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The Role of *Waqf* in Educational Development – Evidence from Malaysia

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Abstract

This study explores the role of *waqf* in educational development for a developing country facing economic downturn and financial scandal. It focuses on an Islamic charitable institution and gathers information from the annual report for fourteen years, commencing in 2000. Results derived through multiple regression analysis indicate that *waqf*-based financing has a significant positive impact on educational development in Malaysia. The present study is limited to the case of an Islamic charitable institution and thus lacks the ability to provide generalizable findings. In the event of economic instability and constant rise in educational costs, *waqf* has the potential to facilitate the educational needs of meritorious students by reducing their financial burden. As this is the first attempt to empirically test the proposition of past studies that *waqf* can serve as a secondary source of finance for educational development, this study contributes to minimizing the gaps in the previous literature.

Keywords: *Waqf*, Education, Public Spending, Development

1. Introduction

Education expenditure has a close correlation with economic development (Stevens and Weale, 2003). Mallick et al. (2016) have identified a significant positive relationship between education expenditure and economic development in 14 major Asian countries through econometric analysis using time series data ranging from 1973 to 2012. The Asian financial crisis resulted in a deficit of the annual budget and the depreciation of the Ringgit, the official currency of Malaysia. As a result, the Malaysian government was forced to reduce educational expenditure to recover from the economic downturn (Aziz et al., 2014). Malaysia has capitalised on such facts and the *World Competitiveness Yearbook 2010* has ranked Malaysia as fourth out of fifty-seven economically competitive countries by having average education expenditure higher than Thailand, Singapore, Philippines, and Indonesia.

The Malaysian government has always focused on educational reform that caters to national development needs. In 2011, the Malaysian government spent 3.4 percent of GDP on education, which is on par with the top-performing educational systems in neighbouring South Asian countries (Harun et al., 2014). The amount allocated to the Ministry of Higher Education (MOHE) was RM 9.5 billion in 2008, which increased to 14.1 billion in 2009. However, the unsustainable subsidies offered by the government in 2009 resulted in a limited amount of funds left for spending on health and education (Gale, 2017). After a 23.7 percent budget cut for twenty public universities in 2017, the Ministry of Higher Education is expected to get an overall budget of 13.9 billion in 2018, which is 15 percent higher than the fund allocated to the ministry in 2017 (Malaymail, 2017). The existence of 1.0 trillion *ringgit* in government debt and the 1MDB scandal has forced the current government, formed after the 14th General Election, to reduce governmental expenditures. Evidence on the affordability of tertiary education in Malaysia is rare and the majority of the available literature relating to *waqf* as a source of finance for education is theoretical in nature. Therefore, this study is aimed at exploring the propositions of several researchers (Ahmad & Hassan, 2015; Harun, Possumah, Shafiai et al., 2014) that

waqf can supplement the additional educational financing required by the public sector in Malaysia. The rest of the study is divided into three segments. First, relevant literature is discussed to develop a testable hypothesis. The second segment of the paper deals with methodological issues and results derived from statistical analysis. Finally, the results are discussed to highlight the implications before reaching a conclusion.

2. Literature Review and Hypothesis Development

Waqf is called *Boniyad* in Iran and *Habs* in North and West Africa (Aziz et al., 2014). In legal terms, *waqf* signifies the protection or prevention of something from the acquisition of a third person (Mohammad et al., 2005). Islam has encouraged both mandatory and voluntary forms of charity. *Waqf* has been defined from the *Shari`ah* perspective as holding *mal* (an asset) and preventing its consumption so as to utilise its usufruct in a righteous or philanthropic act that benefits the Ummah.

Waqf is an instrument for voluntary charity in Islam and provided considerable contributions to the development of early Islamic society (Chapra, 2008). Since the fall of the Ottoman Empire, *waqf* has been considered an outdated institution which is no longer relevant in bringing about any significant economic changes. Unproductive *waqf* resources are argued to limit the capability of this historic institution to make any major contribution toward the economy of a Muslim country (Kuran, 2001). In such a situation, cash *waqf* is considered as a feasible solution, and several researchers (Ibrahim, Nor, et al., 2013; Lahsasna, 2010; Saifuddin et al., 2014) have investigated the possibility of poverty alleviation through the effective utilization of cash *waqf* contributions from individual donors.

