

Zakah index: Islamic economics' welfare measurement

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Abstract

Zakah is one of the five pillars of Islam. Compared to the other pillars, Zakah intersects with most the human dimensions: spiritual, individual, social, economic, and is quantifiable. Zakah also fulfills all of the aspect of the Maqāṣid al-Sharī'ah that preserves public interests (maslahah). This paper argues that the lack of full observance of the objectives of the obligation in performing Zakah, which is intended to increase the welfare/wellbeing of the society, makes Islamic Economics as a discipline completely ineffective and inefficient in performing its essential characteristics in fulfilling the Maqāṣid al-Sharī'ah. The expected outcome of this study is Zakah Index that will represents the monitoring of Zakah payment in Islamic or Muslim populated country, hence providing academics, students, society, and policy maker in Islamic or Muslim populated country an alternative measurement of economic progress, instead of Gross Domestic Product (GDP). The method used in the conceptualization of the Index and its derivatives are content analysis and

inductive method, which is exploratory in nature, that covers Islamic and conventional literature. Finally, Zakah Index is intended to be as an Islamic Economics tool to measure not only the welfare/wellbeing of Islamic Society, but also its religious (spiritual). On the last part of the paper, the Zakah Index Model then is applied to the East Java province.

Zakah adalah salah satu rukun Islam. Dibandingkan dengan pilar yang lain, zakah bersinggungan dengan hampir seluruh dimensi manusia: spiritual, individual, sosial, ekonomi dan ia dapat diukur. Selain itu, zakah juga memenuhi seluruh aspek *Maqāṣid al-Sharī'ah* yang bertujuan melindungi kepentingan umum (masalah). Paper ini didasarkan pandangan bahwa minimnya pengawasan kewajiban pembayaran zakah, yang ditujukan untuk meningkatkan kesejahteraan masyarakat, menjadikan Ilmu Ekonomi Islam sebagai disiplin tidak efektif dan efisien dalam menjalankan karakteristik utamanya untuk memenuhi tujuan *Shariah*. Luaran dari studi ini adalah Indeks Zakah yang akan merepresentasi pengawasan pembayaran Zakah di Negara Islam atau masyarakat mayoritas muslim, yang dengan demikian menyediakan alternatif pengukuran kemajuan ekonomi bagi pemerintah, akademisi, dan masyarakat daripada menggunakan Produk Domestik Bruto (PDB). Metode penyusunan konsep indeks ini dengan berbagai derivasinya adalah content analysis dan metode induktif yang meliputi literatur Islam dan konvensional. Akhirnya, Indeks Zakah ini dimaksudkan menjadi "tool" Ilmu Ekonomi Islam untuk mengukur tidak hanya kesejahteraan masyarakat muslim, namun juga aspek religiusitasnya. Pada bagian akhir paper ini, model Indeks Zakah ini dipalikasikan di Provinsi Jawa Timur.

Keywords: *Zakah index; GDP; Islamic welfare measurement; Maqāṣid al-Sharī'a*

Introduction

As one of the pillars of Islam,¹ Zakah is the critical components of which has socio-economic-spiritual dimension that creates economic balance for the welfare of the people in the society which will avoid social, economic, and spiritual poverty. Poverty is the number one enemy of Islam as

¹ *Ṣaḥīḥ al-Bukhārī*, Kitāb al-Imān, Bāb al-Imān wa Qawl al-Nabiyy Saw., "Buniyal Islāmu 'ala khamṣin", no. 8; *Ṣaḥīḥ Muslim*, Kitāb al-Imān, Bāb Bayān Arkān al-Islām, no.16.

the Prophet Muhammad, narrated by Bayhaqi dan Tabarani, says that "poverty is nearer to disbelief (*kufri*)."² The Quran sheds light on the economic importance of Zakah which is mentioned more than 100 times, usually in conjunction with *salah* (prayer), as means of purification for the self³ and welfare distribution for the society.⁴

Throughout the history of Zakah, during the early stages of Islamic societal development, Zakah institution is one of the cornerstones of Islamic Economic System⁵ which has direct impact on the economy and the society be it in terms of fiscal policy or poverty eradication⁶ In the era of the modern knowledge i.e. the science, Islamic Economics has to be built under the light of scientific approach. The adoption of the scientific principles by Islamic Economics inevitably standardizes the Zakah function in the society to become observable object. Should it be compared to the other pillars of Islam, Zakah is the suitable value which would comply with the scientific principles. It is since that Zakah has a distinctive feature in terms of scientific notion, that is Zakah is statistically measurable (table. 1).

² For a detailed discussion, please refer to Asghar Ali Engineer, *Islam and Muslim: A Critical Reassessment*, Jaipur: Rupa Books Private Limited, 1985, 27-33.

³ The Holy Quran Chapter 9 verse 103.

⁴ The Holy Quran Chapter 59 verse 7. Mannan further explain, "Wealth must remain in constant circulation among all sections of the community and should not become the monopoly of the rich (Mohammad Abdul Mannan, *Islamic socioeconomic institutions and mobilization of resources with special reference to Hajj management of Malaysia*, Jeddah: Islamic Development Bank & Islamic Research and Training Institute, 1996, 17.

⁵ Marghoob A. Quraishi, "The Institution of Zakat and Its Economic Impact on Society", Proceeding of the "Second Harvard University Forum on Islamic Finance: Islamic Finance into the 21st Century," Cambridge, Massachusetts: Center for Middle Eastern Studies, Harvard University, 1999: 77-81

⁶ F. R. Faridi, "A Theory of Fiscal Policy in an Islamic State," in Ahmed, Z. et al. (eds.), *Fiscal Policy and Resource Allocation in Islam*, International Centre for Research in Islamic Economics, King Abdul Aziz University, Jeddah, Saudi, 2008, 27-52; Monzer Kahf, "Taxation Policy in an Islamic Economy," in Ahmed, Z. et al. (eds.), *Fiscal Policy and Resource Allocation in Islam*, International Centre for Research in Islamic Economics, King Abdul Aziz University, Jeddah, Saudi, 2008, 114-135.

