

A PROPOSED CROWDFUNDING FRAMEWORK
FOR DEVELOPING WAQF LAND IN MALAYSIA

BY

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the degree of Doctor of Philosophy (Economics)

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ABSTRACT

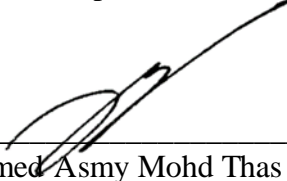
Waqf institutions in many Muslim countries including in Malaysia are facing financial constraints in developing waqf land. This study has developed Crowdfunding Waqf Model (CWM) that is aimed to offer a sustainable model of financing source for waqf institutions to meet their financial constraint in developing waqf land. In this model, the State Religious Islamic Council (SIRC) will collaborate with crowdfunding platforms will raise funds from the crowd funders in the form of money donation. CWM will provide financing services to waqf institution by forming donation money through donation-based and reward-based crowdfunding. Thus, this model suggests ways of improving and meeting the need of waqf institution in Malaysia by providing affordable financing services. This new model is utilized crowdfunding consider with its ability to finance various charitable projects with focus on gather many small donations rather than requesting a single large sum from funding agency or traditional financial institutions. The study uses mixed method (interview and survey) approach. The interview was conducted to validate CWM in terms of its suitability, applicability and its prospects. The findings from the interviews revealed that the experts have positive perception and attitude towards the proposed CWM. In addition, the experts opine that CWM is applicable in Malaysia and has tremendous benefits for developing waqf land. Similarly, the results from the survey, analysed using Structural Equation Modeling (SEM) based on Technology Acceptance Model (TAM) hypothesized that behavioural intention of crowd funders to use CWM is significantly and positively impacted by “perceived usefulness”, “perceived ease of use” and “perceived ease of use” on perceived usefulness”. This thus suggests that when crowd funders have a more positive view about “the usefulness” and “ease of use” of CWM, the stronger their intention to be involved in CWM to assist waqf institutions to develop waqf land in Malaysia.

خلاصة البحث

إن المؤسسات الوقفية في معظم الدول الإسلامية من ضمنها ماليزيا قد واجهت القيود المالية في تطوير أراضي الوقف. لقد تطوّرت هذه الدراسة نموذج التمويل الجماعي للوقف (CVM) الذي يهدف إلى تقديم نموذج مستدام لمصدر تمويل المؤسسات الوقفية لمواجهة قيودها المالية في تطوير أراضي الوقف. وفي هذا النموذج سيتعاون مجلس الشؤون الدينية للولايات (SIRC) مع منصة التمويل الجماعي لجمع التبرعات من الممولين الجماعيين بشكل منحة نقدية. وسيوفّر نموذج التمويل الجماعي للوقف (CVM) الخدمات التمويلية للمؤسسات الوقفية بتشكيل مال التبرع من خلال التمويل الجماعي المبني على التبرعات والمكافأة. وبناء على هذا التمويل، يقترح النموذج وسائل تحسين حاجة المؤسسات الوقفية في ماليزيا وتحقيقها بتوفير الخدمات التمويلية المتاحة. ويستفيد هذا النموذج الجديد من التمويل الجماعي بالنظر إلى إمكانية تمويل المشاريع التبرعية المختلفة بالتركيز على جمع كثير من التبرعات الصغيرة بدلاً من طلب المبلغ الكبير بدفعة واحدة من وكالة التمويل أو المؤسسات المالية التقليدية. وهذه الدراسة تستخدم المنهج المزيج (المقابلة والاستقصاء). وتم إجراء المقابلة للتحقق على صحة نموذج التمويل الجماعي للوقف (CVM) من ناحية ملاءمته، وقابليته للتطبيق، وتوقعاته. واكتشفت النتائج من المقابلات أن الخبراء لديهم الإدراك الإيجابي والتصرفات الإيجابية نحو نموذج التمويل الجماعي للوقف (CVM) المقترح. وبجانب ذلك، يذهب الخبراء إلى أن نموذج التمويل الجماعي للوقف (CVM) قابل للتطبيق في ماليزيا وله منافع هائلة لتطوير أراضي الوقف. وعلى نحو مشابه، افترضت النتيجة من الاستقصاء المحلّة باستخدام نمذجة المعادلة الهيكلية (SEM) المبنية على نموذج قبول التكنولوجيا (TAM) أن التصميم السلوكي للممولين الجماعيين في استخدام نموذج التمويل الجماعي للوقف (CVM) تأثر بشكل ملموس وإيجابي بالمنفعة المدركة، وسهولة الاستخدام المدركة، وسهولة الاستخدام المدركة في المنفعة المدركة. وبالتالي، يُقترح ذلك أن إذا كان الممولون الجماعيون لديهم الفكرة أكثر إيجابياً عن المنفعة وسهولة استخدام نموذج التمويل الجماعي للوقف (CVM)، فيكون تصميمهم أقوى لمشاركة في نموذج التمويل الجماعي للوقف (CVM) لمساعدة المؤسسات الوقفية في تطوير أراضي الوقف في ماليزيا.

