

HIGHER EDUCATION LOAN AND RECOLLECTION MECHANISM IN MALAYSIA: OPPORTUNITIES FOR IMPROVEMENT

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ABSTRACT

The establishment of Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) or National Higher Education Fund Corporation in 1997 can be considered as one of the innovative approaches taken by Malaysian government to ensure better access to higher education. Initial capital as revolving fund to start the service is provided by the government. PTPTN distributes loans to students and manages repayment processes from the borrowers that take between five to 15 years. The same amount of money received from the borrowers will be used to finance next students. However, as per today, the money available at the agency for new higher education loans (the supply) is not sufficient to meet the demand that keeps increasing steadily. This situation occurred due to high default rate among the borrowers. As such, PTPTN has the opportunity to improve its recollection mechanism. This paper highlights five important government agencies that could become integral parts of higher education loan recollection mechanism, namely the PTPTN Corporation, Inland Revenue Board of Malaysia, Employees Provident Fund, Immigration Department of Malaysia, and Social Security Organisation. Possible interactions between the agencies are also explained to demonstrate the viability of the proposed higher education loan recollection mechanism.

Keywords: education loan; access to education; recollection mechanism; economic growth

1. INTRODUCTION

The federal government of Malaysia always considers education is extremely important for the country's development – politically, economically, socially and technologically. As such, the country has allocated huge amount of money for education in its annual budget since the country's independence on August 31, 1957. Lots of measures had been taken to ensure inclusivity of Malaysian in the wide spectrum of education – from

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primary up to tertiary education. Among the measures taken are providing scholarships and educational loans.

In the 1970s and 1980s as well as in the early part of 1990s, Malaysian government had generously provided scholarships for eligible students. However, in the later part of educational development in Malaysia at the end of 1990s and early 2000s, the government shifted the policy from offering scholarship to providing loans due to many factors, politics and economics alike.

2. EDUCATION AND ECONOMIC GROWTH

Human capital plays a key role in the development of all economies (Armstrong and Batten, 2011). The world's economic development is dynamic. It keeps shifting from the Industrial Revolution (circa 1760 to 1840) towards today's knowledge revolution, better known as knowledge economy or simply k-economy. In today's economy, the common characteristics are technological change, globalization and competitiveness. The Blue Ocean versus Red Ocean strategies is in fact coined from competitiveness due to the changes in technology and global political-economic scenarios.

Even though the economic development is dynamic, the primary force that constantly contributes towards the changes is fixed to one factor – human. The roles of human capitals in the economy shifted from brown-collar workers i.e. farmers in agricultural industry before the Industrial Revolution, to blue-collar workers in factories and other related installations during industrialization phases, and once again moved towards white-collar workers in the information economy era. The white-collar workers are considered the most sophisticated, better educated and more professional. Peter Drucker labeled them “knowledge workers” (Bacon, T.R. 2012, p.5). Credit goes to the modern education systems that nurture human with such quality.

Human factors with high quality in term of academic qualifications as well as skills and experience makes difference in overall economic outputs and growth. Most economies around the world emphasize human development via formal and informal educations to attain specified human quality. Economic growth and development demand leaders in the form of entrepreneurs. Once again, education is a crucial ingredient to nurture leaders in the economy. Access to education must be made available to everybody to ensure equal opportunity to succeed in economy.

3. ACCESS TO EDUCATION

Highly qualified human capital is good for economic development of Malaysia and any other country in the world. The government has played its roles extremely well in providing open access for primary and secondary education since the country's independence in 1957. The government had built thousands of primary and secondary schools throughout Malaysia as shown in Table 1.

Table 1: Number of Schools in Malaysia (as at 30 June 2013)

Primary Schools	Secondary Schools	Total
7,744	2,347	10,091

Notes: Adapted from the Ministry of Education. <http://emisportal.moe.gov.my>

The early 1990s saw demand for tertiary education increased exponentially, leading the government to liberalized tertiary education industry and policy related to it. A specific act known as the Private Higher Educational Institutions Act 1996 (Act 555) was passed by the Parliament to enable proper participation and monitoring of the industry. Licenses were given to private sector to participate in higher education. Due to that policy, thousands higher educational institutions emerged in Malaysia, some in the form of full-fledged private universities supported by government linked companies (GLCs) and the rest are private colleges. Along the way, some of the private colleges had successfully upgraded themselves into private university colleges aiming to become full-fledges universities in the near future.

