

Convergence of Maqashid Syariah, Hifzul Bi'ah and Islamic Stock Index

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Abstract. This study aims to explore the urgency of converging the principles of environment protection and Sustainable Responsible Investment from the perspective of Maqashid Syariah into the selection process of Islamic Stock Index. In-depth analysis on current literature practices on Maqashid Syariah, hifzul bi'ah and Islamic stock index. The convergence of Maqashid Syariah, in particular Hifzul Bi'ah and stock index screening process will allow a creation of a new Islamic index or rejuvenating current Islamic stock index in Indonesia. We suggest that Dewan Syariah Nasional to start implementing Maqashid Syariah and Hifzul Bi'ah principle in the process of stock screening for Islamic Stock Indexes. This study is among the first of its kind to offer integration of Maqashid Syariah in particular *Hifzul Bi'ah* to the Islamic stock index.

Keywords. hifzul bi'ah; maqashid Syariah; islamic stock index; investment

Article History. Received July, 2022. Revised October, 2022. Accepted December, 2022

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INTRODUCTION

The concern about the effect of climate change to our environment are getting pace. Scientist has warned that without strategic action by global leaders, human will witness a raising sea level, increasing temperature, weather anomaly, and at the same time, loss of wildlife animal and unhealthy living environment (HSBC, 2015). In line with the recent trend of ethical investment, formulized as Sustainable or Socially responsible investment, there is a growing trend of new financial instrument labelled as Green and SRI (Nofsinger & Varma, 2014). Currently the amount of sustainable investing asset 17.1 Trillion USD from 51.4 Trillion total managed asset by professional investment managers¹. However, the current Islamic stock indexes are mostly not yet comply the ESG factors into their screening process (Bennett & Iqbal, 2013).

In Islamic concept, there is a guidance on how mankind should treat the environment as man was raised as vicegerent on the earth by Allah. Notwithstanding, at the same time Allah order the mankind to maintain the balance of nature wisely (Utama et al., 2019). Th importance of preserving the environment was emphasized by prominent Islamic scholar Al Imam Yusuf Qardhawi. He noted that neglecting the environment would likely invite a catastrophe that threatening human life. Therefore, the prohibition of destruction of nature both on earth and on sea should become a priority. Any policies or activities which lead to damaging the environment could be categorized as opposing the purpose of Maqashid Shariah.

So far, however, there has been little discussion about implementation of Hifzul Bi'ah into our financial system. This paper first explore the concept Maqashid Syariah, particularly the Hifzul Bi'ah principle. We analyse the current Islamic financial system especially the stock index. We further develop the framework of convergence between Maqashid Shariah and Islamic stock index. This paper also complements the study of

integrating green concept and Islamic stock index (Suryomurti, 2018), screening process of Islamic stocks (Habib & Ahmad, 2017) and (Lesser et al., 2016).

This paper is structured as follows. Section 2 discusses the literature review. Section 3 presents the framework and analysis. Finally, Section 4 concludes.

HifzulBi'ah

Maqashid Syariah is the purpose of syariah in terms of taking care of religion, soul, mind, lineage, and property against all things, or human affairs that are directly related to their daily activities. Maqashid Syariah serves to do two important things: *tahsil*, securing benefits (*manfaah*) and *ibqa*, preventing damage or injury (*mudarrat*)(Ramadhan, 2019). As-Syatibi in Al Muwafaqat formalized the Maqashid Syariah to the theory of *maslahah* into five fundamentals: hifzulad-din, hifzulan-nafs, hifzual-aql, hifzu al-maal dan hifzulan-nasl.

Maqashid sharia aims to serve individual interests as well as public/social interests. Therefore, Muslim as a part of social ecosystem should also consider about maintaining social life because neglecting it will pose a negative effect on their economic and social life as well. Protecting the environment is part of realizing the benefit of humans and benefit or *manfaah* itself is the essence of maqasid shari'ah.

On the other hand, Yusuf Qardhawi in *Ri'ayatu Al-Bi'ah fi As-Syari'ah Al-Islamiyah* argue that preserving the environment is as important as protecting the five fundamentals in Islam (*Maqashid Syariah*)(Qardhawi, 2001). Furthermore, Qardhawi emphasize that maintaining the sustainability of the living environment is a demand to protect the five pillars of the sharia. Thus, all behaviour that leads to the destruction of the living environment is tantamount to actions that threaten life, intellect, wealth, lineage, and religion.

