

ENHANCING CASH WAQF MODEL FRAMEWORK  
FOR FINANCING HIGHER EDUCATION IN  
MALAYSIA: ISSUES, CHALLENGES AND PROSPECTS

BY

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## ABSTRACT

Education has many benefits and positive impacts on people's life. In the world today, higher education plays a vital role in producing human capital that is considered an important national resource. As higher education is crucial for human resource development, the Malaysian government has allocated a substantial amount of public fund to sustain the operational expenditures of public universities and student assistance schemes. However, public funding for higher education is facing the challenge of sustainability. Studies have shown that sustainability challenge is largely due to the existing cost-sharing funding model. The literature has recommended the use of Islamic gift instrument model but has remained silent on developing such a model. Hence, this study has developed an Enhanced Cash Waqf Model Framework (ECWMF) that could be used to provide sustainable higher education financing in Malaysia. In this model, cash Waqf institution (CWI) will raise cash Waqf contributions from the public. These contributions will then be converted (istibdal) into permanent assets or invested into income-generating assets. Profits from these investments will be used by CWI as an affordable, alternative source of funds for funding public universities and student assistance schemes. The study has used mixed method (interviews and questionnaire survey). The interviews were conducted with 10 experts to validate ECWMF. The questionnaires, developed based on the Theory of Planned Behaviour, were distributed to 417 respondents, out of which 392 were usable. The interview data were analysed using thematic analysis while the data from the questionnaire survey were analysed using the Structural Equation Modelling (SEM). The study hypothesised that the behavioural intention of higher education's students to participate in the ECWMF is influenced by attitude, subjective norm, and perceived behavioural control. The results of the study from the interview show that the expert informants have positive perceptions and attitudes towards the ECWMF. They unanimously agree that the Model is a viable alternative for sustainable higher education funding in Malaysia. Similarly, the findings from the quantitative survey data are also positive and promising. The study finds that: (1) when a higher education's students has a favourable attitude towards the ECWMF, he/she is more likely to be a participant; and, (2) if a higher education's students believes that he/she has a greater autonomy over factors that might impede or facilitate their participation, the stronger his/her intention to participate in the ECWMF.

