/III/2006 concerning Mudharabah Musytarakah Contract of Sharia Insurance.
- Fatwa DSN No: 52/DSN-MUI/III/2006 concerning Wakal bil Ujrah Contract on Sharia Insurance and Reinsurance
- Fatwa DSN No: 53/DSN-MUI/III/2006 concerning Tabarru Contract on Sharia Insurance.
- Fatwa DSN No: 81 /DSN-MUI/III/2011 concerning Tabarru Refund of Insurance Participants Terminated before Agreement Period Ended

The literature study includes the secondary legal sources such as literature, previous research findings and workshop related to the issue of the research. In addition, tertiary legal sources such as dictionaries and articles in newspapers and magazines related to the object of the research are included. To support the literature study, the field research is conducted by interviewing respondents considered to be competent and relevant with the research.

3. Results and Discussions

3.1. The Dualism of Insurance Legal System in Indonesia

The establishment of PT Syarikat Takaful Indonesia in 24 February 1994 signified the development of Sharia Insurance in Indonesia on the initiative of the Establishment Team of

Indonesia Takaful Insurance (TEPATI) with the support of Indonesia Muslim Scholars Association (ICMI) as the beginning of sharia based insurance business. Along with regulatory changes in insurance business, the sharia insurance grows alongside the conventional insurance, which was previously the only one model of insurance business. The demand on an insurance services alternative is perceived as a necessity because the majority of Indonesia's population is Muslim. Therefore, the availability of Islamic (sharia)-based business and entity is important to accommodate. Since the regulatory changes which allow the conventional insurance companies to offer sharia insurance services, sharia insurance has grown and developed alongside the conventional insurance business³. The issuance of Decree of the Minister of Finance No: 268/KMK.06/2002 dated 7 November 2002 allows conventional insurance companies to run sharia insurance services through three kinds of mechanism:

- Entirely Direct conversion from conventional insurance to sharia insurance;
- Directly establishing sharia insurance institutions;
- Opening branch office/division for sharia insurance

Furthermore, the growth of sharia insurance in Indonesia is driven by the regulation providing easiness of capital, which requires a minimum capital of only Rp50 billion for the establishment of a sharia insurance company. The amount of minimum capital is much smaller than a conventional insurance's minimum capital that is Rp100 billion⁴. Beside the easiness in capital aspect, sharia insurance business is also supported by Bapepam-LK, as an authority of Financial Services⁵, issuing two regulations: Regulation No: PER-06/BL/2011⁶ and Regulation No: PER-07/BL/2011⁷ as the mandate of Article 4 Paragraph (3), Article 45 Paragraph (4) Regulation of Minister of Finance No: 11/PMK.010/2010 on the Financial Health of Insurance

³ See Article 6 paragraph (2) of the PP No .39/2008 on the Second Amendment PP No. 73 of 1992 about The business insurance system

⁴Article 6 paragraph (2) of Government Regulation No: 39 of 2008 concerning Second Amendment to Government Regulation No: 73 of 1992 on Insurance Business Conduct.

⁵ Since Published Act No. 21 of 2011 on the financial services are under the FSA (Otoritas Jasa Keuangan)

⁶A Decree of Bapepam LK regulates the shape and structure of the finansial statements and the announcement of insurance and reinsurance business vebture with shari'a principles

⁷ A Decree Bapepam LK is set on guidelines for the calculation of the amount of funds required to anticipate the risk of loss 'tabarru' fund management, and the calculation of the amount of funds to be provided by the company to anticipate the tisk of loss that may arise in the administration of insurance and reinsurance business with the Sharia principles

and Reinsurance Business with Sharia Principles. Both of the regulations are expected not only to maintain the compliance of companies with transparent principle, but also to provide highest protection for sharia insurance participants.

The implication of changes in regulations to the system of positive law regulating insurance industry in Indonesia is dualism in insurance legal system. In the history of Indonesia's positive law, dualism of legal system has long been influencing Indonesian law politics. The dualism of law indicates that there are more than one legal system enacted to regulate the same matter. Since the independence of Indonesia, Article II of the Transitional Provisions of the 1945 Constitution regulates that all of the existing remain in effect as long as new legislation is not created. The Transitional Provision strengthens the existence of legislation enacted in the Dutch colonial period. Therefore, dualism in the field of civil law had occurred before the independence, with the enactment of Civil Code (KUHPerdata) and Commercial Code (KUHD) based on Staatblad 1847:23 which until now remain to be the positive law in the field of civil law as well as the legal basis for Indonesia's economic activities. In addition to legal system enacted in the colonial period, Customary Law remains in effect to indigenous people of Indonesia in some areas particularly laws of family and inheritance; the Islamic Law applies to those who agree to use it. Due to the development of the politics of law, which expects that there will be as much legislation as possible codified, Indonesian legal system moves to the unification of law, that is the enactment of one legal system for all Indonesian citizen. The process of the unification of law is undertaken by considering sensitivity and neutrality of the field of study. A jurist from Universitas Padjadjaran, Mochtar Kusumaatmadja, reminded that the process of the unification of law should be done by considering the areas to be regulated.

The areas of law closely related to individual's spirituality or those that are not neutral should not be unified, but the existing laws should remain in effect instead. The existing laws are Western civil law, customary law and religious law. The non-neutral areas of law are inheritance and family laws. (Hazairin,1982) once argued that even though marriage law has

been unified by the enactment of Law No: 1 of 1974 on Marriage, the unification is considered unique because the validity of a marriage is still determined by the embraced religious law (Hazairin, 1982). On the contrary, the neutral areas of law such as economic law, contract law and property law can be unified. Furthermore, they may adapt and adopt legal system of other countries as long as it is in accordance with the contexts of Indonesia (Kusumaatmadja, 2002). For example, it can be seen from the legislation governing the field of economics. Although the legal system of Indonesia adheres to civil law system applied in Continental European countries, due to the influence of Dutch colonialism, the area of economic law of Indonesia adapts and adopts more provisions from Anglo-Saxon countries' common law system. Various kinds of legislation such as law of banking, capital markets, insurance, consumer protection and investment refer more to the laws in force in Anglo-Saxon countries

Dualism of Indonesian legal system, including insurance law, is relevant to determine the policy and regulation for sharia insurance in the legal system of Indonesia in the future. The legal basis governing the field of insurance all this time refers to Civil Code (KUHPerdara), Commercial Code (KUHD), Law No: 2 of 1992 on Insurance Business and Insurance Agreement. Meanwhile, the practice of sharia insurance in Indonesia refers to Fatwa of the National Sharia Council-MUI and Law Compilation of Islamic Economics and contracts used by sharia insurance companies. Law No: 2 of 1992 on Insurance Business as *lex generalis*, however, remains in effect as long as new regulation has not been determined and it complies with sharia principles. Based on the above explanation, it can be concluded that the positive laws governing insurance business in Indonesia are the laws of conventional insurance and sharia principles-based insurance. The dualistic legal system will determine regulatory model in the future, whether sharia insurance will be regulated separately from conventional insurance or it will refer to Insurance Act as the main legal norms.

3.2. *The Difference between Sharia Insurance and Conventional Insurance*

The difference between sharia insurance and conventional one is fundamental knowledge that should be possessed by human resources involved in sharia business, especially the front line such as selling agents. The primary expectation of society deciding to choose sharia insurance is a guarantee that the products offered comply with sharia principles, in other words they do not contain any prohibited elements specified by sharia principles. Therefore, recognizing comprehensively the concept of sharia and conventional insurance is essentially relevant. The principal difference between conventional and sharia insurance lies in the underlying philosophy and purpose.

The norms governing the conventional insurance are based on the idea of how to anticipate and transfer risk of future events and its final purpose is to avoid economic loss. Here, insurance is intended to be one of the means to avoid loss that is not necessarily the case. In practice, the risk of loss is transferred to the insurance companies by premium payments. Some view that the legal basis of conventional insurance is selling and buying policy.

Unlike conventional insurance, the norms of sharia insurance are based on the idea that every human has a responsibility to anticipate and plan the future. The National Sharia Council makes the idea as the basis to issue Fatwa DSN No : 21/DSN-MUI/X/2001 concerning General Guidelines for Sharia Insurance. Based on the Fatwa, the definition of Takaful/ *ta'min* or *tadamun* (sharia insurance) is:

“efforts to protect and help each others among the number of people/parties through investment in the form of assets and/or *tabarru* that gives the pattern of returns to encounter certain risks through contract (engagement) in accordance with sharia principles”

As a comparison, there are several concepts, proposed by some internationally recognized organizations such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), The Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors (IAIS), and usually used as a reference by many countries

to regulate the practice of sharia economics, including Indonesia which use them in formulating sharia economic regulation.

AAOIFI's Sharia Standard 26(2) 2007 :

“Islamic insurance is an agreement between persons who exposed to risks to protect themselves against harms arising from the risks by paying contributions on the basis of “ **commitment to donate**” (*iltizambi al tabarru*). Following from that, the insurance fund established and is treated as a **separate legal entity** (*shaksiyyah i'tibariyyah*) which has independent financial liability. The fund will cover the compensation against harmsthat befall any of participants due to the occurrence of the insured risks (perils) in accordance with the terms of the policy” (the bold printed words are writer's revision)

The Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors (IAIS) :

*“takaful is the Islamic counterpart of conventional insurance, and exists in both life (or”family”) and general forms. It is based on concepts of mutual solidarity, and a typical Takaful undertaking will consist of a two tier structure that is a hybrid of a mutual and commercial form of company”.*⁸(IAIS, 2006: 4)

Referring to the several definitions of sharia insurance (*takaful*), it can be concluded that the elements of sharia insurance are the following:

- The purpose of sharia insurance is to provide protection to customers or participants against losses incurred in the future based on the principle of mutual solidarity.
- Funds under the management of sharia insurance companies are used to compensate losses encountered by customers or participants as a donation or *voluntary contribution* (*El Gamal, 2006: 147*).
- Contract underlying the legal relationship in sharia insurance is a combination (hybrid) between non-commercial (*tabarru*) and commercial (*tijarah*) contract.

⁸International Association of Insurance Supervisors, *Regulation and Supervision of Takaful (Islamic Insurance)*, Agustus, 2006, hlm.4.

The issuance of Fatwa DSN No: 21/DSN-MUI/X/2001 concerning the General Guidelines of Sharia Insurance brings debate on the position of insurance in the Islamic economic business and the skeptical view about whether or not insurance is allowed in Sharia business to an end. There are some legal bases for the existence of insurance in Islamic stance employed by DSN:

- Surah (Al-Hasyr [59]: 18) invokes every God-fearing human being to notice what it will be tomorrow. It emphasizes that Sharia accepts insurance observing the principles of Sharia as a way to anticipate the future.
- Surah (Al-Baqarah [2]: 275 and 278) legalizes selling and buying activities and forbids usury. In other words, Sharia insurance must be totally free from usury.
- Surah (Al-Maidah [5]: 2) invokes every human being to help each other in virtue, righteousness and piety; and prohibits them to help each other in committing sin and transgression.