The urgency of application of *fiqh al-bi'ah* departed from three conditions. First, the current condition of environmental crisis. Second, the need for academic construction from Islamic perspective covering issues on environment. Finally, the protection of environment is not considered part of *Maqashid Syariah* (Bisri, 2019; Zuhdi, 2015).

The number of discussions of *Hifzul Bi'ah* in many Islamic and fiqh literature is considered low.

Furthermore, the environment preservation should not be regarded as a branch of knowledge (*furu*), instead, it should be included as main doctrine (*ushul*).

It is therefore that contemporary literature is now emphasizing the crucial thing about preserving the nature and urge Muslim to start implementing the concept of Hifzul Bi'ah to their daily activities.

Islamic Stock Index

The Indonesia stock market board has developed regulation to construct an Islamic stock index which comprise several procedures and process. From screening the business of the firms until applying the Islamic principles on *Riba* with the help from National Shariah Board (Dewan Syariah Nasional). These procedures are developed also by comparing with others Islamic stock index procedures in Malaysia, United Kingdom, and the United States.

In this section we will highlight the screening process of the existing Islamic stock indexes in Indonesia.

According to Regulation by chairman of Bapepam dan LK No 208 in 2012 about procedures and criteria of stock screening in Indonesia Stock market. It was then strengthened by Peraturan Otoritas Jasa Keuangan No. 35 /Pojk.04/2017 about the criteria and issuance of Daftar Efek Syariah.

1. Business Screening

- a. Gambling
- b. False trading
- c. Conventional financial institution including insurance
- d. Alcohol and non halal product
- e. Pornography related

2. Financial Screening

- a. Total interest-based debt compared to total assets is not more than 45% (forty five percent)
- b. Total interest income and other non-halal income compared to total operating income (revenue) and other income is not more than 10% (ten percent)

In addition to the sharia filter, stocks that enter the JII must go through several filtering processes for the listed stocks. In this section, we discuss the procedures for JII and JII70. The JII index consists of 30 Islamic stocks. The selection process for JII stock index is as follows:

1. Choose a group of shares with the main type of business that does not conflict with sharia principles and has been listed for more than 3 months, unless included in 10 large capitalizations.
2. Choose stocks based on the annual or mid-year financial statements that have a maximum Liability to Assets ratio of 90%.
3. Selecting 60 stocks from the stock list above based on the order of the largest average market capitalization for the last 1 (one) year.
4. Select 30 stocks in order based on the average liquidity level of regular trading value for the last 1 (one) year.

The following figure show the current screening process of Jakarta Islamic Stock Index

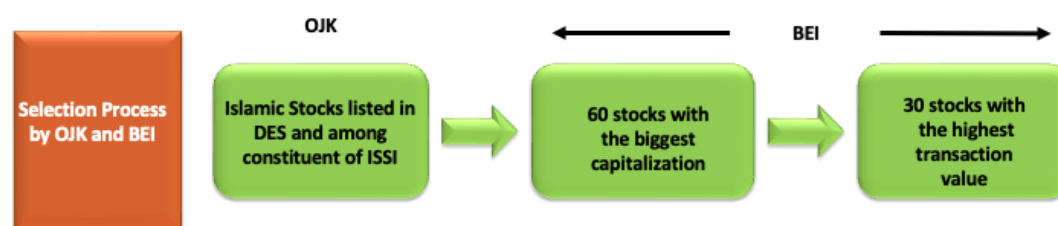


Figure 1. Screening Process of Jakarta Islamic Index (JII)

The selection process for JII70 stock index is as follows:

1. Choose a group of shares with the main type of business that does not conflict with sharia principles and has been listed for more than 3 months, unless included in 10 large capitalizations.
2. Choose stocks based on the annual or mid-year financial statements that have a maximum Liability to Assets ratio of 90%.
3. Selecting 150 stocks from the stock list above based on the order of the largest average market capitalization for the last 1 (one) year.
4. Select 70 stocks in order based on the average liquidity level of regular trading value for the last 1 (one) year.

