

# PRIVATE ISLAMIC UNIVERSITY IN MALAYSIA TOWARDS A WAQF-BASED UNIVERSITY: THE SOURCES OF WAQF HIGHER EDUCATION COLLECTION USING FINTECH CROWDFUNDING PLATFORM (CFP) CONCEPTS

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## Abstract

The main objective of this research paper is to see the potential of using FinTech Crowdfunding Platform (CFP) concepts in waqf higher education fundraising to develop private Islamic higher education in Malaysia as a waqf-based university. Qualitative methodology is using which based on journals articles, interviews the Islamic Banking Students & Lecturers, books and any other related materials. The findings of this paper show that fundraising to create educational waqf funds using FinTech crowd funding concepts is potential to help fundraising to curb the problem of lack of money to develop private Islamic higher education as a waqf-based education. As conclusion, private Islamic higher education has the potential to be developed as a full and waqf-based education looking at the development and progress that this educational institution has gone through. Fundraising for waqf higher education through FinTech Crowd funding Platform (CPF) concept is seen to be one of the sources to solve the problem of lack of funds to realize the establishing of private Islamic higher education in Malaysia becomes a reality.

**Keywords:** FinTech, private Islamic higher education, Islamic Social Finance, Cash Waqf. Waqf higher Education Waqf, FinTech Crowdfunding Platform.

## INTRODUCTION

The government of Malaysia keen to visualize Malaysia as a center of Higher Education development in Asian region, which shifted the National higher Education paradigm with the development of Private Islamic Higher Education (PIHE) in Malaysia. It is an important in order to producing the reliable Islamic professionals to contribute back to the society as a new dimension sparked from the need to put Islam as a way of life (Kutty, 2003) [1]. The rapid growth of PIHE facilitated government strategy for Islamic education development in

Malaysia.

History of Higher Education in Malaysia Colonisation era as sparked by British, witnessed that education system in Malaysia is vernacular in orientation in which the enrolment of schooling system influenced by race (Nordin & Hussin, 2014) [1]. During British invasion, they had practice 'divide and rule' policy purposely to discourage racial integration, thus Malaysian education system are much alike vernacular in nature at the beginning. In 1941, Japan has taken over Malaya and the education system has shifted towards propagating love and loyalty to Japanese emperor. After World War II, Japanese lost it battle between British and Malaya and we successfully claimed our independence on 1957. The strategy of education system has been formulated since before independent with Cheeseman Plan in 1946 followed by Barnes Report in 1950, Fenn-Wu report 1951, Ordinan Pelajaran 1952 followed by Penyata Razak in 1956, Penyata Rahman Talib 1960 and National Philosophy of Education (Nordin & Hussin, 2014) [2]. Ministry of Education (MOE) Malaysia has been established to respond for the need of building a human capital that is reliable based on National Philosophy of Education and they are accountable to oversee, restructure, formulate and implement all regulations related with public and private Higher Education Institutions (HEI's) in Malaysia (Nordin & Hussin, 2014) [3]. Since the reshuffle of the cabinets in 2015, MOE has scrutiny its role, segregate their task and manage all the institution at higher learning acted as Ministry of Higher Education (MOHE) Malaysia (MOHE, n.d.). Transformation Model of Higher Education New strategies must be adopted to guarantee a sustainable and successful future of institution especially in the fast pace of education, economic and digital changes (Bill & Melinda, 2014) [4].

The factors of transformation in Higher Education The transformation bear a significant meaning of process that ensures an organisation is appropriate to the context in which it operates (West-Burnham, 2010) [5]. The change in education spur queries and people might ask, why and how education should transform. Gardner (2006) [6] explicates two (2) drive of transformation in education such as the obsolete of current practices and second, the way how world is changing. Malaysian Higher Education landscape has changed since the shift of production-based economy to knowledge-based economy. These changes are drove from globalisation factors that creates more demand on more efficient human capital and skilful employees (Shariffuddin, Razali, Shaaidi, & Ibrahim, 2017 [7]; (Grapragasem, Krishnan, & Mansor, 2014) [8]. Transformation guidelines from Ministry of Higher Education Malaysia Situations of sustainability on higher education institution raise red flag to Ministry of Higher Education Malaysia to ensure the continuance excellence in their public university. They produce four kits to transform HEI's and it is hope that the private Islamic higher education institutions can adopt and adapt what's best for them.

Transformation of Islamic Higher Education Institution in Malaysia There are ten (10) university, college university and college based on Islamic education in Malaysia either fully owned by state government with facilitation from Islamic Religious Council or establish from the aspiration of state government. In decades, some of the institution has transform themselves become more reliable and preferred institution.

