

RESEARCHERS AT SINGAPORE'S *INSTITUTE OF SOUTHEAST ASIAN STUDIES* SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

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Malaysia's Funding System for Higher Education not Sustainable

By Lee Hock Guan

EXECUTIVE SUMMARY

- Rising demand for higher education and the need to produce a critical mass of highly educated and skilled workers for a knowledge economy has led to the massification of Malaysian higher education.
- However, escalating higher public education expenditure led the government to adopt a cost sharing system where students and parents shoulder an increasing share of the cost for acquiring a higher education.
- The National Higher Education Fund Corporation (PTPTN) was established for the purpose of offering subsidized loans to help students meet the costs of enrolling in local higher education institutions.
- While effective in enhancing access to higher education, the implementation of ethnic quota policies resulted in Malays disproportionately benefiting from PTPTN. The largely income-blind PTPTN selection policy has enabled more affluent Malays to gain a lion share of government scholarships and subsidized loans.

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- The existing system of government subsidized student loans especially the PTPTN is not sustainable. The country's financing of higher education should be modified to be less ethnicity-based and more income-sensitive in order to help students from the lower socio-economic classes regardless of ethnicity.
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INTRODUCTION

In the 1980s, the costs and accelerating demand for higher education led many countries in Europe to modify their largely public-financed higher education systems. By the first decade of the 21st century, the tremendous costs amassed by sustained massification¹ of higher education precipitated a funding crisis throughout the West (Hahn 2007). To curtail costs, states turned increasingly to the private sector, and except for the United States, Canada, and some others where the private sector has historically played a vital role in the provision of higher education, countries resorted to varying cost-sharing² systems (Johnstone 2009; Johnstone, Arora and Experton 1998).

For developing countries, the massification of higher education involved several additional factors which helped worsen the financial burden. These included fast growing populations, “pressures for enrolment expansion given the relatively low enrolment ratios”, “higher education has been the fastest-growing segment of the education sector”, “rapid increase has driven high levels of subsidization”, and public budget limitations (World Bank 1994, p.2).

ETHNIC PREFERENCE IN HIGHER EDUCATION

This article studies the unique case of Malaysia, where ethno-based policies have been implemented over decades to advance and protect Malay-majority enrolment and ownership of private higher education institutions. The two key objectives of these policies were (1) provision of trained and skilled labour to meet the demands of the country’s economy; and (2) expansion of Malay enrolment in higher education (Sharom 1980). Until 1990, these were pursued by means of an elitist higher education system monopolized and funded by the state to support public sector recruitment as well as its industrialization programmes. In the 1990s, as it became clear that the system could not deliver enough highly educated and skilled graduates to meet the manpower needs of an emerging knowledge economy, the elitist system was transformed into a mass system (Santhiram and Tan 2009).

During the 1971-1990 period of Malaysia’s New Economic Policy (NEP), the elitist system denied many from pursuing further education despite their strong qualifications. In particular, the mandated ethnic quota admission policy to raise Malay enrolment denied many better qualified Chinese and Indian students admis-

¹ This notion stems from the classification of higher educational into elite (less than 15 per cent of higher education age cohort), mass (15-30 per cent) and universal (more than 50 per cent) by Martin Trow in 1974. See Trow (2005).

² In 1986, D. Bruce Johnstone introduced his influential concept of “cost-sharing” which claims that all costs of higher education are “borne by a combination of four sources of finance: (i) taxpayers (ii) parents (iii) students and (iv) private institutions/donors” (cited in Woodhall 2007, p. 22).

sion into local public higher institutions of learning. In 1980, Malaysians studying overseas formed 51.2 per cent of total higher education enrolment. In 1985, the figure had dropped slightly to 46.2 per cent. Chinese students constituted the majority of Malaysians studying overseas, followed by Malays and Indians; in 1983, the ethnic breakdown was 63.3 per cent Chinese, 18.9 per cent Malays and 15 per cent Indians (Fourth Malaysian Plan, p. 361). Malay students monopolized most of the government scholarships and loans, mainly provided by the Public Service Department (PSD) and the Indigenous People's Trust Council (MARA), while the Chinese and Indian students were mostly self-funded.