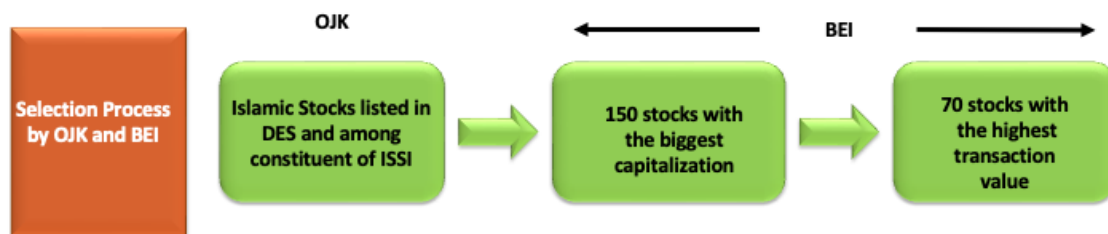


Figure 2. Screening Process of Jakarta Islamic Index 70 (JII70)

Based on figure 1 and figure 2, it can be concluded that the screening process in both JII and JII70 do not include Hifzul Bi'ah principle.

Previous Studies

Previous studies have reported numerous discussion about the importance of protecting the environment for the sake of the future of humankind. World organization such as United Nations and WWF also published reports containing studies about climate change and its implication to our world (Korhonen et al., 2018; Tekman et al., 2022). The initiative such as green economy and blue economy are being developed to support the program the danger of climate change, particularly to the less fortunate peoples. It also intended to maintain a sustainable development goal which has become a standard in setting medium and long term projects (Moolna & Thompson, 2018; UNEP et al., 2012).

One of the most significant current discussions in this topic is how we integrate the program while also keeping tabs with the degradation of our environment. To answer such question, we need to go to basic principles in our faith. Islamic scholars have introduced the five fundamentals to enforce the *maslahah*. Zuhdi (2015) argue that The Muslims need a comprehensive framework/guidelines on environmental issues. Muchlis & Anna Sutrisna Sukirman (2016) investigate the implementation of CSR in one Islamic Bank in Indonesia. They first discuss the concept of Maqashid Syariah and the review of Hifzul Bi'ah as part of company policies. Further they analyze the perspective of Economy, Environment, Labor and Decent Work Practices, Human Rights, Society, and Product Responsibility on the

company's CSR program. They conclude that these values are implemented well in the company.

Previous studies have highlighted the current stock screening process, in particular the issue of the standard (Adam & Bakar, 2014; Ayedh et al., 2019; Nu et al., 2013). Adam & Bakar (2014) perform a literature survey on critical aspects in shariah compliance in screening process. They argue that the past studies only discuss the screening process in general. Therefore, the screening for shariah compliance stock is showing insufficiency of details in the literature. Their results confirm the previous literature after performing interview with experts in the field.

Ayedh et al. (2019) critically compare and analyze the current shariah screening methodology amongst major Islamic index in the world. They report that there are different adoptions in the nominator, denominator and tolerate percentage used in the financial screening of the companies. They conclude that there is a need of standardization and investor should be aware about the differences.

Habib & Ahmad (2017) analyzes the current procedures of stock screening by AAOIFI. They suggest a major changes in AAOIFI's screening criteria based on stronger Shari'ah justifications. In particular, a unique filter to be included in the criterion to replace one of the current filters. Furthermore, they expect that the results would not only provide an efficient and practically sustainable solution and encourage companies to become more Shari'ah compliant.

Studies of integration of environment protection and stock index also took place recently. For example, Suryomurti (2018) attempt to develop an Islamic SRI Stock Index called TISI. He employs ESG rating methodology to construct a Green and Socially Responsible Islamic stock index. The study document that the return of the constructed index outperformed both Jakarta Islamic Index and Jakarta Composite Index. The result suggests that applying ESG screening do not decrease the performance of the stock index.

Based on the previous studies, we can summarize that there is a room for improvement of the current screening process of Islamic stock index. Not only the quantitative factors but also the adding another layer of filtering to enforce Islamic values into the financial system especially the stock index.

METHOD

We employ descriptive analysis via desk research on previous literature, reports, and articles.

In principle, investing in Islamic stocks is not too different with conventional stocks. However, there are several philosophical differences that distinguish one from the other. Islamic investment should be based in avoiding three prohibitions: *riba* (interest), *gharar* (uncertainty/speculation) and *maysir* (gambling).

