

Endowment Fund (Waqf) as an Answer to Increasing Cost in Managing Higher Institutions

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Abstract—Education endowments fund have long been practiced in Malaysia through the existence of traditional religious educational institutions such as madrasah, religious schools (private and state owned) that provides education for those in village and remote areas. These endowments were used to manage the schools so that the students need not to pay anything for their education. But the endowments fund were limited to primary and secondary level education or equivalent. In 1999, the International Islamic University of Malaysia (UIAM) has established the Islamic Endowment Fund (IEF), making it the first institution of higher learning (IHP) in Malaysia to establish an education endowment known as “*waqf fund*” followed by several other IHPs from year to year. This article discuss the development of writing, whether in the form of research, books, articles and so on in debating the issue of management of *waqf* education fund in the higher learning institutions in Malaysia. This study was conducted using qualitative method and library research approach. This study shows that scholars, academics and the government were very concern on the management of the fund. Malaysia's education endowment funds are growing with the setting up of education *waqf* fund in several IHPs such as IIUM, Universiti Putra Malaysia (UPM), Universiti Kebangsaan Malaysia (UKM), Universiti Sains Islam Malaysia (USIM), Universiti Teknologi Malaysia (UTM), Insaniah College University, and some other IHPs. However, there are very limited number of research to study *waqf* fund for education in the IHPs especially involving aspects of fund management as the backbone to ensure the success of *waqf* for education.

Keywords—*Waqf; education; education cost management; institutions of higher learning*

I. INTRODUCTION

Education costs are becoming more expensive following the increase of cost to manage higher institutions. In Malaysia and other part of the world, the major contribution to private higher institution income came from tuition and fees paid by the students. As cost to manage higher institution keep on increasing every year mainly contributed by the increase in salary and wages expenses, the institution of higher learning (IHP) has to increase the tuition and fees. The cost increases are particularly significant for science programs especially for critical courses in the rise in prices of goods and services.

Cost-sharing, or the shift in at least part of the higher educational cost burden from governments (or taxpayers) to parents and students, is a worldwide trend manifested in the introduction of (or in sharp increases science and technology such as medicine, health sciences, pharmaceuticals, engineering, space sciences and others. It is no exception for other program such as social sciences, literature and religion which are traditional field for the majority IHP students [1]. The cost of education is increasingly expected to increase with in) tuition fees, user charges for lodging and food, and in the diminution of student grants. The phenomenon is seen even in Europe, which still remains the last bastion of generally “free” higher education, as well as in countries that were once Marxist and that are finding loopholes to retain the legal semblance of free higher education while becoming increasingly dependent on tuition revenue for the financial survival of their institutions [2].

In order to help lessen the burden of parents to finance the education cost in both public and private IHP, the Malaysian government introduced National Higher Education Fund Corporation loan (PTPTN). After some years it is seen that PTPTN is not able to handle the problem of increasing education cost because according to a report, 412,245 out of 1.24 million borrowers did not repay the loan until 31 August 2013 [3]. The emergence of various *takaful* and insurance products that offer education contributions for children as well as establishment of the SSPN fund in recent years has shown to us that so many effort have been made to address the issues of rising cost of education in Malaysia.

A relatively high tuition and fee will increase the burden on students. Besides charging higher tuition and fees, what other mechanism can be used for to accommodate the increasing cost of study?

Taking into consideration that the saving effort through SSPN and other *takaful* or insurance product are something good and useful, this article tries to study on education financing through endowment fund (*waqf*) instruments that has been implemented in several IHPs in Malaysia. Is endowment fund can be a solution to the background of the problem stated above?

A. Endowment Fund

European universities receive the majority of their funding from public sources, but private funding plays a more important role in Anglo-American systems of higher education [4]. Prominent universities rely heavily on endowments to support their many academic missions. Yale University, often cited as an exemplar in terms of success in endowments, operates with an endowment of approximately US\$20 billion, which probably produces enough annual income to pay tuition for every enrolled student. Income from Yale's endowment funds a huge spectrum of academic pursuits, ranging from funding for women students in science, to professorships, to outreach programs for local teachers. A significant endowment makes the university better, allowing the institution to recruit top faculty and students, while funding research and outreach more generally [5].