This distinctive feature then can be modified as to measure the economic performance of a society. In terms of measuring the economic performance i.e. the welfare, the Conventional Economics has developed economic tools to gauge the wealth or the economic power of a country or society. The Gross Domestic Products (GDP) is one of the primary indicators. In Islamic perspective, it is not that the GDP method is not Islamic. It is Islamic so long as the income and expenditure and other elements can be verified in terms of its *halal* condition, be it the nature and on the way in obtaining and or spending it, which has the Shariah purpose (*maqāṣid al-Sharī'ah*). And most of all the GDP doesn't represent the spiritual aspect of wealth and the distributive justice for the society.

Table 1: Dimensions on pillars of Islam

	Spiritual	Individual	Social	Economy	Quantifiable
Shahadah	√	√	-	-	-
Salah	√	√	-	-	-
Saum	√	√	-	-	-
Zakah	√	√	√	√	√
Hajj	√	√	-	-	-

Zakah intersects as well with all the popular five preservations in the Shariah (preservation of religion, self, mind, progeny, and wealth) which is the purpose of the Shariah (*maqāṣid al-Sharī'ah*) as has been expounded by scholars like Al-Ghazali (d. 1111 AD), Al-Shatibi (d. 1388 AD) and Abu Zaharah (1997)⁷; Jasser Auda (2007, 2008). In this paper the Zakah and *maqāṣid al-Sharī'ah* will be used as background to reveal the Zakah index. The paper will try to develop or design an index which uses Zakah

⁷ Ahmad Al-Rasyuni, *Imam Al-Shatibi's Theory of the Higher Objectives and Intents of Islamic Law*, Selangor: Islamic Book Trust, 2006.

as the basis that indicates the *maqāṣid*. This index indicates the economics performance of which it represents how the objective of Zakah in the society is reached.

Research method

On the conceptualization of the Index, the method used in this paper, which is exploratory in nature, adopted content analysis and inductive method to achieve its objectives which is to create the Zakah Index with its derivatives that will represent the objectives of *al-Sharī'ah*. The indices are expected to be able to measure the welfare and wellbeing of an Islamic country or Muslim populated society based on the real wealth owned by the Muslims.

The principles of Zakah and *maqāṣid al-Sharī'ah* are both the center of discussion, but it will not estimate the Zakah proceeds and to investigate the extent of its potential effects⁸; nor it will try to create an index which complies with *maqāṣid al-Sharī'ah* in terms of measuring the human development.⁹ It also will not discuss the *fiqhi* aspect of Zakah.¹⁰

The Zakah indicator framework can be used as the foundation for a more complex welfare indicator representing the objectives of *al-Sharī'ah*. The research examines the GDP and assesses the difficulties faced by the Muslim in applying the tools. Then it will analyze and construct the frame-

⁸ Monzer Kahf, *Zakah Estimation of Some Countries*. Unpublished study in IRTI, 1987; Muhammad Firdaus, *Economic Estimation and Determinations of Zakat Potential in Indonesia*, IRTI Working Paper, Jeddah, 2012.

⁹ Ruzita Mohd Amin, "The Integrated Development Index (I-Dex): A New Comprehensive Approach To Measuring Human Development", in *Proceeding 9th International Conference on Islamic Economics and Finance*, Istanbul 9-10 September 2013, Islamic Research and Training Institute (IRTI) of the Islamic Development Bank Group, Qatar Faculty of Islamic Studies (QFIS) of the Qatar Foundation's Hamad Bin Khalifa University, and the International Association of Islamic Economics (IAIE), SESRIC .

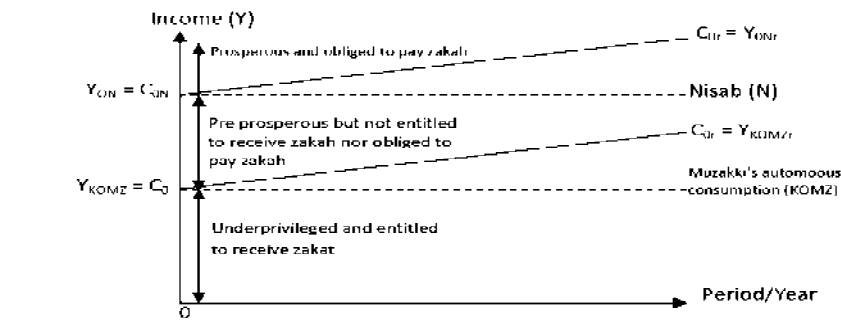
¹⁰ Yusuf al-Qaradawi, *Fiqh of Zakah*, translated by Monzer Kahf, Kuala Lumpur: Islamic Book Trust, 2011.

work needed to create welfare measurement under *maqāṣid al-Sharī‘ah* which covers the Islamic and conventional literature.

Zakah as welfare indicator

Discussing the problems of poverty, Islam has explained that the approach can be used to determine the poverty line, the nisab of zakat. Zakat nisab is used as a parameter to determine the status of a person’s well-being whether as muzakki or mustahik. There are arguments in the Al-Quran and al-Hadith which gives the assertion that the distinction between muzakki and mustahik is nisab. The Quran states that there are two (2) groups which are given the priority in the receipt of zakat, that is indigent (*fakir*) and the poor (*miskin*). *Faqir* group is a group that has no source of income at all, while the poor are those who have a source of income, but not sufficient to meet their basic needs. Therefore we can conclude the existence of the two groups is related to their ability to strive or work as their source of income. Such conditions can be considered that the person is not prosperous. In order to differentiate groups of prosperous and prosperous, it can be seen from Fig 2.1. In this figure, the vertical axis describes the level of a person’s income and the horizontal axis depicts the time period.

Figure 1: Economic category of society¹¹



¹¹ Ryandono Muhamad Nafik Hadi, *Ekonomi Zakat Infaq Shadaqah dan Waqaf*, Surabaya, Amanah Pustaka, 2010, 47.

