

**UNIVERSITI TEKNOLOGI MARA**

**EFFICIENCY DETERMINANTS OF  
MALAYSIAN PUBLIC WAQF IN A  
DYNAMIC ENVIRONMENT**

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## ABSTRACT

Managerial efficiency is all important in financing a not-for-profit foundation. Waqf or endowment is among one of the Islamic financial institutions set up for the sole intention to serve as a catalyst for economic growth and development of Muslims. In Malaysia, every state does its own Waqf department under the organization of State Islamic Religion Councils (SIRCs). As sole single trustees of Waqf funds, SIRCs are responsible to do all the bodily processes and transactions done for the development and aggregation of finances as easily as to invest and administer the revenues from the finances. This research is divided into three analyses. Firstly, this research did an extensive measurement using the Data Envelopment Analysis (DEA) to investigate the dynamic efficiency performance of Waqf Departments in Malaysia. This research breaks the efficiency measurement into three sections;

- i. Dynamic DEA analysis to cover the Technical Efficiency (TE), Pure Technical Efficiency (PTE) and Scale Efficiency (SE) in static CRS efficiency measurement, VRS efficiency measurement, dynamic CRS efficiency measurement with two approaches of input orientation and output orientation.
- ii. Two-stage DEA measurement to measure both Waqf collection and Waqf distribution functions. The Two-stage DEA separates the collection function from the distribution function.
- iii. Waqf Management Efficiency (WME) Index that measured by DEA Malmquist Total Factor Productivity Index. This WME Index is to detail on the efficiency changes that comprises of Efficiency Change, Technical Change, Productivity Change, Scale Efficiency Change and Total Factor Productivity Change.

Secondly, this research applied Logistic Regression to the binomial efficiency scores for the robustness check. Finally, this research executed the dynamic panel data examination on the state's economic indicator as for determining the determinants of the Waqf efficiency. Thorough procedures were applied; panel unit root test, diagnostic test and dynamic test in reaching at the final result of Generalized Method of Moments. DEA analyses prescribed the efficiency measurement on Waqf Departments of SIRCs by operating both input and output information from the institutions. Various scales extracted from the analyses and from the result, the most efficient Waqf Department constituted its score that equal to 1, in which said the perfectly efficient. The state with score less than 1 is categorized under the inefficient score. Out of thirteen states, SIRC of Pulau Pinang, Sabah, Terengganu and Negeri Sembilan mostly resulted in the efficient score. LOGIT analysis then did check for the likelihood of the occurrence of efficiency for Waqf Department. From the result, it confirmed the observations of TE, PTE and SE in DEA previously by its binomial categorization function. GMM panel data analysis did justify State Investment and State Revenue as the determinants for Waqf efficiency. Significantly, this research did a comprehensively measurement of institutional Waqf departments and external determinants. Waqf practitioners and administration may adopt WME Index as to evaluate yearly performance of public Waqf as per adequate information prevails.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Waqf studies regard the system of Waqf, being part of the Islamic economic system, as inherently and self-consciously geared towards achieving a civil societal role and striking a balance in socioeconomic equity between public interest and private interest so as to be called an economy of the common good. This chapter covers the introduction to this research, namely its aim, objectives and its significance to the body of knowledge, particularly in relation to Waqf economy.

The motivation behind Waqf is to capture the beauty of the human soul that follows the act of generosity, which is love of kindness and goodness and to strive to gain essential benefits of the benevolent and giving soul. This is how Islamic teaching opens the door of goodness for all mankind, such that it can be accomplished by the labourer, the merchant, the farmer, the student and likewise without their existing economic circumstances preventing them from spreading acts of kindness and goodness in the society. Islam elevates the soul to the highest state when it enables kindness to be done by all Allah's vicegerents in fulfilling this innate humane inclination, as narrated by Abu Hurairah:

*The Messenger of Allah (peace be upon him) said, "A man said that he would give something in charity. He went out with his object of charity and unknowingly gave it to a thief. Next morning the people said that he had given his object of charity to a thief. (On hearing that) he said, "O Allah! All the praises are for you. I will give alms again." And so he again went out with his alms and (unknowingly) gave it to an adulteress. Next morning the people said that he had given his alms to an adulteress last night. The man said, "O Allah! All the praises are for you. (I gave my alms) to an adulteress. I will give alms again." So he went out with his alms again and (unknowingly) gave it to a rich person. (The people) next morning said that he had given his alms to a wealthy*