

THE SIGNIFICANCES OF *MASLAHAH* CONCEPT AND DOCTRINE OF *MAQASID* (OBJECTIVES) *AL-SHARI'AH* IN PROJECT EVALUATION

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Abstract

The concept of *maslahah* and doctrine of *Maqasid* (objectives) *al-Shari'ah* as put forward predominantly by Al-Ghazali and Al-Shatibi could be referred for developing choices and preferences from Islamic perspective. The two concepts shall have a great impact on the project evaluation procedure in an Islamic framework. The paper aims to analyze the significance of the incorporation of these two concepts into the mainstream project evaluation framework. This paper is a conceptual attempt to discuss the topic. Hence, it is a qualitative in nature. The author applies the content analysis method through deep and intense readings of the previous texts and literatures related to the topics. The author thoroughly examines and analyses the relevant literatures and develop the relationship between *maslahah* and Shari'ah objectives with the mainstream framework of project evaluation. The paper found that the concept of *maslahah* and Shari'ah objectives doctrine establish a more detailed order of priorities amongst competing projects, rationalises choices under the light of the *Shari'ah* and ensure the coherence of the selected project with the Islamic system as a whole. The public and private institutions could establish ranking of priorities for the potential competing projects based on the *maslahah* and Shariah Objectives analysis of the projects to determine the best solution for resources allocation in an Islamic framework.

Keyword: *Maslahah*, *Shari'ah* objectives, project evaluation

1. INTRODUCTION

A project is a way of using resources, and the decision to undertake a particular project or not is a choice between alternative ways of using resources (Sugden & Williams, 1978). Resources, in Islam, are envisaged as trusts of Allah. Man, as His

vicegerent and servant, is entrusted to utilise these resources in the right way within the *Shari'ah* boundaries (Haneef, 1997). Appraisal of a project prior to its execution in order to determine the optimal use of the resources is in line with the spirit of Islam as manifested in the following points.

Firstly, project evaluation is about rationalising the use of resources for specific purposes. Likewise, Islam calls on its followers to rationalise the use of resources. The irrational and unjustified use of resources is highly condemned in Islam as evident in a *hadith* narrated by *Ahmad* and *al-Nasa'i* where a bird which was killed for no useful purpose will claim to Allah in the hereafter and say: “*Oh God! This man has killed me for no purpose and not for any benefit*” (Al-Masri, 1999; Al-Qardawi, 1999). Secondly, Islam also favours efficiency and in this context, encourages *ex-ante* evaluation of a project before it could be undertaken to achieve its goal of prevention of *israf* - wanton use of resources, either in production or consumption (Choudhury & Malik, 1992; Zarqa', 1983). It is crystal clear that the prevention of *israf* is a founding trait of Islamic economics. This is evident in the *Qur'an's* condemnation on *israf*. Finally, project evaluation also involves prioritisation of potential competing projects for limited resources. Likewise, the prioritisation of actions and deeds is embedded in Islam since the *Shari'ah* assigns different weights/values to different actions and deeds. With the right status, each matter could be ordered and prioritised according to its importance and urgency from the viewpoint of the *Shari'ah* (Al-Qardawi, 2000). In a way, *fiqh* (Islamic Jurisprudence) itself is all about prioritisation as each matter (including projects) can be categorised into one of the main five values, namely obligatory (*wajib*), recommended (*mandub*), permissible (*mubah*), reprehensible (*makruh*), and forbidden (*haram*).

The framework for project evaluation offered today in mainstream economics, with its complexity and thoroughness, has been developed in isolation from Islamic input. With due acknowledgements to the contributions of mainstream economics towards the birth and development of the existing methodology and framework for project evaluation, the author insists on its deficiency and inability to serve the Muslim governments and individuals to opt for the most preferable project under the light of the *Shari'ah*. This fact entails the accommodation of the *Shari'ah* objectives and the concept of *maslahah*, as instigated by predominantly Al-Ghazali and Al-

Shatibi, into the project evaluation framework to determine an order of priority amongst competing alternatives¹. This paper is organized as follows:

Section 1 is the introductory part. Section 2 discusses the theoretical background of the Maslahah concept and Shariah objectives doctrine. The section also discusses the analytical framework of the paper. Section 3 reviews the literatures related to the mainstream framework of project evaluation and the relationship of Maslahah and Shariah objectives with project evaluation from the Islamic perspective. Section 4 discusses the significances of Maslahah concept and Shariah objectives doctrine with the suggested Islamic framework for project evaluation. The final section concludes the discussions with the policy implication of the study.

2. THEORETICAL BACKGROUND

2.1. The Concept of *Maslahah* and *Shari'ah* Objectives

The concept of *maslahah* has been discussed at length by several jurists. However, the two most prominent of them, as cited in the literature, are Al-Ghazali and Al-Shatibi. The former is considered as the one who first gave the original formulation of the concept from its rudimentary form, whilst the latter developed and refined the concept (Khan, 1997; Zarqa', 1984). Al-Shatibi is also considered as the first jurist to write on the subject as a new independent theory, particularly in his book "Al-Muwafaqat Fi Usul Al-Shari'ah" (Shibir, 2000). Other jurists who have discussed the same subject are, for examples, Al-Juwayni, Al-'Izz Ibn 'Abd Al-Salam, Ibn Khaldun and Ibn Al-Qayyim Al-Jawziyyah (Al-Masri, 1999; Khan & Ghifari, 1992). The institution of *maslahah* is derived from the survey and scrutiny of all Islamic teachings and injunctions available in the *Qur'an* and *Hadith* (Zarqa', 1984). This means that the *Shari'ah* in all its teaching aims at the attainment of good, welfare, advantage, benefits, etc., and the warding off of evil, injury, loss, etc., for creatures (Khan & Ghifari, 1992).