Note:

Y : Muzakki's total income or wealth

Y_{KOMZ} : Income used to fulfill autonomous consumption

Y_{ON} : Level of income which is obliged to pay zakat, that is the level of income after deducted with the main expense for the muzakki and his dependants (autonomus consumption of muzakki) the rest is still reach the nisab (minimum line or income that obliged to pay zakat)

Y_{ONr} : Real income that reached the nisab

K_{OMZ} : Autonomous Consumption of Muzakki

K_{OMZr} : Real muzakki's autonomous consumption

C_0 : Level of autonomous consumption

C_{ON} : Level of consumption above autonomous consumption that reach the nisab

C_{ONr} : Real level of consumption above the autonomous consumption that already reached the nisab

C_{0r} : Level of autonomous consumption

The value of C_0 can be applied to household or nationwide. If the household is measured hence the calculated consumption is the average consumption incurred, whereas when measured nationally, the calculated consumption is in the aggregate consumption. The C_0 value equals to the value of K_{OMZ} which is indicated by dashed lines. But in reality, it will not form a straight line (constant) but will increase or decrease over time. The increase may be caused by an increase in income, number of dependents and the rate of inflation so that $C_0 = Y_{KOMZ}$ with the same cast (reality autonomous consumption) is equal to the value $Y K_{OMZr}$ (reality of autonomous consumption of muzakki). The decrease in autonomous consumption caused by the reducing number of dependents, which has their own household or no longer depends on muzakki.

In Figure 1, the family or society can be categorized prosperous and poor. The first group is prosperous are those who have reached greater income than Y_{ON} or his or her revenue has reached the nisab, and this group is obliged to pay zakah. The second group, which is not prosperous group, is those who have not yet reached the income or revenue of less than Y_{ON} or nisab, this group is entitled to receive zakat.

Transformation of mustahiq into muzakki

By paying the Zakah, it is hoped that the muzakki would empower the mustahiq (the poor (*miskin*) and needy or destitute (*faqir*)) to transform him/herself into muzakki.¹² The process of the transformation from faqir and miskin to become muzakki illustrated at fig. 2.

It describes the coordinates of the point 0 (zero) indicates that the condition of a person does not have a fixed income but consume at C_1 despite the fact that these needs should be at C_{01} . In this condition a person or family is very likely only need to eat, drink and worship are the priority to be met. At this zero point one does not have an income, because it does not work or no longer able to work because of physical conditions or soul that is not possible, so that all the necessities of life depend on the other party giving (Zakat, Sadaqah, and infaq), this group is considered income needy group.

The coordinates of A, B, C, and D are categorized as poor groups, while the coordinates of E are the coordinates of a person or family who experience transition process from mustahiq increased to muzakki. Point A indicates that the group had revenue of the P_1 and it all runs out to meet the real needs such as eating, drinking and worship at C_1 but the

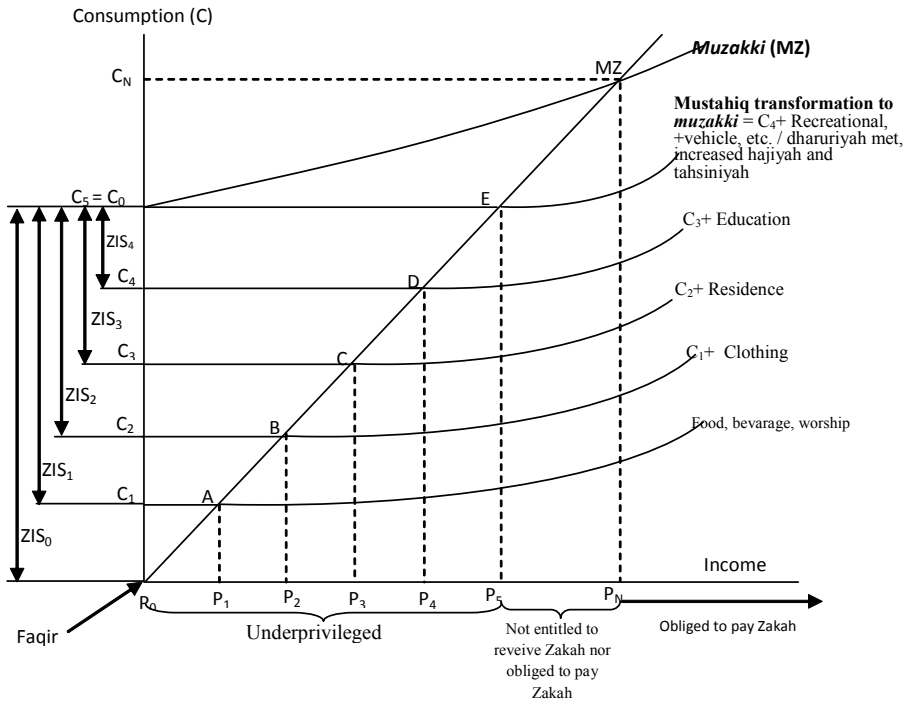
¹² Ryandono Muhamad Nafik Hadi, "Tanggungjawab Lembaga Ekonomi Islam dalam Mentransformasi Mustahiq Menjadi Muzakki", *eL-Qist Journal* Vol. 02, No. 02 (October 2012), 145.

need is still below the normal requirement is equal to C_{01} . Therefore, normal consumption is still experiencing a shortage of $C_{01} - C_1$. Disadvantages consumption can be closed from the acceptance of Sadaqah. And so on until the condition at point D, this income group is still experiencing a shortage in fulfilling the needs of $C_0 - C$. Thus this income group is still in the category of the poor and is entitled to receive zakat because its income has not been able to close the consumption Normal (C_0) in his life.

At point E, this income group is the group that experienced the transition from receiving zakat into groups that are not eligible to receive zakah. Groups by income level at point E with an income of P_5 has a real ability to meet the needs of the C_5 , the ability of the fulfillment of this requirement is above the normal requirements or have excess income of $P_5 - C_{05}$. If the income of the group increased to P_N with fixed real consumption of C_{05} and the rest of their income reaches nisab then this group has transformed into muzakki group that is at the point of MZ. Why become muzakki? Because the MZ point is that income group had revenue of P_N with real consumption ability of C_N and the need for C_{05} so normally only have a residual income of $C_N -$ or $PN - C_{05} - C_{05}$ and residual income reaches nisab. Why is that? Because if residual income is still below the Nisab then this income group is still in the category of groups that have not been prosperous even though it no longer be eligible to receive zakat. Basis that can be used in the calculation of nisab of zakat is wealth or income after deducting principal expenses.¹³

¹³ The Holy Quran Chapter 2: 219.