APPROVAL PAGE

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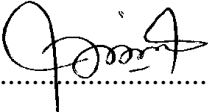
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DECLARATION

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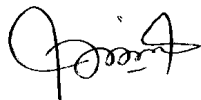
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“My Beloved Parents Moch. Mochlas Akbar and Sri Hartatik”

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In the name of Allah, The Most Compassionate, The Most Merciful. *Alhamdulillah*, all praises be to be Allah, the Most Gracious and Merciful. May His peace and blessings be upon our beloved Prophet Muhammad *Sallallaahua'laihiwasallam* and upon his family and his companions. My utmost thanks to Allah for His blessings and for granting me the persistence and the endurance to complete this dissertation successfully.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Waqf is defined as an activity which involves a dedication of asset for charitable purposes or generates income for charitable purposes in a perpetual basis (Sait and Lim, 2005). Waqf is widely practiced in the early history of Islam and becomes a voluntary activity recommended by Prophet Muhammad (pbuh). The aim of waqf establishments is to support the general welfare of the society while seeking compound rewards in the Hereafter. Choudhury (1980) asserted that waqf contributes to the Islamic principles ta'wun (cooperation) and takaful (solidarity) that represent the morals of the Islamic society.

Waqf of non-perishable property is very common for where the benefits can be extracted without consuming the property itself, such as land and buildings (Kahf, 2003). Land was dedicated as the first waqf in Islam (Cizacka, 1998). Waqf land constitutes the largest share in many countries (Al-Horani, 2013) which are used not only for religious purposes but also used extensively for infrastructure development, agriculture, educational sector, healthcare, and public amenities, among others; universities, hospitals, plantation, husbandry, and other public facilities (Ahmad et al. 2008; Sadeq, 2002; Hoexter, 1998).

The practice of Waqf is not new to the Malaysian history. Aun (1975) stated that the Waqf practice in Malaysia can be traced to the 14th century after the embracement of Islam by the Malacca Sultanate. There are a number of Waqf lands that are existence since the Malaya period, which is before the independence of Malaysia. Based on the statistics produced by the Yayasan Wakaf Malaysia (YWM) (2016), the size of waqf

land in Malaysia is estimated to be around 30,888.89 hectares, which is equivalent to 14,356 units of waqf lands. Although there is a significant availability of waqf lands in Malaysia, they remain idle and undeveloped mainly due to shortage of financial resources faced by SIRC (Sabit, 2009; Azmi et al., 2018; Zulkibri, 2017; Thaker et al., 2017; Pitchay et al., 2015; Mohd, 2015; Zakaria, 2014; Ali et al., 2015; Mohamad et al., 2012; Sait and Lim, 2006; Habshi and Othman, 1998).

In Malaysia, the government is the sole provider in funding waqf land developments. In the Ninth Malaysia Plan (2006-2010) (RMK-9), the Malaysian government has allocated RM256 million, which comprises of RM244 million for developing 19 physical projects and RM12 million for non-physical projects. However, in the Tenth Malaysia Plan (2011-2015) (RMK-10), the government's allocation has reduced to RM72.76 million due to economic reasons and limited to ten selected projects (JAWHAR, 2012; Pitchay, 2015; Thaker et al., 2017). Moreover, Ngah, (2012) pointed out that from the total budget of RMK-9 and RMK-10, only 0.16 per cent of total waqf land can be developed by SIRC. Furthermore, SIRC needed at least RM 80 billion to develop the entire waqf land in Malaysia.

