Success Factors Model of Special Financial Institution for Malay Reserve Land (MRL) Development

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Abstract - **Malay Reserve Land (MRL) in Malaysia has a great potential to be developed successfully. However, the development is still lagging behind due to financial constraints. Currently, there are no specific funds provided to assist Bumiputera developers or owners to develop MRL comprehensively. Thus, the establishment of special financial institutions can drive the development of MRL. However, the special financial institutions need to fulfill certain criteria to ensure the continuation of sustainable and competitive development. This research aims to explore the success factors of special financial institutions for MRL development. Data were collected through questionnaires survey from ninety-one respondents with expertise in MRL development. The data were analysed using SmatPLS 3 software for Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess the significant value of the items studied. The results highlighted four aspects namely i) financial sources, ii) financial policies and procedures, iii) government support and iv) Islamic financial structure as significant success factors in the establishment of special financial institutions for development of MRL.**

I.   Introduction

Malay Reserve Land (MRL) development has become the main agenda in RMK-12 to enhance the Bumiputera economy. However, there are many issues related to the problem of obtaining financing from banks and financial institutions that often undermine efforts to develop the MRL especially in multiple ownership situations (Md. Ariffin, 2015). This is because the multiple ownership status makes it difficult to get an agreement on the project to be implemented and there is no guarantee of the validity of the agreement being created. The financiers often avoid giving the loan due to the risk of unsecured loan repayment (Termizi and Ismail, 2018). However, there are also MRL owners who had obtained loan from financial institutions but with very limited amount. Most of the available funds could not cover the overall costs of project development. As a result, the project failed to be completed. This has led to an adverse impact on the landlord where the loan cannot be settled and the development project being abandoned (Termizi and Ismail, 2018). To ensure that the MRL development is developed effectively, it requires a special financial institution for MRL development to

ensure that the development can be carried out successfully and provide positive impact on the Bumiputera economic development. The aim of the research thus, is to explore the success factors of special financial institutions for MRL development.

II. Aims and Objectives of Research

This research aims to explore the success factors of special financial institutions for MRL development. The specific objectives are as follows:
   i. To identify the success factors of special financial institutions for MRL development.
   ii. To determine the significant success factors in establishing special financial institutions for MRL development.

III. Literature Review: Success Factors of Special Financial Institutions for Malay Reserve Land (MRL)

This study involves identifying the success factors on the establishment of special financial institutions for MRL to encourage and assist Bumiputera developers in the development of MRL in Malaysia. These success factors are the benchmarks and catalysts to the success of the proposed strategy.

Strengthen the Purchasing Power of the Bumiputera
Strengthening the purchasing power of the Bumiputeras (Hassan and Aliasak, 2018) is crucial in ensuring the success of the development of MRL. The land is often viewed in a narrow perspective due to the limited purchasing power of the Malays as well as its overlapping ownership causing many developers to be reluctant to take risks (Hassan and Aliasak, 2018).

Provide Incentives to Encourage Innovation of Development
Incentives to encourage development innovation are important factors in enhancing sustainable development (Buang and Omar, 2015). Innovation for inclusive and sustainable development has recently become a widely discussed area of public policy in Malaysia. Discussions among policymakers centered on the need to address factors such as low farm productivity, increasing health related problems, natural disasters, environmental problems and financial inflation. In 2014, the government launched transdisciplinary research grants with the aim of including community benefits among performance criteria in Malaysian research universities and providing incentives to promote science in supporting poverty reduction and sustainable development (Rasiah et al., 2015).

Identify Potential Development
The location and size for each block of MRL is vested to the state authority. Thus, the reserve land is scattered everywhere and tends to be located within town boundaries (Hanif et al., 2015). The Kuala Lumpur Structure Plan outlines that these MRL were originally conceived of and planned as traditional villages. The lots comprise individual dwelling units with associated lands sufficient to provide agricultural smallholdings. As the City has grown, the MRL that were originally located on the outskirts of the City have become surrounded by urban development; thus, many of the original buildings and settlements are no longer compatible with their surroundings (Hanif et al., 2015). Nevertheless, the surroundings create good potential for development of the MRL and identifying these potentials is instrumental in the development of MRL.