The Malaysian government was already growing apprehensive in the early 1980s over the high costs of sending students overseas – the estimated outflow of foreign exchange was about RM1.2 billion a year from 1981-1985 (Fifth Malaysian Plan, p. 489). Worse yet, after mid-1980 costs escalated further when the Australian and British governments started to charge the full cost of education to foreign students studying in their higher education institutions. The growing balance of payment deficit problem and skilled manpower needs of the economy contributed to the government decision to expand the public higher education system at home, and encourage a greater role for the private sector in the provision of higher education. The 1997 Asian financial crisis further hastened matters. These developments, in tandem with reform efforts, have contributed to an increase in higher education enrolment for the 17-23 years cohort from 2.9 per cent in 1990 to 29 per cent in 2003, and close to 40 per cent in 2010.

However, ethnicity-based policies continues to shape the pattern of development and the financing of mass higher education. Since the 1970s, the government has been regulating access to universities through a quota system that was established for the purpose of increasing Malay student enrolment in universities. Malay students had a percentage of study places reserved for them and were given more ample access to government grants. This measure has resulted in inequalities along ethnic lines, and Malay students and faculty/staff have disproportionately benefitted from the expansion of the public higher education system. Initially, Chinese students constituted the majority of the enrolment in the private higher education sector, but this has changed since 2000 with Malay enrolment increasing significantly because of the easy access to government-subsidized student loans as well as the increase in the number of Malay-owned private higher education institutions.

Escalating expenditure for public higher education has led the government to adopt a cost-sharing system in which students and parents shoulder an increasing share of the costs. The MARA financial aid scheme was converted in January 1998 to a 100 per cent loan scheme except for loans given out under the Excellent Student Scheme³. The National Higher Education Fund Corporation (Perbadanan Tabung

³ The MARA Study Loan Scheme was first introduced in 1966 when Majlis Amanah Rakyat (MARA) was formed.

Pendidikan Tinggi Nasional or PTPTN) was established for the purpose of offering subsidized loans to help students meet the costs of enrolling in local higher education institutions. It is also designed to ensure that there would be loans available for Malays to afford both public and private higher education so that the targeted ethnic composition of enrolment in higher education is maintained. Through the PTPTN, government scholarships and loans for higher education therefore continue to disproportionately benefit the Malays as well as increase Malay-owned private higher education institutions⁴.

ESCALATING EXPENDITURE⁵

From the 5th to 8th Malaysian Plans, development expenditure for higher education averaged about 34 per cent of the total educational development expenditure, reaching an all-time high of 43.5 per cent in the 6th Malaysian Plan (Table 1) only to fall to 25 per cent in the 7th Malaysian Plan. This was largely because of the fiscal contraction triggered by the 1997 Asian financial crisis. In the 8th and 9th Malaysian Plans, the spending on developing the higher education sector was raised back to 35.3 per cent and 39.8 per cent respectively. In absolute terms, government development expenditure for higher education increased from RM1.7 billion in the 5th Malaysian Plan (1986-1990) to RM5.0 billion in the 7th Malaysian Plan (1996-2000) and RM16.1 billion in the 9th Malaysian Plan (2006-2010).

The financial assistance was given out in the form of full scholarships. From 1968, the financial aid for colleges was divided into 2 types. MARA scholarships with a 25 per cent repayment and MARA study loans with a 100 per cent repayment. From 1 January 1985 until 31 December 1997, the financial aid was in the form of convertible loans. Students who obtained good grades upon graduation were eligible to apply to convert their MARA study loans to MARA scholarships.

⁴ Until recently, the PSD would “routinely award 80 percent of overseas scholarships to Bumiputra and the remainder 20% to non-Bumiputra students” (Foong 2008, p. 21). In its recent selection criterion, the PSD has divided its 1500 overseas scholarships into: 300 (20 per cent) by merit, 60 (5 per cent) for Sarawak bumiputeras, 60 (5 per cent) for Sabah Bumiputeras, 144 (10 per cent) for the socially handicapped, and 720 (60 per cent) to be distributed according to the ethnic composition of society. Without fail, a disproportionate percentage of the merit category was awarded to non-Malays; in 2010, 80 per cent went to non-bumiputeras and 20 per cent to bumiputeras. Unsurprisingly, the vast majority of the rest of the PSD overseas scholarships were awarded to Malay/bumiputera students (ibid). PSD’s race-based selection process is most evident in its allocation for local degree and diploma programmes where it adheres strictly to the ethnic composition of society, where the recipients are consistently 70 per cent bumiputera and 30 per cent non-bumiputera (Fong 2008, p. 21).