Figur 2: Manhard model: empowering and transformation of faqir and miskin into muzakki¹⁴



Zakah index operation

The significance of zakah index as Islamic economic indicator

Zakah Index will indicate the degree of wealth, the economic power of an Islamic nation/society. In the modern field, through Islamic economics, this situation is important as this indicates the need to know on the level of the Zakah payment by those who are obliged to and also who must receive the Zakah and how well the economy wellbeing. This condi-

¹⁴ Ryandono Muhamad Nafik Hadi, "Tanggungjawab Lembaga Ekonomi Islam dalam Mentransformasi Mustahiq Menjadi Muzakki", *eL-Qist Journal* Vol. 02, No. 02 (October 2012), 145.

tion is observable for the government in order to encourage the Muslim and the government itself on how to better up the economy. But not only this Zakah indicator will show the degree of wellbeing of the society but also the degree of religiosity as well since that the command of Zakah payment is ordered directly from Allah Almighty.

As the embodiment of the maqāṣid al-sharī'ah

The *maqāṣid al-sharī'ah* is the objectives and the rationale of the Shariah. It is a comprehensive and careful examination of the Shariah rulings entails an understanding that Shariah aims at protecting and preserving public interests (*maṣlaḥah*) in all aspects and segments of life. Many Shariah texts state clearly the reasoning behind certain Shariah rulings, suggesting that every ruling in Shariah comes with a purpose, which is to benefit the *mukallaf* (the accountable person).¹⁵

The *maqāṣid al-sharī'ah* has been developed by Islamic scholars. However, this paper argues that, from an economic point of view, the lack of full observance of the objectives the obligation of paying the Zakah which intended to increase the welfare of the society and makes Islamic Economics completely ineffective and inefficient in performing its essential characteristics. Until now it is hardly found how strong is the economy of Muslim society, while the using of the conventional tool is not possible since it contains the highest possibilities of not complying with the objective (*Maqṣad*) of embodying the concept of the Ummah. To put it in other words, providing measurement that is meant for what they are in contrast to measure used for what they are not. If this kind of Maqāṣid observance is loosened, Islamic economics, as a unique economy methodology that is value-oriented and value-based, will lose its merits and substance because the moment we enter the arena of providing “mea-

¹⁵ The Holy Quran Chapter 2 verse 179.

surement” the measurement methodology become incapable of fulfilling any moral and ethical standards and ceases to be real and additional value.

Zakah index and Islamic welfare

In Islam, welfare is the fulfillment of basic needs (*djarūriyah*) of every human being in society. The prosperous are those whose basic needs are met. Socio-economic welfare is one of the visions of Islam in the construction of the Ummah. Just how the vision can be achieved and how to monitor its development and progress is the practical issue thus faced by the Muslims. At any rate, the well-being of the Muslim society is invariably jeopardized if there is no monitoring.

Elements of the zakah indicators

In term of monitoring the well-being of the Ummah or the Muslim society, there are indicators that can be used for the purpose. These indicators are developed from the elements which then can be combined or constructed to develop the ratios for the Zakah Index. The basic elements are the Zakah Paid, Zakah Should be Paid, Muzakki, Middle Class, Mustahiq, Zakah Needed and the Total Wealth. The explanation of the basic elements of the indicators can be observed at table 2 as follows.

Table 2: Basic elements of zakah indicator

Elements	Explanation
Zakah Paid	The figure of Zakah paid can be gotten from the <i>amil</i> (collector) of Zakah: 1. Government's Zakah institution 2. The private institution.
Zakah Should Be Paid	1. Benchmarking from the last year payment of the Zakah. 2. Prediction or assumption made by Islamic economist or institution
Muzakki (Zakah Giver)	The figure of the muzakki can be obtained from the institution that collecting the Zakah: 1. Government or 2. Private institution
Middle Class (Non Muzaki/Mustahiq)	Non Muzakki and Mustahiq who don't have the compulsory to pay zakah and cannot receive the zakah. The number can be obtained by subtracting the population with the total of muzaki and mustahiq
Mustahiq (Zakah Receiver)	The figure of the mustahiq can be obtained from the consolidated figure from the institution that collecting the Zakah either from the government or from private institution.
Zakah Needed (to Reach the Ideal Concept of Welfare)	Ideally, the entire population of the Muslim society is <i>muzakki</i> (Zakah giver). 1. $P_i = M_z$ 2. $Z_i = P_i * \text{Nisab} * 2.5\%$. 3. $Z_n = Z_{ri} - Z_p$. Note: P_i (Ideal population where all of the people are muzakki) ; M_z (Muzakki) ; Z_i (total ideal Zakah); Z_n (Zakah needed); Z_p = Zakah paid
The Total Wealth Derived from the Zakah Paid	Total Wealth = Zakah Paid x 40 → for the paid up Zakah of 2.5% Total Wealth = Zakah Paid x 20 → for the paid up Zakah of 5% Total Wealth = Zakah Paid x 10 → for the paid up Zakah of 10% Total Wealth = Zakah Paid x 5 → for the paid up Zakah of 20%

Ratios can be derived from the zakah indicators and its interpretations (Adji Model)

The operational of the elements of the Zakah Index comprises of ratios which each of the ratio shows or indicates condition of the society. From the Zakah payment we can tell how well the economy of the Muslim Society is. The ratios and its interpretations are explained at table 3.

Table 3: Ratios derived from the zakah index and its interpretations (Adji ratios)

Ratios	Interpretation
<p>Zakah Paid Index =</p> $\frac{\text{Total Zakah Paid}}{\text{Zakah Should be Paid}}$	<ul style="list-style-type: none"> • This is to indicate the economic well being and religiosity of an Islam country or Muslim populated society by comparing the amount of the total zakah paid with the Zakah should be paid by the society. • If the Zakah paid Index is ≥ 1 it means that the country is in well being in terms of economy and religiosity. • If the Zakah paid Index is < 1 it means that the country is less in its wealth (economic power) and there is possibility of less in their religiosity as well. • This index indicates the capacity of zakah amount in terms of quality and quantity of the zakah needed in the society.
<p>Zakah Needed Index =</p> $\frac{\text{Zakah Paid}}{\text{Zakah Needed}}$	<ul style="list-style-type: none"> • If the Zakah Needed Index is ≥ 1 it means that the country is in well being in terms of economy and religiosity. The nation has more than enough of Zakah in terms of quality and quantity and might even have surplus of Zakah. • If the Zakah Needed Index < 1 means that there is no significant development in the economy in other words the performance of the current year is the same as previous year or worse. • The line will differentiate and define the rich and the poor and in between.
<p>Islamic Wealth Line</p>	<ul style="list-style-type: none"> • The wealth line in Islamic perspective can be obtained by using the <i>nisab</i> of zakat which is equal to 85 grams of gold. • If the society's wealth is equal to or above the nisab then the country is prosperous.
<p>Islamic Poverty Line</p>	<ul style="list-style-type: none"> • The poverty line is the amount of wealth which distinguishes the poor and the middle class. • If the society's income is below the Islamic standard of living then the country is underprivileged. • This ratio measures the standard of living in the Islamic country or Muslim populated country.
<p>Islamic Standard of Living =</p> $\frac{\text{Zakah Nisabul Paid} \times 20}{\text{total Muslim Population}}$	<ul style="list-style-type: none"> • If the standard of living is equal or above the Islamic poverty line then we can say the country is prosperous • If the standard of living is less than the Islamic poverty line then it can be said that the country is underprivileged.

