pportunity and Student Support Schemes

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Abstract

Equality of opportunity or access to education has always been propagated as a good mechanism to reduce economic imbalances between the rich and the poor. This is due to the fact that there is a historic correlation between educational attainment and occupational opportunities. In meeting this objective, the Malaysian government has invested vast amount of fund through subsidisation of education particularly in higher education. In Malaysia, public universities obtain 80-90% of their funds from government grants. Not only the government support the public higher education institutions but it also provides the student support scheme in terms of scholarships and student loans. However with the increasing costs and rapid expansion of higher education, pressure for reform in higher education financing has intensified. Heavy reliance on public funds to finance higher education no longer seems to be an ideal solution. In this regard many countries around the world resort to the concept known as cost recovery. Replacing scholarship by student loans is one of the ways on how cost recovery can be implemented. The introduction of student loans, however, if not properly formulated will discourage or deter less advantaged socio-economic groups from getting access to higher education. In this paper we will discuss some policy options with regard to student support schemes which taking into consideration both efficiency and equity issues.

1. Introduction

A positive link between investment in education and labour income has received much attention in the early literature such as Mincer (1958) and Becker (1962). It is a known fact that education particularly higher education plays an important role in promoting intergenerational mobility and economic equality as such that it is considered as a tool for redistributional policy. Equal access to higher education will ensure that every individual of the same ability but with different economic backgrounds has the opportunity to benefit from education. According to Article 26 of Universal Declaration of Human Right, higher education shall be accessible to all on the basis of merit. For this reason, subsidising higher education might be used as one of the policy options to promote equal access and redistribute income. Public provision of higher education will enable students from poor families to take part in higher education and later on benefit from future higher earning thus reducing inequality in the society.
In the 1950s and 1960s there was a dominant view that public education including higher education should be made available free of charge. This was essentially justified on the ground that education results in higher social mobility and provides opportunity for the poor to get education. Thus around the world we found that education was highly subsidised and prices had no role in determining demand for education. The World Bank report (1994) stated that, in late 1980s tuition fees only

of total re-current expenditures of all 20 countries who r as time goes by the policy of free education seems to ese include fiscal pressure, consistent rises in unit costs of providing education and rapid growth of student enrolment. Hence, globally we have witnessed radical changes on higher education system as a whole and higher education financing in particular. The paper on financing education by the World Bank (1986) has backed the movement by outlining several strategies such as introducing or raising tuition fees and replacing scholarships with student loans.

Today, loans has become one of the most important student support schemes which being implemented in more than 80 countries worldwide. Even though student loans can be regarded as a way to reduce governmentõs burden in financing higher education, but it also raises vital issues in terms of equity. Many opponents of student loans believe that this type of student support will deter those from poor families from borrowing thus this group of people will be under-represented in higher education.

The debate on the efficiency and equity of cost recovery especially student loans has received much attention among the advocates and the opponents of cost recovery. In Malaysia, as in other countries the issue of cost recovery especially student loans has received much attentions among the students, parents and the policy makers. It is no doubt that due to financial stringent and the rapid growth of education sectors, the government is facing the problem of balancing between of the issue of efficiency and equity. This matter has been highlighted in the speech by Dr Johari Mat , Head of the Malaysian Delegation at the World Conference on Higher Education in 1998,

ñ*On the issue of sharing responsibility with other stakeholders on the funding of higher education, we are mindful that this idea will not find much appeal. Financing of higher education as we know is intricately linked with the political, social and cultural values and context of a society. It would be recalled at the outside, our basic premise is that higher education is for the state to provide. Nonetheless we are pursuing this idea of cost sharing, albeit very cautiously. We will not implementing full cost recovery yet. But we find it inevitable impossible not to increase fees incrementally. The public at large – parents, students, community, industry and the private sector must realize and accept the fact that education, quality education, in this technological age has its price."*

Realising that the financing reform towards cost recovery will continue to be the main agenda for years to come, it is the intention of this paper to analyse the current status of the introduction of cost recovery in the context of Malaysian higher education system and relate it to the issue of accessibility. The discussion will stress on the student support schemes especially student loans and few recommendations will be put forward as how to improve the current state.