Provide Funds for the Development
Providing funds is important to assist individual MRL owners to develop their land as they lack sufficient capital to develop their land. The MRL can be developed by establishing a land trust. The State government may set up a special body and allocate development capital for this purpose. The special body can be established to develop, coordinate, supervise and act as a mediator between developers, landowners and shareholders. To ensure that there is no conflict of interest between the special body and the Malay owner, private sector is not allowed to participate in such a project. The effort is to ensure Malay ownership is preserved and at the same time bring up its value (Rosman et al., 2021).

Government Support
The issue of land shortage for housing development has been connected to the issue of MRL. Housing developers have claimed that the escalating urban land prices were partly related to less acreage of available freehold land for property development. In other words, the housing developer's complaint is that the limited

supply of land available for housing developments push prices upwards (Hanif et al., 2015). Government support in facilitating the development of MRL in terms of providing support such as planning approval for development on MRL may to a certain extent encourage the success of development of MRL and ease the shortage of land for development in urban areas.

Financial Model

A good financial model is another important factor that is important in determine the success of a MRL development project. Financial modeling is the process of creating a summary of a company's expenses and earnings in the form of a spreadsheet that can be used to calculate the impact of a future event or decision (Boffo and Patalano, 2020). A financial model has many uses for company executives. Through capital structure, the firm can increase their value and protect the shareholders' interest. In other words, soundness of capital structure will lead to the maximization of the return and increase the profit thus benefitting the shareholders (Jaafar et al., 2019). Financial analysts most often use financial models to analyze and anticipate how a company's performance might be affected by future events or executive decisions (Boffoand and Patalano, 2020). The financial model also needs to emphasize improving the economy management to attract more investors (Ma'in et al., 2018). Financial modeling is a representation in numbers of a company's operations in the past, present, and the forecasted future. Such models are intended to be used as decision-making tools. Company executives might use them to estimate the costs and project the profits of a proposed new project. Financial analysts use them to explain or anticipate the impact of events on a company's stock, from internal factors, such as a change of strategy or business model to external factors such as a change in economic policy or regulation (Nawawi and Rosman, 2021). Financial models are used to estimate the valuation of a business or to compare businesses to their peers in the industry. They also are used in strategic planning to test various scenarios, calculate the cost of new projects, decide on budgets, and allocate corporate resources. Examples of financial models may include discounted cash flow analysis, sensitivity analysis, or in-depth appraisal (Boffoand and Patalano, 2020).

Financial Incentive for Developer

Financial incentives are essential to motivate MRL land owners to develop MRL. These incentives are used usually in the case of existence adequate government funding for these projects, where the state provides loans, exemptions and concessions for real estate companies to complete their projects in short time. However, these incentives are often insufficient due to the high costs of low-income housing projects compared to their returns, which make a limited number of companies have a willingness to invest in this type of housing projects (Horowitz, 1996). These incentives have been applied similarly in all kinds of social housing projects, whether subsidized or unsupported and in different utilization systems (ownership or rent), which made many companies did not achieve the expected profitability in some projects (Chaarawi et al.,2016). For these reasons, the state is trying now to introduce meaningful incentives to real estate companies that use optimal land use and less government spending in return for the highest possible returns for all partnership parties. Thus, the importance of this paper lies in formation additional new incentives for private sector to participate in future social rental housing projects (Abd Elkawy, 2020).

Optimize the Value of MRL

Optimizing the value of MRL at the strategic location (Buang and Omar, 2015) is crucial. Bumiputera companies will continue this effort to develop Malay Reserve Status Lands and increase their economic utility and value for the benefit of all stakeholders (Omar, 2017). The development of MRL should be seen as an effort to provide sustainable economic development for Bumiputeras. Bumiputera companies will continue this effort to develop Malay Reserve Status Lands and increase their economic utility and value for the benefit of all stakeholders. The current economic scenario and the Government's emphasis on inclusivity and the Bumiputera Agenda, efforts to optimise the value and use of MRL should be one of the primary mechanisms to strengthen Bumiputeras' involvement in real estate and their participation in the economy (Omar, 2017).