Al-Ghazali explains the *maslahah* as the "*preservation of the religion, life, mind, offspring and wealth.*" According to him, "*everything that leads to the preservation*

¹ Establishment of an order of priority amongst competing projects is one of the objectives for carrying out project evaluation study (Sang, 1995).

of these five foundations is considered *maslahah*², and everything that leads to the disruption of these foundations is *mafsadah*³, and its removal is *maslahah*,” (Al-Ghazali, 1998). Hence, it is generally held that the *Shari'ah* in all its parts aims at securing a benefit for the people or protecting them against corruption and evil in various degrees. The *wajib* (obligatory), *mandub* (recommended) and *mubah* (permissible) aim at realising the benefit and welfare and the *makruh* (reprehensible) and *haram* (forbidden) aim at preventing corruption and evil (Kamali, 1989). As a principle, each matter that increases the welfare of people from the *Shari'ah* point of view is considered as *maslahah* or utility. Similarly, each matter that decreases the welfare of people from the *Shari'ah* point of view is considered as *mafsadah* or disutility. *Maslahah* can be classified further into three categories. The three categories are (‘Afar, 1992; Kamali, 1989; Zarqa’, 1984):

- a) *Daruriyyat* (Necessities): These Necessities are defined as those activities and things that are essential to the preservation of the five foundations of individual and social life according to Islam i.e. Religion, Life, Mind, Offspring and Wealth. Their neglect leads to total disruption and chaos in life. Khan and Ghifari (1992) assert that one foundation i.e. freedom should be added to the list. They see freedom as the sixth element that should be promoted along with the five elements.
- b) *Hajiyyat* (Conveniences): This category comprises all activities and things that are not vital to the preservation of the five foundations, but are necessary to relieve or remove impediments and difficulties in life. Conveniences promote and supplement the Necessities and their neglect leads to hardship but not to the total disruption of normal life.
- c) *Tahsiniyyat* (Refinements): The Refinements refer to activities and things that go beyond the limits of Conveniences and whose realisation leads to the improvement and attainment of that which is desirable such as jewellery, innocent hobbies, politeness in behaviour and speech, Islamic etiquette in cleanliness, moderation or avoiding extravagance and etc. Going beyond Refinements into prodigality and self-indulgence is perceived by Islam as a disutility for both individuals and society, and is strongly disapproved.

² Utility; Welfare; Benefit; Advantage from the Shari'ah perspective. The plural of *maslahah* is *mafasid*.

³ Loss; Evil; Disadvantage; Disruption; Damage from the Shari'ah perspective. The plural of *mafsadah* is *mafasid*.

The previous Islamic jurists discuss the Shari'ah objectives doctrine without giving a specific definition of the doctrine. However, the late Islamic jurists such as Ibn 'Ashur has defined Shari'ah objectives as “*the observed meanings and wisdoms in every Shari'ah rulings or most of them, whereby their observations prove that they are not specific to a type of Shari'ah rulings,*” (Ibn 'Ashur, 1978). Based on the concept of *maslahah*, projects, additionally, could also be classified into five categories. These five categories are related to the protection, improvement and amelioration of Man's five basic elements namely, religion, life, mind, offspring and wealth (Al-Masri, 1999). However, these five elements are not equal in importance. Some are more important than others, but each of them is essential. The elements, in order of priority according to the *Malikiyyah* and the *Shafi'iyah*, are (Al-Zuhayli, 1998):

- i. Religion (*Din*)
- ii. Life (*Nafs*)
- iii. Mind (*'Aql*)
- iv. Offspring (*Nasab*)
- v. Wealth (*Mal*)

The prioritisation of these five elements by the *Hanafiyyah* is as follows (Al-Zuhayli, 1998):

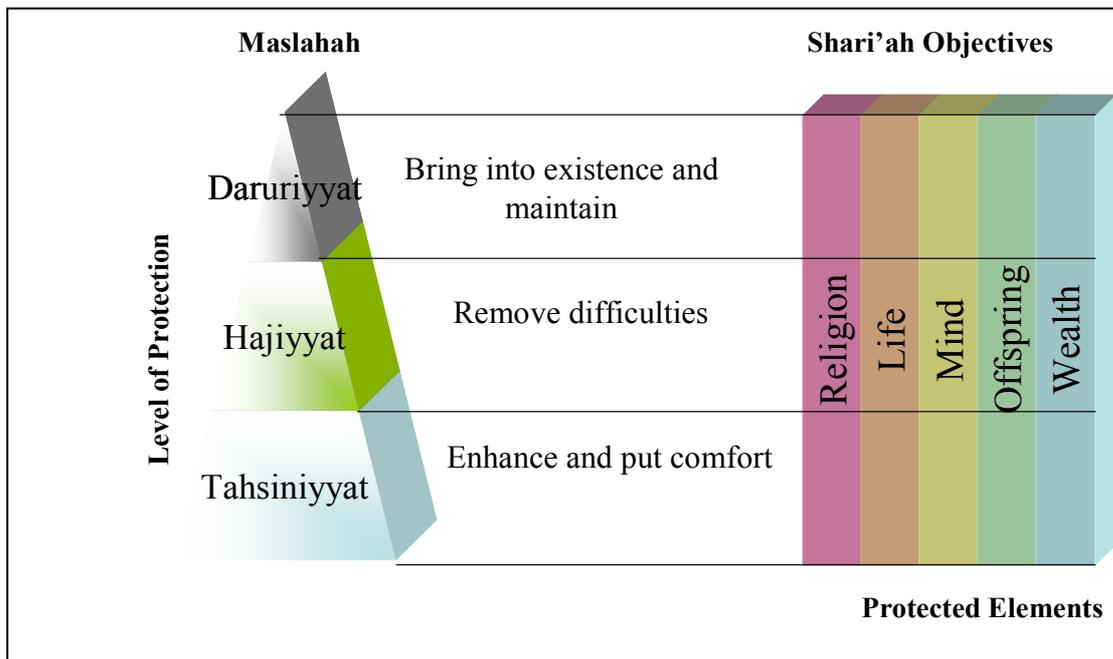
- i. Religion (*Din*)
- ii. Life (*Nafs*)
- iii. Offspring (*Nasab*)
- iv. Mind (*'Aql*)
- v. Wealth (*Mal*)

°Afar (1992) describes the same order as the *Malikiyyah* and the *Shafi'iyah* and classifies projects into one of these five essential elements. On the other hand, Zarqa' (1982) equates all the five elements in terms of importance as their maintenance and preservation are all compulsory in Islam. This is another important difference between both of them. It seems to the author that the *Shari'ah* does assign different weight to

these five elements. Al-Qardawi (2000) provides a good explanation of the issue and he is of the opinion of the *Malikiyyah* and the *Shafi'iyah*⁴.