The paper will be organized as follows. With the introduction in the first section, the second section will briefly discuss various financing model adopted by different countries and the concept of cost recovery with specific reference to student loans and graduate tax. The third section will provide an overview of financing reform in higher education in Malaysia and the issue of accessibility followed by few recommendations. The final section concludes the paper.

2. Financing Model

Different countries may adopt different financing models for their higher education but nevertheless follow three basic models which has been described by Albrecht and inance, cost recovery and revenue diversification. These briefly explained here.

Under this type of financing model higher education institutions are fully funded by the government. Funds from government are allocated to higher education institutions (known as institutional funding) either directly or through intermediaries. Basically there are two kinds of state funding mechanism i.e. a formula based and a block grant. There will be no tuition fees since the amounts have been met by the government through the allocation to institutions. Apart from institutional funding, the government also subsidises student living expenses normally known as maintenance grants. [1]

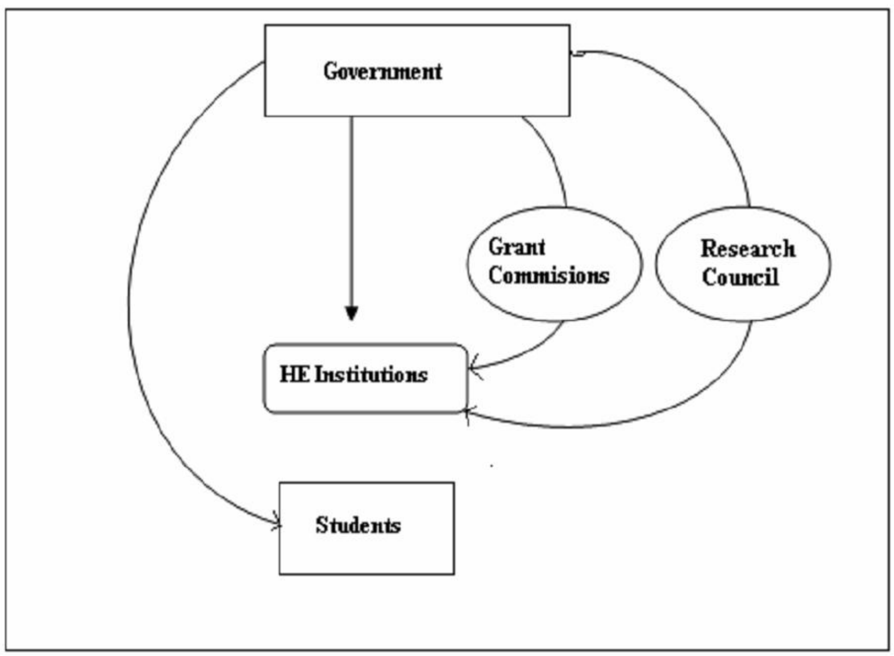

Figure 1 : State Dominance

ii) Cost Recovery

The cost recovery model introduces the importance of user fees policy whereby the students who directly benefit from higher education in terms of future higher earnings should contribute partly or fully to the cost of education. Under this model, higher education institutions will charge a realistic tuition fee to cover the instructional cost. [2] The fee can be introduced by asking students to pay an up-front fee or a deferred fee whereby they pay their fees after graduation.[3] Charging a very high fee is often considered as socially unacceptable since it will deter less

[1] In many systems, subsidies to living expenses are normally higher than the direct transfer to universities which are used to cover recurrent expenditures.

[2] Many governments have allowed their public higher education institutions to charge fees to students. These includes UK, US, Australia, Italy, Japan, Netherlands, New Zealand and Malaysia.

[3] Australia and New Zealand have adopted the system of deferred fees through graduate loan repayment schemes. All the fees are repaid after graduation.

ic groups from getting access to higher education. esirable to introduce such a policy since it will attract pulation. Thus it is very hard to find a higher education system that operates based on cost recovery in its pure form. Normally it exists in complement or tandem with state subsidies of higher education. Many countries introduce loans scheme to cover either tuition fees, student living expenses or both and often high levels of subsidy are present in most student loans scheme in practice. The loans are normally allocated to students through loan agencies which are basically responsible for the disbursement as well as collection of the repayments.