Grounded on Hadith and Qur'anic verses as the legal bases, Sharia insurance is one of the means to anticipate the risk of contingent that complies with Sharia principles. The basic principle of Sharia insurance is mutual cooperation among participants in order to share the risk of a loss encountered by one of the participants and the insurance is grounded on Sharia principles, which strictly disallow any business activities based on usury (*riba*), uncertainty (*gharar*) and gambling (*masyir*). There are several differences between Sharia and conventional insurance related to risk management; the legal position of premium in conventional insurance and donation in Sharia insurance; and contract stated in the insurance policy as the legal relationship.

The differences are concluded from various regulations governing Sharia insurance in Indonesia:

- Risk management: conventional insurance employs the method of transferring the risk of a loss from customers to insurance companies (risk transfer) in which the companies have a responsibility to compensate the loss based on the agreement. Unlike conventional insurance, Sharia insurance does not use the method of

transferring the risk of loss. All participants agree to donate a regular fund for any fellow participants suffering a defined loss (*risk sharing*).

- The status of fund operators: the premium paid by customers of conventional insurance belongs to the companies and the customers have the right to get compensation of a defined loss. Meanwhile, in sharia insurance funds collected from participants as donation or contribution are managed separately from companies' assets and may be invested to any investment products observing sharia principles. The funds, donation aimed to meet the principle of mutual cooperation among participants, will be deposited in a particular account for compensating the risks of loss.
- Types of contracts: the clarity of contract is an essential element in the practice of *mu'amalah* because it determines the validity. In conventional insurance, the relationship between insurance companies and participants is signed by a sale and purchase agreement (*tabaduli*) in which participants are charged certain amount of money, called as premium, while companies will compensate in the case of loss which has not been certain to happen yet. The payment of the premium is determined by the age of participants, which is impossible to predict (in the case of life insurance). As the result, the insurance surely contains the element of *gharar*. Meanwhile, in the case of sharia insurance, the contract known as *tabarru* is based on mutual cooperation, so it does not depend on something that is not certain. The principle of mutual cooperation (help one another in virtue) in the mechanism of sharia insurance (*takaful*) is closely related to the implementation of *tabarru* contract when participants agree to donate a certain amount of fund to *takaful* funds. The principle, however, does not preclude *takaful operators* or sharia insurance companies to make profit. Their profits are earned by *tijarah contract* (commercial) using several models of contract such as *wakalah* and *mudharabah*. The profit

earned must comply with the sharia principle, which means that it is not derived from usury, but from the activities of *takaful* fund investment and management through fee based income and profit sharing.

- The reimbursement of fund: in conventional insurance, which does not involve any elements of saving, if participants of insurance do not claim or discontinue to pay premium/terminate insurance agreement. The paid premium is not refundable or forfeit and considered to be the profit of the insurance companies. In sharia insurance, there is no forfeited fund in the case when participants terminate the contract before its due date. Based on Fatwa DSN No: 81/DSN-MUI/III/2011, a part of *tabarru* fund will be reimbursed to participants if they discontinue the contract before its due date.

The differences between sharia and conventional insurance is depend on policy clauses. AASI had taken several concrete steps on May, 2014 by issuing the guideline of sharia insurance policy for life as well as general insurance. The guideline is expected to be implemented on January, 2015. In addition to the policy, AASI and OJK have proposed a standard policy that can be used by sharia insurance companies. The use of the standard policy is intended to become a method to ensure that the rights and obligations of the involved parties are in accordance with sharia principles (sharia compliance). Furthermore, the standard policy is expected to be able to minimize errors conducted by insurance agents in perceiving the products to society.

3.3. The Urgency of Certification for the Development of Sharia Insurance

In the activities of business world, certification is beneficial to provide guarantee to the consumers either in relation to the quality of business actors or the quality of products and services offered. The certification is usually awarded by an institution whose having the authority to conduct assessment. In the last few years, the certification of sharia insurance's

human resources is carried by AASI, an association that controls sharia insurance companies, in cooperation with several relevant institutions.

The certification of human resources is simply a part of the demand on institutional certification including the entire institution, mechanism and management (of human resources). Consequently, it can be concluded that the certification of human resources has an important role for the development of sharia insurance if it is supported by some legal infrastructures such as regulatory, supervisory and legal enforcement. The legal regulatory is related to the readiness of legal framework as a legal basis for requiring human resources certification in every sharia insurance activity in Indonesia. Meanwhile, the supervisory is related to process and institutions having authority to control and ensure the compliance of the companies to sharia principles. And the legal enforcement here would be a means of accountability of the authorities to public and the legal protection for sharia insurance industry.

The legal issue here is that the requirement of certification for sharia insurance companies has not been explicitly and comprehensively regulated either under the provisions of legislation or the regulations of Financial Services Authority, so it is still perceived as a voluntary requirement. It can be seen from the practice of human resources certification related to the liability of company registration to the Financial Services Authority (OJK). In the conditions of registration, it is stated that all insurance companies offering sharia insurance products must be registered as the member of association, in terms of the member of AASI.

The conditions are based on the systematic ideas that AASI was established by sharia insurance industries in the missions of socializing sharia insurance as well as building its members to improve their production capacities and sharia-based service standards. Besides, AASI is an association grounded on Islamic sharia by adhering to the principles of friendship, solidarity, openness, honesty, fairness, trust, professionalism and welfare. Based on the missions, principles, and purposes of the establishment of AASI, every insurance company offering sharia products should have certainly observed the sharia principle. It can also be concluded that the liability of certification is still in the formal level and administrative

obligation to meet the requirements to obtain a permit from the authority. Founded on the result of the research, at this time the regulation related to certification is partial and simply a part of administrative requirements explicitly stated in *Fatwa DSN No: 21/DSN-MUI/X/2001* concerning the Guidelines of Sharia Insurance.

Referring to legal perspectives, the regulation of human resources certification in the sharia economic activity is still in the level of “voluntary rules”, while the requirement of the certification is considered to be an assurance of the sharia-principle compliance. The regulation of human resources certification that is compulsory, in the substantial sense that it is a must to observe and its law enforcement is determined if such obligation fails to be done, is urgently needed. In addition to the obligatory rules, the regulation that assures the supervision of certification mechanism and legal enforcement is also necessary. Therefore, the regulatory model of certification that is substantial and comprehensive seems to be relevant as one of the factors to support the growth of sharia insurance industry in Indonesia. The future certification regulatory must be stated in the legislation products that will legally bind industries with elements that include the designated institutions, mechanisms, supervisions and law enforcement.

Based on the observation to the practice of sharia insurance, AASI and IIS argue that the certification for sharia insurance agents is an urgent requirement considering a few things such as:⁹

- Selling sharia insurance products is different from the conventional ones.
- The requirement in the level of marketing to have enough capability and competency in selling sharia insurance products is really necessary.
- The certification is an effort to support the sale of sharia insurance products.

The existing regulation of human resources certification has not significantly influenced insurance companies. Recently the qualified human resources, as an expert of sharia insurance,

⁹ This article is in the news and events that are mounted in the official site Insurance Association Shari'a Indonesia, AASI, <http://aasi.or.id>, August 2014.

have not supported companies. In practice, some insurance companies that violate the principle of sharia are still found. Sharia Non Financial Industries Division in OJK reported that there are 10% of sharia insurance companies managing investment funds on investment products that is not in accordance with investment products governed in the Regulation of Minister of Finance No: 11 /PMK.010/ 2011¹⁰. The absence of regulation governing the liability of certification is potentially detrimental to the customers considering the weakness of legal enforcement.

Industries and associations are interested in the liability of certification for the purpose to increase public trustworthiness to sharia insurance products. In addition to the certification program for sharia insurance agents, AASI in cooperation with DSN, IIS and related associations have designed a guideline of standard policy to ensure that the contract between an insurer and insured comply with the principle of sharia (*sharia compliance*). AASI have recommended some programs in terms of standardization carried by both the Ministry of Law and the AASI's Legislation and Standardization. In principle, the programs are closely related to the certification for sharia insurance institutions, including their human resources.

The work programs of AASI, including the human resources certification, are as follow:

Table 1 The Work Programs of AASI 2011-2014

No	Action Plan	Expected Result/Remark	Due Date
1	Making e-reporting for financial report: life and general insurance	Financial report can be submitted via e-reporting	life insurance in 2012 and general insurance in 2013
2	Facilitating industries to propose new regulations both in the forms of fatwa DSN and KMK.	Regulations required by sharia insurance industries can be accommodated.	Throughout the year
3	Studying and disseminating the existing provisions of legislation.	The comprehension of the provisions related to industries	Throughout the year
4	Compiling regulations/provisions related to sharia insurance industries	The compilation of law/legislation in the form of a book to be circulated in the scope of sharia insurance industries.	Throughout the year

¹⁰Based on interview with Mr Muchlasin, The Director of Sharia Non-Bank Financial Industries Division -OJK, on May 21, 2014.

5	Standardizing code of ethics for sharia insurance marketing	The guideline of code of ethics for sharia insurance marketing	Second Quarter of 2013
6	Licensing agency of sharia insurance (life and general ins.) in cooperation with AAJI and AAUI	Insurance agents possess a license to sell sharia insurance products	Both life and general insurance in the second quarter of 2012
7	Implementing the standard policy of sharia insurance	3.2.1.1. The enactment of the standard policy for both life and general insurance	Life insurance in the second quarter of 2012, general insurance in the fourth quarter of 2012

Source: The Work Programs of AASI 2011-2014

3.3. *The Regulation and Institutions Conducted Certification*

There is no particular requirement for an insurance company to be certified. There are, however, some administrative requirements for an insurance company offering sharia insurance products:

- A company must be a member of AASI;
- A company must have a business license and operating license from authorized institutions and must be domiciled in Indonesia
- A company is stated pass by the association, which organizes the certification.

The institution that organizes the certification is AASI, in cooperation with other association The certification carried by AASI is considered appropriate because it is important for a business actor to fulfill the requirements determined by the regulator. Furthermore, AASI is an organization created to accommodate industrial demands, including to provide human resources that meet global standard. In designing curriculum and syllabus for the certification, AASI is cooperated with IIS (Islamic Insurance Society) and other related associations.

