



From The Research Pipeline:

Malaysian Higher Education Institutions:

Is the Endowment Fund the Way Forward?

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Tertiary education plays crucial role in building a robust human capital base within a knowledge-driven global economy. As such, tertiary education policy is increasingly becoming a significant national agenda in order to raise higher level employment skills in order to sustain a globally competitive research base as well as to improve knowledge dissemination to the benefit of society (OECD, 2008). Malaysia's education system has gone through an expansion in its various segments especially in the its higher education segment where it is to now focus on developing young talents.

Malaysian higher education system was initially built under the Government's sponsorship before the entrance of private education institutions offering tertiary education. Nevertheless, given the unhealthy global economic state, this has imposed fiscal pressure on the Government.

The increasing scarcity of public revenue has indirectly affected other public necessities namely basic education, public infrastructure, health, the maintenance of public order, environmental stabilization and restoration, and addressing the needs of the poor of has indirectly, caused the inability to cater to higher education needs.

As such, the government is in search for alternative solutions to address to the monetary needs of tertiary education in order to maintain the methodical formation of the nation's catalyst for economic growth. This movement has been supported and highlighted in the Malaysian Education Blue Print 2015-2025, proving the seriousness of the government in continuous knowledge development. With the prevalent scarce of income, the Government's support is no longer just providing for a sustainable source of income, rather, the universities are suggested to develop their own funding to maintain their operations.

This paper is aimed at exploring the challenges faced by Malaysian universities in setting up their very own endowment funds in order to sustain their operations without compromising on the quality of their programmes.

MALAYSIA EDUCATION BLUEPRINT 2015-2025: HIGHER EDUCATION

Malaysia's higher education policy has been shaped by the nation's broader economic and political policies since the country's independence in 1957 (Mohd Isa, Najdi, & John C, 2016). The policy aimed at developing a 'world-class' higher education system that would help transform its production-based economy into a knowledge-based economy in order to achieve 'developed nation' status by 2020 (Chai, 2007).

In Malaysia, there are two major higher educational providers, namely, the public university (government-funded) and the private university (private-funded). As at 2015, the Malaysian Higher Education Institutions (HEIs) consist of 20 public universities, 513 private universities (consist of 402 private colleges and 111 private universities/university colleges), 403 active private colleges, 34 polytechnics and 94 community

Malaysian Tertiary Education (2015)



Source: [Tapsir, 2016]

colleges (Tapsir, 2016). The public universities can be further divided into 4 categories, namely 5 research universities, 11 comprehensive universities, 4 Malaysian Technical University Network (MTUN) and 16 HiCoEs (Higher Institutions Centres of Excellence). The research universities focuses its education on research basis, while focused universities are specialised universities offering courses in specified area of interest related to its establishment. Comprehensive universities offer various courses in various area. Whereas, MTUN Universities are offering Technical and Vocational Education and Training (TVET) which provide, formal and informal learning that prepare young people with the knowledge and skills required in the working world .

Malaysian higher education sector falls under the purview of the Ministry of Higher Education (MOHE), which plays pivotal role in constructing suitable ecosystem for the public and private universities as well as polytechnics and community colleges. These institutions are the country's main talent repository, responsible to produce viable agents for the nation's future socio-economic growth. The quality of higher education is a high priority for MOHE and this is assured in the Malaysia Education Blueprint 2015-2025 (High Education) which seeks to drive the sector towards excellence. The Blueprint signals the serious commitment of the Malaysian government in making the country a knowledge economy and a regional educational hub. In order to achieve world-class education, the