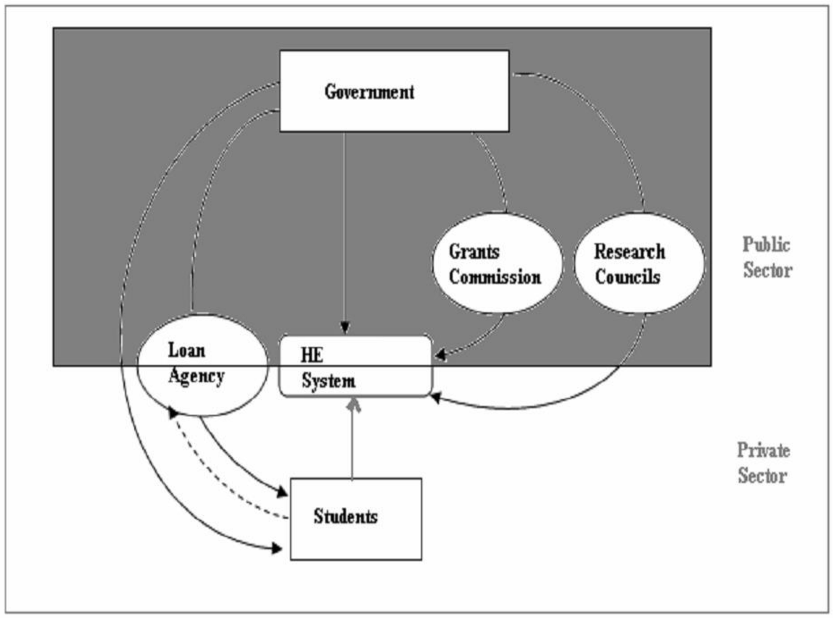

Figure 2 : Cost Recovery

iii) Revenue Diversification

The financial constraints facing higher education institutions have become an obstruction for them to increase the number of available places for potential students and at the same time maintain high quality education. In order to relax this financial constraint and reduce the governmentôs burden, more financial autonomy has been granted to institutions to enable them to seek new sources of income apart from student fees. The corporatisation of universities mostly in the 90ôs is one of the examples of how governments try to create an avenue for universities to generate their own income from newer non-traditional activities. Among the activities are contract research for industry and consultancy services, as well as tapping alumni and industry for donations and endowments. Note that higher education institutions can benefit directly from industry contribution through research council or indirectly through students who are being sponsored by industry.

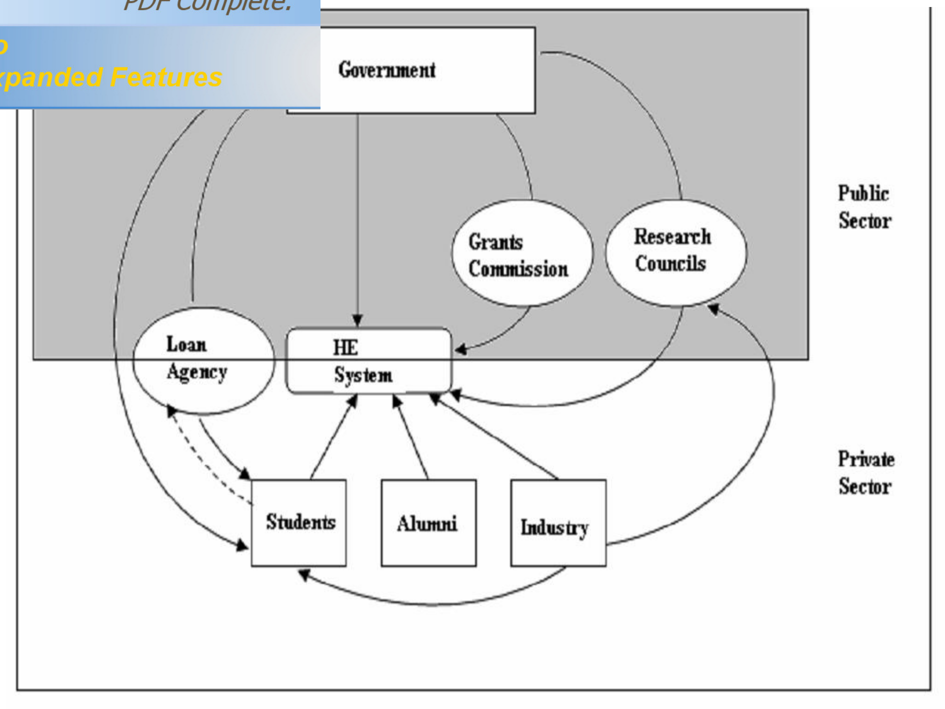

Figure 3 : Revenue Diversification

The three types of financing model which have been discussed more or less characterise the financing systems that exist in higher education institutions around the world. Though it is quite difficult to conclude which model is superior to the others, the current phenomena demonstrate that there is a major reform towards cost recovery and revenue diversification. The reform towards these two models seems to be consistent with the objective of reducing the dependency on the government budget and providing more flexibility on the part of higher education institutions.