Zakah needed to Eradicate Poverty

- The expected amount of zakah to end poverty in a muslim society/country
- The amount is obtained by multiplying the number of mustahiq with the standard of living
- the Mustahiq index shows the development of the mustahiq yoy.

Mustahiq Index

$$\frac{(\text{Total Zakah Paid} / \text{Poor Population})}{\text{Standard of Living}}$$

- If the Mustahiq index is > 1 it means the country is having 0 mustahiq
- If the Mustahiq index is < 1 there are still mustahiq to be transformed into Muzakki

Zakah Growth Year of Year (yoy)

- If no growth (equal) than the previous year means there is no development in the economy

Disbursement Index =

$$\frac{\text{Zakah Paid}}{\text{Zakah disbursed}}$$

- If the growth is bigger than the previous year means that the economy is dynamically growing and vice versa
- This index indicates the efficiency of the Zakah distribution.

Mustahiq Growth Index =

$$\frac{\text{Mustahiq year } n}{\text{Mustahiq year } n-1}$$

- The disbursement of the Zakah paid should be equal with the Zakah paid.
- If the Disbursement Index is > 1 it means the Zakah disbursement is not efficient.

Mustahiq Index =

$$\frac{(\text{Total Zakah Paid} / \text{Poor Population})}{\text{Standard of Living}}$$

- The Mustahiq Growth indicates the transformation of the mustahiq into muzakki.
- If the Mustahiq growth continuously, it means the poverty is growing in the country.
- the Mustahiq index shows the development of the mustahiq yoy.

Zakah Growth Year of Year (yoy)

- If the Mustahiq index is > 1 it means the country is having 0 mustahiq
- If the Mustahiq Index is < 1 there are still mustahiq to be transformed into Muzakki

Disbursement Index

$$\frac{\text{Zakah Paid}}{\text{Zakah disbursed}}$$

- If no growth (equal) than the previous year means there is no development in the economy

Mustahiq Growth Index =

$$\frac{\text{Mustahiq year } n}{\text{Mustahiq year } n-1}$$

- If the growth is bigger than the previous year means that the economy is dynamically growing and vice versa
- This index indicates the efficiency of the Zakah distribution

- The disbursement of the Zakah paid should be equal with the Zakah paid
- If the Disbursement Index is > 1 it means the Zakah disbursement is not efficient.

- The Mustahiq Growth indicates the transformation of the mustahiq into muzakki
- If the Mustahiq growth continuously, it means the poverty is growing in the country.

Zakah index as means of welfare measurement

Welfare measurement in Islam

As a science existed earlier than Islamic Economics, Conventional Economics has developed economic tools to gauge the economic power of a country/society, e.g. Gross Domestic Product (GDP). The GDP is one of the primary indicators that is used to measure the economic performance.¹⁶ GDP is the monetary, market value of all final goods and services produced in a country over a period of a year.¹⁷ Though there are many critics on GDP from traditional perspectives itself but it is still the most frequently quoted indicator of economic performance.

The calculation of GDP can be done in one of two ways: either by adding up what everyone earned in a year (income approach), or by adding up what everyone spent (expenditure method). The income approach, referred to as GDP (I), is calculated by adding up total compensation to employees, gross profits for incorporated and non incorporated firms, and taxes less any subsidies. The expenditure method is the more common approach and is generally used as the core indicator in judging the position of the economy of a country. It is calculated by adding total consumption, investment, government spending and net exports. The general equation: $GDP = \text{private consumption} + \text{gross investment} + \text{government spending} + (\text{exports} - \text{imports})$; or $GDP = C + I + G + NX$.

How about using the GDP or other conventional economy measurement in Muslim society?

Islamic economics, as a God guided scientific economic knowledge, today has evolved over from straightforward theological principles to a sophisticated theoretical constructs. The theologico-economic concept,

¹⁶ William A. McEachern, *Economics: A Contemporary Introduction 7 edition*, USA: Thomson South Western, 2006, 441.

¹⁷ William A. McEachern, *Economics: A Contemporary Introduction...426*.

which covers human behavior as well, can be derived from Allah's words. One of the important points in Islamic economics is on getting and spending—which include *Zakah*—the *rizq* that Allah gives to mankind, especially for the Muslim, in ways that are suitable with Allah's will which is embodied in the Shariah.

Since conventional economics doesn't recognize the *halal-haram* concept, this become problem faced by Islamic economics. The conventional mechanism does not separate between the allowed (*halal*) and forbidden (*haram*) by Allah in terms of the private consumption, investment, government spending, exports and imports. Should the GDP concept is used as tool to gauge the welfare of the Muslim society or a Muslim populated country it should have been verified in terms of its *halal* condition or gone through a *halal* screening process at first place which would take a longer time of process to be called as Shariah compliance tool. Moreover, it doesn't represent the objectives of the Shariah.

The suitable mechanism for Islamic Economics in this situation is the Zakah Index which further developed as the Islamic welfare measurement. It is since that the Zakah covers most of the wealth of Muslim even in the sense of the state which consist of people. The accumulation of the Zakah payment ranges from the production account until the distribution account. One would be able to measure the Islamic economic power by looking at the Zakah which is classified under the nation's System of National Account. Referring to this method, we would be able to calculate the Zakah Index of the country.