The 10 Shifts Highlighted in the Education Blue Print



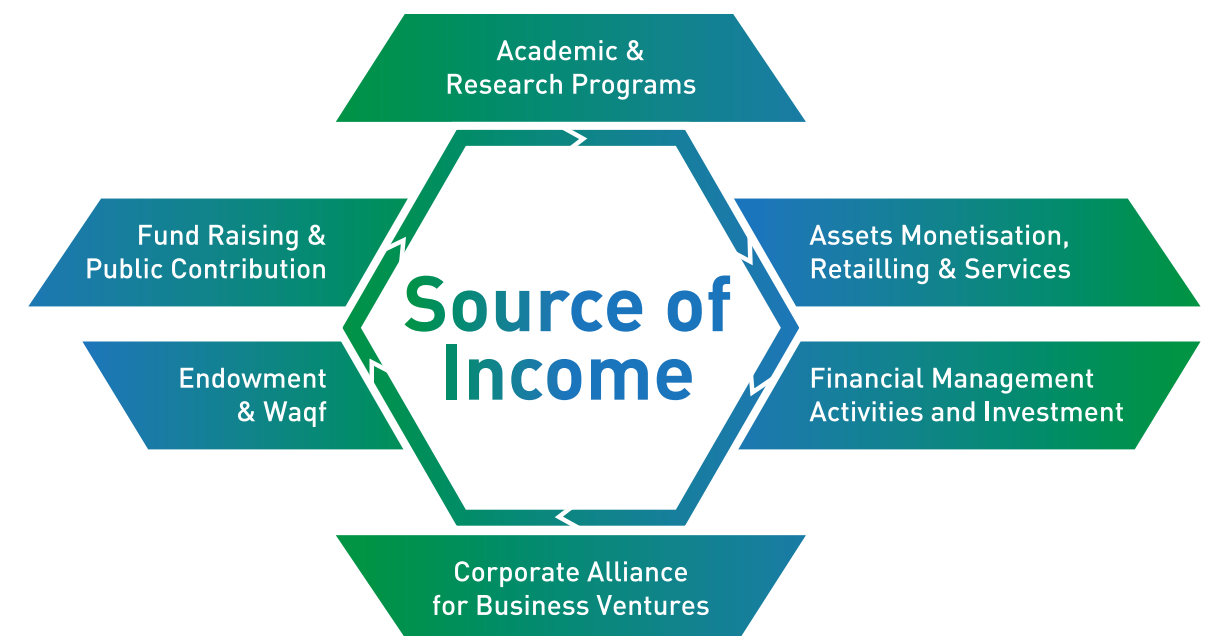
Source: The Malaysia Education Blueprint 2015-2025 (Higher Education)

Blue Print outlined 10 shifts guiding the sector to spur continued excellence in the higher education system.

Following the announced Malaysian Budget 2016, Malaysian higher education institutions are now experiencing reduction in their operation and development budget as the government has lowered its allocation for research and development. The government has also reduced funding for higher education in 2017 to RM 6.12 billion, down from RM7.57 billion in 2016, in a bid to reduce the country's financial deficit caused by a slowing economy. As a result, there is a need for Malaysian higher education institutions to seek and diversify their funding income (Mohd Isa, Najdi, & John C, 2016). The government has also suggested to include endowments, waqf as well as philanthropic contributions as an alternative sources of income for universities. This is clearly stated in "University Transformation Programme (Purple Book): Enhancing University Income Generation Endowment and Waqf". Shift #5 specifically outlined financial sustainability, which aims to ensure long-term financial sustainability of the higher education system.

Currently, Malaysian Government expenditure on higher education has been rising at a rate of 14% per annum, driven largely by subsidies to public higher earning institutions, where approximately 90% of their expenditure is government funded. There is a desperate need for an alternate solution in generating higher income to in order to support for better quality at the same time shrinking its deficit gap in its balance sheet. In these difficult times of increasing costs and budgetary constraints, universities are expected to move away from depending on government financial aid and are required to increase their own income generation exploring many ways from multitude sources.