Despite the fact that the government have not relented in their efforts in supporting the development of waqf land, financing waqf land development remains a major issue for SIRC. In view of the foregoing issue, many other existing literatures have suggested alternative approaches to address the issues of financing waqf land. Earlier scholars have suggested the use of classical modes of financing such as *istibdal*, *hukr*, and *ijaratain* (Kafh, 1998; Mohsin et al., 2016). It is followed by contemporary researchers, who also attempted to innovate new financing schemes to develop waqf land. Among them are the use of cash-waqf, waqf-share, Muslim Employees and Islamic Businesses and Institutions (MEIBI), waqf banks as well as waqf-sukuk

(Çizakça, 1998; Mohamad et al., 2012; Nor and Mohammed, 2009; Mohsin, 2012; Mohsin, 2013; Mohsin et al., 2016; Benyounis, 2015; Mohsin and Mohammad, 2011; Ali et al., 2015; Mohammad and Iman, 2006; Pitchay, 2015).

Although there are various models proposed by previous researchers, the models remain at the conceptual framework level. There is a lack of well developed and tested model specifically for waqf land development. Hence, there is an urgent need to develop a new model that could assist SIRC in developing waqf land in Malaysia. This study attempts to fill this research gap by extending its discussion to include crowdfunding to address the problem of financing waqf land development in Malaysia. In lieu with this, the present study proposed Crowdfunding-Waqf Model (CWM).

1.2 STATEMENT OF THE PROBLEM

Waqf land constitutes the largest share of waqf assets in many countries including Malaysia. According to statistics by the State Islamic Religious Councils (SIRC), the size of waqf land in Malaysia is estimated to be around 30,888.89 hectares, which is equivalent to 14,356 units of waqf land (YWM, 2016). However, in spite of its availability and potential, there is still a lack of development of waqf land in Malaysia. A vast majority of research has shown that SIRC in Malaysia are hardly facing financial constraint in developing waqf land. SIRC in Malaysia are depending on allocation of funds from the government to develop waqf land. However, allocation of funds from the government through RMK-9 and RMK-10 has started to decrease due to economic reasons. Even though SIRC still needs a large amount of financing fund to develop the entire waqf land in Malaysia. Existing studies have suggested alternative models by using classical and contemporary modes of financing to develop waqf land, but the suggestions are not able to completely overcome the issue of financial constraints in

developing waqf land. There is a need to develop a viable model and to investigate the extent to which such a model can address the issue of financial constraints and market acceptability of the donors. It can be rightly asserted that other innovative sources of financing besides government funding is required to develop waqf land in Malaysia. As such, a new mechanism that would allow for a sustainable source of financing is needed to develop waqf land in Malaysia. The present study driven by this research gap proposes a crowdfunding-waqf model (CWM). This new model is expected as the most suitable model that can effectively address or mitigate the liquidity constraints and provide sustainable funds for SIRC to develop waqf land based on identified projects. Instead of disseminating results to a broader community upon completion of the research, CWM garners public support before any project is initiated by the waqf institution particularly SIRC. Public outreach is at the forefront of crowdfunding proposals and cultivating early connections with a wide audience often determines the success of individual funding drives. Crowdfunding takes advantage of crowd-based decision-making and innovation and applies it to the funding of projects. Since this mode of raising initial capital has proven to be successful in country like Australia, United States, Netherland, United Kingdom, France, India and Brazil (World Bank 2013), the potential of this model to revamp the waqf assets in Malaysia is great. Thus, the present study aims to propose the Crowdfunding-Waqf Model (CWM) and empirically investigates whether this proposed model can enhance the development of waqf land in Malaysia.