The concept of Maslahah and the doctrine of Shari'ah objectives are quite similar at the first glance. However, in a more detailed analysis, the two concepts are actually complement and interdependent between each other. The Shari'ah objectives doctrine is related with the protection of the human basic elements while *maslahah* is the level of protection of those elements. Figure 1 illustrates the relationship between the two concepts.

Figure 1: The Relationship between the Maslahah Concept and Doctrine of Shari'ah Objectives



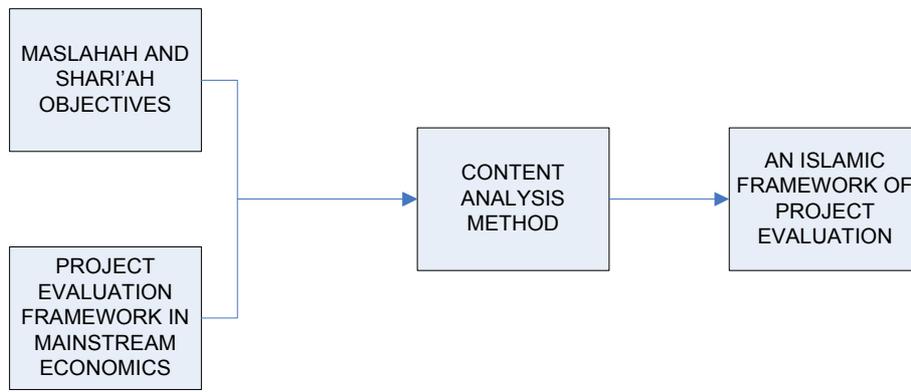
It is a debatable issue between the Islamic jurists whether the concept of Maslahah and Shari'ah objectives doctrine are philosophy or methodology in nature. However, this is not within the scope of the paper. It is enough to note that the Islamic jurist have agreed on the role of these concepts as a common platform where all of the Shari'ah rulings are directed in a coherent manner.

2.2. The Analytical Framework

⁴ *Al-Shatibi* is one of the *Malikiyyah* and *Al-Ghazali* is one of the *Shafi'iyah*. They also describe the same order as the *Malikiyyah* and the *Shafi'iyah* (Al-Mays, 1987).

This paper is a conceptual attempt to discuss the topic. Hence, it is a qualitative in nature. The author applies the content analysis method through deep and intense readings of the previous texts and literatures related to the topics. The author applies both the inductive and deductive methods as well as the analytical method to thoroughly examine and analyse the relevant literatures and develop the relationship between Maslahah and Shariah objectives with the mainstream framework of project evaluation. The analytical framework of this study is illustrated in Figure 2.

Figure 2: Analytical framework



3. LITERATURE REVIEW

3.1. Mainstream Framework

The practice of private project evaluation can be traced back to the early days of Capitalism where the profit motive was the emphasis of mainstream economics. The focus of analysis was on the microeconomics of a firm and the social significance of the private project was seldom raised. The role of government (and public projects) during those days was believed to be limited to the maintenance of law and order and the provision of certain public facilities and services. However, the situation has seen changes after two great events, namely the Great Depression and the Second World War. The emergence of welfare economics, the increased government involvement in the mobilisation of resources and socio-economic affairs, and the influence of Keynesian economics have provided bases and a theoretical background for the development of project evaluation foundations and techniques (Sang, 1995).

The development of social cost-benefit analysis (hereafter cited as SCBA) can be considered as the cornerstone of the project evaluation framework in mainstream economics, particularly for public projects. The earliest idea of comparison between projects' costs and benefits can be found in Benjamin Franklin's advice in 1772 for making personal decision where he named it as "*Moral or Prudential Algebra*" (Boardman *et al*, 2001; Sang, 1995). In 1808, Albert Gallatin - U.S. Secretary of the Treasury - recommended the comparison of costs and benefits in water-related projects (Hanley & Spash, 1993). However, the modern methods of SCBA are accredited to the work of Jules Dupuit, a French engineer, in his paper entitled "On the Measurement of the Utility of Public Works" in 1844 (Anand, 1993; Sang, 1995).

In terms of the practice of SCBA, it was first put into practice with the enunciation of the Flood Control Act 1936 in the USA. According to the Act, flood-control projects should be approved if the benefits to whomsoever they accrue are in excess of the estimated costs (Anand, 1993; Campen, 1986; Pearce, 1983; Sang, 1995). In 1950, the U.S. Federal Inter-Agency River Basin Committee issued a manual entitled "Proposed Practice for Economic Analysis of River Basin Projects" in an attempt to instill some agreed set of rules for comparing costs and benefits. The manual was later replaced by Budget Circular A-47 issued by the U.S. Bureau of Budget (Campen, 1986; Hanley & Spash, 1993; Pearce, 1983; Sang, 1995). In the 1950s, there was a number of significant writings⁵ that further advanced the theory and practice of SCBA. The advent of development economics and the increase of project aid flows to the Third World countries within the same period aroused great interest in the application of SCBA in developing countries. During the 1960s, SCBA became increasingly accepted as the analytical tool for project evaluation. It is observed that the practice of SCBA made its first move in the USA, particularly in water-related projects, before being extended to Europe and the developing countries (Anand, 1993; Irvin, 1978; Sang, 1995).

With regard to the framework and methodologies of project evaluation, the international co-operation for development, particularly OECD, UNIDO and IDCAS

⁵ Three highly important publications are the works of Otto Eclstein (*Water Resource Management*), John Krutilla and Eckstein (*Multiple Purpose River Development*), and Roland N. Mckean. All of their works were published in 1958 (Anand, 1993; Pearce, 1983; Sang, 1995).

have played a prominent role in this area. The OECD introduced its *Manual of Industrial Project Analysis in Developing Countries* in 1968. The OECD *Manual* was published in two volumes. The first volume is mainly concerned with project evaluation from a firm's point of view. The second volume deals with the examination of projects from the social point of view i.e. SCBA (OECD, 1972)⁶. Then, in 1974, the same authors of the OECD *Manual* i.e., Little & Mirrlees, revised their previous approach and provided a more systematic exposition in a new book entitled "*Project Appraisal and Planning for Developing Countries*" (Anand, 1993; Sang, 1995).