## خلاصة البحث

إن للتعليم في إنتاج رأس المال البشري والذي يعتبر من مقومات الدول. ونظراً، إلى أهمية التعليم العالي في تنمية الموارد البشرية، فقد أولت الحكومة الماليزية التعليم العالي أهمية كبيرة وذلك بتخصيص موازنة عالية من الدخل القومي لدعم النفقات التشغيلية للجامعات الحكومية وبرامج المساعدات المالية للطلبة. إلا أن الحكومة تواجه مشكلة الاستدامة تمويل التعليم العالي خاصة مع الازمات الاقتصادية التي تواجهها الحكومة. وبالنظر إلى الدراسات السابقة ذات العلاقة ، فقد أوصت تلك الدراسات أن مشكلة الاستدامة تكمن في طريقة توزيع تكاليف التي تتركز في الجانب الحكومي ، كما أوصت الكثير من الدراسات بنموذج التبرعات الخيرية الإسلامية. في هذا صدد ، قامت الدراسة الحالية باقتراح وتطوير نموذج تمويل متكامل يسمى "تمويل أولو الألباب-الوقف النقدي" Enhanced (ECWMF) Cash Waqf Model Framework لتقدم نموذج مستدام لتمويل التعليم العالي في ماليزيا على أساس الوقف النقدي. وفق نموذج "تمويل أولو الألباب-الوقف النقدي" ستقوم مؤسسة الأوقاف النقدية (CWI) بجمع تبرعات نقدية من الجمهور. ثم يتم تحويل مساهمات الجمهور النقدية إلى أصول دائمة يتم استثمارها بحيث تكون مدرة للدخل. ثم يتم استخدام الأرباح الناتجة عن الاستثمار كتمويل بديل للجامعات الحكومية وبرامج المساعدات والمنح للطلبة. ولتحقق من فاعلية هذا النموذج "تمويل أولو الألباب-الوقف النقدي" تم استخدام المنهجية المختلطة. حيث تم اجراء مقبلات مع 10 خبراء للتحقق من من فاعلية وامكانية تطبيق هذا النموذج. بالاضافة ، إلى توزيع 417 استبانة على طلاب التعليم العالي في ماليزيا ، منها 392 استبانة قابلة للتحليل. ويجدر الإشارة إلى أن فقرات وابعاد الاستبانة تم تطويرها وفق نظرية السلوك المخطط Theory of Planned Behaviour. فيما يخص التحليل فقد تم استخدام طريقة التحليل المواضيعي Thematic Analysis للمقابلات واستخدام تحليل معادلة النمذجة Structural Equation Modelling (SEM). وقد افترضت الدراسة الحالية ، أن سلوك طلاب الدراسات العليا في ماليزيا في المشاركة في نموذج "تمويل أولو الألباب-الوقف النقدي" ECWMF يتأثر بالمواقف السلوكية والمعايير الذاتية والتحكم السلوكي المدرك لديهم. وفيما يخص نتائج تحليل المقابلات ، فإن جميع الخبراء متفقين على فاعلية وصلاحيه نموذج "تمويل أولو الألباب-الوقف النقدي" ECWMF ، وأنه بديل قابل للتطبيق في المستدام لتمويل التعليم العالي في ماليزيا. وبالمثل وبصورة عامة ، فقد أظهرت نتائج تحليل الاستبانات كانت ايجابية وواعدة. وقد أشارت هذه النتائج إلى ما يلي: (1) إن طلاب التعليم العالي لديهم مواقف ايجابية نموذج "تمويل أولو الألباب-الوقف النقدي" ECWMF، و(2) إذا كان طلاب التعليم العالي يؤمنون بأن لديهم قدر عالي من الاستقلالية عن العوامل التي قد تعيق أو تسهل مشاركتهم، فهذا سيؤدي إلى زيادة رغبتهم في المشاركة في نموذج "تمويل أولو الألباب-الوقف النقدي" ECWMF.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature: ..... Date: .....

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

#### **1.1.1 Higher Education Funding in Malaysia**

Education has many benefits and positive impacts on people's life. Different education levels such as basic education and higher education provide different opportunities for a person to acquire knowledge and skills. In today's world, higher education plays a vital role in producing human capital that is considered as the best national resource. As higher education institutions are crucial for the human resource development of a nation, the allocation of adequate sources of public funding could sustain the operational expenditures of these institutions.

Tertiary or higher education plays a significant role in developing the economy and for social progression. The World Bank (2015) referred to tertiary and higher education as post-secondary education provided in the universities, colleges, technical training institutes, community colleges, nursing schools, research laboratories, centres of excellence, and distance-learning centres. According to UNESCO's International Standard of Classification of Education (ISCED), tertiary education refers to programmes with a qualification from levels 5 to 8 which comprise Diploma, Advanced Diploma, Postgraduate Diploma, Professional Certificate, Bachelor's Degree, Masters, and PhD programmes (UIS, 2013). The ISCED standard that classifies higher education levels from Diploma until PhD has been applied globally. For example, OECD's 30 member countries categorise tertiary education levels

according to ISCED (OECD, 2014). Similarly, the classification of higher education levels in many Asian countries, including Malaysia, is in accordance with the ISCED standard (MOE, 2015).

### **1.1.2 The Roles of Higher Education**

The primary goal of developing higher education is to produce a workforce that is knowledgeable, well-trained, and qualified. This workforce is responsible for sustaining the economic growth of a country. Higher learning institutions like universities supply human capital who play a key role in the development of all economies. This is particularly true in an economy with increasing dependence on knowledge, in which higher education plays a decisive function in the creation and dissemination of high-level knowledge and technology, as well as stimulating innovation, competitiveness, and productivity gains (Aik Hoe Lim & Saner, 2011; Brunner, 2013).