2.1 The Concept of Cost Recovery

Basically, cost recovery indicates revenue generated from those that directly benefit from education. According to Albrecht and Ziderman (1992) cost recovery refers to the revenue generated from charging tuition fees and delayed cost recovery refers to the tuition deferment through the introductions of student loans or a graduate tax. For countries who have introduce tuition fees, cost recovery would mean increasing fees above what is currently charged. The introduction of cost recovery is nonetheless proven to be politically difficult and receives many objections from the public who perceive this as the deprivation of the rights of the poor. Therefore, with the introduction of cost recovery, there must be some financial support introduced alongside which can relieve the pressure of poor but eligible students who want to participate in higher education. Salmi (1992) and Tilak (1997) stressed this important issue by stating that cost recovery cannot be implemented without some sort of financial support to academically qualified poor student. Evidence in many countries shows that increases in tuition fees are accompanied by loan schemes being introduced in order to ease student financial constraints. The other proposal that has been put forward is the introduction of a graduate tax.

Unlike investment in other physical goods such as housing or machinery which can be used as collateral against borrowing in the capital market, investment in human capital lacks this collateral security, hence imperfections in the capital market will restrict poor student from borrowing. Therefore, making financial resources available to academically qualified poor students through student loans is seen as a necessary step to help them to get access to higher education. Loan programmes have been introduce in various forms in term of repayment schemes and administration. Two basic types of repayment schemes are mortgage type loans, where the repayment is in fixed instalments over a fixed period, and income contingent loans where repayment is a certain percentage of the borrowerôs annual income making the repayment period endogenous. The drawback of mortgage type loans is the possibility that it will deter potential student from borrowing since students have to pay an open-ended proportion of their income whereas the returns from their human capital investment are uncertain. Income contingent repayment, on the other hand limit this burden. The administration of the loans programmes can be carried out either by autonomous public lending institutions or publicly or privately owned commercial banks.

2.1.2 Graduate Tax

The idea behind the implementation of a graduate tax is to fund higher education with specific tax revenues derived from graduates who benefit directly from higher education. The tax upon graduates is considered as the repayment of the costs of their education. The graduate tax is considered as an equity contract in the sense that it allows the government to finance the cost of education and later on claims on part studentsô future incomes (return on their investment) through tax.[4] The concept behind the graduate tax is similar to that of deferred fees in which instead of loans now the government provide grants to cover costs of higher education. Graduates will only have to repay after graduation and when receiving earning from their employment.

3. Overview of Higher Education Financing Reform in Malaysia.

Education is one of the major items of public expenditure in Malaysia and the government continues to steadily allocate 19-20% of the National Budget for the education sector and almost 5% goes to financing public institutions of higher education. High priority given to the education sector by the Malaysian government can be clearly seen in terms of its expenditure as a percentage of GDP as shown in Table 1. In 2005 for example, the public expenditure on education was above OECD average of 5 percent of GDP.

Year	1985	1990	1995	2000	2005
% of GDP	6.0	5.1	4.4	6.2	8.1

Table 1: Public Expenditure on Education as percentage of GDP

[4] Friedman and Kutznet (1945), Friedman (1962) and Garcia-Penalosa and Walde (2000) suggested that with the presence of adverse selection due to the capital market imperfections and the absence of insurance market to insure human capital risk, equity finance is the optimal way of financing education.

p://devdata.worldbank.org/edstats

In Malaysia public education is highly subsidised particularly at the university level. It is reported that about 80-90% of university revenue comes from government. Due to high subsidisation the fees paid by the student only cover less than 10% of the actual cost. Table 2 shows the differences between fees charged by the public and private higher institutions in Malaysia. From the table it is clear that due to high subsidies provided by the government the public higher education institutions are able to charge a very small fees compared to the private institutions who are charging the fees eight times higher than that of the public institutions.