As a result of the development, the supply of higher education services improved significantly in Malaysia. The government of Malaysia has carefully studied the potential of higher education to become one of the major contributors of the country's healthy economy. This was further proven when the government introduced Economic Transformation Program (ETP) in 2010. ETP is Malaysian government initiatives to transform the country into a high-income nation by the year 2020. ETP is consisted of two major parts – the vertical trusts of 12 National Key Economic Areas (NKEAs) and the cross-cutting policy changes of eight Strategic Reform Initiatives (SRIs).

The 12 NKEAs are responsible to develop 12 sectors that were determined by Malaysians to be globally competitive and act as the key growth engines for the economy. Education is one of the NKEAs. The whole NKEAs are presented in Table 2.

Table 2: NKEAs of Malaysia to achieve developed economy in 2020

a. Oil, gas and energy	g. Business services
b. Palm oil and rubber	h. Electronics and electrical
c. Financial services	i. Wholesale and retail
d. Agriculture	j. Healthcare
e. Tourism	k. Education
f. Communication contents and infrastructure	l. Greater Kuala Lumpur/ Kelang Valley

However, there is one persisting problem faced by higher education industry of Malaysia – meeting the demand to finance higher education. The government realized that access to higher education could to be improved by providing proper assistance to the prospective students. Previous practice of giving government scholarship for selected students was no longer viable since more and more prospective students proved their competencies to pursue higher education locally. Those prospective students have the rights to be given access to higher education. One of the practical solutions for the government is by providing higher education loans to all of them.

Malaysians are willing to spend huge amount of money for education. The sources of money for higher education purchases may come from personal saving or educational loans. People that belong to higher income bracket enjoy bigger purchasing powers as compared to their counterparts in middle and low income bracket groups. Educational loans from private sectors such as banks and financial institutions are readily available for them. This factor leads to better opportunity in obtaining higher education for well off families.

However, people that belong to middle and lower income groups might face some difficulties to obtain educational loans from private sources. The government of Malaysia has taken several initiatives to help those people and families who are less fortunate by providing them equal access to higher education via government loans and limited scholarships.

The government of Malaysia had introduced *Akta Perbadanan Tabung Pendidikan Tinggi Nasional 1997 (Akta 566)* or National Higher Education Fund Corporation Act 1997 (Act 566) on July 1, 1997. This act has given legal background for the government to establish the *Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN)* or the National Higher Education Fund Corporation that began its operations on November 1, 1997. The current headquarter of PTPTN is at Wisma Cheras Perdana, Off Jalan Semantan, Damansara Heights, Kuala Lumpur. PTPTN is an agency under the Ministry of Education Malaysia. The primary functions of PTPTN are:

- a. To manage funds for tertiary education purposes and collecting repayments of financing.
- b. To provide and manage education savings schemes; and
- c. To perform such other functions as conferred on PTPTN by any written law.

Through PTPTN, the government had provided and distributed RM56.61 billion (USD15.24 billion³) in term of higher education loans to more than 2.47 million undergraduate students since 1997 up to 31 August 2014 (M. Hifzuddin, 2014).

4. OVERVIEW OF PUBLIC HIGHER EDUCATION LOANS IN MALAYSIA

The federal government of Malaysia has assigned PTPTN to distribute higher education loans to all Malaysian students who would like to further their study at diploma, bachelor degree, master and PhD level in the country. The agency has dedicatedly performed their duties since 1997. The higher education loans managed by PTPTN are proved successful. More and more students ask for the facilities. As of today, PTPTN needs RM5 billion (USD1.3 billion) per year to provide higher education loans for new students (M. Hifzuddin Ikhsan, 2014).

The modus operandi of higher education loans managed by PTPTN is simple. First, the government of Malaysia allocates certain amount of money as initial capitals and revolving funds to start the service. PTPTN distributes the loans to students. PTPTN also manages the repayment process from the borrowers that starts six months after students' graduation date. The repayment process takes between five to 15 years, though majority of the borrowers opt for ten years or 120 months. In a nut shell, the money for higher education loans is circulated in the economy in a long cycle until the full amount of loan is fully recovered. The same amount of money that has successfully returned from the borrowers to PTPTN will be used to finance next borrowers.

³ FOREX as at June 5, 2015; USD1.00 = RM3.71

Everybody hopes this beautiful cycle of higher education loans scheme continues forever. Eventually, PTPTN received an awakening when the amount of money available at the agency for new higher education loans (the supply) is not sufficient to meet the demand that is continually increasing each year. This is only a symptom to a larger problem. Upon further investigation, PTPTN realized that there are 173,985 borrowers who never repay their loans amounted to RM1.23 billion (USD331 mil.) (M. Hifzuddin Ikhsan, 2014). The dire situation shows that PTPTN has a weak mechanism to recollect the loans.