The economic growth of developed countries such as the United Kingdom and the United States is largely attributed to the success of their higher learning institutions. Universities in those countries produce human capitals with high levels of knowledge and expertise, which influence a large number of economic outcomes and boost their long-term productivity (Chapman, 2011). In Malaysia, the first goal of developing higher education is to fulfil the national need of producing a holistic workforce who are intellectually and spiritually balanced. This objective differs slightly from the common view that limits the role of higher education to only producing human capital with the relevant skills and expertise, without concern for inculcating moral values. The second goal of developing higher education in Malaysia

is to realise the national agenda of restructuring the social and economic spheres of its multiracial society (Attar, 2007).

As stated above, the first goal of higher education development in Malaysia is to produce graduates who are intellectually, spiritually, emotionally, and physically balanced. This goal is in line with The National Philosophy of Education (NPE) that emphasises the development of individuals in a holistic, integrated, and balanced manner (Attar, 2007). Given the complex challenges facing today's generations, like economic crises, the graduates must be intelligent, capable of making ethical decisions, and resilient to deal with rapid changes. For that reason, there is an emphasis on developing moral values, a strong national identity, culture and civilisation literacy, self-awareness, and interpersonal skills. The objective of this initiative is to develop graduates with the capability to contribute to Malaysian society and actively participate in the global arena (MOE, 2015). This strategy expects to produce human capital who will become the future leaders and workforce to sustain the economic growth of the country.

The role of Malaysian higher learning institutions as the centre for human capital development has contributed to sustaining the country's economic growth. The graduates with high levels of expertise and knowledge play a major part in the nation's economic transition from an agriculture-based economic system to an industrial-based economic system, then to the current knowledge-based economic system. The public and private higher learning institutions have been supporting Malaysia for the past 60 years as the country transformed from an agro-based economy to a knowledge-based economic system. Figure 1.1 shows the roles of public and private higher learning institutions in producing knowledgeable, skilled, and well-

trained human capital to support the economic growth of the country in three different economic systems.