Field of Study	Cost for Program in IPTA (RM)	Tuition Fees paid by student (RM)	Cost born by Govt (RM)	Cost for Program IPTS (RM)
Business Management	21,582	4,700	16,882 (78%)	38,657
Computer Science	32,861	5,700	27,161 (83%)	36,568
Engineering	53,130	6,500	46,630 (88%)	50,664
Medical	275,518	9,800	265,718 (96%)	271,317
Law	38,227	5,800	32,427 (85%)	72,800
Pharmacy	66,283	5,000	61,283 (92%)	109,241
Science	48,512	5,000	43,512 (90%)	59,943
Arts	20,551	4,200	16,351 (80%)	65,072

Table 2 : Fees at IPTA and IPTS
Source: Unit Perancang Ekonomi (Kementerian Pengajian Tinggi)
Reference: retrieved fromhttp://www.mohe.gov.my/statistik_v3/stat6.php

It is an observable fact that higher education in Malaysia is expanding very rapidly. The numbers of public and private universities have increased dramatically over the past 10 years. At the moment there are 20 public universities offering certificate, diploma, first degree and postgraduate degree. The number of enrolment at public universities also has increase at a significant rate as shown in Table 3. The number of enrolment is projected to increase further by year 2010. The increase in demand for public higher education is attributed to several factors as follows:

a) Growth in income due to the rapid development of the Malaysian Economy.
b) Financial crisis in 1997, where government drastically reduced the number of student sent abroad.
c) Rapid growth for information technology and nationøs quest for the vision 2020 which addressed the issue of developing human capital.

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Study	Total	Public	Private	Total	Public	Private	Total
Certificate	105570	37391	94949	132880	141290	143480	284770
Diploma	208454	98953	131428	230381	285690	188680	474370
First Degree	230726	212326	110591	322917	293650	134550	428200
Masters	26181	34436	4202	38638	111550	5770	117320
Phd	3490	6742	140	6882	21410	270	21630
Total	574421	390388	341310	731698	853590	472750	1326340

Table 3: Total Enrolment at Public and Private Higher Institutions
Sources: 9th Malaysia Plan, Schedule 11-6, page 257

The increase in demand for more places causes the government to exhaustively use the already limited funds available. For that matter the government is in immediate need to find new funding mechanism to assist public universities as to ensure that the capacity of these public universities to increase enrolment are met without affecting qualities. According to the Ministry of Higher Education, a number of funding approaches have been introduced such as the establishment of means test scholarship and loan schemes, and allowing universities to develop new ways of raising revenue through consultancy, services, rental of premises and so on. Despite finding new funding mechanism the Malaysian government also encourages the private sector involvement in providing higher education. For example, in the last two decades private higher education has expanded significantly.

Academic Session	Application	Places Available
2000/2001	124,310	31,291
2001/2002	140,845	25,511
2002/2003	127,572	22,943
2003/2004	123,200	18,046
2004/2005	128,209	18,635
2005/2006	132,415	18,927
2006/2007	134,227	26,693
2007/2008	135,558	25,842

Table 4: Statistic on Application and Supply of Places for SPM Holders or Equivalent for the Year 2000-2008.
Source: Ministry of Higher Education.

Despite huge budgets allocated for higher education and the establishment of new public higher education institutions, shortage of places for qualified candidate still persist. According to the report by the Ministry of Higher Education, only one third (1/3) of those who are academically qualified will get places in the public local higher oblem with excess demand for higher education and the ighlighted in Table 4. The statistic obtained from the n shows that despite the establishment of new public universities and the involvement of private higher education institutions, the problem of shortage of places still remains.

3.1 Student Support Scheme

It is learned that students especially from less advantaged economic groups choose not to enter the private higher institutions particularly due to large differences in fees charged between public and private higher institutions. This is well recognised since the issue of accessibility greatly depends on the financial contribution of the government and also the financial status of the students. In this regards in order to ensure that the financial burden will not going to be an obstacle for the high ability students to have access to higher education an appropriate policy regarding student support schemes should be put in place. In general there are two types of student support schemes currently provided by government i.e. scholarships and student loans.