## **PRACTICE OF HIGHER EDUCATION WAQF IN MALAYSIA**

Waqf is a form of absolute surrender of property, in which the property is stopped from being traded and only the proceeds are utilized for charitable purposes whether in general waqf or specific waqf form. In terms of terminology, Waqf is any property that is held by the Waqif's (owner of the waqf property) right over the property from any transaction, inheritance, hibah and will while maintaining its physical resources for charity with the intention of bringing the Waqif closer to Allah SWT and giving charity to others. In the implementation of waqf, there are four pillars (rukun) that need to be followed in making a waqf valid [9]. The pillars of waqf are Waqif (owner of the property), Mawquf A'laih (waqf recipients), Mawquf (waqf property) and Sighah (expression of offer and acceptance) [10].

The development of institutions of higher learning using waqf instruments is a practice that has been going on for a long time. Education Waqf among Muslims in Malaysia has begun with the arrival of Islam in the Malay world and can be considered as a positive tradition that needs to be developed. The practice of waqf education is available in various forms of properties that has been endowed by the Waqif. Among them are student dormitory waqf, scholarship waqf, and remuneration waqf, building waqf and learning equipment waqf such as books, tables and others.

Pondok Learning Institutions is one of the earliest educational waqf in Malaya was endowed by the scholars who mostly graduated in Islamic field in Mecca and it was so popular among the Muslim community especially in the late 19th century A.D. and early 20th century A.D. [11][12].

Then, there were born several schools and madrasahs that have been established on the fund and waqf system [7][9][10]. Among the waqf schools and madrasahs are:

1. Madrasah Masyhor Al-Islamiyyah, Pulau Pinang. (Established 1916)
2. Madrasah Khairiah Islamiah, Pokok Sena, Kepala Batas, Pulau Pinang. (Established 1933)
3. Maahad Al-Ihya Al-Syarif, Perak. (Established 15<sup>th</sup> April 1934)
4. Maktab Mahmud, Kedah. (Established 16<sup>th</sup> June 1936)
5. Madrasah Arabiah Kluang, Johor. (Established 8<sup>th</sup> May 1946)
6. Kolej Islam Malaya, Klang. Selangor. (Established 25<sup>th</sup> February 1955)

This shows that the use of waqf instruments in elevating educational institutions has been around for a long time and is constantly evolving.

For institutions of higher learning and universities, there are several efforts from a number of public universities and private institutions of higher learning that have taken the initiative to raise waqf funds as one of the new financial resources for institutions of higher learning [13][14]. Among the Public universities are:

### **1) Universiti Putra Malaysia (UPM)**

Dana Wakaf Ilmu was established by UPM in 2011. A total of RM7.1 million was collected until May 2016. The proceeds from the endowment fund have benefited UPM students.

### **2) Universiti Sains Malaysia (USM)**

ISDEV Cash Wakaf: Islamic Development Management Research Center (ISDEV) has received wakaf fund approval from the Penang Islamic Religious Council (MAINPP) on 24 November 2009. This fund is managed by Yayasan Universiti Sains Malaysia (USM). A total of RM 50,000 has been collected until May 2016. The proceeds of this waqf fund are used for education and research development.

### **3) Universiti Sains Islam Malaysia (USIM)**

Wakaf Clinic (USIM) has been built as a wakaf clinic through cooperation between USIM and the Negeri Sembilan Islamic Religious Council. This clinic was opened in Nilai Square and started operating in April 2014. This waqf clinic was fully funded by the Negeri Sembilan government. A total of RM 4.25 million was donated by the state government until May 2016. This clinic provides health services to asnaf such as the poor and disadvantaged communities living around USIM.

### **4) Universiti Kebangsaan Malaysia (UKM)**

Dana Wakaf UKM was launched in 2010. This endowment fund is collected through personal communication as well as internal advertisements. A total of RM 365,000 has been successfully raised until May 2016. This fund is used for education and welfare, student development, academic research and development as well as establishing relationships with industry and society.

### **5) Universiti Islam Antarabangsa Malaysia (IIUM)**

Apart from receiving endowment funds from the Malaysian government, endowment funds in IIUM are also collected through contributions from large companies and foreign foundations. A total of RM 3.5 million waqf fund has been accumulated since 1999. IIUM is recorded to have successfully sponsored 4000 students annually as a result of waqf funds that have been successfully collected.

### **6) Universiti Teknologi Malaysia (UTM)**

Merdeka Endowment UTM was launched by the Vice Chancellor of UTM to provide scholarships for undergraduate students of UTM. It was established in 2009 and since then the value of the fund that can be raised is RM 53 million in early 2013 and has funded 550 UTM undergraduate students.

Private universities such as the following have also developed their respective waqf fund systems as follow:

- 1) Universiti Islam Malaysia (IUM), Cyberjaya.
- 2) University College Bestari (UCB), Setiu.
- 3) Universiti Antarabangsa Al-Bukhari (AiU), Alor Star.