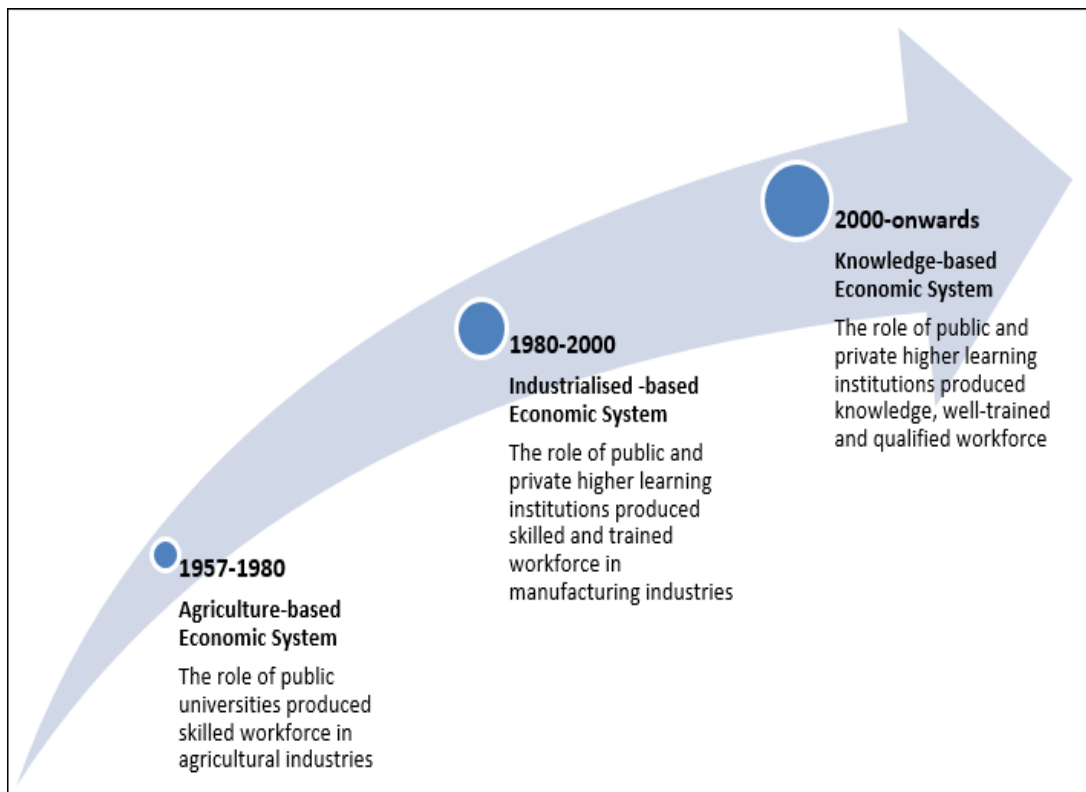


Figure 1.1 Malaysian Economic Transition in Three Different Periods and the Roles of Higher Learning Institutions  
(Source: Jasvir Kaur Nachatar Singh (2010); Sato (2005); Mohamed et al. (2000))

As depicted in Figure 1.1, public universities were the only higher learning institutions in the early years of the country's independence until 1980. They had supplied skilled workforce for the agricultural industry that spurred the growth of the agriculture-based economic system. Later, the transition of the Malaysian economic system from being agriculture-based to industrial-based shifted the role of higher learning institutions to produce skilled and trained personnel for the manufacturing industries. This effort was strengthened with the expansion of higher education through the establishment of private higher learning institutions (PHLIs) (Jasvir Kaur Nachatar Singh, 2010; Sato, 2005).



The emergence and adaptation of the knowledge economy system at the start of the 21<sup>st</sup> century have increased the demand for higher education programmes. This trend occurs due to the views that higher learning institutions provide facilities and infrastructure to enhance knowledge and skills for current employment (Kamogawa, 2003; World Bank, 2007). The high demand for higher education certificates requires the government to expand higher education by establishing and supporting new public and private higher learning institutions.

Besides its contribution towards to the development of human capital, tertiary education is one of the main vehicles for nation-building and social cohesion. This second goal of higher education development is unique to multiethnic countries like Malaysia, which is represented by a majority of Malays, followed by the Chinese and Indians. The vision for the development of tertiary education in the country is to preserve the national interest that refers to nation-building for the purposes of social justice and national security (Ahmat, 1980; Musa & Ismail, 2007).

In the early stage of higher education development, public universities were the only higher learning institutions. Thus, they became the instrument to rectify the socioeconomic gap that existed among societies as highlighted in the New Economic Policy (NEP) launched by the government in 1971. Under NEP, the enrolment into public universities was based on an ethnic quota admission policy, with the majority of students being Malays and Bumiputera<sup>1</sup> (A. J. Abdullah, 2012; Sato, 2005).

This mechanism was implemented to balance the socioeconomic gap between the three main ethnic groups in the country, namely Malay and Bumiputera, Chinese,

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<sup>1</sup> Bumiputera literally means “the sons of the soil” in Malay. It includes the Malay and other indigenous peoples in Malaysia.

and Indians. Notably, this gap was identified as one of the main factors contributing to the racial riots in the country in 1969. The spirit of national identity and unity was preserved through the uniformity of curriculum and the usage of the national language as the language of integration in all public higher learning institutions. The policy of inculcating a national identity was also applied to PHLIs through the requirement for teaching mandatory subjects, such as Malay language, moral education (for non-Muslim), and Malaysian studies, in these institutions (Tan & Raman, 2009).

In addition to the common roles shared by Malaysian public and private higher learning institutions in producing the nation's workforce and inculcating national unity, universities may also have specific special role (Attar, 2007). The first instance is the role of Universiti Kebangsaan Malaysia (UKM) in promoting the wide usage of Malay language as an intellectual language at both the local and international levels. This role is clearly manifested in UKM's slogan, "to become one of the universities chosen to elevate the Malay language and to disseminate knowledge based on the national culture" (UKM, 2017).