Before 1990ǒs, student support scheme was normally in terms of scholarship. Almost every bumiputera student who enrolled in public universities in 60ǒs and 70ǒs received scholarship to pursue their study.[5] Public Service Department is the major government agency responsible for the disbursement of the scholarship. However due to increase in the number of enrolment and the financial stringency on behalf of the government the student loans was then introduced. In Malaysia, the major student loan is managed and distributed by the National Higher Education Fund Corporation (NHEFC) or Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) which was established in 1997. The provisions of these loans are intended to subsidise part of the education fees and living expenses especially for the less advantaged socio-economic group. Since its establishment the total loans distributed amounted to 15 billion which have been distributed to 900,000 students. Students from private and public higher institutions are eligible to apply for the loan, however the amount of loans differs according to institutions, level of education, field of study and net income of parents/guardian of the student. Table 5 shows the amount of loan distributed according to the various criteria mentioned.

[5] **Bumiputra** or **Bumiputera** (Malay, from Sanskrit *Bhumiputra*; translated literally, it means "son of the soil"), is an official definition widely used in Malaysia, embracing ethnic Malays as well as other indigenous ethnic groups such as the Orang Asli in Peninsular Malaysia and the tribal peoples in Sabah and Sarawak. (Wikipedia Encylopedia)

			Total Loan Per Year		
Institution	Level of Education	Field of Study	Full*	Partial*	Fee*
IPTA/Polytechnic	First Degree	Science	RM6500**	RM3000**	RM1600**
		Pharmacy, Dentistry/ Medicine	RM6500**	RM3000**	RM1800**
		Arts	RM6500	RM3000	RM1100
	Diploma	Science/Arts	RM5000	RM2500	RM1000
IPTS (except UNITAR, UNITEM , KYM)	First Degree	Science	RM16000 **	RM13000 **	Maximum RM10000
		Arts	RM16000	RM13000	Maximum RM10000
		Medicine/ Pharmacy/ Optometry/ Nursing	RM20000	RM20000	RM20000
	Diploma	Science/Arts	RM5000	RM5000	Maximum RM5000
		Allied Health	Maximum RM20000	Maximum RM20000	Maximum RM20000
IPTS (UNITAR)	First Degree	Science	RM10000 **	RM8000**	RM8000**
		Arts	RM10000	RM8000	RM8000
IPTS (UNITEM)	First Degree	Science	RM4200	RM4200	RM4200
		Arts	RM4200	RM4200	RM4200
	Diploma	Science/Arts	RM3700	RM3700	RM3700
IPTS (KYM)	First Degree	Science	RM10000	RM8000	RM6000
		Arts	RM10000	RM8000	RM6000
	Diploma	Science/Arts	RM5000	RM5000	RM5000

Table 5: Total Annual Education Loan for a Student.
Retrieved from http://www.ptptn.gov.my

Note:

- * Determination of the full and partial loan and fees rate is based on the net income of the studentös parents/guardian.
- ** Not including the RM500 incentive for Sciences.

Apart from PTPTN, there are other agencies as well which responsible for student loans such as Ministry of Education, Public Service Department and MARA.[6]
The move by government to replace scholarships with student loans has been seen as a strategic move by many politicians as a way to release the governmentös burden (increase efficiency) but on the other hand other stakeholders such as parents and

[6] Majlis Amanah Rakyat (MARA), or the Council of Trust For the Indigenous People, is an agency under the Ministry of Entrepreneur and Co-operative Development. It was incorporated on 1 March 1966 through a Parliamentary Act as a statutory body. It is the Council's responsibility to promote, stimulate, facilitate and undertake all activities pertaining to the economic and social development of the nation particularly in the rural areas.

n poor financial background perceived it as a deterrent r education. There was a hot debate going on and he public at the early stage of its introduction. The introduction of student loan was not without problems. Like any other student loans in developing countries, PTPTN encountered similar problems pertaining to the repayment by the borrowers. Dating back to 1999, there were 38,484 graduates who owed the fund at the estimated RM867 million. Even though many believe that the problem of defaulting is due to financial inability on behalf of the students to make a repayment, a thorough and in-depth study is yet to be carried out to confirm the matter. In order to overcome the problem of defaulting, various measures has been taken by the government such as having the names of defaulters blacklisted and asked borrowers to have individual fail number issued by the Inland Revenue as to make loan recovery easier to administer.