In addition to OJK and the National Sharia Council (DSN), other institutions/associations that are AASI's partners in the process of certification are: Indonesian Insurance Council (DAI), the Association of Indonesian Life Insurance (AAJI), the Association of Indonesian General Insurance (AAUI), the Association of Indonesian Social Security Insurance (AAJSI), the Association of Indonesian Insurance and Reinsurance Brokers

(APPARINDO), Indonesian Insurance Mediation Board (BMAI), the National Sharia Board of Arbitration (BASYARNAS), the Experts Association of Indonesia Insurance and Insurance Management (APARI), the Experts Association of Indonesian Insurance and Reinsurance Brokers (APARI), the Association of Indonesia Insurance Adjusters (APKAI), the Experts Association of Indonesian Security and Healthcare Management (PAMJAKI), Indonesia Senior Executive Association (ISEA) and Islamic Insurance Society (IIS). Cooperated with the associations and regulators, AASI provide a draft of certification and standardization required, along with the curriculum, code of ethics and its guideline.

Based on Financial Services Authority Act And The Guidelines from Association (AASI) the scope of Certification of Human Resources regarding sharia insurance companies includes:

- Experts: they must be certified as one of the requirements for units or sharia insurance companies to obtain a permit from the authority. In relation to this, there is no limitation on the number of experts in a sharia insurance company, but at least three personnel in the company must be certified as an expert of sharia insurance. The certification for the experts is carried by the Association of Experts on Sharia Insurance and Sharia Insurance Management (AAMAI) as a partner of AASI.
- Insurance and Reinsurance brokers: those who are involved in the filed of sharia insurance are also obliged to be certified. The certification here is carried by the Association of Indonesian Insurance and Reinsurance Brokers (APARI)
- Adjuster: they are certified by the Association of Indonesian Insurance Adjusters (APKAI).

AASI in cooperation with AAJI now hold a certification program for insurance agents/salesperson marketing sharia insurance products, which was launched in 2013. The program is initiated by *grandfathering* program, that is an introduction to the standard syllabus for the entire members of AAJI and AASI. The registration period of this program started from

June to December 2013. The validity period of the program is one year. In addition, AASI provide CPD (*continuing professional development*) consisting of one module at minimum, which are aimed to extend the *grandfathering* license of the agents. Then, an integrated examination carried by AAJI for new agents began in 2014. Every life insurance company is expected to send their agents to participate in this sharia certification in order to support the target of achieving 500,000 certified agents. Based on the result of the research, it is found that the certification program that has been conducted by the association is purposed to make sharia industries comply with the principles of transparency and responsibility to public in order to meet good corporate governance.

As a comparison, the regulation and practice of certification in Malaysia are organized by an association in cooperation with a regulator and the certification is conducted via online. The certification for insurance agents in Malaysia is organized by Malaysia Takaful Association (MTA) in cooperation with Islamic banking and Finance Institute Malaysia (IBFIM) in holding *Takaful Basic Exam*. The certification is only required so far for insurance agents which operators are a member of Malaysia Takaful Association. The management of insurance companies was limited by the regulation stated in Malaysia Takaful Act of 1984, but now it is declared invalid since the enactment of Islamic Financial Services Act (IFSA) 2013 which certify that a company must comply with sharia principle and set punishments against administrative violations conducted by companies. In Indonesia, OJK requires that companies must be a member of the association and possess sharia insurance experts. Therefore, it can be concluded that in Malaysia, the certification is an obligatory rule for every Takaful operator.

Based on the result of the observation on the practice of the certification of sharia insurance human resources carried by the association, AASI, it is found that the weakness in sharia industries is the limited knowledge of the human resources. AASI is still dominated by the board from industries instead of the human resources that are particularly assigned to manage and run the planned agenda. It makes the association less optimal. Furthermore, the curriculum and the process of certification are still cooperated with many diverse educational

institutions. In fact, the development of curriculum is one of the significant factors in optimizing the certification. Malaysia have previously established system in relation to the certification of agency and its curriculum. In addition to legal support requiring every Takaful operator to observe sharia principle as well as legal enforcement, Malaysia appoint MTA and IBFIM to regularly hold certification and issue license for agents under a takaful operator.

Based on the comparative method, we are mapping the result of the research taken in Indonesia and Malaysia concerning the urgency of the certification as one of the means to assure the compliance of a company with sharia principles (sharia compliance). The compliance with sharia principle is believed to have capability of increasing customers' confidence to the company.

Table 2. The Comparison of the Practice of Certification for Sharia Insurance Human Resources in Indonesia and Malaysia

No	The Elements of Comparison	Indonesia	Malaysia
1	The legal Basis	POJK No: 1/2013; Permenkeu 11/2011; Fatwa DSN: 21/DSN-MUI/X/2001.	Regulated by the Islamic Finance Services Acts 2013, and the Guideline issued by Malaysia Takaful Association (MTA).
2	The object of certification	1. Sharia insurance experts 2. Sharia insurance agents	1. Managements Agents/brokers
3	The requirement of certification	There is no particular requirement.	An agent must be a member of a takaful operator registered in the Bank of Malaysia
4	The certification mechanism	Certification is only administrative requirement and there have not been any obligatory rules.	Passing TBE (The Basic Exam) is an obligatory.
5	The Institutions organizing certification	Conducted by the association (AASI) in cooperation with educational institutions.	Cooperation between Malaysia Takaful Association (MTA) and IBFIM (Institute Banking and Finance Institute Malaysia)
6	The standard policy	Issued on the beginning of 2014 and disseminated on April, 2014.	Conducted by takaful operators under the supervision of 3.3.1.1. SAC (Sharia Advisory Council)

7	The Model of contract	Wakalah and Mudharabah	Pure Cooperative, Wakalah and Mudharabah Model.
8	The law enforcement	Written warning	A fine

Source: Created by the research team

3.4. The Regulatory Model of Human Resources Certification in Sharia Insurance Business

Based on the analysis drawn from the data of the research, it is found that the regulatory of human resources certification in Indonesia's sharia insurance business has not been optimum.

It can be observed from the characteristics of regulation:

- The certification of human resources in sharia insurance business can be explicitly concluded from some different regulations. Those are Fatwa from the National Sharia Council (DSN), Regulation from the Financial Services Authority (OJK) and the Policy from the Association.
- The certification is regarded as the need to meet the administrative requirement, so it is still voluntary rules instead of obligatory rules.
- The systems of supervision and legal enforcement still find difficulty because of the limitation of the human resources based on report from internal sharia insurance companies, the Sharia Supervisory Council.

The future regulatory model should be more comprehensive, in the sense of including a solid legal basis, transparent and accountable mechanisms and consistent legal enforcement if there is an insurance company that does not follow the certification. It is regarded necessary in the purpose of increasing public confidence in sharia insurance and improving sharia insurance companies' compliance with the principle of sharia and good corporate governance.

Based on a solid legal basis, sharia insurance industry ideally employs a regulatory model of sharia banking, which is set in the legislation itself and followed by the regulations issued by Bank of Indonesia and OJK, using the legal sources that have been established by the National Sharia Council. However, considering the difficulty of initiating legislation, a comprehensive regulation should be issued by the Financial Services Authority (OJK) by using

the legal sources that have been established by the National Sharia Council (DSN). The difficulty of initiating legislation cannot be separated from the existing policy, in which a company may create a unit of sharia as a part of conventional sharia insurance. Meanwhile, the idea of initiating legislation can only be proposed if the minimum number of independent sharia insurance companies is 10. Based on the result of the research, it is found that the tendency to choose the form of unit is due to the consideration of cost efficiency and the availability of human resources. This is different from the regulation of sharia insurance in Malaysia in which sharia insurance companies are disallowed to create units of sharia.

4. Conclusion and recommendation

4.1. Conclusion

Based on the result of the research, it can be concluded that:

- Certification is one of the means to provide assurance and legal protection for customers, particularly to assure that the insurance company complies with the principle of sharia. Consequently, the certification of human resources gives contribution to the development of sharia insurance in Indonesia. Now, Indonesia has not regulated the obligation of certification in legislation explicitly yet. The legal bases of the certification are still based on Fatwa issued by DSN and the demand from industries, which have to be elaborated in legislation. The situation is different from Malaysia which has possessed an umbrella regulation, that is *Finance Services Act 2013* (IFSA 2013). Under Act No: 40 of 2014 on Insurance, which was legalized and enacted on 17 October 2014 and the repeal of Act No: 2 of 1992 on Insurance, Sharia (Takaful) and conventional insurance is set simultaneously.
- The regulation of human resources certification in Indonesia is still partial and voluntary rules. The certification is simply regarded as an administrative requirement for a company/unit of insurance company to run sharia insurance services. Therefore, the model of human resources certification in the future should be based on a solid legal

basis, in the form of Regulation issued by the Financial Services Authority at minimum, and be comprehensive, covering institutional aspects, certification mechanisms and legal enforcement. This means that the regulation of certification should be obligatory rules.

4.2. Recommendation

- In the future, the regulation of sharia insurance should be separated from the regulation of conventional insurance as legal umbrella, considering there are substantially different principles underlying the regulation.
- The association should be managed professionally in order to facilitate the demands of industries, including certification.
- Continuous cooperation between government, industries and universities is strongly needed to develop curriculum as well as the implementation of the certification.

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The Effect Of Maqasid-Based Development Variables On Economic Growth Based On Umer Chapra's Perspective (Case Study: Nine Selected OIC Countries)

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ABSTRACT

Objectives: Human Development Index (HDI) has multidimensional aspects of life. In fact, HDI measures only physical aspects that are needed by human such as education, health and wealth. Accordingly, discussing on human must cover material, physical and spiritual aspects. Maqāsid is needed as a *wasilah* (medium) to promote the benefit of human (*maslahat*), which contains of *daruriyyat*, *hajjiyat* and *tahsiniyat*. By then, this study aims to analyze maqāsid based development variables of Umer Chapra perspective on economic growth in 9 selected OIC member countries.

Method: The methodology of the study used mixed methods: qualitative and quantitative. The quantitative applies panel data regression analysis with 9 selected OIC countries (Indonesia, Jordan, Kazakhstan, Kyrgyzstan, Mesir, Pakistan, Togo, Turkey and Uzbekistan) with time series from 2004 to 2013. For qualitative applies content analysis approach by using *tafsir* of Ibnu Katsir.

Results: The finding shows that all independent variables, which are literacy rate, enrollment of school, poverty rate, gini index, life expectancy at birth, rule of law and voice accountability have significant effect on economic growth in 9 selected OIC member countries, both simultaneously and individually.

Conclusion: This study concludes that HDI which is bounded by maqāsid approach affects on increasing of economic growth in 9 of OIC member countries significantly.

Keywords: Human Development, Maqāsid Variables of Umer Chapra, Economic Growth, OIC.

ABSTRAK

Tujuan: Pembangunan Manusia memiliki aspek kehidupan yang multi dimensional. Faktanya, IPM hanya mengukur secara spesifik kebutuhan manusia seperti pendidikan, kesehatan, dan kekayaan (pendapatan). Padahal pembangunan manusia memerlukan aspek material, fisik (nonmaterial), dan spiritual. *Maqāsid* diperlukan sebagai sebuah *wasilah* untuk mencegah manusiadari kemungkar dan mencapai kemashlahatan, yang terdiri dari *daruriyyat*, *hajjiyat* and *tahsiniyat*. Makadari itu, penelitian ini bertujuan untuk menganalisis peranan variabel *maqāsid based development* Umer Chapra terhadap pertumbuhan ekonomi di 9 Negara anggota OKI.