Elements of the system of national account

Should we look at the United Nation System of National Account (UNSNA), the internationally agreed standard set of recommendations on how to compile measures of economic activity for the GDP. National

accounts (NA), often called macroeconomic accounts, are statistics focusing on the structure and evolution of economies. They describe and analyze, in an accessible and reliable way, the economic interactions (transactions) within an economy. There are an almost unimaginable large number of these transactions. The national accounts sector refers to the whole economy (a country, the European Union (EU) or the euro area) as a sector. All institutional units operating within an economy can be assigned to a particular institutional sector. One can see that there are nine main accounts which then to be the components in determining the performance or welfare of a country/society: the production account (components of gross output), the primary distribution of income account (incomes generated by production), the transfers (redistribution) account (including social spending), the household expenditure account, the capital account, the (domestic) financial transactions account (“flow of funds”), the changes in asset values account, The assets and liabilities account (balance sheet), and the external transactions account (balance of payments).

Macroeconomic developments, such as economic growth and inflation, are driven by the actions of the individual economic subjects in an economy. Grouping economic subjects with similar behavior into institutional sectors helps significantly in understanding the functioning of the economy. Breakdowns by institutional sector are given by the sector accounts: The institutional sectors group institutional units with broadly similar characteristics and behaviour, the following ones can be distinguished; Households and non-profit institutions serving households; Non-financial corporations; financial corporations; Government.

Transactions with non-residents and the financial claims of residents on non-residents, or vice versa, are recorded in the “rest of the world” account.

Based on the data of the International Standard Industrial Classification of all Economic Activities (ISIC) which is defined by the United Nations Statistics Division, ISISC becomes the standard classification of economic activities (including both merchandise and services) arranged so that entities can be classified according to the activity they carry out. The classification was approved in 1948 and is based on four levels. The following revisions have been made : ISIC Rev.1 (1958), ISIC Rev.2 (1968) and ISIC Rev.3.0 (1989). ISIC Rev.3.1 update, effective May 2002, supersedes ISIC Rev.3.0.

Table 4: International standard industrial classification of all economic activities (ISIC)

#	Revision 3.0	#	Revision 2.0
1.	Agriculture, hunting and forestry	1.	Agriculture, Hunting, Forestry and Fishing
2.	Fishing		
3.	Mining and quarrying	2.	Mining and Quarrying
4.	Manufacturing	3.	Manufacturing
5.	Electricity, gas and water supply	4.	Electricity, Gas and Water
6.	Construction	5.	Construction
7.	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods		Wholesale and Retail Trade and Restaurants and Hotels
8.	Hotels and restaurants		
9.	Transport, storage and communications	7.	Transport, Storage and Communication
10.	Financial intermediation	8.	Financing, Insurance, Real Estate and Business Services
11.	Real estate, renting and business activities		
12.	Public administration and defence; compulsory social security		
13.	Education		
14.	Health and social work		
15.	Other community, social and personal service activities	9.	Community, Social and Personal Services
16.	Private households with employed persons		

Zakatable asset and system of national account

The notion of the national account with its accounts component can be found a similarity with what has been said by the Prophet (PBUH), *“Trade, because rizq (sustenance) has ten portions, of which trade consists of nine por-*

tions.” We can see that trade is the most important component as the trigger to Allah’s sustenance for mankind in the eye of Shariah. It’s because trade covers most of the ways for people to get their sustenance. As its meaning that trade is to exchange (buying and selling or economic interaction in transaction), it is understood that the way people live are through mechanism of exchanging be it value for value, product for product, service for service, product for value, product for service, etc. Should we compare the national accounts system with the Islamic notion then it would slightly match with the Zakatable assets as prescribed in Islam. Al-Qaradawi mentions there are 9 Zakatable Assets: Zakah on livestock, Zakah on gold, silver and money, Zakah on business inventories, Zakah on agriculture produce, Zakah on honey and animal products, Zakah on minerals and products of the sea, Zakah on exploited assets, Zakah on earning of laborers professionals, Zakah on shares and bonds.¹⁸

That the Zakah Index as welfare measurement can be gotten by collecting the Zakah based on the Zakatable asset/wealth.

Zakah rate

Zakah rates varies form 2.5% to 20% depending on the kind of *zakahable* object, or the mode of obtaining it.¹⁹ The Prophet (pbuh) determined these rates at 2.5% for gold and silver, 5% for agriculture products irrigated with water wheels or by water carried on the back of animals, 10% for agriculture watered by rainfall or rivers, and 20% for found treasures and minerals. The livestock rates are given in detailed schedules, but they come to be generally in the neighborhood of 2.5%³³.

¹⁸ Yusuf al-Qaradawi, *Fiqh of Zakah*, translated by Monzer Kahf, Kuala Lumpur: Islamic Book Trust, 2011, 265.

¹⁹ Kahf, Monzer, “Zakah Estimation of Some Countries”, unpublished study in IRTI, 1987.

However, since the present study does not intend to challenge the validity of any of the opinions given by scholars, the different rates are shown in the following schedule:

Table 5: Zakah rate for zakahable wealth

#	Industrial Category	Flow/Stock	Rate (%)
1	Agricultural Product – Irrigated	F	10.0
	Agricultural Product – rain fall, river	F	5.0
2	Livestock – free pasture	F/S	10.0
	Livestock – fed on farms	F/S	2.5
3	Mining and Quarrying	F	20.0
4	Circulating capital of trade and Industry	F/S	2.5
5	Monetary Assets	S	2.5
6	Financial and Capital Assets	S	2.5
7	Fishing	F/S	10.0
8	Forestry	F/S	10.0
9	Net worth in trade and industry (except circulating capital)	F/S	10.0
10	Labor and professional income	F	2.5

Integrating the zakatable assets into system of national account as Islamic welfare measurement

There are some assumption to be used in integrating between the Zakatable asset and the welfare measurement. Firstly, the classifications or the categories of the industry assembled by the United Nations Statistics Division in the system of national account has been changing over time along with the development of the socio-economic knowledge gained by the scholars. In Islam, the categorization of the industry is based on the Quran and the saying of the Prophet Muhammad. These are the sources for the creative process of Islamic economics' welfare measurement. These elements are changeable based on the scholars' knowledge development. Secondly, in traditional economics, measuring the welfare of a country or society is measuring on the economic performance based on the industrial categories using the unit of currency applicable. Hence it will show how strong the economic power of a country. But the material and the way it is obtained is not *halal* and doesn't imply any spiritual features.