On the other hand, UNIDO has also published two main works on project evaluation framework and methodologies. The first one was published in 1972 under the title *Guidelines for Project Evaluation*. The authors of the *Guidelines* were Dasgupta, Sen and Marglin. In 1975, Squire and van der Tak reconciled the differences between the OECD and UNIDO approaches. The OECD *Manual* and UNIDO *Guidelines* insist on the superiority of the national profitability of a project and the need for CBA. The second one by UNIDO was the *Manual for Evaluation of Industrial Projects*. The *Manual* was prepared in collaboration with IDCAS in 1980. The UNIDO & IDCAS *Manual* differs conceptually from the UNIDO *Guidelines*, OECD *Manual* and Little & Mirrlees (1974) in its simplicity and operational step-by-step approach. The UNIDO & IDCAS *Manual* suggests the use of net-value added criteria which judge the merits of a project based on its contribution to the national income (Anand, 1993; Sang, 1995; UNIDO & IDCAS, 1980). The works of the OECD (Little & Mirrlees), UNIDO and IDCAS are known as the "New Methodologies" of SCBA. In spite of several technical and methodological differences with the traditional SCBA, these "New Methodologies" have the same framework as the traditional one (Sang, 1995).

3.2. Islamic Framework

Most of the discussions on project evaluation framework in the Islamic literatures concern with the rationale of discounting future costs and benefits and its practicability from the Islamic perspective. Zarqa' (1983) does not recognise this

⁶ The revised edition of the *Manual* was published in 1972.

concept as either a principle of rationality or an empirically prime tendency amongst the economic agents. According to him, it is only one of the three patterns of inter-temporal choice⁷. Similarly, Khan (1994) argues that “*the utility of money in the present is greater than the utility of same money in the future*” is conceptually a faulty assumption. He adds that the concept would lead to legitimacy of interest on capital lent. Others with similar stands are Iqbal & Khan (1981). Muqorobin (1998) believes its rationality in production rather than in consumption.

On the other hand, a number of Islamic scholars believe in its acceptability and validity in Islam. Amongst them are Khan (1991), Azhar (1992), Saadallah (1994), Al-Masri (1999) and Rosly (2003). According to them, there is nothing against positive time preference or against realising a time value of money in the Islamic framework, as long as the time value of money is not claimed as a predetermined value (Khan, 1991). Additionally, the *Shari'ah* admits that time has a value and recognises the innate human preference of what is in hand to what is loaned and of the immediate to the deferred (Saadallah, 1994). The prohibition of any conditional increase in the principal of a loan in return for deferred repayment does not indicate the invalidity of the concept of the time value of money in Islam (Saadallah, 1994; Al-Masri, 1999; Rosly, 2003). The classification of projects based on the concept of *maslahah* has been suggested by Zarqa' (1982) and 'Afar (1992).

4. DISCUSSION AND RESULTS

4.1. Classification of Projects according to the Concept of Maslahah

The classification of projects in an Islamic framework into either *halal* (lawful) or *haram* (unlawful) is not enough to determine an order of priorities for the projects. Thus, bringing the concept of *maslahah* into the framework is necessary. The concept can determine the order of priorities in an Islamic framework and thus, entails ranking of projects into three main categories. They are:

1. Necessities (*Daruriyyat*)
2. Conveniences (*Hajiyyat*)
3. Refinements (*Tahsiniyyat*).

⁷ The other two are zero and negative time preference. According to him, each of them is valid and rational under its own conditions (Zarqa', 1983).

However, °Afar(1992) suggests the division of projects into six categories to have a more detailed classification of projects. The divisions are:

1. Necessities
2. Complementarities (*Mukammilat*) of Necessities
3. Conveniences
4. Complementarities (*Mukammilat*) of Conveniences
5. Refinements
6. Complementarities (*Mukammilat*) of Refinements

According to °Afar (1992), Complementarity projects can be defined as projects that will realise the lower level of *maslahah*, but simultaneously have importance for the higher level of *maslahah*⁸. In dealing with the project evaluation topic, the author is in favour of categorising projects into the established three categories of *maslahah*. Hence, Complementarity projects of Necessities can be categorised under the Necessities category itself and so forth.

4.2. Necessities Category

Under this category are those projects that are required for bringing into existence and maintaining the very existence of man's five essential elements i.e., Religion, Life, Mind, Offspring and Wealth. This includes projects that are necessary for protecting these elements from destruction (Khan & Ghifari, 1992). It also includes projects that are necessary for the achievement of the maintenance and protection of these five elements. This is due to an established Islamic legal maxim: *Whatever is indispensable for the performance of an obligation is also obligatory* (Zarqa', 1984).

The Necessities category projects could be categorized into nine main areas as identified (°Afar, 1992)⁹. The nine areas are:

⁸ Al-Zuhayli (1998) states that complementarities (*mukammilat*) of each category of *maslahah* are those matters which absence will not necessarily lead to the destruction of the objectives of the respective category.

⁹ These nine areas are not exhaustive but °Afar's (1992) explanation of this topic is very much more detailed compared to the works of Zarqa' (1982).

1. *Provision of staple foods and what are necessary for their existence and continuity.* This includes production of fertilizer, basic agricultural instruments and machines and distribution services.
2. *Provision of clean water and basic public utilities.* This includes establishment of institutions and organisations responsible for this job.
3. *Basic education.* It is obligatory for the government and society to ensure that both knowledge of *fard al-^cayn* (individual obligation) and *fard al-kifayah* (social obligation) in each discipline is adequately provided. This will also entail the establishment of relevant institutions such as schools, mosques, universities and other educational centers.
4. *Production of basic apparel to protect Man's well-being.* This includes summer and winter clothes and costumes for specific work that ensure the safety of the workers.
5. *Accommodation* that are suitable for the local environment and provide protection and rest for the households (family institution). This also includes the production of basic home appliances and furniture.
6. *Basic transportation and communication means.* They are essential for the people to carry out their work and obligations towards themselves, their families and communities.
7. *Health services* to protect and preserve two essential elements of Man i.e., Life and Mind. The protection of the environment falls under this category.
8. *Institutions for maintaining and preserving Islamic laws, justice and order in the society.* Some of the examples are law councils, courts, police stations, and *zakah* institutions.
9. *National safety and defence.* It is obligatory for Muslims to protect their very existence by making preparation in terms of military weapons and instruments. This should be done up to the level that they have the ability to ensure their sovereignty and furthermore, exercise their rights in Islam.