Metodologi: Metodologi penelitian menggunakan metode analisis campuran: kualitatif dan kuantitatif. Pendekatan analisis kuantitatif menggunakan regresi data panel dengan 9 Negara anggota OKI (Indonesia, Jordan, Kazakhstan, Kyrgyzstan, Mesir, Pakistan, Togo, Turkey and Uzbekistan) dan kurun waktu (*time series*) dari 2004- 2013. Untuk pendekatan analisis kualitatif menggunakan analisis konten (*isi*) menggunakan *Tafsir* Ibnu Katsir.

Hasil: Hasil penelitian menunjukkan semua variable independen yaitu angka melek huruf, angka partisipasi kasar sekolah, tingkat kemiskinan, indeks gini, angka harapan hidup, peraturan hukum dan hak kebebasan bersuara dan akuntabilitas berpengaruh signifikan terhadap pertumbuhan ekonomi di 9 Negara anggota OKI secara simultan (serempak) dan parsial.

Kesimpulan: penelitian ini menyimpulkan bahwa IPM yang dikaitkan dengan pendekatan aspek *maqāsid* berpengaruh signifikan terhadap peningkatan pertumbuhan ekonomi di 9 Negara anggota OKI tersebut.

Kata Kunci: Pembangunan Manusia, Variabel *Maqāsid* Umer Chapra, Pertumbuhan Ekonomi, OKI.

1. Introduction

1.1. Background of the Study

Development of a country cannot be separated from human development (Chapra: 2008). Humans are the most important subjects that serve as vicegerent of Allah to mobilize and manage the natural resources of the earth (Al-Baqarah: 30). In managing this natural resource, it requires human development and morality aspect. By assumption that a high human development can enhance the economic development of a country, finally will achieve the ultimate goal that is well-being of a country reflected in the increase of economic growth as well as equity.

At this time, some studies suggest that indicators of human development are seen from the increase in income and wealth (material) of a country. Unfortunately, those studies do not include a variety of human development, spiritual and non-material aspects as the indicator of human development (Chapra: 2008). As mentioned by Todaro and Smith (2012) and UNDP (1990) that indicators used in measuring human development index are generally viewed from three aspects, namely the level of health, education and living standards. As for the level of health and longer life measured by life expectancy level, education is measured from the level of literacy and gross enrollment rates, and standard of living as measured by GDP per capita.

The three indicators above can measure the human development aspects in each country. Table 1.1 indicates the development of HDI of nine selected Muslim countries as follows:

Table. 1.1. HDI 9 OIC Countries Years 1980-2011

COUNTRIES	HUMAN DEVELOPMENT INDEX									GROUPS
	1980	1990	2000	2005	2008	2010	2011	2012	2013	
Turkey	0.496	0.576	0.653	0.687	0.710	0.738	0.752	0.756	0.759	<i>High Human Development</i>
Kazakhstan	..	0.686	0.679	0.734	0.744	0.747	0.75	0.755	0.757	<i>High Human Development</i>
Jordan	0.587	0.622	0.705	0.733	0.746	0.744	0.744	0.744	0.745	<i>High Human Development</i>
Indonesia	0.471	0.528	0.609	0.640	0.654	0.671	0.678	0.681	0.684	<i>Medium Human Development</i>
Egypt	0.452	0.546	0.621	0.645	0.667	0.678	0.679	0.681	0.682	<i>Medium Human Development</i>
Uzbekistan	0.626	0.643	0.648	0.653	0.657	0.661	<i>Medium Human Development</i>
Kyrgyzstan	...	0.607	0.586	0.605	0.617	0.614	0.618	0.621	0.628	<i>Medium Human Development</i>
Pakistan	0.356	0.402	0.454	0.504	0.536	0.526	0.531	0.535	0.537	<i>Low Human Development</i>
Togo	0.405	0.404	0.430	0.442	0.447	0.460	0.467	0.470	0.473	<i>Low Human Development</i>

Source: United Nations Development Programme (UNDP)

According to Ranis et. al (2000: 198), human development as the central objective of human activity and economic growth as potentially a very important instrument for advancing it. The relationship between human development and economic growth can be examined by distinct causal chains: one runs from economic growth to human development as the resources from national income are allocated to activities contributing to HD; the other runs from HD to EG, indicating how, in addition to being an end in itself, HD helps increase national income (Ibid: 198). However, the relationship of both chains cannot occur automatically (Ranis et. al: 2000 and Spence: 2009).

From economic growth side, GNP contributes to human development mainly through household and government activity; civil society, e.g., through community organizations and other non-governmental organizations (NGOs), also plays a role (Ibid: 198). It supported by the study of Mehrara and Musay (2011) that state higher economic growth that leads to higher human capital proxied by enrolment ratio in all levels of education (including tertiary, secondary and primary education measured as the percentage of the working age population) as well as public expenditures on education relative to total public expenditures.

On the other hands, higher levels of HD, in addition to being an end in themselves, affect the economy through enhancing people's capabilities and consequently their creativity and productivity by providing well education and improving health and nutrition (Ranis et.al, 2000: 201). By then, there is strong relationship between human development and economic growth by identifying the direction policy might take to strengthen such links.

Deneulin and Alkire (2009) and UNDP (1990) argued that the measurement of the Human Development Index (HDI) has the limitation that only focuses on three dimensions, life expectancy, education and standard of living. This is the weakness of HDI that cannot measure all aspects of human development in a country comprehensively. In line with that, Mustapha and Hassan (2012) stated that if the material aspect is only used as a basic measure of human

welfare, it has not been able to represent the measurement of human well-being. Material accumulation are not able to influence human welfare and advancement of civilization. A human well-being and civilization can be achieved only through a multidimensional approach of human life.

In addition, Guiga and Rejeb (2012) stated that in measuring human development of a country, it is required a comprehensive measurement, not only the material aspect reflected by the high economic growth and development but also justice and equity. *Maqāṣid Shari'ah* can be used as measurement of human development because it covers all important aspects of life that contain of protecting religion, self, intellect, posterity, and wealth.

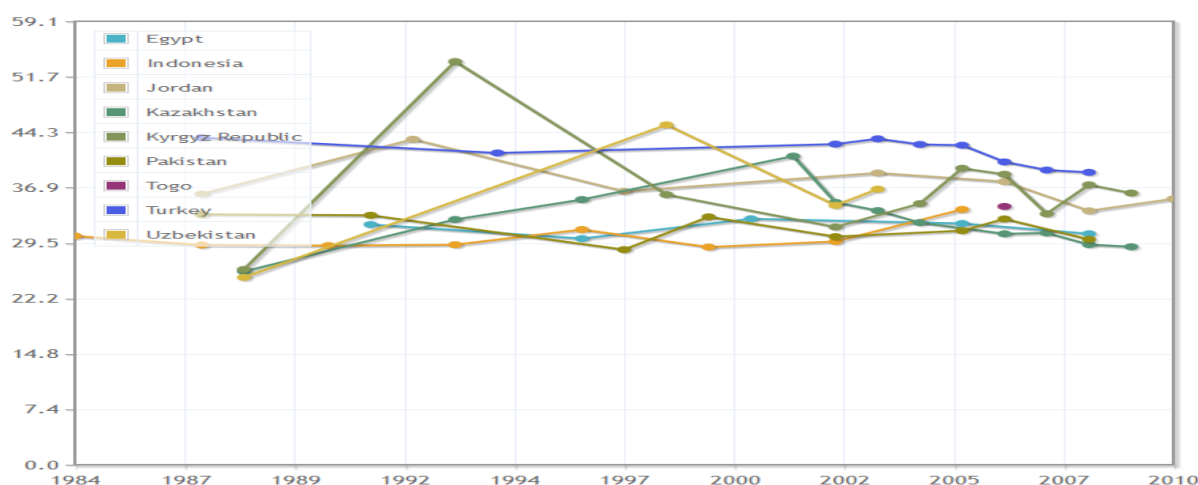


Figure 1 Comparison of Gini index 9 of OIC Countries Years 1984-2010

Source: Mundi Index

From the above chart, it can be concluded that the unequal distribution of income during the years 1984-2010 tends to vary, there is high inequality countries classified as Kyrgyzstan State because (> 0.5). Some countries have inequality moderate ($0.3 - 0.5$) such as Uzbekistan, Egypt, Pakistan, Togo, Indonesia, Jordan and Turkey. Countries whose inequality is low (<0.3) are such as Kazakhstan State (Rahardja and Manurung: 2005).

Islam regards human development must include material, non-material and spiritual aspects, which can be reflected by the concept of *maqāṣid Shari'ah*. *Maqāṣid* has three levels, namely

darūriyāh, *hājīyāh*, and *tahsiniyāh*. In general, the level of *darūriyāh* according to Al Ghazali (in Chapra, 2008), Amin et al (2012) and Esen (T.th) said that there are five (5) important aspects that need to be maintained, namely protecting religion (*ad-Dīn*), self (*nafs*), intellect (*aql*), posterity (*nasl*) and wealth (*māl*).

Amin et al (2012) said there are many Muslim scholars have been discussed and developed a concept of *maqāṣid* namely Al Juwayni, Al Ghazali, Al-Syatibi, Ibn ‘Asyur, and Ibn Taymiyyah. According to Chapra (2008) measurement of human development cannot be separated from his human role itself. Because improvement of human quality is required for the fulfillment of human needs that can improve human development, as Chapra (2008) divides it into 14 elements in human development needs. Therefore, the aspect of self (*nafs*) became the main object of the fifth aspect of *maqāṣid* in general. The study will examine the effect of *Maqāṣid* -Based Development Variables on economic growth in 9 selected countries of Organization of Islamic Cooperation (OIC), namely Indonesia, Jordan, Kazakhstan, Kyrgyzstan, Egypt, Pakistan, Togo, Turkey and Uzbekistan by using *maqāṣid* approach of Umer Chapra with panel data (quantitative method) and Tafsir Ibnu Katsir (qualitative method).

2. Methodology

2.1. Types and Sources of Data

Data used in the study is secondary data that employ the time series data (time series) for the period 2004 to 2013 and cross section data (panel data) of 9 selected of the OIC member countries, namely Indonesia, Jordan, Kazakhstan, Kyrgyzstan, Egypt, Pakistan, Togo, Turkey and Uzbekistan.