We propose this framework as follows. First, we carefully analyze the concept of *Maqashid Syariah* and the principle of *HifzulBi'ah*. We develop the conceptual thinking of Islamic perspective on environment protection. The values are then translated into rating and scores that must be integrated into the screening process. Next, we combine the Hifzul Bi'ah rating with the existing stock screening in Jakarta Islamic Index. We propose a Hifzul Bi'ah rating

screening as follows: (1) Carbon emissions reduction; (2) Energy efficiency; (3) Usage of water; (4) Air and water pollution reduction; (5) Waste management; (6) Deforestation ; (7) Biodiversity protection and loss. Companies that fail to comply with one or more criteria above should be excluded from the index. Companies meet the criteria, but the rating is considered low, should be considered also to be excluded.

RESULTS AND DISCUSSION

The result of the convergence could be a newly Islamic stock index or applied to the existing Islamic stock index. We name the newly stock index as Jakarta Green Islamic Index (JGII) and may consist of 50 stocks for instance.

Figure 3 shows the framework of the convergence.

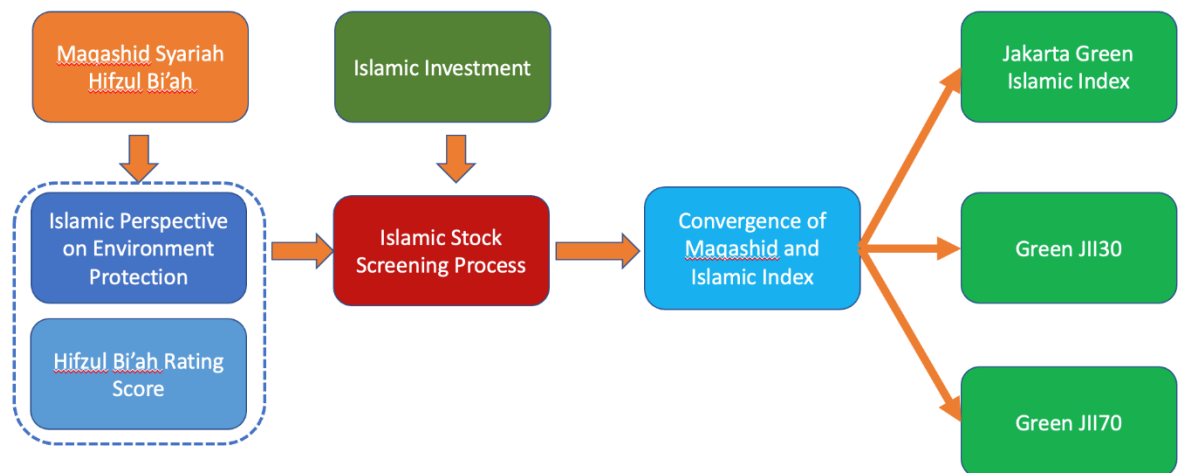


Figure 3. Convergence of Maqashid Syariah and Islamic Stock Index

Source: author's own

Converging *Hifzul Bi'ah* into stock index requires several procedures (1) The market size and demands; (2) Encouraging the firms to follow the *Hifzul Bi'ah* principles in their business; (3) Protecting the environment and saving the planet should be a standard platform; (4) Reduce, reuse, and recycle should be integrated in national law and fatwa.

This finding supports previous research into this investment area which links non-technical factors and Islamic stock screening process (Derigs & Marzban, 2008). Furthermore, this framework is in line with Utama et al. (2019) who assert the importance of inclusion of *Fiqh Al Bi'ah* concept into green economics and finance program.

Disseminating the convergence of *Hifzul Bi'ah* and our financial system is mandatory and inevitable. Together with ulama, economist, financial expert, we can build a better, green, and a more sustainable future.

CONCLUSION

This paper discusses the urgency of integrating ESG factor into Islamic stock index screening process from the perspective of *Maqashid Syariah*. Beside the concept of five fundamentals of Islam by As Syatibi and recently by Yusuf Qardhawi, there is a growing support to include the sixth fundamental namely Hifzull Bi'ah which means preserving the environment.

Fiqh al-Bi'ah or environmental fiqh and Hifzul Bi'ah is a set of rules regarding human ecological behavior set by competent scholars based on detailed arguments for the purpose of achieving the balance between human life and ecological life.

We suggest adding the principle of Hifzul Bi'ah represented by environment variable factors to the Islamic Stock Index. We propose it either as a separate index or as additional part of screening process criteria for the current JII and JII70 indexes. Finally, we conclude that circular economy and Hifzul Bi'ah could hand in hand promoting an Islamic, social, sustainable, and responsible financial market. Future research may start to develop the scoring system for Hifzul Bi'ah Rating system.

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