1.3 RESEARCH QUESTIONS

The shortage of funds faced by waqf institutions to develop waqf land has been a long-standing issue in Malaysia, which has a substantial size of waqf land. In dealing with

this problem, innovative financing mechanism is indispensable. In view of this research gap, this study seeks to find answers to the following research questions:

- 1) To what extent is the liquidity constraints faced by waqf institutions in Malaysia in developing waqf land?
- 2) What alternative model could be proposed for effectively addressing the problem mentioned in (1) above?
- 3) What would be the perception of the relevant stakeholders about the suitability, applicability and prospects of the model developed in (2) above?
- 4) How will the factors of (i) perceived usefulness, (ii) perceived ease of use, and (iii) perceived ease of use on perceived usefulness influence the intention of crowd funders to use the model developed in (2) above?

1.4 RESEARCH OBJECTIVES

The research objectives of this study are as follows:

- 1) To demonstrate the extent of liquidity constraints faced by waqf institutions in developing waqf land
- 2) To develop an alternative model that effectively addresses the problems mentioned in (1)
- 3) To explore the opinion of the relevant stakeholders about suitability, applicability and prospects of the model developed in (2) above
- 4) To examine how the factors of (i) perceived usefulness, (ii) perceived ease of use, and (iii) perceived ease of use on perceived usefulness influence the intention of crowd funders to use the model developed in (2) above.

1.5 SCOPE OF THE STUDY

The main focus of this study is on the potentials of crowdfunding donors or crowd funders particularly in Selangor, Johor, Pulau Pinang, and Pahang. These areas are selected to represent North, South, East, and West of Malaysia. In addition, a lot of waqf lands lots are located in these four states. Based on the latest waqf land databased provided by YWM (2016), these four states have many of waqf land lots. Besides, the amount of internet penetration in these four selected states becomes the other consideration (MCMC, 2017). Furthermore, this study focuses only on the financing issue as this problem is more apparent among the waqf institutions.

1.6 SIGNIFICANCE OF THE STUDY

Unlike Islamic banking and finance, studies on potential and suitability of crowdfunding for developing of waqf land are still limited. This study, hence, is designed to explore and investigate the viable and sustainable of crowdfunding as alternative financing fund for waqf land development. In addition, this study is also expected to produce several outcomes. Specifically, the outcomes of this study can contribute to: (i) knowledge (ii) institution of waqf land (iii) economy, as well as (iv) policy makers.

For knowledge, the proposed model adds to the existing literature in the areas of crowdfunding and waqf land development. Meanwhile, for waqf institutions, this study could assist managers of waqf institution in identifying sustainable and cost-effective source to overcome the issues of financing on waqf land development. In addition, this study also provides a new avenue for the effective utilization of crowdfunding for waqf land development, particularly in Malaysia. This is because crowdfunding had played a significant role as crowd-based decision-making and innovation funding to financing of

specific projects. This model is expected to positively change the perception of stakeholder about the dynamics and potentials of this crowd-based funding.

This also contributes to the economy. Since waqf land is one of the redistributions shemes in an Islamic economy system, it helps to increase wealth, consumption and investment that later can boost the economy. Moreover, as this study proposes the use of crowdfunding as the main source of fund for developing waqf land, it would help to achieve efficiency in allocation of resources in the economy.

Lastly, this study could benefit the policy maker, especially SIRC, charting a direction oh how to plan and focus on more effective measure that can enhance the potential of waqf land in their development plans or strategies. Furthermore, it may serve as a material reference in the area of policy formulation for the different tiers of government.

1.7 ORGANIZATION OF THE STUDY

This study consists of nine chapters. Chapter One offers an introduction to the study. This section includes a discussion of the background of the study about the general issues and problems pertaining to waqf land. Furthermore, this section also deliberates problem statements, research objectives, research questions, scope, limitations and significance of the study. Chapter Two provides an overview of waqf land in Malaysia. Chapter Three briefly discusses the overview of crowdfunding. Chapter Four briefly discusses the theoretical framework of Technology Acceptance Model (TAM) and Hypothesis Development. Chapter Five develops a model which is known as Crowdfunding-Waqf Model (CWM). Chapter Six describes the methodology of the study and provides information on the sources of data and the method of analysis. Chapter Seven and Eight present the result and analysis of the empirical findings.

Chapter Nine provides conclusion, policy implication, the limitation of study and the direction for future research.