The shift towards cost recovery by introducing student loans, in my opinion is a good move to ensure public-private sharing of higher education costs but few strategies need to be considered as to improve the effectiveness of the student support scheme. This is very important due to the fact that any policy regarding student support scheme must guarantee the students receive appropriate assistances in order for them to get access to higher education and on the other hand reduces burden on the part of government.

3.2 Few Recommended Strategies

3.2.1 Targeting Student Loans

Giving student loans to each individual student would be a very expensive policy to carry out especially when the subsidised interest is very large and the possibility of defaulting is very high. In this case if the government intention is to increase the number of participation, loans targeting is an appropriate policy. Ziderman (2004) discusses targeting student loans based on his study carried out on the loan schemes introduced in Asian Countries. In his study he pointed out that a large subsidy on student loans provided to every student taking higher education is unjustified. He listed several ways of loan targeting which depend on the objective to be achieved:

i) First is to target only poor students. However in terms of efficiency this kind of targeting might not be a good solution, since poor students are high risk borrowers, and lead to a greater propensity of defaulting.

ii) Second is to target students of greater academic ability. This will ensure the internal efficiency of the loans scheme since high ability people are less likely to dropout, have a high probability of securing better position in life and hence a low probability of defaulting on loans repayment.

iii) Third is by restricting loans to students only in occupations with short supply. This, according to him, will lead to greater external efficiencies of the scheme.

One problem which may arise with targeting is that the loans do not reach the target group. In many cases the social characteristic of recipients do not correspond to the planned distribution of recipients, (Salmi, 2003). One example is the Jamaica Student Loan Bureau where the data shows that in 1997, about 62.3% of loan recipients came from the highest income group. Salmi (2003) also raised the issue of stringent guarantee system which can discourage or eliminate applicants from less affluent families. Thus according to him, a more transparent eded to ensure that most deserving students actually

3.2.2 Introducing Income Contingent Loan.

As mentioned earlier the drawback of mortgage type loans as PTPTN is the possibility that it will deter potential student from borrowing since the repayment is an open-ended proportion of the income (PTPTN for example requires the student to pay back the amount borrowed through instalments within six month after graduation). The uncertainty of future returns from investment in higher education will result in refusal on the part of the students to borrow. The best approach to cater this problem is to introduce Income Contingent Loan where the repayment is contingent upon income. Students only make the repayment after being employed and reach certain threshold level of income. This type of loan will reduce the borrowing risk and attract more students to borrow. Australia for example has successfully adopted the system of deferred fees through Income Contingent Loan (known as HECS, Higher Education Contribution Schemes) and suggests that higher fees can be introduced without adversely affecting the participation of student from less well off families.

3.2.3 Introduction of a Graduate Tax.

The problem with mortgage-type loans which deter students from borrowing is due to the nature of the loan which requires fixed repayment whereas the students face uncertainty of future earning. If students can insure against their uncertain future income this problem could be overcome. However, this solution is unlikely to materialise due to the nature of human capital investment which brings with it the problem of moral hazard and adverse selection. In this case, the graduate tax with the future repayment depending on lifetime income may provide a better solution. The idea of introducing a tax on graduate has long been proposed as a method of recovering the cost of education and at the same time widening the access among the poor through the provision of insurance against future uncertainty. The original concept of a graduate tax was developed based on the idea that graduates will not have to pay upfront the cost of their education. The costs will initially be borne by the government and graduates have to pay later on during their working life at a certain rate of tax.

4. Conclusion

The rising cost of providing higher education and the rapid increase in the demand for places have caused many governments to resort to the new financing mechanism known as cost recovery. Cost recovery recognises the importance of private sharing towards the cost of education. Cost recovery has been seen as an effective method to relief the government's burden in financing education. From the discussion above it is clear that Malaysia as in many countries around the world are moving towards cost recovery. This can be clearly observed from various policies being implemented such as corporatisation of universities, establishment of private universities and the shift from scholarships funding to student loans. As far as student support schemes are concerned the introduction of student loans can be considered as a good method of recovering the cost of education. However, in taking such step the government must quences brought by the loans scheme which might deter cess to higher education. In such a case where mortgage argeting might be more appropriate as it will reach the target group and reduce burden on the part of government. Other methods of student funding might be of advantage such as Income Contingent Loan and a Graduate Tax.

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