It is worth mentioning here that projects that fall under this category of *maslahah* are considered obligatory to be undertaken in Islam (^cAfar, 1992; Zarqa', 1982).

4.3. Conveniences Category

Projects that are not vital to the preservation of the five essential elements, but rather, are needed *to relieve or remove impediments and hardship* (facing the five elements) in life should fall under this category of *maslahah*. In the real world situation, most projects, crafts, industries and economic activities are included here (Meera, n.d.; Zarqa', 1984). The execution of such projects is strongly recommended in Islam up to the extent sufficient to remove difficulties or achieve conveniences in life (°Afar, 1992; Zarqa', 1982 & 1984).

As a general principle, projects that contribute to the advancement of the essential areas and make Man's activities easier and remove the difficulties facing them are Conveniences projects. Examples of such projects are numerous, but some of them are listed here for illustration (°Afar, 1992; Zarqa, 1984):

1. Promotion of physical education to strengthen the body and enhance one's health (Notice that protection of life and mind is a Necessity).
2. Production of quality foods and good clothes.
3. Comfortable houses and cars.
4. Improvement in transportation and communications.
5. Advancement in educational level, etc.

4.4. Refinements Category

Projects that do not remove or relieve difficulties but rather, those that adorn life and put comfort into it fall under the category of refinements. In other words, projects which go beyond the limits of Conveniences fall under this category - on condition that they are carried out moderately (Zarqa', 1984). Such projects should be given least priority, particularly if the first two categories have not been satisfied (Meera, n.d.). The discharge of projects under this category is either recommended or permissible in Islam (Zarqa', 1982). Examples of projects under this category are as follows:

1. Objects of enjoyment and ornamentation e.g., flower, perfumes, luxurious items and jewellery.
2. Building and house decorations.
3. Recreation centres.
4. Landscaping, etc.

4.5. Beyond the Maslahah: Al-Israf and al-Tabdhir

Another aspect of the significance of this concept (which is peculiar to mainstream practice) is that only projects that fall under the three categories of *maslahah* should be pursued in an Islamic framework. A project that is beyond the category of *maslahah* can be classified into two main categories which are unacceptable in the *Shari'ah* (°Afar, 1992). The categories are:

1. *Al-Israf*: This refers to the act of spending or investment in permissible (*halal*) activities but more than what is required. Self-indulgence (*al-taraf*) or living in great unnecessary luxury also falls under this category (°Afar, 1992).
2. *Al-Tabdhir*: This can be defined as any disbursement on unlawful (*haram*) or unjustifiable activities. Similarly, the fulfillment of lower-level needs in the presence of higher-level needs that are not being satisfied is perceived as an act of *al-tabdhir* (°Afar, 1992).¹⁰

Projects that fall under these two categories can be either reprehensible (*makruh*) or forbidden (*haram*) from the Islamic point of view. Examples of projects under these two categories are those that involve forbidden activities such as the provision of *riba*, gambling, non-*halal* goods or services.

4.6. Beneath the Maslahah: Al-Taqtir

If the government or individuals underutilise the available resources to fulfil the *maslahah* or they decide not to carry out projects whilst the *maslahah* or welfare of the people is deficient, this could be considered as an act of *al-taqtir*. *Al-Taqtir* is a sort of niggardliness (*bukhl*) which is condemned by the Prophet PBUH (Al-Masri, 1999). Moreover, Islam requires Man to use these resources to the extent necessary for the production of individually or socially useful goods and services and employ the means that justify their use for the end product (Pomeranz, 1995; Ahmad, 1991).

¹⁰ Al-Masri (1999) gives a slightly different definition of *al-israf* and *al-tabdhir*. According to him, *al-israf* is spending in *haram* even in a small amount or spending in *halal* but excessive. *Al-tabdhir* is a situation worse than *al-israf*, e.g., spending in *haram* in a big amount.

This requirement is observed, for example, in the *Qur'anic* verse 57: 7¹¹. Additionally, Al-Ghazali and Al-Shatibi assert that it is society's obligation to steer their system, capacity and resources towards the realisation of the *maslahah* (°Afar, 1992).

4.7. The Framework for Project Evaluation in Mainstream Economics

The structure (or approach) of project evaluation is somewhat different amongst the literature in mainstream economics. However, there are two aspects of a project's profitability which have been the focus in the evaluation of projects. The first aspect is the project's commercial profitability and the second one is the national profitability¹² of the project. Whilst the former is the main concern of individuals, the latter has been emphasised in public project evaluation. The two aspects of the project's profitability mainly make up the objectives which a particular project is intended to satisfy¹³. Thus, the project evaluation framework necessarily examines the project's contribution to the attaining of commercial and national objectives.

4.7.1. Commercial Profitability

Commercial profitability analysis is concerned with the feasibility of the project from the financial point of view. At this stage, the project's costs and benefits are calculated in pecuniary terms at the prevailing market prices (UNIDO & IDCAS, 1980). The cash flow (inflows and outflows) estimation is the basis for the commercial profitability analysis. Thus, constructing relevant cash flows is of great importance to assure reliable results from the analysis (Sell, 1991). The commercial profitability analysis is composed of:

- a) *Investment Profitability Analysis*
- b) *Financial Analysis*

Each type of analysis deals with different aspects of the project. Hence, they are not complementary and not substitutable (UNIDO & IDCAS, 1980).

¹¹ "Believe in God and His Messenger, and spend (in charity) out of the (substance) whereof He has made you heirs. For, those of you who believe and spend (in charity), - for them is a great reward," (°Ali, 2000).