### **OBSTACLES AND CHALLENGES OF EDUCATION WAQF**

Although the waqf system and waqf education are growing day by day, however, a public and private institutions of higher learning cannot escape the obstacles and challenges that are an obstacle to this noble endeavour. Among the obstacles and challenges identified are as follows[15][16][17]:

- 1) Administrative Management
- 2) Financial Resource Management
- 3) Instructor Management
- 4) Information Management
- 5) Marketing Management

Thus, there have been good efforts in public and private institutions of higher learning in this country to develop waqf funds in their respective institutions. This means that most institutions of higher learning have also responded to the proposal from the Ministry of Higher Education Malaysia which encourages every institution of higher learning to enhance university income using endowment and waqf instruments through the Purple Book of University Transformation Program [16]

Therefore, this study was conducted to see the potential development of waqf education system by using financial technology (FinTech) crowdfunding concept.

### **FINTECH CROWDFUNDING**

Financial Technology (FinTech) is a technology that continues to grow from the past hundreds of years until today. As today technology is driven by the development of the Industrial Revolution 4.0, it offers the advancement of FinTech services. FinTech services is a financial service that makes financial transactions can be done faster, as well as it saves time and costs. FinTech services are the future of financial transactions worldwide, where financial transactions can be carried out without the need for physical money by using the Internet of Things (IoT) application. As such, FinTech services will revolutionize the landscape and the way people transact with one another[18].

Crowdfunding are defined as an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights to support initiatives for specific purposes [19]. Crowdfunding can be divided

into four categories, namely, donation crowdfunding, reward crowdfunding, lending crowdfunding and equity crowdfunding. The details explanation is as follow[20]:

**Table 1: Types of Crowdfunding**

Types of Crowdfunding	Explanation
<b>Donation crowdfunding</b>	Donation crowdfunding is where the collection of funds takes place for social, artistic, philanthropic or other purpose, and not in exchange for anything of tangible value. It does not provide any material return.
<b>Reward crowdfunding.</b>	Reward crowdfunding is the collection of funds, where the investors or donors receive some tangible reward (such as membership rewards scheme, products and coupon) as a token of appreciation. These rewards can be in many different forms and not monetary form (cash).
<b>Lending crowdfunding.</b>	Lending crowdfunding is an online platform that matches lenders or investors with borrowers or issuers to provide loans with lower interest rate which is set by the platform.
<b>Equity-based crowdfunding.</b>	Equity-based crowdfunding refers to the fund raised through online by a business, particularly early-stage funding, by offering equity interests in the business to investors.

Thaker And Pitchay (2018)[21] stated that, “according to Asian Institute of Finance (2017), there are three main Web-platforms on crowdfunding in Malaysia, namely, pitchIN, MyStatr and MDeC. However, these CFPs are reward-based and donation-based crowdfunding. So far, as August 2015, only 19 out of 103 projects are successfully raise funding through these CFPs (Asian Institute of Finance, 2017). Indeed, all the successful projects are focussing on community projects, film and video, arts and music. The market volume for CFP in Malaysia was over \$5m between years 2013-2015. This is covering approximately 6 per cent of total market activity across South East Asia. The total volume was dominated by donation-based crowdfunding, which accounted for 92.4 per cent of total Malaysian market, which raised a total of \$4.68m. Reward-based crowdfunding accrued a total of 6 per cent, which amounted to over \$325,000 over the period. In addition to existing CFPs in Malaysia, recently, in June 2015, Malaysian Securities Commission has approving six equity-based CFPs for operation by the end of December 2015. Malaysia was one of the first countries in Southeast Asia to give regulatory approval for equity crowdfunding. Among the approved equity-based CFPs in Malaysia are Alix Global, Ata Plus, Crowdonomic, Eureeca, pitchIN and CrowdPlus.asia. Equity-based crowdfunding began to emerge with a very small total volume of \$58,000, equating to 1.1 per cent of total market activity.” Furthermore, the use of online payment and cash method become the first and second priority in response to cash Waqf payment method, while the method of postal order and cheque score the least priority for cash Waqf payment method [21].