Potential Source of Income



Sources: University Transformation Programme, Purple Book, MOHE 2016

and purposes. That initial sum of money is referred to as the principal which is held in a fund and managed by a trustee. There are two types of endowment, true endowment and quasi endowment. True endowment is an endowment where the donor has specific conditions as to where the fund should be invested in. In contrast, quasi endowment is when the does not stipulate any condition. However, it is important to note that approval

Types of Endowment

True Endowment

Consists of funds permanently set aside (by document or otherwise legally restricted) to generate income for the non-profit.

Principal may not be spent. Income may be defined as the dividends, interest, and rental income from the endowed assets.

Quasi Endowment

Funds committed to long-term use (endowment) generally by board resolution. Since the donor did not restrict the funds, the board can make the principal available for use through established procedures that govern distribution of income and withdrawal of principal.

Source: (Ministry of Higher Education Malaysia, 2016)

of Board of Trustee is required to spend the principal of quasi endowment.

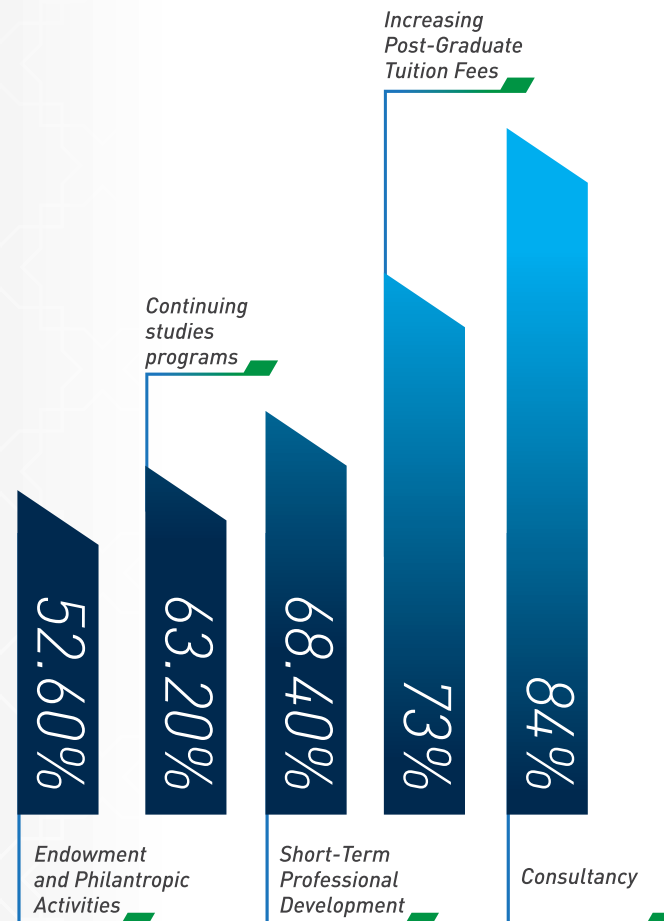
Endowment fund plays an important role in providing income stability to universities. It known that a university's revenue fluctuates and majority heavily depends on government funding, donor as well as tuition fees. As such, endowment fund in a university is designed where the principal is held in perpetuity. Since the principal amount is kept intact at all times, the investment return of the fund is used to support the university's activities. This kind of stability is important to cater for those activities must proceed (American Council on Education, 2014). Looking at the significant reduction of government supports to Malaysian public universities, endowment fund also play good role in enabling these institutions to respond to such sudden changes. With sufficient amount of monies in the endowment, institutions are still able to provide high quality education programmes without calling off their current programme and having to increase tuitions fees. With the right strategic investment decision, the endowment fund will be able to produce a remarkable performance and profitable

return of investment. This will, enable the university to have extra income that can encourage innovation and flexibility among the faculty members as well as students in conducting innovative research. As a result, this will allow them to be ahead of others in developing new technologies and research methods. Lastly, endowment's long time horizon has become compelling to universities that are perpetual in nature. It plays an undeniable role in the planning for long term investment that create significant advantage and perform better relative to those on short-term investment.