Financial Sources

All banks should be allowed to deal with MRL. Currently, only limited numbers of bank listed under Malay Reservation Enactment 1913 are permitted to deal with such land. The proposed amendment will allow MRL owners to pledge the property as collateral to any licensed bank in the nation (Clews, 2016). This may ensure Malay reservation's owners obtain financing to develop their land. However, to safeguard the Malay interest on the land, it must be stressed that if the owner were to default in paying back the loan to the bank, the land can only be auctioned to a Malay buyer only. Problems obtaining financing from banks and financial institutions often hamper efforts to develop shared land (Omar, 2017). There are also MRL owners in this district who

managed to obtain financing from financial institutions but the low value of the land by the financial institutions caused the loans obtained to be small. The amount of the loan could not cover the cost of developing the land and eventually the development project that was being implemented could not be continued. This results in a worse impact on landowners where loans cannot be repaid and development projects implemented are abandoned. In addition, to further brighten the opportunity to obtain such financing, landowners need to submit development proposals that have the potential to be viable and ensure that they are in the correct development zoning. These development zones are usually framed by the district office or local district council (Termizi and Ismail, 2018).

Financial Policies and Procedures

Financial policies are the rules or principles of your business's accounting and financial practices. Policy relates to a decision of the governing body of an organisation. A policy is typically an internal organisational decision that aids how it functions. A policy is a formal statement of a principle that should be followed by its intended audience. Each policy should address an important issue concerning the achievement of the overall purpose of the organization (Jonick, 2017). The policy must link with the strategic objectives such as improved service quality. It is one of the alternative methods to realize the value of MRL that have the potential to be developed, especially due to financial constraints and lack of expertise on the part of landowners (Omar, 2017). At a microeconomic level the financial policy includes a set medium and long term objectives, which relate either to all financial activity or to its major components. Among these we distinguish by their special meanings: the volume and structure of available resources, performers of various activities, financing sources, intermediary and final terms, global and partial indicators (Onofrei, 2000).

Islamic Financial Structure

Financiers in both Islamic financial institutions and conventional banks have been rapidly developing techniques to provide the methods and tools required to create investment opportunities for this Islamic money which can be integrated, with the assistance of experienced professional advisers familiar with the principles both of Islamic and conventional finance, with established conventional financing structures. The firm most dedicated to Islamic finance, offering the market's largest team consisting of lawyers whose work is focused entirely on Islamic finance matters (Boffoand and Patalano, 2020). Islamic finance is structured in such a way so as to comply with the principles of Islamic, or Sharia, law. The motivation for using Islamic finance is that, by demonstrating compliance with the principles of Sharia law, borrowers and issuers of Islamic debt can gain access to Islamic institutions and thereby a much wider base of investors. A strong track record of successful Sharia compliant project finance now exists. Not surprisingly, Islamic finance has been an important source of financing and have some unique characteristics that need to be addressed when using this type of finance for projects (Clews, 2016).

IV. Special Financial Institutions for Malay Reserve Land (MRL) Development

The establishment of special financial institutions can provide good incentives to encourage development of MRL (Rosman et al., 2021) in supporting poverty reduction and sustainable development (Rasiah et al., 2015). It also can encourage developers to develop MRL effectively (Hanif et al., 2015), optimize the value of MRL at strategic locations (Omar, 2017) and increase their economic utility and value for the benefit of all stakeholders (Omar, 2017). The special financial institutions and development of the MRL also may support any development projects especially those facing financial constraints and lack of expertise (Omar, 2017). This may help strengthen the purchasing power among Bumiputera's buyers (Hassan and Aliasak, 2018) and at the same time help bring up MRL value as par as current market value (Rosman et al, 2021).