¹² The national profitability basically represents the social profitability of the project. The net social gains may usefully be called national profits, when the society is identified with the nation. This should include the economic and non-economic costs and benefits of a project that would affect national or social welfare (UNIDO, 1972).

¹³ Some authors suggest a more detailed division of project objectives. For example, Ahmad (1999) gives four aspects of project objectives namely, economic, technological, social and political.

4.7.1.1. Investment Profitability Analysis

Investment profitability analysis measures the return on the capital put into the projects regardless of the sources of the financing. In other words, it analyses the expected earning power of the resources committed to a project without taking into consideration the financial transactions which occur over the project's lifetime (UNIDO & IDCAS, 1980). The main methods for this analysis are divided into two groups:

- 1) *Discounted Cash-Flow Methods*
- 2) *Simple Methods*

Discounted cash-flow methods comprise the two most important and regularly used methods i.e. *Net Present Value* (NPV) and *Internal Rate of Return* (IRR). These two methods are classified under this category as they take into consideration the economic life of the project as a whole by discounting future cash inflows and outflows to their present values. The NPV method determines the divergence between the present values of a project's cash inflows and outflows. The cash flows are discounted by an appropriate discount rate to determine their present value (Sang, 1995; UNIDO & IDCAS, 1980).

The IRR, by definition, is the rate of discount that equates the present value of its cash inflows to the present value of its costs (Brigham & Houston, 2001). In another sense, it is the rate that equates the NPV of the project to zero (Levy & Alderson, 1988; Sang, 1955; UNIDO & IDCAS, 1980). The IRR is then being compared to the cut-off rate (or hurdle rate) that represents the minimum acceptable rate at which the capital invested should be compounded. The project is acceptable if the IRR is bigger than the cut-off rate. It seems that the IRR has a somewhat a "breakeven" feature that makes it really useful in project evaluation. This method is helpful if the project analysts find it difficult to attain the appropriate discount rate for calculating the NPV of the project (Brigham & Houston, 2001; UNIDO & IDCAS, 1980).

The *simple methods* consist of two simple and straightforward methods. The methods do not take into account the present value of the project's future cash flows or the whole life span of the project. They rely on one model period, usually one year.

The methods are the *simple rate of return* and *payback period*. The *simple rate of return* is the ratio of the project's net profit to the total investment – both fixed and working capital (Sang, 1995; UNIDO & IDCAS, 1980). The *pay-back period* method calculates the expected number of years required to recover the original investment. The result of this method will then be compared to the cut-off payback period set by the decision-makers to decide on its acceptance or rejection (Brigham & Houston, 2001; Irvin, 1978).

4.7.1.2. Financial Analysis

Financial analysis consists of *liquidity* and *capital structure analysis*. *Liquidity analysis* checks the possibilities of cash deficiency in the years of a project's life (Sang, 1995). It concerns the financial transactions affecting a project's cash balance which are not highlighted in the investment profitability analysis. It is done on a year-by-year basis and, hence, the cash flows are calculated at their nominal values (UNIDO & IDCAS, 1980).

The question of capital sufficiency is analysed in the *capital structure analysis*. It is performed to ensure that each type of investment (fixed or working capital) is covered by a suitable type of finance. The most commonly used as the indicator of an enterprise's capital structure is the *debt equity ratio*. It is simply the ratio of long-term loans to equity capital. There is no specific favourable debt equity ratio. It depends upon the earnings of the project, the nature of the enterprise and the uncertainties of the future. However, a low debt equity ratio reflects a lower risk of solvency or heavy financial obligations and vice-versa (Sang, 1995; UNIDO & IDCAS, 1980).

4.7.2. National Profitability

The *national profitability analysis* is seen necessary due to several limitations of commercial profitability analysis. For example, the use of market price in commercial profitability analysis could be misleading and it is not a good guide to social gains. Additionally, a project may have effects outside the market which have not been treated in commercial profitability analysis (UNIDO, 1972). Thus, international agencies such as UNIDO, the OECD and the World Bank have repeatedly emphasised the need for SCBA, particularly for public projects, in their various publications to

account for the national profitability of a project (Anand, 1993). The methodology of SCBA, its conceptual foundations, valuation and measurement issues are massive topics and they are not within the scope of the paper. However, the author describes here its main framework. The framework of SCBA is worthy of explanation as “*various techniques have been developed for project studies within the framework of cost-benefit analysis*” (Sang, 1995).

4.7.2.1.Social Cost-Benefit Analysis

The basic framework of SCBA can be summarised in the following points (Sang, 1995; Boardman *et al*, 2001):

1) Identification and enumeration of project costs and benefits

The relevant costs and benefits are defined by type, region, recipient or other criteria. This includes the effects of the project in the realm of production and distribution, positive and negative, direct and indirect, internal and external, measurable and immeasurable effects.

2) Quantification and valuation of identified costs and benefits

In order to determine precisely the net balance between the project’s costs and benefits, the individual items have to be quantified and valued. The project analysts should quantify as many items as possible and attach a value or a degree of significance to each of the remaining items so that the overall merit or demerit of the project can be determined.

3) Computation of key indicators with discounting future costs and benefits

Selected indicators are computed on the basis of available data and valuations. The most commonly applied indicators for public project are the NPV and IRR. Next, these indicators will undergo uncertainty analysis and then, the advantages and disadvantages of the project are weighed against each other to arrive at the project’s overall merit.

4.7.3. Uncertainty Analysis

The previous stages of the framework are carried out under the assumption of certainty of the future. In reality, there is always uncertainty about the future, and with uncertainty, there is likely a conflict between what is theoretically correct and practically feasible (Bierman & Smidt, 1993). The outcome of the project may turn out to be slightly or considerably different from the initial expectations. Managers in a firm might tend to be optimistic in their forecasts as they have to compete for internally rationed funds (Meera, n.d.). Unfortunately, reality seems to prove that an underestimation of cost is more usual than vice-versa. In other words, it is always the case that the analysts seem to overestimate the benefit and the potential danger is underestimated (Sell, 1991).