The second example of a special role played by a particular university can be seen in the case of Universiti Teknologi MARA (UiTM). The specific purpose of UiTM is to provide maximum higher education opportunities to the Malays and Bumiputera in order to narrow the economic and intellectual capability gaps among the various races (UiTM, 2017). The third and last instance of special role played by specific university is evident in International Islamic University Malaysia (IIUM). IIUM aspires to educate a new generation of Muslim students who are instilled with the Islamic concepts of knowledge and learning. In turn, this generation will lead the Muslim community to be the champions of knowledge and leaders in many fields

once again, as they had done in the past. IIUM has been providing higher education programmes especially for Muslims, locally and abroad, with the usage of English and Arabic as the mediums of communication (IIUM, 2017) .

Therefore, the development of tertiary education is vital not only as a centre for human capital development and to strengthen the social integration among the different races in Malaysia, but also to fulfil the special needs of specific groups in the country. Accordingly, the government has been allocating a significant amount of public funds annually to ensure the sustainability of the tertiary education sector and to support its growth.

### **1.1.3 Higher Education Funding Models in Malaysia**

The government is the main funder for the development of higher education in many countries. In some European countries, for example, Denmark and Germany, the government is the major funder of tertiary education by allocating an annual grant for funding the operation and development expenditures of public universities. Moreover, the government allocates public funds for funding student assistance schemes, particularly scholarships and student loans that help cover the cost of tuition fee and living expenses. According to Barnabe (2012), this state-oriented funding model is implemented in most parts of Europe and Asia.

In contrast, private entities and philanthropists have played a greater role in funding higher education compared to the government in Anglo-Saxon countries such as the United States and Canada. This market-oriented funding model is largely dependent on the financial contribution made by private companies and philanthropic

organisations for funding the operational expenditure of higher learning institutions and offering huge amount of research grants (Barnabè, 2012).

Nevertheless, in the past four decades, higher education funding in most countries has gradually shifted into a mix-oriented funding model with the participation of all key stakeholders: the government, students and/or their parents, private companies, and philanthropic organisations (Carpentier, 2012). The implementation of the mix-oriented funding model is imperative as the governments in a number of countries are facing financial difficulty in allocating public funds for the higher education sector. This scenario occurs due to several factors, particularly the rising cost of providing higher education and a sudden increase in enrolments (D. B. Johnstone & Marcucci, 2007; Salmi, 2013b; Woodhall, 2007).

The introduction of the mix-oriented funding model is influenced by the cost-sharing concept which proposes the participation of all stakeholders in funding higher education expenditures. Under cost-sharing, higher education funding shifts from a total reliance or near-exclusive reliance on the government or taxpayers, to some reliance upon private entities and philanthropic organisations. This concept advocates the participation of the government, students and/or their parents, companies, and philanthropists to share the costs of maintaining and developing the tertiary education sector (D. B. Johnstone, 2004b; Woodhall, 2007).

Two cost-sharing mechanisms, tuition fee and student loan scheme, have been implemented with different structures and models in developed and developing countries. Examples are the imposition of tuition fee that was once free in China and the United Kingdom; the increase in the effective cost recovery of student loans in Australia and New Zealand; and the establishment of student loan schemes in African

and Asian countries, including Malaysia (Chapman, 2008; Johnstone, 2004; Woodhall, 2004). In Malaysia, the government applied the state-oriented funding model in the early stage of higher education development, and later shifted to a mix-oriented funding model.

The government of Malaysia was the sole founder of higher education in the initial stage of its development. The role of the government as the only founder, funder, and regulator of higher education was clearly manifested in the University and University College Act (UUCA) 1971 (Ahmat, 1980). The implementation of this state-oriented funding model provided opportunities for the authority to structure higher education in accordance with the needs of the country. Particularly, the government applied direct allocation mechanisms for funding the development and operational expenditures of public universities and financing scholarship schemes.

Abd Rahman, Farley, and Naidoo (2012) explained that direct allocation for public universities was based on the negotiation method that considers several inputs such as the number of staff members and enrolments. Meanwhile, the scholarship scheme referred to a non-repayable aid arrangement offered to the students based on criteria such as academic excellence and economic background (Barr, 2005). The recipients of the scheme were not required to refund the amount given, however, they were required to work with the government agencies for a certain period of time. Nonetheless, the role of the government as the sole funder of higher education in the state-oriented funding model has changed with the implementation of the mix-oriented or cost-sharing funding model.