Previous works have highlighted the importance of financial aspects in driving the development of MRL. According to Rosman et al. (2021), financial issues are among the main obstacles in the development of MRL. Similarly, a study by Termizi and Ismail (2018) has highlighted that the obstacles in obtaining financial assistance has hampered the development of MRL. Nevertheless, none of the research have actually investigated the financial aspects in terms of establishment of a special financial institutions, let alone the success factors that must be taken on board to establish the institutions. The research attempts to fill in the research gap accordingly.

A plethora of success factors need to be fulfilled by the special financial institutions. These include a good financial policy and procedures which is based on Islamic concept (Clews, 2016), reliable financial sources (Termizi and Ismail, 2018); ability to optimize value (Omar, 2017); financial incentives to developers (Abd-Elkawy, 2020); a feasible financial model (Boffoand and Patalano, 2020), adequate support from the Governments; sufficient funds for development (Hanif et al., 2015); creation of potentials of development

(Rosman et al., 2021); incentives for development innovations (Rasiah et al., 2015) and ability to strengthen purchasing power of the Bumiputera (Aliasak, 2018). The success factors are important from a holistic perspective to ensure that the special financial instituitions can be effective in performing their roles. Figure 1 shows the conceptual framework as derived from Special Financial Institutions success factors discussed above.
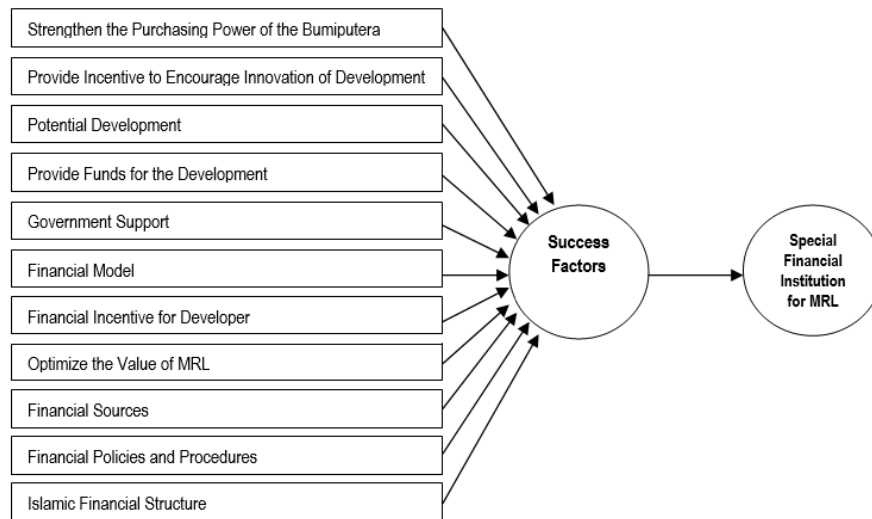

Figure 1: Conceptual Framework of Special Financial Institutions for Malay Reserve Land (MRL)
Source: Researcher (2022)

V. Methodology

This research uses the quantitative method which involves questionnaire survey as a research instrument for the purpose of data collection. This research used purposive sampling technique by focusing on the respondents who are the experts in MRL development namely the academics, government officers, NGOs, Bumiputera developers, lawyers and bankers. 500 bootstrap samples which is acceptable with justification from Deng et al. (2013) has been involved in this study. Partial Least Squares Structural Equation Modeling (PLS-SEM) was used as an analysis technique in measuring the formative model towards the establishment of special financial institutions for MRL development. The result has come out with the success factors status of Special Financial Institution Model of MRL Development Strategy which are indicated by the Outer Loadings and P-Values.

VI. Analysis and Findings

The research finding involves the formative measurement of the model which include convergent validity, collinearity, significance and relevance and also indicator weights. Table 1 presents the score of convergent validity which indicated a perfect score of 1.000 i.e. more than 0.7. It means path coefficient has strong relationship to the construct.

Table 1: Path Coefficients

Construct	Convergent Validity
Success Factors on Establishment of Special Financial Institution of MRL	1.000

In addition, table 2 had present Variance Inflation Factor (VIF) values which are consistently below the threshold value of 5 and also 3.3. It can be concluded that the collinearity does not reach critical levels in the formative construct (Hair et al., 2017). Beside that the VIF values are consistently below threshold value of less than 10 (Hair et al., 2017) which concluded that collinearity does not reach critical levels in formative constructs and thus not an issue for the estimation of PLS-SEM path model (Sarstedt, 2017) (Table 2).