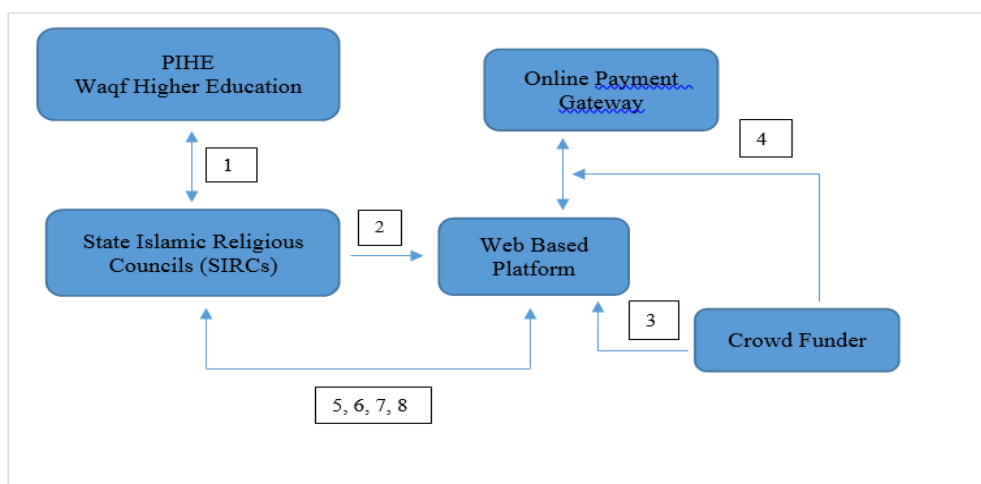
## FINDING

Thaker and Pitchay (2018) [22] has proposed a waqf model using a crowdfunding platform called Crowdfunding Waqf Model (CWM). In this model, it involves two main different parties which are waqf institution and donors or crowd funders. Waqf institution can be consisting of

State Islamic Religious Councils (SIRCs) or Department of Waqf, Haji and Zakat (JAWHAR). Meanwhile, donors or crowd funders consist of the public or a large audience, where each individual provides a fund. Donation-based crowdfunding (where no rewards are given to the crowd funders) and reward-based crowdfunding (where crowd funders receive a tangible (but not in financial form) reward for backing the project) is the biggest and fastest growing form of crowdfunding, and thus these two models were applied into their proposed CWM.

The models of CWM by Thaker and Pitchay (2018) have been adapted to suit to be used by Private Islamic Higher Education (PIHE) Waqf Higher Education fund collection. It can be seen as follow:

**Figure 1: Proposed Model for PIHE- Waqf Fund using FinTech Crowdfunding concept, adapted from Thaker and Pitchay (2018)**



The following are the detailed explanation of Proposed Model for PIHE Waqf Higher Education Fund:

- 1) PIHE proposes the development of the institutions as a waqf-based university to State Islamic Religious Councils (SIRCs). Suggestions can be submitted in various forms such as premises, finance, student fees and so on. State Islamic Religious Councils (SIRCs) needs to raise the funding from crowd funders to implement the projects and identifies their potential waqf land and does all the screening process on the projects to get financing from crowd funders.
- 2) State Islamic Religious Councils (SIRCs) uploads and submits the potential of particular projects' proposal to the system which is known as Web-based platform and social networks. State Islamic Religious Councils (SIRCs) can establish and manage its own Web-based platform and social network instead of outsourcing from external parties. The projects have to be funded within a predefined timeframe.
- 3) Crowd funders choose projects that they want to support. Crowd funders browse the web to search requests and finally choose the projects they are willing to fund. Crowd

funders can choose either to involve in donation-based crowdfunding or reward-based crowdfunding. For the donation-based crowdfunding, the crowd funders are donating their money without expecting any return or exchange for anything of tangible value. On the other hand, waqf institutions in Malaysia can provide reward in terms of tax exemption or token of appreciation (coupon, vouchers, gift, etc.) for the reward-based crowdfunding.

- 4) Crowd funders transfer/send funds through payment gateways. waqf Institution can have its own payment gateways through collaboration with existing financial institutions.
- 5) Once the target amount of fund from crowd funders is reached, the system will update the status of projects and keep track of received fund until it is ready to be distributed.
- 6) The system distributes the fund to waqf Institution and notifies them to get ready managing and supervising the projects they proposed earlier.
- 7) Waqf institution manages and supervises their identified projects. Waqf institution must track the progress regularly and updates the progress into the system until the particular projects completed and started to commence. This will ensure transparency between them and the crowd funders.
- 8) The system communicates with waqf institution as for control and audit purposes through a simple communication media such as short message services (SMS).

## CONCLUSION

As conclusion, it can be concluded that waqf plays a big role in the development of educational institutions in Malaysia from the level of pondok learning institutions, schools or madrasahs even public and private institutions of higher learning. This development has benefited the people since a long time ago. With the development of the latest technology, waqf fundraising can be done easily, quickly and managed efficiently.

Fundraising for waqf higher education can give a good impact to the community. In addition to helping people get the benefits they deserve; it also serves as a medium to tell the public that Islam has a good financial support system and helps the community.

The development of the PIHE as a waqf-based university will make it a unique history for the Muslims and non-Muslims in Malaysia. In waqf fundraising using the proposed model to PIHE, it can help waqf fundraising for PIHE easily where it can be mobilized through the online technology which is in line with the Maqasid al-Shariah. Apart from that, it also has a clear interface showing how many donations have been obtained and how many donations are still needed to become noble reality in the PIHE development project as a waqf-based university.



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