The importance of *waqf* in socio-economic development has been studied extensively in the previous literature (Ibrahim, Amir, & Masron, 2013; Monzer Kahf, 2003; Zuki, 2012). While the majority of past studies conceptualised the ability of *waqf* in alleviating poverty (Masoud Ahmad, 2015; Hasan, 2010; Khan, 2013; Pramanik et al., 2015; Sadeq, 2002), recent researchers have focused their interest on financing education expenditure through *waqf* endowments (Aziz et al., 2013, 2014; Bahroni, 2012; Mohsin, 2013). Therefore, this study explores the significance of *waqf* endowments in contributing to educational development in Malaysia, following the conceptual studies of Ahmad et al. (2012); Ahmad & Hassan (2015); Aziz et al., (2013), (2014); Harun, Possumah and Shafiai, (2014); Harun, Possumah, Shafiai, et al. (2014); and Mahamood and Rahman (2015).

Various models of *waqf* have been proposed, and the idea of developing a *waqf* Bank to finance various government expenditures was conceptualised in the past (Aziz et al., 2014; Karim, 2013). The interactive model of *waqf*-based poverty alleviation provided by Sadeq (2002) has initiated several studies (Ahmad, 2015; Hasan, 2010) on the applicability of *waqf* as a practical tool for poverty alleviation. The recent success of microfinance in alleviating poverty in Bangladesh has attracted attention toward crafting a *waqf* (more specifically, cash *waqf*) -based microfinance model for poverty alleviation for developing countries due to the high costs of funds and high-interest rates associated with conventional microfinance institutions (Pramanik et al., 2015). Mohsin (2013) found that cash *waqf* has the potential to finance both religious and basic goods and services needed globally, such as education, health, social care, commercial activities, and basic infrastructure, as well as providing job opportunities for the majority of the people.

According to Al-Shatibi (2006), the *maqasid al-Shari'ah* has two parts. The first part relates to the objectives toward Allah (*Al-Shari'* or the Supreme Lawgiver), and the second part indicates a responsible servant's (*al-Mukallaf*) objectives that must be in line with the *Shari'ah* and not based on his or her own desire. There is another classification of *maqasid* that divides all objectives of *Shari'ah* into three segments: *daruriyyat* (essential), *hajiyyat* (complementary) and *tahsiniyyat* (embellishment). Among these three segments of *maqasid*, the current study focuses on *daruriyyat*, or essentials.

Daruriyyat refers to the commands upon which the lives of people depend and neglect of which leads to total disruption and chaos (Kamali, 2008). This component of *maqasid* focuses on the establishment and fulfilment of basic needs for human beings, and failure to comply may cause *fasad* (corruption and crime) on earth, as well as eternal remorse on the Day of Judgement. The *daruriyyat* are those that are undoubtedly necessary. Imam Shatibi considers five essential elements under the *maqasid*'s classification of *daruriyyat*, including religion (*din*), life (*nafs*), intellect (*'aql*), progeny (*nasl*), and wealth (*mal*). Khan & Ghifari (1992) assert that freedom should be included in the list as the sixth element. While all five necessities are important for a human being to live a healthy life, this study revolves around a specific necessity, i.e., intellect (*`aql*) that has a wider implication in creating a better community.

The ability of *waqf* in financing the educational development of a developing country is the primary focus of this investigation. The ability of *waqf* in contributing toward the development of a greater community is proven, and thus a closer look at its importance in fulfilling *maqasid al-Shari'ah* by contributing towards filling the gap in educational expenditure is empirically tested. In developing the empirical model, the study draws theoretical justification of the concept of *daruriyyat* proposed by Imam Shatibi.

Historical evidence proves that *waqf* has provided a plethora of benefits to educational institutions which are still in existence (Mahamood & Rahman, 2015). Al Azhar University in Egypt, which was established during the Fatimid Caliphate (1249-1260 CE), is one of the shining examples of *waqf*-based educational institutions. The *University of Al Qarawiyyin* in Fez, Morocco; the University of Al Muntasiriyyah, Iraq; the University of Cordova, Spain; the King Abdulaziz University, Saudi Arabia; and Islamic University of Indonesia (*Universitas Islam Indonesia*) are examples of education institutions financed on *waqf* donations.