Furthermore, the total amount of money that PTPTN uses as the revolving funds to finance higher education in Malaysia keeps depleting due to the following reasons:

- a. High achievers among the students i.e. those who managed to obtain a cumulative grade point average (CGPA) of 3.750 and above at bachelor degree level are exempted from paying back the higher education loans (Perbadanan Tabung Pendidikan, 2013, p. 40).
- b. Lots of discounts are given to the borrowers such as 10% deduction if the borrowers managed to repay the loans consistently for 6 months (Perbadanan Tabung Pendidikan, 2013, p. 49).

To add insult to injury, PTPTN has decided to determine the loans' repayment amount should be based on the total amount of money borrowed and payback period of time as presented in Table 3. The payback amount is not based on the total salary earned by the borrowers. In other words, any two borrowers who finance their study with PTPTN higher education loans in a same academic program will repay their loan in a same amount even though one of the borrowers managed to secure better job with higher salary as compared to the other.

Table 3: Example of PTPTN Loans, Payback Period and Monthly Installment

No.	Amount of Higher Education Loans	Payback Period	Monthly Installment
1.	RM10,000 (USD2,994)	60 months (5 years)	RM167 (USD50)
2.	RM22,000 (USD6,586)	120 months (10 years)	RM184 (USD55)
3.	RM50,000 (USD14,970)	180 months (15 years)	RM278 (USD83)
4.	RM100,000 (USD29,940)	240 months (20 years)	RM417 (USD125)

Adapted from "Info PTPTN" by Perbadanan Tabung Pendidikan Tinggi Nasional, 2013, *Author*, p. 11.

The administrative cost of PTPTN is considered as another burden for the government. The probability of the corporation to become fully independent is small since it imposes minimal amount of service charges, currently at 1% per year on flat rate as presented in Table 4.

Table 4: PTPTN Administrative Cost

No.	Date of Enforcement	Administrative Cost
1.	Before 1 January 2004	4% per year on reducing balance
2.	1 January 2014 to 31 May 2008	3% per year on reducing balance
3.	1 March 2007 to 31 May 2008 (for master, doctor of philosophy and professional courses only)	5% per year on reducing balance
4.	1 June 2008 onwards	1% per year on flat rate

Note: Adapted from “Info PTPTN” by Perbadanan Tabung Pendidikan Tinggi Nasional, 2013, Author, p. 11.

Something must be done by PTPTN to walk out from this problem unscratched. The agency must ensure the lack of funds does not deter it from providing financial assistant to new students. The core services of providing higher education loans to Malaysian must be carried out come hell or high water. This is because higher education is extremely important for the economic development of Malaysia. It becomes even more important if the Vision 2020 to become a developed nation with high per capita income in 2020 is factored in.

5. LOANS RECOLLECTION ISSUE

The recovery of higher education loans provided by the Malaysian government through the *Perbadanan Tabung Pendidikan Tinggi Malaysia (PTPTN)* or the National Higher Education Fund Corporation (NHEFC) is proved difficult. The management of PTPTN has taken unpopular decision to blacklist names of all non-performing loan (NPL) borrowers. In addition, PTPTN has taken painful measures to reduce higher education loan amount so that the number of students that will receive the loan could be maintained. The government has no other choice but to support the decision since the situation is very chronic.

The issue arises due to the fact that the amount of money being released as higher education loans are larger than the amount of money being received as higher education loans repayment by some grateful borrowers who had successfully graduated from their study and working in the economy. PTPTN could not act and react like a private commercial bank to solve the problem. There is no collateral to the higher education loans received by the students cum borrowers. A private commercial bank may recover loans by claiming rights to real assets listed as collateral to the loans. For PTPTN, it is not the case. The corporation needs to consider available alternatives to ensure the money returned to PTPTN coffer right on time and available for next borrowers. Otherwise, the corporation could not function effectively and efficiently.