Table 2: Collinearity Statistics of Variance Inflation Factor (VIF)

Formative Indicators	SFI1	SFI10	SFI11	SFI2	SFI3	SFI4	SFI5	SFI6	SFI7	SFI8	SFI9
VIF	2.801	6.700	5.796	5.592	5.325	4.569	2.954	6.282	3.747	5.703	4.119

Table 3 has indicated the outer loadings score which are ranged between score 0.020 to 0.570. However, the score of the indicators on P-Values is less than 0.005 which indicate that the indicators are significant and relevant to the constructs.

Table 3: Bootstrapping Result Outer Loadings

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P-Values
SFI1 -> Success Factors	-0.193	-0.192	0.014	13.994	0.000
SFI10 -> Success Factors	0.534	0.535	0.025	21.004	0.000
SFI11 -> Success Factors	-0.422	-0.420	0.030	14.259	0.000
SFI2 -> Success Factors	0.047	0.047	0.002	18.798	0.000
SFI3 -> Success Factors	0.199	0.198	0.010	19.054	0.000
SFI4 -> Success Factors	0.057	0.056	0.004	15.120	0.000
SFI5 -> Success Factors	0.417	0.416	0.022	18.898	0.000
SFI6 -> Success Factors	0.075	0.075	0.005	15.384	0.000
SFI7 -> Success Factors	-0.275	-0.274	0.019	14.125	0.000
SFI8 -> Success Factors	-0.020	-0.020	0.001	17.595	0.000
SFI9 -> Success Factors	0.570	0.570	0.026	21.875	0.000

Overall, the results highlighted that all the indicators used in this research are significant and important to the establishment of special financial institutions for MRL. However, there are four success factors that get high loadings and it can be concluded that these four indicators should be given the main focus, namely the indicator financial sources (SFI9) which recorded a loading score of 0.570, while financial policies and procedures (SFI10) obtained a score of 0.534, followed by government support indicator (SFI5) which is 0.417 and Islamic financial structure -0.422. These four success factors are able to contribute to the success of the establishment of special financial institutions for the development of MRL holistically (Figure 2).
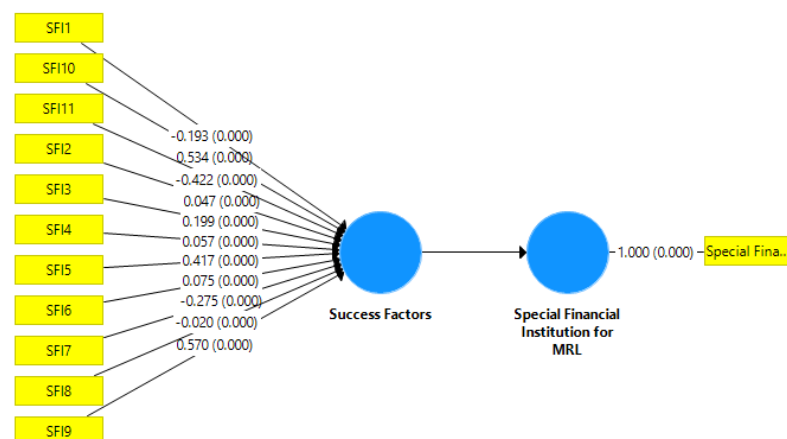

Figure 2: Success Factors of Special Financial Institution Model of MRL Development Strategy (Outer Loadings, P-Values)

VII. Conclusion

This research has successfully determined the significant success factors in establishing special financial institutions for MRL development. This will form a basis for the development of a model of special financial institutions in the development of MRL. However, four important success factors that are significant from SEM-PLS analysis need to be given focus in the establishment of special financial institutions for MRL. The findings also provide a benchmark for stakeholders in the development of MRL which are crucial in strategizing efforts in development of MRL in the future.

Acknowledgements

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