ENDOWMENT FUNDS: ISSUE AND CHALLENGES

Endowment has always been a great tool for universities to support their long term educations programs as well as their operating expenditure. However, there are many issues and challenges that Malaysian universities need to face and cope with at the initial period while setting up an endowment. According to Mohd Isa, Najdi & John C (2016), approximately about 84% of public universities income comes from consultancy, followed by post graduate tuition fees (73%), short term professional development (68.4%), continuing studies programmes (63.2%) and endowment & philanthropic comprised about 52.6% (Mohd Isa , Najdi, & John C, 2016).

The % of Various Activities by Public Higher Education Institutions to Generate Income



Source: (Mohd Isa , Najdi, & John C, 2016)

Among the issues and challenges that faced by Malaysian public higher education institutions are:

- **Current legislation:** There is a need for more legislation and guidelines to strengthen the legal framework of the endowment fund within education sector at both local and international levels. Improved legislation and guidelines from the related government agencies and authority creates certainty meanwhile encourage many stakeholder and shareholder to embark on the on-going enhancement and participation in the education endowment. The robustness of the legal system can create confidence for the market player to go aggressively in this sector. transparency and soundness of the legislation will also contribute to bring international players to establish various education endowment fund locally.
- **Limited financial instruments:** The financial instruments are important for the sustainability of the education endowment fund. However the financial instruments that are designed based on the waqf and endowment features are still limited in the current financial sector. There have been calls for academicians and practitioners to have more integration in the management of waqf, endowment and Islamic financial instrument but yet it is still limited and not up to the expectations. The offering of the endowment and waqf products and services are so far only limited to the retail market and based on collection channel. Hence more work needs to be developing innovative products and services to boost the investment portfolio of waqf and endowment education fund, meanwhile bring and attract more participation (local & abroad) especially in the education endowment sector.
- **Lack of awareness of corporation or industry to do charity:** Lack of awareness among corporations and organizations in the market is also a major challenge that must be addressed. Many corporations are willing to help and support the education sector waqf and endowment is not something that they are familiar with. This is due to lack of awareness and knowledge about the existence of such funds in the industry. Therefore, more awareness campaigns should be coordinated by both the Government and private sectors to increase the level of awareness in the market. The bridge between the industry and education, or university and the financial market is very crucial and important to overcome this issue. The collaboration may be in the form of endowment fund established by the industry player for a specific education provider to develop the talent pool and thereafter potentially join the workforce. However as long there is a disconnection between education service provider and the industry at large the issue will be always there.
- **Limited alumni network:** There is also a disconnection between the alumni and the education endowment sector, where there is no serious interest demonstrated by the alumni to keep servicing the education endowment after their graduation. The alumni network should be

an asset that we can capitalize on to enhance the expansion and operation of the education endowment sector. On the other hand universities and education providers should play a crucial role in keeping the alumni in their data base and and collaborate with them for the benefit of the endowment education fund, especially after getting key positions in many organizations and corporations in the respective industries.

“There is a disconnection between the alumni and the education endowment sector”

Conclusion

The Endowment model can be a good alternative for Malaysian universities in stabilising their financial conditions, following the significant cut in the government budget for research and developments. Although the move to endowment based funding is not uncommon in the developed country, it is still largely unattended in Malaysia. Its implementation is still subject to further research and development. The move is indeed a good step towards sustainability of universities but at the same time, the government needs to play its pivotal role in ensuring a 'smooth shift'. The government in collaboration with the MOHE also need to take holistic approach through mass awareness programme in place not only from universities alone but also through governmental activities.

No doubt, it is not easy to establish an endowment at the initial stage. It will be challenging for Malaysian universities in terms of legislations, and best practices to implement the endowment model. However, despite challenges ahead, Malaysian universities are already on the move for shift. The question of readiness is no longer valid, but rather a platform, an opportunity for Malaysia, to prove to itself and to the world that this is the way forward provided that all of the above are addressed.