6. OPPORTUNITIES FOR IMPROVEMENT IN LOAN RECOLLECTION MECHANISM

There is room for improvement pertaining to PTPTN loans recollection mechanism. Cooperation between various government agencies is the keyword. The success of higher education loan recollection depends on how good various government agencies communicate, coordinate and cooperate. The following five government agencies are considered very important for the success. The agencies are:

- i. PTPTN Corporation
- ii. Inland Revenue Board of Malaysia
- iii. Employees Provident Fund or EPF (Kumpulan Wang Simpanan Pekerja - KWSP)
- iv. Immigration Department of Malaysia (Jabatan Imigresen Malaysia), and
- v. Social Security Organisation or SOCSO (Pertubuhan Keselamatan Sosial atau PERKESO).

In general, the amounts of loan recollection can be significantly improved if the repayment amount is made based on the percentage of borrowers' income. As mentioned earlier, if PTPTN requires repayment in a fixed amount of money, any two borrowers who finance their study with PTPTN higher education loans in a same academic program will repay their loan in a same amount even though one of the borrowers managed to secure better job with higher salary as compared to the other. In order to avoid this situation, PTPTN should start charging them as per suggested. For example, PTPTN should charge 5% out of the total income of the newly graduated borrowers who managed to secure a job. If the borrower's monthly income is RM2,000.00; the repayment should be RM 100.00.

Identifying which borrower has started working is simple as long as the other government institutions i.e. IRB, EPF and SOCSO continuously feeding PTPTN with relevant data. The following Figure 1 explains possible interaction between the five agencies to ensure new loan recollection mechanism is successful in Malaysian higher education industry.

The logics behind inclusion of the five Malaysian government agencies are as follows:

- a. PTPTN Corporation is the agency that provides higher education loans. This agency's primary concern is collecting repayment from borrowers in very smooth manner. Zero default is the ultimate goals.
- b. One of the most important agencies is government's tax institution because the repayments of higher education loans can be monitored through tax collection mechanism. Inland Revenue Board of Malaysia is included since all workers in this country are required to declare their annual income. The monthly repayment amount of higher education loan will be calculated based on the borrower's total amount of income. This data is available at IRB.
- c. Employees Provident Funds (EPF) is a statutory account for workers who earned income from private sectors. EPF data related to borrowers are required in case of monthly payment default. Repayment is made via deducting certain amount of money from the borrower's EPF Account 2. Legal approval is required to make the deduction.
- d. Immigration Department of Malaysia is included into the proposed loan repayment framework to deny any attempt by defaulted borrowers from leaving the country via land, sea or airways. Immigration department will act according to the data supplied by PTPTN Corporation. This set up had been in practice since 2010.
- e. Social Security Organisation or SOCSO is included into the loan repayment framework to provide information related to the borrower's welfare to PTPTN Corporation. In case of the borrower suffers from permanent injury and loss of disposable income, recalculation of monthly repayment amount should be made accordingly.

7. CONCLUSION

The proposed loan repayment mechanism could help PTPTN to recollect the loans effectively and provide ample amount of money for new higher education loans to more undergraduate and postgraduate students. It is about time to have a higher education loans scheme that takes into consideration the followings:

- a. A higher education loans that considers the current economic situation of the borrowers in calculating the required amount of monthly installment. Borrowers who earn more should pay more even though the total amount of loans is the same as others.
- b. A build-in process for recollection of higher education loans into the economic system that involve various government agencies besides PTPTN as its core. Through this build-in process, nobody could escape from paying the loans right on time.
- c. A higher education loans that adhere strictly to the principles of *Syariah* or Islamic Laws pertaining to the restriction of *riba* or usury in higher education loans transaction.
- d. Establishment of special waqf funds for high education funding that assist students through Qard-al-Hasan loans – students borrow from this waqf fund to pay their studies and repay the amount borrowed in full after graduation without any charges.

In addition, the government is most welcomed to look for alternative ways to recover the higher education loans from time to time. This exercise is needed to ensure the supply of higher education loans could always meet the demand. One of the alternative ways that is available for further study is the income-contingent loans (ICL).

The ICL repayment plan is designed to make repaying education loans easier specifically for students who pursue jobs with lower salaries, such as careers in public service. It does this by pegging the monthly payments to the borrower's income, family size, and total amount borrowed. The monthly payment amount is adjusted annually, based on changes in annual income and family size (FinAid, 2015).

ICL has been successfully practiced by governments of the United States of America, Australia and other European Union (EU) nations with impressive results. Most importantly, ICL takes into consideration the borrowers' future income in calculating the amount of payment for monthly installment, resulting in better standard of living among borrowers.

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Figure 1: Flow chart showing possible interaction between five Malaysian government agencies (PTPTN Corporation, IRB, EPF, Immigration & SOCSO) regarding loans repayment.