In general, the data were got from the United Nations Development Programme (UNDP), the World Bank, Mundi Index, the Worldwide Governance Indicators (WGI), the Central Bureau of Statistics (BPS), and the Organization of Islamic Cooperation (OIC). The other data were collected from sources such as scientific journal, literature studies, thesis, and reference books

related to the theme of this study. Additionally, in this study uses content analysis as a descriptive element *maqāṣid* based development variable of Umer Chapra's perspective using Tafsir Ibnu Katsir. The computer programs used were Stata 12 and Ms. Excel.

2.2. Sampling Method

The sampling method was done by using purposive sampling. The method is part of a non-probability sampling technique where each element of the population does not have the same probability of being sampled. Purposive sampling technique is used to select the sample based on groups of human development of each country were used as research. From 57 OIC member countries, it is selected 9 of OIC member states representing each group of human development.

As for the category of high human development sampled in this study amounted to three countries, namely Jordan, Kazakhstan and Turkey from a total of 13 countries due to these three countries can represent a group of high human development, it is based on data from the World Bank which explains that the average GDP per capita growth of the three countries was 3.13 percent higher during 1990 to 2013 compared with the average growth of GDP per capita of total all thirteen countries of high human development group amounted to 2.92 percent during 1990 to 2013.

Medium human development category amounted to 4 countries, namely Indonesia, Egypt, Kyrgyzstan and Uzbekistan from a total of 13 countries due to the four countries can represent a group of medium human development, it is based on data from the World Bank which explains that the average growth in GDP per capita of the four countries was higher by 2.4 percent during 1990 to 2013 compared with the average growth of GDP per capita of total all thirteen medium human development group of countries by 2.1 per cent during 1990 to 2013.

Low human development category amounted to 2 countries, namely Pakistan and Togo from a total of 24 countries due to the two countries can represent a group of low human development, it is based on data from the World Bank which explains that the average growth in GDP per

capita in these two countries amounted to 1 percent during 1990 to 2013 compared with the average growth of GDP per capita of a total of 24 low human development group of countries of 1.26 percent during 1990 to 2013 (UNDP: 2012). In addition, the ninth of OIC countries can represent other OIC countries in terms of the distribution of the region's largest countries such as Asia Pacific, Europe Middle East and Sub-Saharan Africa.

2.3. Maqāṣid-Based Development Variable of Umer Chapra's Perspective

Maqāṣid-Based Development Variable of Umer Chapra's Perspective has fourteen human needs. Chapra (2008) said that the primary objective of strengthening the human self and ensure a sustained well-being, consist of 14 things as follows: (1) dignity, self-respect, brotherhood, and social equality, (2) justice, (3) the spiritual and moral uplift, (4) security of life, property and honor, (5) freedom, (6) education, (7) good governance, (8) revomal of poverty and need fulfillment, (9) employment and self-employment opportunities, (10) equitable distribution of income and wealth, (11) marriage and stable family life, (12) family and social solidarity, (13) minimization of crime and anomie, (14) the mental peace and happiness. With the fulfilment of these 14 corollaries, the four primary objective of Shari'ah, that is faith (*Din*), intellect (*aql*), posterity (*nasl*), and wealth (*māl*) could be ensured, and eventually entail with human well-being, the *falah*.

2.4. Specifications of Empirical Model

This study uses panel data to look an effect of maqāṣid-Based Development variables Umer Chapra's perspective on economic growth, namely the effect of variable literacy rate, enrollment of school, poverty, gini, life expectancy, rule of law, and voice and accountability to variable economic growth, study cases of OIC member states which form the model equation as follows:

$$gdp_{it} = \alpha_0 + \alpha_1 lr_{it} + \alpha_2 eos_{it} + \alpha_3 pov_{it} + \alpha_4 gini_{it} + \alpha_5 birth_{it} + \alpha_6 rol_{it} + \alpha_7 va_{it} + \mu_{it}$$

Which:

GDP = GDP per capita (economic growth)

LR = Literacy Rate (hifdzul al aql)

EOS = Gross Enrolment School (hifdzul al aql)

Pov = Poverty Level (hifdzul al nafs)

Gini = Gini Index (hifdzul al māl)

Birth = Life Expectancy (hifdzul al nasl)

RoL = Rule of Law (hifdzul al nafs)

VA = Voice and Accountability (hifdzul al nafs)

α_0 = intercept

$\alpha_1 \alpha_2 \alpha_3, \dots, \alpha_7$ = Regression coefficient of independent variable

μ_{it} = Component error at time t for a unit cross section i

i = 1, 2, 3,, 9 (cross section data, 9 Countries OIC)

t = 1, 2, 3,, 10 (time series data, years 2004-2013)

The above equation shows the variables used in this study to see the effect of *maqāṣid* based development variable Umer Chapra's perspectives on economic growth. The religious aspect (*hifdzul ad-dīn*) binding and is attached to the other four *maqāṣid* aspects (Chapra: 2008) and (ISRA: 2012).

2.4.1. Analysis Procedures

As for an explanation of the selection criteria for a good model that consists of three tests as follows (Wooldridge, 2010 and Pindyck and Rubinfeld, 1998):

1. Chow Test

Chow test is testing to choose the model used Pooled Least Square or Fixed Effect

H_0 : Pooled Least Square (PLS)

H_1 = Fixed Effect Model (FEM)

2. Hausman Test

This test is used to consider in choosing random effects models or fixed effect model.

H_0 : Fixed Effect Model (FEM)

$H_1 =$ Random Effect Model (REM)

3. LM Test

Lagrange Multiplier test called the Breusch- Pagan LM test is used as statistical considerations in choosing a Random Effect Model or Pooled Least Square.

H_0 : Pooled Least Square (PLS)

$H_1 =$ Random Effect Model (REM)

2.4.2. Significance Test:

1. Coefficient of determination (R^2)

R^2 is small or close to zero, meaning the independent variables in a model equation not able to explain the variation dependent variable, while R^2 is big or close to one point, meaning the independent variables in a model equation able to explain the variation dependent variable (Gujarati: 1978: 98).

2. F Statistic and t Statistic Test

Gujarati (2006) t statistical test or partial test basically shows how far the influence of the independent variables individually in explaining the variation of the dependent variable and used to look at individual parameters of each independent variable. While the F test is basically intended to prove statistically that all independent variables affect the dependent variable simultaneously.

2.4.3. Testing Assumptions Classical

1. Heteros Test

In this test, aimed to test whether the regression model occurs inequality in variants of the residual in one other observation to observation (Ghozali: 2005).

2. Autocorrelation Test

Aims to test whether the linear regression model is no correlation between errors in the period of time or space with error in time or space before (Ghozali: 2005).

3. Multicollinearity Test

Aims to test whether the regression model found a correlation between independent variables (Ghozali: 2005).

4. Normality Test

Aims to see whether error terms in regression model have a normal distribution or not (Ghozali: 2005).

2.5. Content Analysis

According to Karlinger (in Murjaya and Aly, 2010) stated that the content analysis is a method of study and analysis of data based systematically and objectively. Then the content analysis can be useful in examining trends and patterns that can be explained in a document (Stemler: 2001). Methods in this study aims to analyze the urgency in human development indicators associated with Maqāṣid Based Development Variable Umer Chapra's perspective contained in Al-Qur'ān.

2.6. Research Hypothesis

Based on theoretical and empirical studies that have been done in previous research, hypothesis (H_0) of each variable is used as follows:

1. Variable literacy rate has a positive effect on economic growth.
2. Variable gross enrollment rate of school has a positive effect on economic growth.
3. Variable level of poverty has a negative effect on economic growth.
4. Variable Gini index has a negative effect on economic growth.
5. Variable life expectancy has a positive effect on economic growth.
6. Variable rule of law (RoL) has a positive effect on economic growth.
7. Variable voice accountability has a positive effect on economic growth.

3. Results And Discussion

3.1. Maqāṣid Based Development Variable Chapra Using Tafsir Ibn Katsir

Based on tafsir Ibn Katsir, fourteen elements of *Maqāṣid*-Based development variables of Umer Chapra's Perspective will be elaborated in detail comprehensive explanation on each variables as follows:

3.1.1. The Role of Dignity, Self-Respect, Brotherhood, and Social Equality (Q.S. Al-Hujurat (49): 13)

Chapra (2008) described the role of dignity, self-respect, brotherhood, and social equality are necessary element in supporting human development in the country. Man was created as vicegerence of Allah on this earth as responsible to worship Allah and prosper the earth as trust from Him. To prosper the earth, Man needs mutual respect, honor, brotherhood and social equality. In Islam, all humans are equal and mutually brothers to each other, but only degree of human devotion (*taqwa*) can distinguish man among others. Thus, the important of peace and implementation of tolerance among men their lives in mutual help can encourage the creation of welfare (*Falāh*). This can be achieved through the use of resources in an efficient and equitable distribution of access to resources. By then, it will affect the fulfillment of human need and increase level of productivity among society.

Therefore, all people are the descendants of `Adam and Hawwa' and share this honor equally. The only difference between them is in the religion that revolves around their obedience to Allah the Exalted and their following of His Messenger. After He forbade backbiting and belittling other people, alerting mankind that they are all equal in their humanity.

In Tafsir Ibnu Katsir mentioned that Allah commands the people to have faith in Him and to His Messenger are perfect, continuous, full of determination, and forever. In addition, Allah commands people to expend their money in way of Allah. If it does not comply then Allah will make the calculations and torture them. Whoever is faithful and expend of wealth in way Allah,

and soon will receive a great reward from Allah SWT. It is a form of motivation for people to faith (Alu Syaikh: 2008: 365- 368).

3.1.2. The Role of Justice (Q.S. An-Nahl (16): 90)

Chapra (2008) explained that justice is important in improving a development, both social and economic justice. As long as there is no justice then there will not be peace, but otherwise can lead to misery and destruction.

Ibnu Katsir explained, Allah states that He commanded his servants to be fair, the mid and balanced. And Allah ordered to do a goodness. *Al-Ihsan* meaning that when the heart is better than outward. As well as Sa'id ibn Qatada has said that there was not a good character who formerly done by Jahillyah and they saw it as a good deed, but God Almighty advise it. And not a bad character was formerly they view as shame among themselves but God forbid. It is mainly that Allah forbids mankind to have a bad character and despicable. And should he advocated to connect each other.

God forbid of indecency and to do badness (*munkar*). The purpose of the *fahsya* are things that are forbidden, and *munkar* is everything that is displayed on the case is unclean by the culprit. God forbid man to hostile with others. In a hadist mentioned "There is no sin any more entitled to Allah to hasten the torment of the (culprit) it in this world, in addition to the torture provided for the culprit in the hereafter, besides the hostility and decided connection each other" (Ad-Dimasyqi: 2003: 237- 244).

3.1.3. The Role of Spiritual and Moral Uplift (Q.S. Al-Mu'minun (23): 1-11)

Chapra (2008) explained that in improving human development, it is necessary to spiritual and moral role. In realizing the vision of Islam that is Falah, it is necessary to fulfill the spiritual aspects that can keep the faith and moral man.