⁵ This does not include public funded scholarships, local state expenditure on higher education, and funding by other government bodies such as MARA and PSD.

Table 1: Federal Government Development Expenditure on Education and Training (in MYR million)

Malaysia Plan	Education Expenditure (a)	Higher Education Expenditure (b)	b/a (per cent)
5th (1986-1990)	5,382	1,727	32.1
6th (1991-1995)	6,982	3,039	43.5
7th (1996-2000)	19,724	5,005	25.4
8th (2001-2005)	37,922	13,404	35.3
9th*(2006-2010)	40,357	16,069	39.8

* Allocation

Source: Malaysia Plans (various), Jabatan Perdana Menteri, Malaysia.

Although privatization has helped to ease the pressure, total public spending on higher education grew at an average of 11 per cent annually from 1994 to 1998. In 1998, the higher educational budget took up 20 per cent of total educational expenditure; and between 2007 and 2010, it averaged about 37.7 per cent of total educational expenditure or 6.3 per cent of total public expenditure. In 2005 the government allocated about 2.7 per cent of its GDP towards funding higher education, and in 2010 the figure was 1.69 per cent of GDP.

Malaysia's spending on higher education measured in terms of public expenditure per student is about \$22,021—or 49.4 per cent of GDP per capita—is among the highest in Asia, if not in the world.

Spending on higher education continues to account for a high (and increasing) proportion of the government's total expenditure even though privatization has shifted much of the financial burden to students and parents. The main reason for this is because the public institutions that account for at least half of the total enrolment continue to be very dependent on public funds. On average, the government subsidizes between 80 to 95 per cent of the tuition fee that students have to pay in these institutions (Bernama, 15 April 2012).

Since the ethnic quota policy ensures that Malay enrolment in public higher institutions would equal—in reality, far exceed—their proportion of the total population, the increase in public spending on higher education has mainly benefited the Malays. Compounding the problem, students from the middle and upper Malay classes also stand to disproportionately benefit since the selection criterion—for both admission and financial aid—remains largely income-blind. Studies have shown that subsidies to higher education in Malaysia has been, and probably remains, regressive with students with higher income background, across ethnic groups, benefiting the most (Mehmet 1986; Hammer et al 1995).

GOVERNMENT-SUBSIDIZED STUDENT LOANS

The PTPTN has enhanced access to higher education across ethnicity and class, and to the massification and privatization of higher education. In 1997, the PTPTN financed slightly more than 12,000 students with nearly RM220 million (Table 2). In 1999, the total number of students the PTPTN funded dramatically increased to 83,158 and the amount nearly reached RM1.9 billion. Since then the number of students receiving subsidized loans from PTPTN annually, as well as the annual loan allocation (except for 2002 and 2003), has steadily increased. In 2005, 144,459 students received a total of nearly RM2.8 billion, and the government announced in 2010 that the PTPTN has approved 238,722 loans using an allocation of RM6.04 billion.

Table 2: Allocation of the National Higher Education Fund, selected years

Year	Public universities	Private universities	Total No. of students	Proportion of students from private universities	Amount (RM)
1997	11,905	179	12,084	1.5%	219.5
1999	76,389	6,769	83,158	8.1%	1,683.6
2001	84,306	26,338	110,644	23.8%	2,134.1
2002	86,186	19,591	105,077	18.5%	1,981.2
2003	86,057	26,564	112,621	23.6%	1,863.4
2004	88,282	30,829	119,111	25.9%	2,268.4
2005	98,755	45,704	144,459	31.6%	2,762.9
Total	635,208	164,978	800,186	20.6%	15,138.3

Source: Source: Malaysia Educational Statistics (various years), Ministry of Higher Education, Malaysia.