While the majority of the studies in the context of *waqf* have originated from Malaysia, little empirical evidence exists on the concept of *waqf*-based finance for educational institutions. This study thus attempts to reduce the research gap by providing empirical evidence to constitute *waqf* as a supplemental educational financing for the Malaysian government, following the tremendous impact of *waqf* education made by Al Azhar University that has made the Egyptian government completely reliant on its *waqf* funds as a micro-credit support in times of need.

The impact of *waqf* in educational development in Malaysia will not only promote the significance of *waqf* in financing public needs but will also make an impact in promoting the third sector of Islamic economics in complementing benevolent and educational programs that will bring unity in society. Based on the conceptual cash *waqf* model for educational finance, Aziz et al. (2013) conclude that there is a possible structure for a *waqf* instrument that can be implemented in the future for educational financing. Later, Aziz et al. (2014) extended the conceptual paper into a quantitative enquiry using a survey mechanism on a randomly selected group of students in Malaysia. Their study concluded that respondents are in favour of establishing an Islamic *waqf* Bank to finance their educational needs.

Harun et al. (2014) explore the role of *waqf* in empowering higher education institutions in Malaysia. Drawing on the rising expenditure on education in Malaysia and the increasing allocation of public revenue on educational development by the Malaysian government, Harun et al. (2014) find that a *waqf* fund can be properly utilised by forming formal organisations at the State and Federal level that would allow the government to rearrange the Malaysian educational budget and policies to support higher education institutions (HEIs) in achieving better quality. Such findings establish the importance of *waqf* in financing higher education.

Sadeq (2002) is one of the earliest researchers to propose an integrated *waqf* model. The model was designed to serve two types of projects, i.e., primary and secondary. The primary project concentrates on non-investment and aims at serving the needs of the beneficiaries of the *waqf* fund. Harun et al. (2014) propose several modifications to the earlier model of Sadeq (2002) and introduce a model to study the influence of *waqf* finance on reducing government expenditure on education. The authors hypothesise that *waqf* fund injection could reduce educational burdens by covering operational costs and salary, thus paving the way for students' scholarships. However, Harun at el. were not able to provide empirical evidence to prove the statistical validity of the developed hypothesis due to the qualitative nature of the study.

Ahmad and Hassan (2015) utilise a comparative approach in determining the state of universities in Malaysia following *waqf* financing principles compared to Al Azhar University, one of the model *waqf*-based universities established in Cairo, Egypt in 972 CE. The study identifies that Malaysian universities following the principles of Al Azhar University are complementing the government's efforts in spending for education, community service, and assisting through several scholarship programs for deserving students. The findings of their study are complemented by Mahamood and Rahman (2015), who highlight the significant role of *waqf* in providing financial assistance to communities as well as strengthening their academic quality. Mahamood and Rahman (2015) also draw from the evidence of Al Azhar University in stating the importance of *waqf* in financing higher education and suggest the establishment of an endowment university. They provide evidence from secondary sources, such as the Ministry of Education in Malaysia, to prove the significance of *waqf* finance in complementing public expenditure. However, the lack of empirical tests constrained the study in establishing statistically significant relationships between *waqf* finance and educational development. Thus, this study formulates the following hypothesis:

H_1: Waqf-based finance has a positive impact on educational development.

3. Model Specification and Data Description

The model explains the variation in educational development (proxied by gross graduation rate in the tertiary programs) by using *waqf*-based finance, public spending on education, GDP growth, and inflation. The following equation is measured using the OLS regression model:

$CGR_{it} = \beta_{0+}\beta_1 WF + \beta_2 PSE + \beta_3 GDPG + \beta_4 INF + \mu_t$ ------- (1)

Where β_0 is the intercept term. This gives the mean effect of the educational development of all the variables excluded from the model. In other words, it is the average value of educational development when WF and PSE is set equal to zero. μ_t represents the random stochastic disturbance term or error term. CGR represents educational development and is measured by the total number of graduates in the tertiary programs divided by the total population. The independent variable, WF, is total *waqf*-based finance disbursed by the selected charitable institute divided by the GNI. This study uses several control variables following previous studies. GDPG is the annual GDP growth, PSE represents public spending on education, and INF is inflation in Malaysia, as measured by the consumer price index. Data are extracted from the annual reports of an Islamic charitable institution operating in Malaysia. Donation information is extracted from the annual reports of the selected institute starting from 2010. Macroeconomic data are collected from Konema's (2017) search engine. Multiple regression analysis is performed with the time series data in EVIEWS 9.0.