In his Tafsir, Ibn Kathir explained that Allah says "Successful indeed are the believers (mukmin)," (Q.S. Al- Mu'minun: 1). Intent of the verse that they have got the victory, happiness, and good fortune. Those that are included in those believers who have properties as

contained in the following verses, namely; “those who humility (khusyu’) 'in prayer,” (Q.S. Al-Mu’minun (23): 2). Ali bin Abi Talhah narrated from Ibn 'Abbas about the intentions of those who humility' that is, those who fear and full of tranquility. As Ali bin Abi Talib, the intention of humility 'here is khusyu' in heart. Humility 'in prayer can only be done by people who concentrate in love with Him while forgetting the various activities in addition to prayer, and prayer priority over other activities. As sabda of the Prophet Muhammad SAW are narrated by Imam Ahmad and Nasa'i, from Anas, he said: "Given me a love of women and perfume, and prayer serve as practice for me the most enjoyable." (HR. Ahmad and an- Nasa'i) (Alu Syaikh: 2008: 256-257).

Then Allah says, “and those who abstain from (deeds and sayings) are useless (Q.S. Al-Mu’minun (23): 3)”, that of falsehood (bathil) which includes idolatry (musyrik) and immorality, and the words and deeds are not provide benefits and rewards. Qatada said: "By Allah! Allah commands that go to stop them from things that are useless." (Alu Syaikh: 2008: 257). Then Allah says "And those who perform Zakah." (Q.S. Al- Mu’minun (23): 4). In other verse, Allah says “successful indeed are those who purify the soul, and actually lost the person who pollute.” (Q.S. Asy-Syams (91): 9 - 10).

Then Allah says "and those who keeping his cock, except for their wives or slaves at their disposal; then indeed they are in this case there is no blame" (Q.S. Al-Mu’minun (23): 5- 7). Ibnu Katsir explained about people who keep their genitals from the unlawful as adultery or *liwat* (homosexual), and they do not approach the (sex) except with their wives who have been permitted by God or their slaves, then they are not blameworthy. And God said, whoever is looking behind it, that is, besides their wives and slaves, then they are the transgressors (Alu Syaikh: 2008: 258).

"And those who maintain mandates and his promises." (Q.S. Al-Mu’minun (23): 8). Described in Tafsir Ibnu Katsir, the purpose of this verse are those who can hold the mandate and not betray, but they fulfilled the entitled. When promises are always kept, and not like hypocrites (Alu Syaikh: 2008: 258). "And those who keep their prayers." (Q.S. Al-Mu’minun (23): 9). In

Tafsir Ibnu Katsir explained the purpose of this verse are those who constantly pray on time, as Ibn Mas'ud said, I asked the Prophet, "Messenger of Allah, is the most preferred deeds of God?" He replied: "Prayers on time." Then what else? He replied: "Devoted to both parents", then what else? He replied: Jihad in the way of Allah (HR. Bukhari and Muslim) (Alu Syaikh: 2008: 258-259). Furthermore, Allah characterize the believers (*mu'min*) with nature commendable and noble deeds, as He says "They are the people who will inherit the Firdaus Heaven. They will abide therein. "(Surah Al-Muminun (23): 10- 11) (Alu Syaikh: 2008: 260).

3.1.4. The Role of Security of Life, Property and Honor (Q.S. Al- Maidah (5): 32) and (Q.S. An-Nisa (4): 29)

Chapra (2008), in support of human development, it requires a security role, property and honor. Mentioned that Islam appreciates and respects a life and brotherhood. Thus it is necessary for the protection of Human Rights.

Allah SWT says "that whoever killed a human being, not because people were (kill) another person, or for causing corruption in the earth, it is as if he has killed all mankind. And he who saved a life, it is as if he saved the life of all human beings ". (Q.S. Al-Maidah (5): 32). In tafsir Ibnu Katsir explained, Ibn Abbas said whoever killed a human without cause as Qisas or make mischief in the earth, and justifies killing the soul of someone without cause and sin, then likened, he killed all mankind. For Allah there is no difference between one souls to another. And those who take care of the entire human is safe from him based on these considerations. The intention of maintaining here that does not kill the soul which is forbidden by Allah to kill him and believe it is forbidden by Allah (Ad- Dimasyqi: 2001: 388- 396).

Besides, Allah says "Hi people who believe, do not eat neighbor's property each other by bathil, except with the prevailing commercial street with the same love (ridha) among you. And do not kill yourselves; Allah is Merciful to you." (Q.S. An-Nisa (4): 29). Ibnu Katsir explained that Allah forbids His servants who believe, consuming most of their property over others in a way

that is false or to do business that is not in accordance Shari'ah as usury, gambling and other types of businesses that contain deceit and deception. Ibn Abu Hatim said he had told us Ibnul Fudail, from Daud Al-Aidi, from Amir, from Alqamah, from Abdullah in connection with this verse, this verse is *muhkamah*¹, not in-*mansukh* and will not be *mansukh* until hereafter (Ad-Dimasyqi: 2001: 37- 38). Do not you run a business that lead to acts that are forbidden, but trade according to regulations approved by the Shari'ah, namely trade conducted as they liked between the buyers and the sellers; and seek profits in a way that is recognized by the Shari'ah. And do not you doing things that are forbidden of God and commit immoral acts against Him and not allowed to consume people's wealth by false. Besides, the intent of the verse that "you do not kill yourselves" (Ad- Dimasyqi: 2001: 41-43).

3.1.5. The Role of Freedom (Q.S. An-Najm (53): 39)

Chapra (2008), in promoting human development, freedom is necessary. This is due to increase the initiative and creativity and innovation. Islam gives spaciousness for it does not conflict with the principles and teachings of Islam.

Allah swt says "and indeed man did not gain other than what has been earned." (Q.S. An-Najm (53): 39). In Tafsir Ibnu Katsir explains that as the sins of others will not be charged to him, so is he will not get the reward but from what he has earned himself. Imam Shafi'i and his followers concluded that the delivery of reading the Quran reward will not be up to the person who had died because reading it is not a charity and their businesses. While prayer and perpetual charity to be agreed scholars and nash Shari'ah determination that it will be up to the deceased (Alu Shaikh: 2008: 248).

3.1.6. The Role of Education (Q.S. Al-Ankabut (29): 43)

¹ Ali bin Abi Talhah stated from Ibnu Abbas about this verse. So Muslim said, "Allah has forbidden us to take our neighbor property with a wrong way, while the food is our ultimate property. It is not lawful for a man among us to eat another man's property, how the fate of another person (who cannot)? Allah said: "there is no sin on those blind" (Q.S. Al- Fath (48): 17), until death. Qatadah also said: Allah swt said: "except by way of commerce on consensual among you" (Q.S. An-Nisa (4): 29).

Chapra (2008), in promoting human development, quality education is necessary. It can increase knowledge and encourage the person's ability to master technology so as to increase productivity.

Allah SWT says "and these parables, We make for humans and no one who understands it except those who have knowledge" (Q.S. Al-Ankabut (29): 43). The intent of the verse is that no one can understand and meditate it, except those profound knowledge and master it (Alu Syaikh: 2008: 170- 171). With education, a person will be able to increase the knowledge, socio-economic conditions and think clearly. As Chapra (2008) says that with education, a person will be able to maintain his faith because it can make a decision between the right and falsehood and can improve the quality of life.

3.1.7. The Role of good governance (Q.S. Shad (38): 26)

Chapra (2008), good governance is required to improve a development. Therefore, to support human development it is necessary for the role of good government. So as to ensure the creation of social, political and good economic.

Word of Allah is contained in (Surah Shad (38): 26), describe will of Allah SWT for the authorities to apply the law among men according to the truth revealed from Allah SWT, and do not turn away from it, even if they belong to stray from His path. Allah indeed threaten those who go astray from His path and those who forget 'day of *hisab*' with the threat of harsh and painful torment. From the above, As-Suddi said: "They got a painful torment because of what they leave is charity for the day of hisab. Whatever we do in this world will be held accountable (Alu Syaikh: 2008: 132).

3.1.8. The Role of Revomal of Poverty and Need Fulfillment (Q.S. Al-A'rāf (7): 31)

Chapra (2008), in human development, it is necessary for the fulfillment of basic needs, such as clothing, food, and shelter. It is necessary to make human life more worthy. Therefore, Islam

gives special attention to this case, because a misery and helplessness can affect one's faith becomes weak.

In Tafsir Ibnu Katsir explained of surah Al- A'rāf (7): 31, Al A'ufi narrated from Ibn Abbas that man is doing Tawaf with naked in Jahiliyah century. Therefore, Allah ordered them to wear the beautiful clothes (after the Islamic period) (Alu Syaikh: 2008). Allah commanded the man to eat and drink and dress as they will as long as not to be overbearing and redundant (Ad- Dimasyqi: 2002: 287- 292).

3.1.9. The Role of Employment and Self-Employment Opportunities (Q.S. Al-Jumuah (62): 10)

Chapra (2008) explained that Muslims are obliged to work (produce something) with a good way to fulfill their need. This is in line with the needs of human development that requires job opportunities for the community, with is expected to improve the standard of quality of life.

Allah SWT says "So you all be spread around on earth; and seek the gift of God." (Surah Al-Jumu'ah (62): 10). In Tafsir Ibnu Katsir explained, when Allah forbid the activity of buying and selling them after they hear the call to prayer (adzan) and ordered them to get together, then God allows them upon completion prayed for scattered on the earth and seek Allah's bounty. As for the various ways to get the gift of God on this earth as trade, musharakah and other muamalah activities to fulfill the needs. It is permissible as long as not contrary to the Islamic shariah. In buying and selling activities, Allah swt commended human to pray (dzikir) more, in other always remember about hereafter (Alu Shaikh: 2008: 540- 541).

3.1.10. The Role of Equitable Distribution of Income and Wealth (Q.S. Al-Hashr (59): 7)

Chapra (2008) explained that Islam gives special attention to the distribution of wealth and income that should not circulate in certain people. Zakah, Infak, Sadaqah and Waqf (ZISWAF) is one way of distributing wealth and income from the rich to the needy. In support of human development it is necessary equalization so as to reduce the degree of inequality among people

which can lead to social conflict. In tafsir Ibnu Katsir about surah Al- Hasyr (59): 7 explained that the property should not only circulated on the rich only. We have to do what His commands and leave what His forbidden, because he has a painful torment to those who deviate and violate his orders, as well as working on his ban (Alu Syaikh: 2008: 447- 450).

3.1.11. The Role of Marriage and Stable Family Life (Q.S. Ar-Rum (30): 21)

Chapra (2008), explained that marriage is part of the human biological needs. By marriage, is expected to complementarity between the couple and became a partner in carrying out life as human nature. Therefore, it is expected the wedding can bring blessing and health in the family. Moreover, marriage is necessary to maintain and improve the descent.