The transition of higher education funding into the cost-sharing funding model started in the middle of 1990s with the participation of the main stakeholders, namely

the government, students and/or their parents, private companies, and philanthropists. Several factors contributed to the adoption of the cost-sharing funding model, including the rising cost of providing higher education and the sudden increase in enrolments. These factors had severely affected the government expenditures and consequently, the government faced financial difficulty in allocating public funds for funding the rising expenditures of public universities and financing scholarships to all students enrolled in the higher learning institutions.

The implementation of the cost-sharing funding model provides mechanisms for the government to shift part of public expenditures for the provision of higher education courses to private companies and philanthropic organisations, in their capacity as the operator of PHLIs. Similarly, the adoption of this funding model has enabled the government to transfer part of the costs of providing student assistance schemes to students and/or their parents with the introduction of student loan schemes (R. Ismail, 2009).

The evolution of higher education funding system into the cost-sharing model has expanded the resources for funding higher education. In general, the government allocates public funds for funding the development and operational expenditures of public universities and financing student assistance schemes. Meanwhile, private companies, philanthropic organisations, and students and/or their parents provide funds to cover the operational expenditure of PHLIs and part of the costs of funding student loan schemes. In particular, the government applies direct and indirect allocation mechanisms for funding higher education. Whilst the former refers to the allocation of annual grants for funding the development and operational expenditures of public universities, the latter denoted the financial assistance schemes distributed to

the students in the forms of scholarship and student loan (Barr, 2005; OECD, 2012; Salmi, 2013a; Salmi & Hauptman, 2006).

Direct allocation for public universities was formerly based on the traditional negotiation method that relies on several inputs such as the number of staff members and enrolments. In 2010, the Ministry of Higher Education (MOHE) introduced a performance-based funding system known as System of Rating Malaysian University and University Colleges (SETARA), whereby the amount of funds allocated for each public university is dependent on several outputs such as the number of graduates, research outputs, publications, and number of patents (Abd Rahman et al., 2012).

Furthermore, the indirect allocation mechanism is implemented through the provision of scholarships and student loan schemes. Scholarships and student loans allocated to students are used to pay student fee which is one of the sources for funding the operational expenditures of public and private higher learning institutions. These schemes also provide financial assistance for students to cover their living expenses throughout the duration of the study. Therefore, the government is still the main funder of higher education in the cost-sharing funding model by directly funding public universities, and indirectly funding PHLIs through the provision of scholarships and student loans.

The cost-sharing funding model also involves the participation of private companies and philanthropic organisations as the operator of PHLIs. The promulgation of the Private Higher Education Institutions Act (PHEIA) 1996 authorises private companies, government-linked companies (GLCs), and non-profit organisations (NGOs) to operate PHLIs (Jamshidi, Arasteh, NavehEbrahim, Zeinabadi, & Rasmussen, 2012; Wilkinson & Yussof, 2005). To that end, public

corporations such as PETRONAS, Tenaga Nasional Berhad (TNB), and Telekom Malaysia (TM) are operating and financing three premier private universities, namely Universiti Teknologi Petronas (UTP), Universiti Tenaga Nasional (UNITEN), and Multimedia University (MMU), respectively.

Moreover, a number of public listed companies such as Sungei Way Group and Hong Leong Group own Sunway University and Sepang Institute of Technology, respectively (Mei, 2002; World Bank, 2007). Apart from that, few Malaysian local companies collaborate with multinational corporations. For example, INTI Education Group and Laureate Education Inc entered into an agreement to establish INTI International University, formerly known as INTI University College (Tham, 2010).

The role of private companies and corporations in funding PHLIs has expanded the Malaysian higher education sector. As presented in Table 1.1, higher learning institutions in Malaysia can be divided into two, namely public higher learning institutions that are fully funded by the government, and PHLIs that are funded by private and corporate entities.