Thirdly, zakah is obligatory for muslim who owned wealth that reach the *nisab* and the *hawl* and which is gotten in *halal* way. It is a mean of purification and distribution of wealth in the society which has the objective of fulfilling the objective of the Shariah. Fourthly, on the practice of Zakah, the government has the authority to regulate the methods and approaches of Zakah collection and disbursement. In this case, the government may instruct to Zakah payer in terms of Zakahable assets, whether it can be done in cash, kind, or by means of consumer goods, producer goods, or equities. Fifthly, reversing the calculation of Zakah payment would allow the getting of the Muzakki's total wealth. For example; the percentage of Zakah for mining is 20.0%. Then, to get the total amount of the wealth is by multiplying the Zakah paid by 5 and so on and so forth for the other Zakatable assets.

Table 6: Zakah of the industrial category

#	Industrial Category	Rate (%)	Total Wealth
1	a. Agricultural Product - Irrigated (ZA)	5.0	Zakah paid * 20
	b. Agricultural Product - rain fall, river	10.0	Zakah paid * 10
2	a. Livestock - free pasture (LS)	10.0	Zakah paid * 10
	b. Livestock - fed on farms	2.5	Zakah paid * 40
3	Mining and Quarrying (MQ)	20.0	Zakah paid * 5
4	Circulating capital of trade and Industry (CTI)	2.5	Zakah paid * 40
5	Monetary Assets (MA)	2.5	Zakah paid * 40
6	Financial and Capital Assets (FCA)	2.5	Zakah paid * 40
7	Fishing (FI)	10.0	Zakah paid * 10
8	Forestry (FO)	10.0	Zakah paid * 10
9	Net worth in trade and industry (except circulating capital) (NTI)	10.0	Zakah paid * 10
10	Labor and professional income (LPI)	2.5	Zakah paid * 40

From the table above we can then formulate the Islamic measurement of welfare using Zakah in the following formula of Zakah Welfare Index (ZWI):

$$\begin{aligned} \text{ZWI} &= f(\text{"Total Wealth}) \\ &= f((\text{Zakah of ZA} * 20) + (\text{Zakah of LS} * 10) + (\text{Zakah of MQ} * 5) + \\ &\quad (\text{Zakah of CTI} * 40) + (\text{Zakah of MA} * 40) + (\text{Zakah of FCA} * 40) + \\ &\quad (\text{Zakah of FI} * 10) + (\text{Zakah of FO} * 10) + (\text{Zakah of NTI} * 10) + (\text{Zakah} \\ &\quad \text{of LPI} * 40)) \end{aligned}$$

On the question of the involvement of the non Muslim in an Islamic country, the index should be added with the other elements which involved the annual taxation imposed to the non Muslim which are the *jizyah* dan the *kharaj*. The percentage of the *jizyah* and *kharaj* are dependable on the government policy. The *jizyah* and *kharaj* are to be considered in the index since these are the halal income for the Islamic government to collect from non-Muslim.

Application of zakah index in East Java (2009-2013)

The application of the Zakah index in the East Java Province can be observed at table 7, 8, and 9. Table 7 shows the aspect of basic elements for developing the ratios of Zakah Index in East Java Province (table 8). For the interpretation of the Zakah Index, it can be referred to table 3. The data is obtained from many institutions be it state or private institutions. Table 9 consists of the Zakah should be paid of the industrial category in East Java Province.

From table 7, from year 2006 to 2013, we can see that the Zakat Paid Index shows a good sign, though on the year of 2012 show a little bit down for 6 percent but and up again on 2013 for 25 percent. However, the index is still below 1 through the year 2006 to 2013 which means the Muslim economic well being of the Province is less in its wealth (economic power) and there is possibility of less in their religiosity as well, however the trend is increasing yoy. It is supported by the number of the Muzakki (Zakah giver) growth which indicates positive trend. It indicates

the number of the Muzakki is increasing yoy while the Mustahiq (zakah receiver) growth which shows negative trend. Which means number of the mustahiq decreasing yoy. The middle class is also decreasing in numbers. Which means, the whole trend shows that there is a transformation from the mustahiq to the middle class and the muzakki.

Table 7: Basic elements of zakah indicator in East Java (rupiah)

	2009	2010	2011	2012	2013
Zakah Paid ²⁰	177,496,500,000	220,814,700,000	279,187,500,000	309,768,300,000	362,451,600,000
Zakah Should Be Paid	2,269,956,835,148	3,032,234,176,496	3,414,490,174,217	4,114,793,162,302	3,725,245,091,320
Muzakki (Zakah Giver) ²¹	3,034,702	3,195,820	3,274,619	3,354,770	3,345,528
Middle Class (Non Muzakki/Mustahiq)	30,708,175	27,388,276	27,809,336	28,209,895	28,543,617
Mustahiq (Zakah Receiver) ²²	2,148,510	5,529,300	5,251,450	4,992,750	4,893,010
The Zakah Needed (to Reach the Ideal Concept of Welfare)		34,044,026,842,250	37,941,117,376,087	44,529,729,571,463	40,594,477,721,621

²⁰ The actual data of the zakah paid in East Java is hardly found since there are some zakah institutions that do not release their report on the matter. The data then is processed by benchmarking the percentage of contribution of East Java's GDP to the National GDP with the national zakah paid by BAZNAS. Nurul Istifadah, "Memperbaiki Kinerja Perekonomian Jawa Timur Dalam Menghadapi Kompetisi Global" in *Journal of Research in Economics and Management*, Volume 15, No. 1 (Januari - Juni 2015), 190-203.

²¹ The data is obtained and processed from the category of Prosper Family Stage III and III Plus of *Profil Hasil Pendataan Keluarga Tahun 2010, 2011, 2012, 2013* by Badan Kependudukan dan Keluarga Berencana Nasional. The number then is benchmarked with the 2010 Muslim population of 96.13% (BPS). Deputy Bidang Advokasi, Penggerakan dan Informasi, *Profil Hasil Pendataan Keluarga Tahun 2010, Badan Kependudukan dan Keluarga Berencana Nasional, 2011, 2012, 2013*; Bidang Neraca Wilayah dan Analisis Statistik, *Provinsi Jawa Timur Dalam Angka 2012*, BPS Provinsi Jawa Timur, 172.