Allah says "And among His signs is that power, He created for you wives of your kind itself" In Tafsir Ibnu Katsir, the purpose of the verse that He has created for you women who will be your wife from your own kind. God created it has the purpose, as continuation of the verse "So you tend to be and feel at ease,". Furthermore, in between his mercy to mankind which makes their spouses of their own kind and make the feelings of love and affection between them? That is why a man chain a woman, which is caused by a sense of love and affection with the grace given by God a child, interdependent living and affection both of them. "Verily in this is truly there are signs for a people who think." (Surah Ar-Rum (30): 21) (Alu Syaikh: 2008: 209- 210).

3.1.12. The Role of Family and Social Solidarity (Q.S. Al- Maidah (5): 2)

Chapra (2008) explained that aspects of family and social solidarity in both the internal and the family environment plays an important role in supporting human needs. In a family it would require the cooperation and division of tasks in accordance with the rights and obligations so that it can create harmony and love children. So that the fulfillment of these things can affect the health condition and harmony among family members. Without this, it cannot affect the fulfillment of the role of the family and social solidarity.

In Tafsir Ibnu Katsir explained of surah Al- Maidah (5): 2, that Allah commanded His servants who believe to help together in doing good is virtue and leave the things that are wrong, and it's called devotion. Allah forbid them to help each other in falsehood and in sin and forbidden things (Ad- Dimasyqi: 2001: 173). Ibn Jarir said the purpose of the sin of leaving what is commanded by God to do. Prohibition goes beyond what is laid down by God in your religion, and forget what supposed by God upon yourself and upon others (Ad- Dimasyqi: 2001: 173).

3.1.13. The Role of Minimization of Crime and Anomie (Q.S. Ash- Syu'arā' (26): 183- 184)

Chapra (2008), in support of human development, it is necessary to guarantee a peaceful life, safe, and harmonious. Therefore need role of government in enforcing the law and the distribution of wealth and income so as to minimize the level of crime, social conflict, and humiliation among the people.

Allah says "And do not harm humans on their rights," (QS Asy- Syu'ara' (26): 183). The intent of the verse that you do not reduce their properties. "And do not rampant in the earth to make mischief," (QS Asy- Syu'ara' (26): 183). The intent of the verse that became a robber. And Allah says in the next verse "And fear Allah who has created you and ummah before," (QS Asy- Syu'ara' (26): 184). The verse mean that Allah gives a threat to those who commit acts harm to others and do damage with the punishment (Alu Syaikh: 2008: 535- 536).

3.1.14. The Role of Mental Peace and Happiness (Q.S. Az-Zumar (39): 73) and (Q.S. Al- Anfal (8): 61)

Chapra (2008), explained that happiness and peace can be felt when one can meet the needs of all thirteen previous human needs which can not only affect all four elements maqāṣid, but also the religious aspect. Therefore it is essential happiness of Heaven, and he will abide therein.

In this verse described the condition of those believers (mu'min) who are happy when they were led to heaven in a group, a party for the sake of a party; Muqarrabin, then Abrar, then the next group and so on. The Prophet alongside the Prophet, honest person with people who are similar

to them, syuhada with their groups and scholars with the scholars. Allah says "so when they get to Heaven," that is, they have come to the doors of Heaven after crossing the ash-shirath (bridge), they were held at the top of the bridge that exists between Heaven and Hell, Then Allah give punishment for brutality that happened between them during in the world. If you have finished their business and have clean, then they are allowed to enter Heaven. And they live in it, forever and ever, no longer they expect out, and they witnessed the abundant reward in it, great gift, favor an eternal and glorious kingdom (Alu Syaikh: 2008: 221- 227).

The verse that describes the suggestion to make peace and are trusting that, "and if they incline to peace, then incline to him and put trust in Allah. Verily He is the All-Hearing, All-Knowing" (Surah Al-Anfal (8): 61). In Tafsir Ibnu Katsir explains that if you are worried about the betrayal of a people, then violate their agreement. If it still continues to combat and violate your right then attack it. And if they tend to peace or improve relationships and stop of war, then tend you to peace and accept their offer. As the Prophet received the offer those polytheists to terms for nine years at the Hudaibiyah agreement to propose several requirements to them. And Allah ordered the man to fear of Him. Because Allah who gives sufficiency and help you (Alu Syaikh: 2008: 91- 93).

3.2. Panel Data Analysis

Table 3.1. GLS Model

Variables	Coefficient	Probability
Constant	24.003*	(0.000)
Literacy Rate_{it}	0.009*	(0.077)
Enrollment of School_{it}	0.016*	(0.000)
Poverty Rate_{it}	-0.050*	(0.000)
Gini index_{it}	-0.356*	(0.084)
Life Expectancy_{it}	-4.103*	(0.002)
Rule of Law_{it}	0.453*	(0.000)
Voice and Accountability_{it}	0.397*	(0.000)
R²	-	-
Test:		
F/ Wald Test	396.47*	(0.000)
Chow- F Test	51.6*	(0.000)

Hausman Test	9.77	(0.202)
LM Test	114.9*	(0.000)
Modified Wald test for groupwise heteroskedasticity	36.26*	(0.000)
Wooldridge test for autocorrelation	74.524*	(0.000)
Note:		
* 10% alpha level		
() P value		

From criteria model testing between PLS, FEM and REM, it showed that the selection model still occur autocorrelation and heteroscedasticity symptoms. Pindyck and Rubinfeld (1998) stated that in essence, if occur the heteroscedasticity and autocorrelation symptoms in a model equation, it does not affect the validity of a model, meaning that the model still is not biased and consistent, just estimators produced becomes inefficient. Therefore, to address both the symptoms, then it can be tested one more through GLS (Generalized Least Square) approach which can accommodate the presence of symptoms of heteroscedasticity and autocorrelation in panel data model. GLS model estimation approach showed quite good results because the value of the F statistic/ Wald test (F/ Wald test) were high at 396.47 which is significant at the 1 percent of significance level. These results explain that the seven independent variables have a significant effect together (simultaneously) on the dependent variable, namely economic growth. When viewed individually by independent variables, the results shown on the seven independent variables are variables literacy rate, gross enrollment rate of school, poverty, gini index, life expectancy, rule of law, voice and accountability significant effect on economic growth. The partial test of each variable studied based on the estimated coefficient associated with the GLS, related theories and previous research on these variables, as follows:

3.2.1. Variable of Literacy Rate (Education)

Variable literacy rate based on the GLS estimation results in table 3.1 has significant positive effect to economic growth on 10% (α level) in 9 of OIC countries as object of study, namely Indonesia, Jordan, Kazakhstan, Kyrgyzstan, Egypt, Pakistan, Uzbekistan, Togo and Turkey.

That is, if the literacy rate increased by 1% in a given year, it is expected to increase the economic growth as big as 0.009% in 9 of the OIC countries in the same year. Conversely, if the literacy level decreased by 1% in a given year, it is expected to reduce economic growth as big as 0.009% in 9 of the OIC countries in the same year (*ceteris paribus*).

Based on the econometric results it can be concluded in accordance with the existing theory. As according to Todaro and Smith (2012) education has an important role for developing countries in absorbing modern technology and develop the capacity of sustainable development. And explained that the level of literacy can measure a person's ability to read and write. These aspects affect the quality of education. As supported by the theory of Solow (in Sukirno, 2011) that the most important factor in realizing economic growth is technological progress and increase proficiency and expertise of the workforce. It is a manifestation of good quality education in terms of infrastructure as well as curriculum in certain state.

See explanation above, an understanding of the thought Chapra (2008) which stated that an increase in intellectual (education) can influence human attitudes in maintaining faith, the quality of social and economic life, which can accelerate development. So necessary to improving the education sector of each country as one of the basic needs in human development, which will eventually affect the level of economic growth of a country. Results of estimation coefficient in panel data above, besides backed by existing theories, also strengthened by previous research studies related. As research SBM (2014), Nazamuddin (2013), Yuhendri (2013), Mahrany (2012), Hanushek and Wobmann (2010), as well as Beverly and Sherraden (1997) which states that education (literacy rate) can increase the economy growth of a country.

3.2.2. Variable of Gross Enrolment Ratio (Education)

Variable gross enrollment rate of schools based on the GLS estimation results in table 3.1 has positive significant effect to economic growth on 10% (α level) in 9 of OIC countries as object

of study. That is, if the gross enrollment rate of school increased by 1% in a given year, it is expected to increase the economic growth as big as 0.016% in 9 of the OIC countries in the same year. Conversely, if the gross enrollment rate of school declined by 1% in a given year, it is expected to reduce economic growth as big as 0.016% in 9 countries of the OIC in the same year (*ceteris paribus*).

Based on the econometric results it can be concluded in accordance with the existing theory. As according to Todaro and Smith (2012) education has an important role for developing countries in absorbing modern technology and developing the capacity of sustainable development. And explained that the average gross enrollment school can be a picture of the population aged 15 years and over in undergoing formal education and can measure the success of achievement and educational equity. Therefore, education is a basic human necessity that needs to be fulfilled by the whole community. The higher education through the process, it will affect the quality of life. As supported by the theory of Solow (in Sukirno, 2011) that the most important factor in realizing economic growth is technological progress and increase proficiency and expertise of the workforce, then with an increase in the gross enrollment rate of school, is expected to improve the distribution and expertise resident in nine of OIC countries.

Based on the above, in accordance with the thinking of Chapra (2008) that an increase in intellectual (education) can influence human attitudes in maintaining faith, the quality of social and economic life, which can accelerate development. Therefore, it is necessary to have efforts to increase the budget of the education sector, so as to ensure availability of infrastructure, education and ensure educational opportunities for all levels of society. With the fulfillment of education, is expected to affect the level of economic growth of a country. Results of estimation coefficient in panel data above, besides backed by existing theories, also strengthened by previous research studies related. As research Nazamuddin (2013) with a descriptive and exploratory analysis of the data revealed that education (school enrollment and literacy) positive effect on economic growth, and research of Yuhendri (2013), Hanushek and Wobmann (2010),

Beverly and Sherraden (1997) states that higher education can boost a country's economic growth.

3.2.3. Variable of Poverty Rate

Variable of poverty rates based on the GLS estimates in table 3.1 has significant negative effect to economic growth on 10% (α level) in 9 of OIC countries as object of study. That is, if the poverty rates increased by 1% in a given year, it is expected to reduce economic growth as big as 0.05% in 9 of the OIC countries in the same year. Conversely, if the poverty rate declined by 1% in a given year, it is expected to increase the economic growth as big as 0.05% in 9 of the OIC countries in the same year (*ceteris paribus*).