Therefore, it is obvious that the uncertainty analysis is indispensable and it has been discussed, in short or great detail, by almost all the literature pertaining to project evaluation. Each variable needed for uncertainty analysis could be a source of uncertainty that affects the outcome of the project. Some of the common variables are the size of investment, operating costs and sales revenue - cash flow estimation (UNIDO & IDCAS, 1980). The uncertainties might also be caused by inadequate data, insufficient money and time and poor performance by the project analysts. Uncertainties are either internal or external. Internal uncertainties are related to the project itself that constitute the elements and structure of the project. On the other hand, external uncertainties relate to the surrounding environment of the project in which it operates such as political, social and economic changes during the lifetime of project¹⁴ (Sang, 1995; UNIDO & IDCAS, 1980).

There are several methods for project analysts to carry out uncertainty analysis. The simplest one is the *break-even analysis*. A more systematic approach for uncertainty analysis is the *sensitivity analysis*. *Sensitivity analysis* shows how the value of the crucial indicators (the NPV, IRR or any other criteria) changes with a given change in an input variable, sometimes more than one variable, with other things held constant. This technique is used to determine how sensitive the results of project evaluation would be in relation to changes in crucial variables or key

¹⁴ Some examples of external uncertainties are (1) civil wars might occur; (2) national economy falls into recession; (3) governments change their policies and priorities; and (4) new laws are imposed.

parameters. Where there are great uncertainties in the future or each variable has a significant chance of occurrence, *probability analysis* is recommended. This method identifies the possible range of each key variable, if not all, and does not restrict the judgment to a single optimistic, pessimistic or realistic estimation (Brigham & Houston, 2001; UNIDO & IDCAS, 1980).

4.7.4. Project's Overall Merit

Based on the uncertainty analysis results, the project's overall attractiveness from the commercial and national points of view is presented. This framework for project evaluation is basically a quantitative analysis of a project to arrive at the present attractiveness of the project. The analytical quantitative methods and criteria described here are not exhaustive; rather it is a list of main examples for each stage of the analysis. The choice of methods and criteria depends on the objectives of project evaluation, the decision makers, the economic environment, and the availability of relevant data (Sang, 1995; UNIDO & IDCAS, 1980).

4.8. The Incorporation of the *Maslahah* Concept and Shari'ah Objectives Doctrine into the Project Evaluation

The incorporation of the concept of *maslahah* and Shari'ah objectives doctrine will greatly distinguish an Islamic framework for project evaluation from the conventional one. The purpose of incorporating this concept into the framework is to ensure the adherence of the selected project to the Islamic system as a whole. From the foregoing discussions, the author has developed Table 1 and Table 2 to illustrate the priority and values of projects according to the concept of *maslahah*. Each number represents the rank of the project from the *Shari'ah* point of view. Projects that receive the highest priority in an Islamic framework are those which have the Religion element of the Necessities category.

The *maslahah* and Shari'ah objectives analysis could serve as the qualitative analysis in an Islamic framework for project evaluation. The analysis will reject projects that involve forbidden activities such as the provision of *riba'*, gambling, non-*halal* goods or services e.g. liquor, pork etc. Hence, unlawful (*haram*) projects will have no place for consideration in an Islamic framework for project evaluation.

The analysis will also include the spiritual and moral effects of the project which are ignored in the mainstream project evaluation process. A disco project might be attractive commercially, but its contradiction with the *Shari'ah* objectives and immoral effects make it rejected in the analysis. Similarly, projects that involve caring for others e.g. looking after orphans, widows, needy persons, old parents or even animals, or building facilities for pilgrims or wayfarers, or expanding *awqaf* institutions may not be attractive commercially, yet they are favourable according to *maslahah* and Shari'ah objectives analysis.

Table 1: Classification and Priority of Projects According to the Concept of *Maslahah* and *Shariah Objectives Doctrine*

| Main Categories Essential Elements of Man | Beneath the <i>Maslahah</i> | Necessities | Conveniences | Refinements | Beyond the <i>Maslahah</i> |
|--|-----------------------------|------------------|------------------|-----------------|----------------------------|
| | | Religion | 1 st | 6 th | 11 th |
| Life | 2 nd | 7 th | 12 th | | |
| Mind | 3 rd | 8 th | 13 th | | |
| Offspring | 4 th | 9 th | 14 th | | |
| Wealth | 5 th | 10 th | 15 th | | |

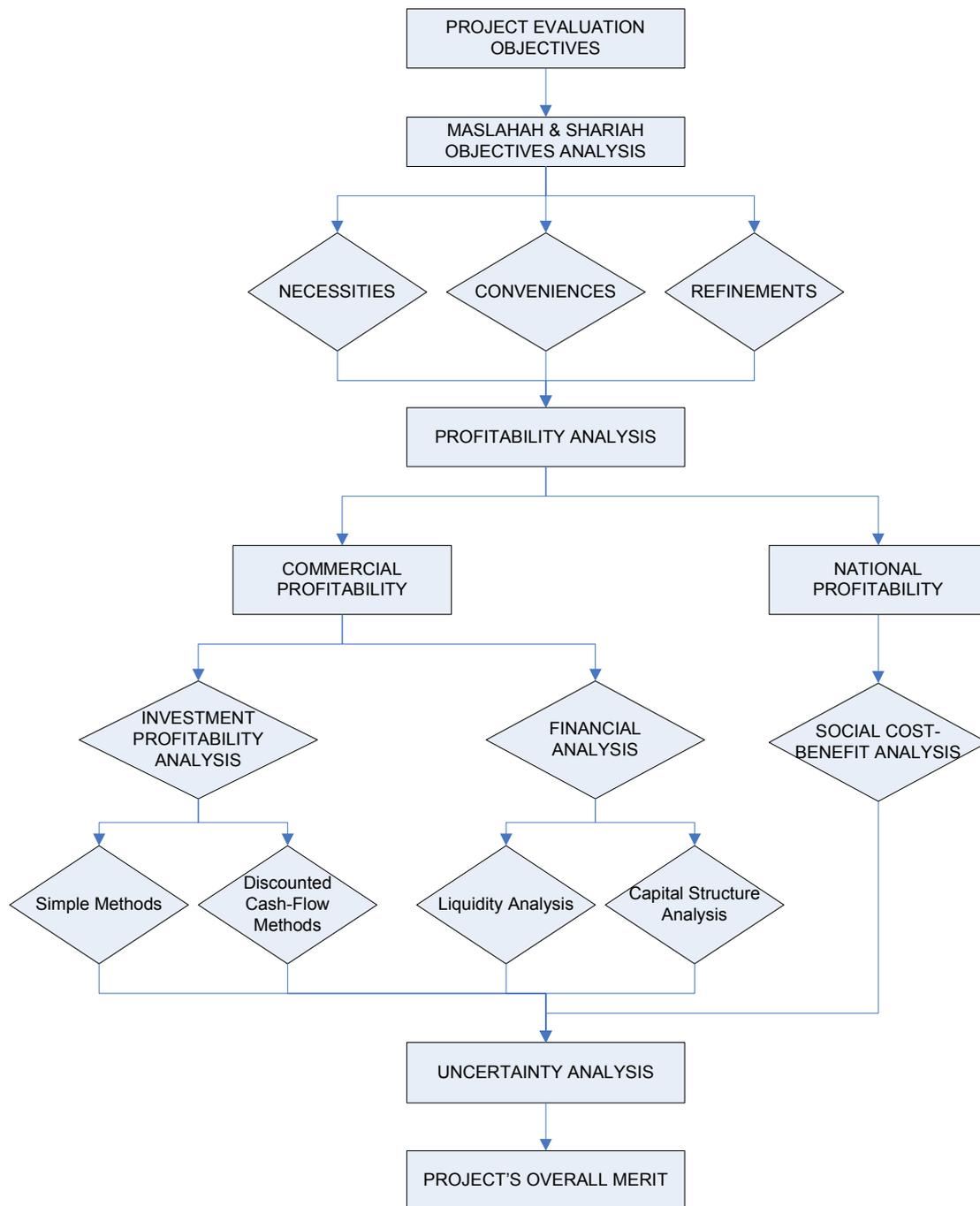
Table 2: Project's Category, Status and Value According to the Concept of *Maslahah*