Endowments represent money or other financial assets that are donated to universities or colleges and are meant to be invested to grow the principal and provide additional income for future investing and expenditures. Typically, endowment funds follow a fairly strict set of long-term guidelines dictating the asset allocation that will yield the targeted return without taking on too much risk [6].

The practice in most IHPs especially in Europe and the United States most endowments have guidelines stating how much of each year's investment income can be spent. For many universities, this amount is about 5% of the endowment's total asset value. Because some of the more coveted schools, such as Harvard, have endowments worth billions of dollars, this 5% can equal a large sum of money.

As of June 2016, Harvard University owns the largest academic endowment in the world with the total fund of USD36.4 billion followed by Yale University - USD25.6 billion, University of Texas - USD24.1 billion, Princeton University - USD22.7 billion, and Stanford University - USD22.2 billion. Although the average university endowment returned was only 2.4% in 2015, these five universities still enjoyed investment returns in the hundreds of millions of dollars, including Harvard's \$1.6 billion endowment distribution in 2015. These donations finance a material portion of the school's operations, as universities with an endowment over \$1 billion typically rely on this contribution fund to cover 17% of annual spending [7].

Endowments help reduce the costs of education in many ways. Most importantly, endowments allow universities to support professors, graduate students and undergraduate students in undertaking visionary, high-risk, high-reward research. Endowed professorships are reserved for only the most talented professors, and income from endowments helps the university support faculty, students and direct costs of research. Endowments also support student scholarships and programming. In general, endowments help universities offset educational costs while placing the university on the cutting edge of scholarly discovery, research and creative work.

Endowment donors can sometimes restrict how the schools spend this money with an investment policy statement (ISP). For example, donors can decide to use a portion of an endowment's scheduled income on a merit-based or need-based scholarship. Another standard restrictive use of an endowment's income is to provide funding for endowed professorships, which are used to attract world-class educators.

Other than these restrictions, universities can use the rest of the allotted spending amount as standard income. Decisions about whether it should be spent on hiring professors, upgrading/repairing facilities or funding more scholarships is left up to school administrators. An endowment's investment income can also significantly lower tuition costs for students. For example, if a university's endowment yields a total of \$150 million and has a 5% spending limit, this would provide \$7.5 million of available income. If the university had originally budgeted \$5.5 million in endowment funds, this would mean that the excess \$2 million could be used to pay other debts/expenses and the savings could be passed on to students.

However, because universities depend on investment returns for supplementary income, there could be trouble if the investments do not yield a suitable amount of returns. Therefore, most endowments are run by professionals to ensure the investments made are in line with the aforementioned policy allocation.

II. METHOD

This study is theoretically a qualitative study, using library research approach. A study that tends to collect data by observing or analyzing the contents of the document. Collection of data through literature study where references are made to primary and secondary sources involving the use of books known as *turaths* as main references related to waqf. Other related sources were used including research papers, theses, newspaper clippings, searches on the internet and the like.

III. RESULT AND DISCUSSION

The issue of waqf in Malaysia has long been discussed by legal scholars, academics and professionals covering legal, development, management and etc. These discussions are generally helpful to direction of waqf capability as Islamic financial instruments advanced and competitive in strengthening the economy of the *ummah* and to produce quality human capital. Generally diverse problems in the development of waqf that have been identified among them non-uniform management, financial resources constraints, the problem of lack of qualified professionals, no has a complete waqf database and record property and location of waqf property that is not strategic. Management and the administration of this waqf property should be made professionally because this is one of the Islamic economic instruments which has been proven effective in the past [8].

Even though endowment fund is seen to be a solution to the increased cost of managing IHP resulting in increased tuition and fees which eventually burdening the parents, Malaysian has not yet seeing it as a solution. Based on the amount of endowment fund in 20 public universities, in August 2017, only RM1.8 billion was collected. This number is too small compared to Malaysian population of more than 32 million. This shows that the government and IHL have to do more work to educate the public about endowment fund.