PTPTN's contribution to the growth of both the public and private higher education sectors has also been commendable. In 2000, about 32.3 per cent of students enrolled in public higher education received PTPTN funding, but declined in 2005 to 25.6 per cent. This reduction was due to the diversion of loans to finance students enrolled in private higher education – the proportion of subsidized students in private higher education increased from 1.8 per cent in 1997 to 8.8 per cent in 2000, and

almost 30 per cent by 2005. By 2011, private higher institution students receiving PTPTN loans made up 40 per cent of the recipients (Table 2). Although students enrolled in private higher education made up about one third of the total number of students receiving PTPTN loans in 2005, the financial allocation to support the private students was higher because of the higher fees charged by private higher education.

Officially, the eligibility for PTPTN funding is based on citizenship and other means-based criteria, but in practice the allocation has followed a clearly ethnicity-based quota policy. As of April 2010, out of the 1.5 million students who received PTPTN loans, 70 per cent went to Malay students, 18 per cent to Chinese students, 5 per cent to Indian students and 7 per cent to other races (SASSY MP, July 4, 2010). The PTPTN was initially established with the aim of supporting students who had gained admission to public higher education institutions, but since 2001 an increasing percentage of the loans has been funnelled to private sector students, especially Malay students in Malay-owned private higher institutions. Indeed, PTPTN plays an indispensable role in sustaining most Malay-owned private higher education institutions. By 2002, there were an estimated 186 Malay-owned private universities and colleges, excluding the private universities established by government linked companies, with Malay/bumiputra students accounting for nearly 90 per cent of their enrolment (Berita Harian, 17 June 2002). Without the substantial financing from PTPTN and MARA, quite a number of Malay-owned private higher education institutions would have difficulty remaining financially viable.

Various weaknesses in the design and implementation of the PTPTN have also been identified: repayment ratios, default rates, administration cost and efficiency (World Bank 2007; Hua and Ziderman 2008). The World Bank (2007) has also voiced its concern over the sustainability of the PTPTN if no remedial steps are taken to strengthen the financing scheme; indeed, the Auditor General of Malaysia estimated that the PTPTN's deficit would balloon to RM43 billion by 2020. In light of the diversion of the PTPTN loans to support the private higher education sector, concern has also been raised over issues such as the quality of education provided by the private sector and the questionable long-term sustainability of private higher institutions that depend largely on PTPTN-sponsored students.

CONCLUSION

Since the 1990s, Malaysian education policy has been driven by an ambitious plan to raise the higher education enrolment from around 10 per cent in 1990 to 40 per cent by 2010. The inherited British elitist higher education was transformed into a mass system to meet this target. Mass higher education was developed through a two-pronged strategy: privatization and expanding the public higher education sector. A cost-sharing scheme was also adopted especially through the PTPTN. The PTPTN

has enhanced the access to higher education across all ethnic groups and, to a certain extent, across classes as well since the subsidized loans have enabled more students from lower income groups to afford the costs of attending higher education.

The mandated racial quota policy to advance Malay enrolment and participation, however, has affected the equity, access, and financing of higher education. Overall, government spending on higher education has disproportionately benefited the Malays because the latter comprised more than 80 per cent of the enrolment in local public higher education institutions and are also the main beneficiary of public scholarships and subsidized PTPTN loans. Disproportionately more Malay students have received the subsidized PTPTN loans and policymakers have also used PTPTN to support Malay-owned private higher institutions. In contrast, only the selected top Chinese and Indian students have been awarded the limited government-sponsored merit-based scholarships, while access to public scholarships and subsidized PTPTN loans for other qualified Chinese and Indian students continue to be regulated by a tacit ethnic quota policy.

With the success of the NEP, intra-Malay educational inequalities have widened with children of higher income Malays benefiting from policies which remain largely income-blind. Malay students from higher incomes background have thus benefited excessively from the existing government scholarships and loans including the PTPTN. In contrast, the financing policy that increasingly shifts responsibility to students and parents would make it ever more expensive for lower-income students across ethnic groups to attend higher education and would become a major financial burden for middle income Malaysians. And even if they manage to secure PTPTN loans, lower-income students would find it difficult to repay the loans, which may then result in student loan debts and defaults. Given the growing income differentiation and inequity in Malaysia—in the Malay community in particular—the financing of higher education should be modified to be less ethnicity-based and more income-sensitive to help students from the lower socio-economic classes across all ethnic groups.

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