Based on the econometric results it can be concluded in accordance with the existing theory. For according to (Smith, 1776) ensured the public did not receive welfare and happiness as long as they face problems of high poverty and parsimony in the community. Therefore, if still facing problems of poverty, it will hinder the economic growth of a country, and the public welfare is not reached. Based on Todaro and Smith (2012), United Nations Development Programme (UNDP) measure poverty by the Human Poverty Index (HPI), explained that poverty as a measure of the ability of a person who has problem, three main key is stuck in shortage (deprivation) or survival, knowledge, and supplies economy. It is same with an opinion (Sudiby, 1995), the substance of poverty-related deprivation conditions to get sources of basic needs fulfillment such as clothing, food, shelter, and basic education. As well as the Chambers (1983) concluded that the core problem lies in the poverty trap deficiency (deprivation trap). Deprivation trap is divided into five parts: (1) poverty itself, (2) physical weakness, (3) alienation, (4) the vulnerability, (5) powerlessness.

Based on the above, Chapra (2008) stated that the fulfillment of basic human needs is closely related to poverty. This needs to be improved, given when the basic needs are fulfilled, it is expected to improve the quality of human life, and then it will increase productivity, so that

it can fulfill the needs of living by working. With the efforts to reduce poverty, it can affect the higher economic growth, the redistribution of economic growth can affect a country's poverty reduction (Todaro and Smith, 2012). Results of estimation coefficient in panel data above, besides backed by existing theories, also strengthened by previous research studies related. As Hendra's research (2009) states that the level of poverty has a significant negative effect on economic growth, as well as research of Jonaidi (2012), states that the level of poverty negatively correlated to economic growth. As well as Beverly and Sherraden (1997) states that the fulfillment of basic human needs (survival) to reduce poverty can affect a country's economic growth.

3.2.4. Variable of Gini Index

Gini index variable based on the GLS estimation results in table 3.1 has significant negative effect to economic growth on the level of 10% (α level) in 9 of OIC countries as object of study. That is, if the gini index or inequality increased by 1 value in a given year, it is expected to reduce economic growth as big as 0.356% in 9 countries of the OIC in the same year. Conversely, if the gini index or inequality decreased by 1 value in a given year, it is expected to boost economic growth as big as 0.356 value in 9 countries of the OIC in the same year (*ceteris paribus*).

Based on the econometric results it can be concluded in accordance with the existing theory. For according to Todaro and Smith (2012) extreme inequality can affect the economic inefficiency and could limit or reduce economic growth. In addition, extreme inequality can lead to social instability and solidarity among the people is low. It is seen as injustice. In accordance with Sudibyo (1995), the substance of the gap associated with inequality in access to economic resources. Gap problem is a problem of justice.

See explanation above, in accordance with the thinking of Chapra (2008) that the equitable distribution of income can avoid inequality in income among humans, high levels of poverty and deprivation trap. On the other hand, it is able to enhance economic growth. Results of

estimation coefficient in panel data above, besides backed by existing theories, also strengthened by previous research studies related. As research Siren (2015), Henderson (2009) states that inequality in income has significant negative effect on economic growth, as well as with research of Sachs (1989), said that the obstruction of economic progress in Latin America due to social conflicts that are the root causes for inequality in income, as well as research of Smith (1776) said that the negative relationship between inequality in income with economic growth.

3.2.5. Variable of Life Expectancy (Health)

Variable of life expectancy based on the GLS estimation results in table 3.1 has significant negative effect to economic growth on the level of 10% (α level) in 9 of OIC countries as object of study. That is, if life expectancy (health) increases by 1 year in a given year, it is expected to reduce economic growth as big as 4.103 units in 9 countries of the OIC in the same year. Conversely, if the life expectancy (health) decreased amount of 1 year in a given year, it is expected to increase the economic growth as big as 4.103 units in 9 countries of the OIC in the same year (*ceteris paribus*).

Based on the econometric results it can be concluded contrary to existing theories. according to Todaro and Smith (2012) and reports of the United Nations Development Programme (UNDP), life expectancy (health) increased to improve productivity, that will ultimately affect a person's revenue increased and economic growth of a country increased. According to UNDP (1990) the life expectancy describes average of the estimates of many years that can be taken by someone for life. The minimum and maximum limit a person's life expectancy is estimated for 25 years to 85 years. This is in line with the thinking of Chapra (2008) states that health is one of the basic needs that need to be fulfilled in addition to education to improve human quality, which in turn affects economic growth.

Differences econometric results above with the existing theory, thought to be caused by the health budget allocation by the government that have not been well targeted and is unable to

represent the level of health in nine of OIC countries. As described previously, that the life expectancy in nine of OIC countries as the object of research have an average of life expectancy is over 68 years. However, high life expectancy is not accompanied by health equity. As the report of the United Nations Development Programme (2013) stated that there had been a high inequality in 9 of OIC countries namely inequality in life expectancy, Turkey (11%), Jordan (11.9%), Egypt (13.4%), Indonesia (16.4%), Kazakhstan (16.7%), Kyrgyzstan (20%), Uzbekistan (24.3%), Pakistan (29.9%), and Togo (36.8%). So the increase in life expectancy (health) was biased because it was not accompanied by equity, and ultimately cannot increase economic growth in 9 OIC countries.

3.2.6. Rule of Law Variable

Rule of law variable based on the GLS estimation results in table 3.1 has positive significant effect to economic growth on the level of 10% (α level) in 9 of OIC countries as object of study. That is, if the rule of law increased by 1 unit in a given year, it is expected to increase economic growth as big as 0.453 units in 9 of OIC countries in the same year. Conversely, if the rule of law decreased number one unit in a given year, it is expected to reduce economic growth as big as 0.453 units in 9 of OIC countries in the same year (*ceteris paribus*). The range of variable rule of law is between -2.5 and 2.5). The greater index shows the level of law enforcement in nine countries should be better, that can affect the economic growth of each country. From the econometric results showed that rule of law variables affect as big as 0.453 on economic growth.

Based on the econometric results it can be concluded in accordance with the existing theory. Because according to reports Worldwide Governance Indicators (WGI) in create welfare, it will require law enforcement upholding justice. So that when a country seeks to improve law enforcement, it will boost the productivity of society, for guaranteeing the rights and obligations as well as the lives of citizens, as well as with the government's obedience to the law, can run basic tasks and functions (duties), authority and responsibility, will ultimately affect the level of

income per capita.

This is in line with the thinking of Chapra (2008) states that law enforcement became one of the elements that need to be fulfilled by every society, the necessary role of government to ensure awake and fulfilled it. So as to achieve the guarantee of individual freedom, mutual respect and respect among communities, minimization of crime rates, increased community solidarity, and public safety. Due to the achievement of good governance it is expected to affect positive social attitudes among the public, which in turn affects economic growth. Results of estimation coefficient in panel data above, besides backed by existing theories, also reinforced by previous studies related.

As research of Wibowo (2013), Huynh and Chavez (2008) said that the rule of law variable has positive effect on economic growth. With the enforcement of legislation and legal compliance, it could be expected to encourage the economic growth of a country.

3.2.7. Variable of Voice and Accountability

Variable of voice and accountability based on the GLS estimates in Table 3.1 has positive significant effect to economic growth on the level of 10% (α level) in 9 of OIC countries as object of study. That is, if the voice and accountability increased by 1 unit in a given year, it is expected to boost economic growth as big as 0.397 units in 9 of OIC countries in the same year. Conversely, if the voice and accountability decreased number one unit in a given year, it is expected to reduce economic growth as big as 0.397 units in 9 of OIC countries in the same year (*ceteris paribus*). Voice and accountability is using a variable range (-2.5 to 2.5). The greater index shows the level of voice and accountability in 9 countries should be better, that can affect the economic growth of each country. From the econometric results can be seen that the variable voice and accountability effect as big as 0.397 on economic growth.

Based on the econometric results it can be concluded in accordance with existing theory. Because according to reports Worldwide Governance Indicators (WGI) in create welfare, it is necessary freedom for every citizen in implementing the rights, obligations, his life, the right to

choose a good government and a free press. So that people can make choices and enhance creativity, it will eventually affect the level of income per capita.

This is in line with the thinking of Chapra (2008) states that good governance in this aspect of voice and accountability, became one of the elements that need to be fulfilled by every society, the necessary role of government to ensure awake and fulfilled it as well as to achieve the guarantee of individual freedom, mutual respect and respect between communities. Due to the achievement of good governance it is suspected to affect positive social attitudes among the public, which in turn affects economic growth. Results of estimation coefficient in panel data above, besides backed by existing theories, also reinforced by previous studies related. As research of Huynh and Chavez (2008) argued that voice and accountability variable has positive effect on economic growth. With the voice and accountability, it is supposed to boost the economic growth of a country due to the guarantee of individual freedom in the choice and expression (creativity) and selecting good governance.

4. Conclusion

Based on the analysis and discussion in the previous section that use mixed method, both quantitative analysis with panel data and content analysis through Tafsir Ibnu Katsir, it can be concluded that all independent variables, which are literacy rate, enrollment of school, rule of law and voice accountability have significant positive effect on economic growth in 9 selected OIC countries, while poverty rate, gini index, life expectancy have significant negative effect on economic growth in 9 selected OIC countries. In addition, all of variables affect on economic growth either simultaneously or partial (individual). Furthermore, The fourteen *Maqāṣid*-Based Development Variable of Umer Chapra's Perspective can contribute to the development of Muslim countries (OIC) if these variables are confirmity with Shari'ah derived from Qur'an and Sunnah. In other word, HDI which is bounded by maqāṣid approach affects on increasing of economic growth in 9 of OIC member countries significantly.

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Tazkia Islamic Finance and Business Review

Hereby acknowledge the contribution of

Dr. Hafas Furqani

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As Reviewers

In Tazkia Islamic Finance and Business Review Volume 9 Number 2

(July - December 2015)

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TAZKIA ISLAMIC FINANCE AND BUSINESS REVIEW

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Tazkia Islamic Finance and Business Review (TIFBR) is a peer-reviewed journal published by the Institute for Research and Community Empowerment (IRCE), Tazkia University College of Islamic Economics in Collaboration with Association of Islamic Economics Lecturers. The journal is semiannual journal issued on July and December. The aim of the journal is to disseminate Islamic economics, finance and business researches done by researches both from Indonesia and overseas. The editor receives manuscripts that have not been sent to other journals for publication. Notes for Contributors are presented at the end part of this journal. Correspondences about the papers that will be published, subscription information, and others can be addressed directly to our Editorial Office at: Institute for Research and Community Empowerment (IRCE), Tazkia University College of Islamic Economics, Jl. Ir. H. Djuanda No.78, Sentul City, Bogor 16810, Phone: +62-21-87962291-93, Fax: +62-21-87962294, E-mail : journal-tifbr@tazkia.ac.id/lppm@tazkia.ac.id, Website: www.tifbr-tazkia.org/www.lppm.tazkia.ac.id

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