

Higher Education Finance and Cost-Sharing in Malaysia

I. A Brief Description of Malaysia's Higher Education System

Higher education in Malaysia is divided into 2 sectors: public and non-public. In the public sector, there are 20 universities and 6 university colleges (the term 'university college' is used to for those tertiary level education institutions that are able to confer their own degrees but have not achieved university status). In the non-public sector there are 559 institutions of varying types including: universities and university colleges and foreign university branch campuses. The term 'non-public' refers to the broad category of institutions not funded by the state. A division between private and for-profit institutions exists within this category, but is not entirely clear. Outside of these categories are polytechnics (24) and community colleges (37), which will not be dealt with in this profile.

The Higher Education Department within the Ministry of Education co-ordinates and monitors the activities of public and private universities and colleges.

The Malaysian government has made tremendous efforts to improve the higher education system as a whole in recent decades. Nevertheless, the system faces many challenges including financing and access.

In terms of access to higher education, there were significant improvements in the higher education gross enrollment rate between 1965 and 2005 from less than 5 percent of the university aged cohort to more than 30 percent. By 2010, the Ministry of Higher Education hopes to increase tertiary education enrollment to 40 percent of young people (ages 18-24). This increase will push enrollment from 650,000 students in 2005 to 910,000 in 2010.

There are several issues facing Malaysian higher education financing including its ongoing 'corporatization,' which on the one hand has allowed for public institutions to gain autonomy, but on the other hand treats the university as a business, implying complete financial independence from the state.

In recent decades, Malaysia has been in the process of transforming its economy from one based on mass production and relatively unskilled labor to one based on knowledge and creativity. In implementing this change, the state has allocated 8 percent of total governmental expenditure or (RM 11.3 billion) to higher education. In terms of Gross Domestic Product, Malaysia allots 2.7 percent of its GDP to higher education. This relatively high percentage is due to the subsidization of tuition and oftentimes on-campus accommodation.

Because of the government's large investments in higher education, issues of government involvement and university autonomy arise. In particular, the current system is quite restrictive from the viewpoint of the university insofar as the university does not have the power to select its own students, to offer competitive compensation packages to draw the most qualified faculty, or to appoint the most qualified university administration. Currently, students are assigned to specific universities based on their cumulative grade point averages, faculty members are essentially civil servants with highly fixed salaries, and vice chancellors and deans are appointed by the state.

Issues of access to higher education continue to cause contention among the various ethnic groups in Malaysia. Racial quotas were eliminated in 2002 with access to public universities to

be based on merit instead. However, there have been contentions that the native Malays, the Bumiputeras, continue to benefit from positive discrimination whereby they access universities through a matriculation/ pre-university program, while the non-bumiputeras can only access it through the Sijil Tinggi Persekolahan Malaysia (STPM) examination.

Malaysian public higher education students must pay tuition and other fees and cover their living costs (though accommodations on campus are subsidized by the government).

Student Loans

In 1997, the government established the National Higher Education Fund Corporation (NHEFC), a sub-group of the Ministry of Higher Education that provides subsidized loans for students attending expensive private institutions. By 2000, the government extended the loans to students attending public universities as well. Between 1997 and 2005, the NHEFC loaned RM 15.1 billion to almost 800,000 students (World Bank 2007).

Although the loan program has benefitted many students, there are still adjustments that would allow for greater efficiency. There are currently no maximum income conditions for loan eligibility, which may cause wealthy families to take advantage of the low interest rates to support expenses outside of education. Loan amounts are based on the type of degree being pursued, which may create a bias in favor of university students. It can be seen from Table 1 that about 21 percent of student loans are given to students attending private institutions, and between 2005 and 2007, this rose to 32 percent. Though the percentage of students receiving loans attending private institutions has increased in recent years, one would expect a majority of the loans to be for students attending private universities, considering the disparity in cost.

The most important issue facing the loan program is financial sustainability. In general, payment compliance has been low and the Treasury has cut its budget transfers to NHEFC in recent years, which has caused the agency to borrow at very high interest rates. NHEFC reports that it recovers only 25 percent of what it should be recovering. In addition, a large imbalance between new loans and repayments can be seen in Table 1.

Table 1. Financial Performance of NHEFC

Year	# Loan Beneficiaries	# of Graduates Making Payments	Borrowed Amounts (RM million)	Amount Repaid (RM million)
1997	12,084	-	222.4	-
1998	18,282	13	398.6	-
1999	83,158	2,661	1,836.6	.05
2000	94,050	9,059	2,248.2	.3
2001	110,644	17,634	2,042.8	6.8
2002	105,077	43,343	1,759.0	7.3
2003	112,621	79,338	1,964.4	34.6
2004	119,111	61,011	2,406.6	44
2005	144,459	N/A	N/A	N/A
TOTAL	800,186	N/A	N/A	N/A

Source: World Bank, 2007

In hopes of remedying this situation, the World Bank has defined a sustainable model of financing higher education by improving access and better utilization of loan programs. As a

response to the issues facing access to education, the model offers a three-pronged approach: increasing resource diversification in public universities (increasing cost-sharing), a more balanced growth of both university and non-university institutions and incentives to promote the growth of private universities.

To promote efficiency in terms of distributing public resources to universities, the model suggests using performance based allocation methods to encourage competition and quality amongst public universities. Examples of such methods include contracts between the state and the university, performance set-asides, competitive funds between universities, and payments for results.

II. Financing Higher Education

Malaysia Higher Education Expenses Borne by Parents and Students First Degree, Academic Year 2007 (10 months)

[National currency (Ringgit *Malaysia*) converted to \$US by World Bank ICP 2005 purchasing power parity estimate \$1 = 1.734 RM]

		Public		Private	
		<i>Low Public</i>	<i>High Public</i>	<i>Low Private</i>	<i>High Private</i>
	Special "One-Time" or "Up Front" Fees	600RM [\$346]	600RM [\$346]	540RM [\$311]	540RM [\$311]
<i>Instructional Expenses</i>	Tuition	700RM [\$404]	1,102 RM [\$635]	9,531RM [\$5,496]	15,200RM [\$8,765]
	Other Fees	196RM [\$113]	196RM [\$113]	740RM [\$427]	940RM [\$542]
	Books & Other Educational Expenses	400RM [\$230]	400RM [\$230]	600RM [\$346]	600RM [\$346]
	Subtotal Expenses of Instruction	1,896RM [\$1,093]	2,298RM [\$1,325]	11,411RM [\$6,580]	17,280RM [\$9,965]
	Lodging	0	4,500RM [\$2,595]	2,700RM [\$1,557]	5,000RM [\$2,883]
<i>Student Living Expenses</i>	Food			3,000RM [\$1,730]	4,500RM [\$2,595]
	Transportation	7,000RM [\$4,036]	9,500RM [\$5,478]	2,000RM [\$1,153]	3,000RM [\$1,730]
	Other Personal Expenses			5,000RM [\$2,883]	6,000RM [\$3,460]
	Subtotal Expenses of Student Living	7,000RM [\$4,036]	14,000RM [\$8,073]	12,700RM [\$7,324]	18,500RM [\$10,668]
	Total Cost to Parent & Student	8,896RM [\$5,130]	16,298RM [\$9,400]	24,111RM [\$13,904]	35,780RM [\$20,634]

Low Public: low public university, living at home with parents.

High Public: high public tuition, living in university accommodations

Low Private: low private tuition, living in dormitory.

High Private: high private tuition, living in apartment.

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MS with input from SCM 05/01/09.