4. Results

Table 1 provides the descriptive statistics of the three variables selected for time series analysis. The average gross graduation rate is found to be 15.51 with a standard deviation of 3.225. Public spending on education has a low standard deviation score (0.203) with a mean value of 1.739. Finally, *waqf*-based finances range from 11.275 to 16.075 with a mean score of 13.942. Both values of public spending on education and *waqf*-based finance represent logged value.

Table 1: Descriptive Statistics

Variables	Abbreviation	Mean	Min	Max	Std. Dev
Gross Graduation Rate (as a percentage of total population of the age)	GGR	15.514	10.700	21.800	3.225
Public Spending on Education (as a percentage of GNI)	PSE	5.800	4.00	7.700	1.168
Waqf based Finance (as a percentage of GNI)	WF	0.00014	0.00017	0.00031	1.667
GDP Growth	GDPG	2.772	-4.300	7.400	2.500
Inflation	INF	2.233	0.060	5.400	1.241

Source: Author's Own

The correlation matrix provided in Table 2 measures the linear relationship between the variables. Public spending on education has a strong negative relationship with educational development (CGR) in Malaysia, but *waqf* finance has a strong positive relationship with the dependent variable. The correlation matrix also reveals that none of the predictors are strongly correlated.

Table 2: Correlation Matrix

	GGR	**GDPG**	**INF**	**WF**	**PSE**
GGR	1.000				
GDPG	-0.044	1.000			
INF	0.111	0.212	1.000		
WF	0.468	0.304	0.071	1.000	
PSE	-0.545	-0.217	-0.210	-0.011	1.000

Source: Author's Own

Multiple regression analysis is carried out for the empirical model provided in equation 1. Table 3 provides regression results of all variables. Adjusted R^2 of 0.448 means 43.1 per cent of the variation in educational development is explained by the selected independent variables. The regression model is found to be significant at the 5 percent level. Of the two variables, *waqf*-based finance has a significant positive impact on educational development at the 5 percent level. Ahmad, Muhammad, & Kamaruzaman (2012); Ahmad & Hassan (2015); Aziz, Yusof, Johari, Ramli, & Sabri (2014) have made similar propositions that *waqf*-based finances can lead to educational development. Thus, hypothesis H_1 is accepted. Among the control variables, only public expenditure on education has a significant negative impact of educational development at the 10 percent level.

Table 3: Multiple Regression Results

DV (GGR)			
IV	**β**	**t-Stat**	**p-value**
Constant	24.212	5.949	0.000**
Waqf based Finance	2.40	2.618	0.028*
Public Expenditure on Education	-1.691	-2.852	0.019*
GDP Growth	-0.457	0.290	0.149
Inflation	0.045	0.081	0.937
Adjusted R^2	0.448		
F-Statistic	3.636**		
Durbin-Watson	1.504		

Note: *P<.05 and **P<.001

Source: Author's Own

5. Discussion and Conclusion

Education plays a central role in a development strategy that can ensure sustainable development and allow a country to progress toward development. The Education Blueprint of 2013-2025, developed by the Malaysian Ministry of Education, offers a vision of an education system that can enhance educational standards to meet the demands of the 21st century. However, 2015 report of the Programme for International Student Assessment (PISA), conducted by the OECD, is a major setback for the Malaysian Education Blueprint 2013-2025, as the results provided by the Malaysian education ministry, which highlighted an improvement of student scores in mathematics, science, and reading, were not recognised by PISA authorities. In addition, recent decreases in the budget allocation have forced public universities to seek an alternative source of finance to cover rising educational expenses. The adverse impact of such policies is reported in this study, as governmental spending on expenditure is found to have a negative impact on the gross graduation rate.

This study has also reported the significance of Islamic finance based on *waqf* principles for educational development in Malaysia. The finding of a positive impact of *waqf*-based finance on the gross graduation rate makes a significant contribution to *waqf* literature. *Waqf* has always been perceived as a tool for socio-economic development and the role of *waqf* in improving the Ummah welfare through educational development has been discussed in previous literature. The empirical evidence provided by this study is the first attempt to validate such theoretical propositions, which can be explored in the context of countries with similar socio-economic backgrounds to derive a generalizable conclusion.

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