²² The number of the poor is collected from Badan Pusat Statistik Jawa Timur 2009, 2010, 2011, 2012, and 2013, see BPS Jawa Timur, *Berita Resmi Statistik No.47/07/35/Th.XIV,18 July 2016*.

Table 8: Zakah ratios of East Java²³

Zakah Ratios	2009	2010	2011	2012	2013
<i>Zakah Paid Index</i>	0.078	0.073	0.081	0.075	0.097
<i>Zakah Needed Index</i>		0.006486151	0.007358442	0.006956438	0.008928594
<i>Islamic Wealth Line</i>	29,920,000	37,952,500	42,075,000	49,062,000	44,540,000
<i>Islamic Standard of Living (Islamic Poverty Line)</i>	2,529,807	3,358,570	3,791,883	4,502,280	4,051,144
<i>Zakah needed to Eradicate Poverty (000,000)</i>	5,435,315	18,570,540	19,912,883	22,478,759	19,822,287
<i>Mustahiq Index</i>	0.033	0.012	0.014	0.014	0.018
<i>Zakah Growth Year of Year (yoy)</i>		24.41%	26.44%	10.95%	17.01%
<i>Mustahiq Growth Index</i>		1.57	-0.05	-0.05	-0.02

Table 9: Zakah should be paid of the industrial category in East Java Province²⁴

#	Industrial Category	2009 (000.000)	2010 (000.000)	2011 (000.000)	2012 (000.000)	2013 (000.000)	Rate (%)
1	Agricultural Product	3,899,245	3,978,061	4,070,135	4,203,345	4,262,154	5.0%
2	Livestock - fed on farms	209,143	216,195	225,239	233,543	235,959	2.5%
3	Mining and Quarrying (MQ)	1,420,963	1,551,464	1,645,726	1,683,902	1,739,526	20.0%
4	Circulating capital of trade and Industry (CTI)	8,329,989	8,690,078	9,217,119	9,801,706	10,349,723	2.5%
5	Monetary Assets (MA)	86,970	94,000	103,065	113,793	125,130	2.5%
6	Financial and Capital Assets (FCA)	42,500	48,119	55,040	60,579	66,585	2.5%
7	Fishing (FI)	625,694	648,456	661,555	691,060	720,946	10.0%
8	Forestry (FO)	63,915	72,838	77,292	97,593	104,065	10.0%
9	Net worth in trade and industry (except circulating capital) (NTI)	12,907,328	14,229,814	15,658,530	17,185,698	18,727,507	10.0%
10	Labor and professional income (LPI)	6,382,064	5,867,466	6,166,973	8,035,252	9,509,311	2.5%
	Total	33,967,812	35,396,491	37,880,674	42,106,470	45,840,905	

²³ For the interpretation of the data can be referred to the table 3.

²⁴ The data is obtained and processed from the BPS, see Bidang Neraca Wilayah Dan Analisis Statistik BPS Provinsi Jawa Timur, *Produk Domestik Regional Bruto Jawa Timur 2008 - 2012*, Badan Pusat Statistik Jawa Timur, 2015; and <https://www.bps.go.id/linkTabelStatistik/view/id/1623>.

Table 10: Supporting data

	2009	2010	2011	2012	2013
East Java Population ²⁵	37,354,768	37,565,706	37,796,644	38,027,382	38,261,359
Muslim (East Java) ²⁶	35,891,386	36,113,396	36,335,406	36,557,415	36,782,155
Prosper family stage III & III plus (BKKBN)	3,156,743	3,324,341	3,406,309	3,489,683	3,480,069
Zakah Paid (National) ²⁷ (000,000)	1,205,000	1,493,000	1,875,000	2,061,000	2,394,000
Contribution of East Java GDP to National GDP ²⁸	14.73%	14.79%	14.89%	15.03%	15.14%
Gold Price/ December (Antam)	552,000	446,500	495,000	577,200	524,000
Nisab (gold price /gr) x 85)	29,920,000	37,952,500	42,075,000	49,062,000	44,540,000
Zakat Amount (gold price/gr x 85gr x 2,5%)	748,000	948,813	1,051,875	1,226,550	1,115,500

Conclusion

Zakah index, with all of its derivatives, is an index that uses the fourth of Islamic pillars, Zakah, as its center model. This index can be used as measurement of welfare and wellbeing of Muslim country or Muslim populated country. Since zakah intersects with all of Muslim dimensions in life, then it will be able to indicate the level of prosperity (economy), solidarity

²⁵ The population growth assumption is 0.61% per year based on 2010 survey by BPS Jatim. Bidang Neraca Wilayah dan Analisis Statistik, *Provinsi Jawa Timur Dalam Angka 2012*, BPS Provinsi Jawa Timur, 172.

²⁶ the Muslim population growth assumption is 0.61% per year based on East Java population growth 2010 survey by BPS Jatim. Bidang Neraca Wilayah dan Analisis Statistik, *Provinsi Jawa Timur Dalam Angka 2012*, BPS Provinsi Jawa Timur, 172.

²⁷ Abdulloh Mubarak dan Baihaqi Fanani, "Penghimpunan Dana Zakat Nasional: Potensi, Realisasi dan Peran Penting Organisasi Pengelola Zakat," *Permana*, Vol . V No.2 (Februari 2014), 9; Ita Aulia Coryna and Hendri Tanjung, "Strategy Formulation Of Zakat Collection By The National Amil Institution (BAZNAS)," *Jurnal Al-Muzara'ah*, vol. 3, no. 2 (2015), 159 <http://www.republika.co.id/berita/ekonomi/syariah-ekonomi/13/04/29/mm039y-potensi-zakat-rp-217-triliun-terserap-satu-persen>

²⁸ Nurul Istifadah, "Memperbaiki Kinerja Perekonomian Jawa Timur Dalam Menghadapi Kompetisi Global" in *Journal of Research in Economics and Management*, Volume 15, No. 1 (Januari - Juni 2015), 190-203.

(social), spiritual (individual), and it's quantifiable. There are ratios and Zakat welfare Index to be used as the measurement. However, the most important part is that zakah meets the maqāṣid al-Sharī'ah requirement in its terms compared to other conventional measurement. In the future, theses indices can be developed further with the new findings.

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