Islam is the religion of the Federation of Malaysia, stated in the Malaysian Constitution. As the most complete religion which always provides solutions to every problem of the people, Islam also provide solution to financial problem through zakat, sadaqah (the alms), and waqf (endowment). All of these three incentives can be used to help reduce the burden of the people who are facing financial difficulties. Waqf is among the major machinery of community development which is still not fully utilized to solve financial problems. Waqf is seen as the best solution to empower higher education. But based on the amount collected for the endowment fund, it shows that Muslim community awareness is still low. This is an opportunity to all IHPs to meet the people and explain about the importance of endowment fund in financing the IHPs [9].

Even though waqf is not specifically mentioned in the Holy Quran, the concept of wealth distribution is strongly emphasized therein. In fact, in the Quran, there are many verses which discuss and encourage Muslims to donate and give charity such as in Surah *al-Baqarah* (2: 261), *al-Baqarah* (2: 271), *Ali Imran* (3: 92), *Ali Imran* (3: 134), *al-Lail* (92: 18-21) and *al-Hadid* (57: 18) [10]. From Shariah point of view, waqf may be defined as holding a mal (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy. This definition also covers several new forms of waqf that were not discussed in the classical literatures, such as the waqf of financial rights and waqf of usufruct [11]. The contemporary jurists also justify the validity of the cash waqf, because it is in the interest of the waqf (the donor), its beneficiaries and the society [12]. In addition, waqf assets can also be immoveable or moveable [13].

The sustainability issue of the government fund to maintain higher education expenditure has been greatly debated in Malaysia especially in the post-period of Asian economic crisis that occurred in the late nineties. Malaysia's economy was greatly affected by the crisis which resulted in twin deficits of annual budget and huge depreciation of the currency that forced the authority to reduce public sector spending including higher education. Prior to the crisis, the provision of higher education totally relied on public fund for the establishment and maintenance of operational cost of public universities as well allocation of financial aid to the students.

The government has subsidized a total of ninety percent of public universities expenditure that enable these institutions to charge low fee admission for the students. The method of channeling the fund is through negotiation between the universities and the Ministry of Education; once agreed the fund will be transferred to public universities. Scholarship scheme on the other hand, have been given to students studying locally and abroad subject to academic excellence and strong co-curriculum [14]. These two methods of funding higher education, namely; macro and micro, have contributed to the expansion of public universities and subsequently produced knowledgeable human capitals for the development of the country.

The transformation to implement waqf fund in Malaysia as one ecosystem in the higher institutions must be supported by two basic elements in order to make this fund being utilized to spur the education development [14]. The two basic elements are the leadership in the IHP need to possess and master the intellectual and wisdom, blend in managing education waqf fund, and a proper guideline on the implementation of education waqf fund in accordance with the will of the country's higher education must be developed.

Management is an important aspect of waqf where without good and prudent management waqf will not be competitive and will not achieve its objective in becoming an instrument of economic generator for Muslims. Two important basic elements are needed to support the educational waqf instrument to spur education development in Malaysia. The two basic elements are the wisdom of leadership in IHPs and a guideline for the implementation of education waqf in accordance with the will the country's higher education needs. Leadership of the IHPs need to possess and master the intellectual and wisdom in managing education waqf fund. They need to find a way to develop waqf property as long as it does not violate the terms of waqf and safeguarding the wishes of the donor to generate the economy of the Muslims using the waqf fund.

IV. CONCLUSION

There is not much study on the management of education waqf fund in Malaysia. More study is needed to bring the idea of education waqf fund to the public. The Religious Council in all states in Malaysia shall sit together to find ways to liquidate all assets under the waqf to generate more income to be used to improve economic situation among the Muslims. Income from the assets can be used for education. Lessons from the history of waqf's during the era of Islamic glory, and the experience of foreign countries such as Indonesia, Singapore and other Western countries, can be used to help in developing expert team to manage waqf fund. The management team need to use all sources to generate high profits in the management of waqf funds in Malaysia. Management team especially in the IHPs shall find ways to market this instrument to public to get more fund from them as it will help to reduce the burden of the IHPs management to find solution for high operating cost and high tuition and fees charged to students.

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