| PROJECT | | | |
|---------|-----------------------------|---------------------------|-------------------------------|
| NO. | CATEGORY | STATUS | VALUE |
| 1 | Beneath the <i>Maslahah</i> | Prohibited & Unacceptable | <i>Makruh</i> or <i>Haram</i> |
| 2 | Necessities | Required & Acceptable | <i>Wajib</i> |
| 3 | Conveniences | | <i>Mandub</i> |
| 4 | Refinements | | <i>Mubah</i> |
| 5 | Beyond the <i>Maslahah</i> | Prohibited & Unacceptable | <i>Makruh</i> or <i>Haram</i> |

Another important impact of integrating *maslahah* analysis into the framework is that it would mitigate the conflicts between individual (private) and government (public) preferences. The concept of *maslahah* would put the individual *maslahah* in

line with the social *maslahah*. This is because the promotion of the five basic elements is desirable from both the individual and social points of view (Khan & Ghifari, 1992). Last but not least, *maslahah* analysis will facilitate the subsequent procedures in the framework. In terms of quantification and valuation, a project that falls under the category of Necessities should be given more weight than Conveniences and Refinements projects. The hurdle rate for Necessities projects should also be made to be lower than the hurdle rate for Conveniences and Refinements projects. This adjustment of the hurdle rate, as suggested by Meera (n.d.), could make socially favourable projects commercially attractive. In carrying out *maslahah* analysis, the analysts should also determine the scale of beneficiaries or losers from the benefits or losses caused by the project. This is imperative to distinguish between public (*‘ammah*) and individual (*khassah*) interest generated by the project. If there is a conflict between public and private interest, the public interest should be given priority over the private one. There is an Islamic legal maxim that states, “*Individual loss (or damage) is tolerated to ward off public loss (or damage)*,” (Al-Masri, 1999). In such a case, the individual interest should be duly compensated and should not be ignored (Mannan, 1978). Having discussed the framework for project evaluation and the significance of the concept of *maslahah* in project evaluation, the author suggests an integrative Islamic framework for project evaluation as illustrated in Figure 3. The suggested framework simply integrates the best elements of both Islamic and mainstream economics.

Figure 3: An Integrative Islamic Framework for Project Evaluation



5. CONCLUDING REMARKS

It is observed that the concept of *maslahah* or *Shari'ah* objectives has a significant impact on an Islamic framework for project evaluation and would greatly distinguish the Islamic framework from the mainstream one. It could determine an order of

priorities in an Islamic framework. *Maslahah* analysis of project is imperative to ensure the coherence of the selected project with the *Shari'ah*'s objectives and the Islamic system as a whole. Furthermore, the *maslahah* concept could rationalise the choice of a project in an Islamic framework even though the selected project seems to be irrational from the mainstream economics point of view. The *maslahah* concept should also represent one of the Islamic values that should be considered by the project analysts and decision makers in carrying out their judgments. This is imperative to ensure that decisions made will not contradict the established values in Islam. From the author's point of view, *maslahah* analysis should be carried out prior to performing the commercial and national profitability analysis of the project.

It is hoped that the international Islamic organisations such as the Islamic Development Bank (IDB) and the Islamic *Fiqh* Academy could collaborate and provide detailed guidelines for project evaluation from the Islamic perspective that are theoretically Islamic and practically viable as they have the expertise, data and experience to perform such a task. Cooperation between Islamic countries at the international level is also needed to accelerate the initiative of the preparation of the guidelines and such cooperation would give birth to a detailed Islamic framework for project evaluation. The public and private institutions could establish ranking of priorities for the potential competing projects based on the *Maslahah* and *Shari'ah* Objectives analysis of the projects. It is a qualitative in nature; however it could be the starting point of the project evaluation framework from the Islamic perspective.

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About this article:

| | |
|------------------------|--|
| Reference Type: | Journal Article |
| Record Number: | 37 |
| Author: | Abdullaah Jalil, |
| Year: | 2006 |
| Title: | The Significances of Maslahah Concept and Doctrine of Maqasid (Objectives) Al-Shari'ah in Project Evaluation |
| Journal: | The Journal of Muamalat and Islamic Finance Research (JMIFR) |
| Volume: | 3 |
| Issue: | 1 |
| Pages: | 171-202 |
| ISSN: | 1823-075X |
| Language: | English |