COST BENEFIT ANALYSIS ON GOVERNMENT’S EDUCATION EXPENDITURE: PROPOSED WAQF MODEL FOR EDUCATION CAPITAL

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ABSTRACT

Education is un-separated part of the human society as old as life itself. Human societies time by time have had vested interests in education. The societies always agree to acknowledge the importance of education, even a large number of them fail to provide sufficient resources that can be used as support to educational institutions and activities. Waqf as an institution and Islamic finance instrument has a direct and un-direct effect to upgrade the capabilities of the needy and enhance their quality of life by providing access to education facilities. Hence, the Waqf institution surely can accommodate the issue of financing for government’s education expenditure in its effective and comprehensive approach. Thus, the main objective of this paper is to propose the model of Waqf financing for reducing government’s education expenditure by using cost benefit analysis. The methodology of this research is a qualitative research towards literature related to Waqf. The general finding of this paper shows that there is should a strong willingness from government to devote and make Waqf institution as one of financing capital for education expenditure.

Keyword: Waqf Model, Government Expenditure, Education

1. INTRODUCTION

Many researchers and policy maker had been focus on the effect of education expenditure and the eminence of life among the countries. The education expenditure is a hot topic and had a significant relation to the quality of education itself and quality of life automatically, multiple and complex. This issue is important because we are not just talking about its impact to knowledge and innovation, but also on household income and social structure.

Speaking about education, it is not only for reading, writing and calculating. There are three types of education, Formal, informal and non formal. Formal education is intended with a precise end in view. It is given in education institutions such as school, college and similar other institutions which are established with specific purpose and curriculum. Formal education inevitably implicates teacher, the students and the institution itself. It corresponds to the education process normally adopted by our schools and universities. Informal education is unlike the formal education, which imparted by the especially agency such as school or college, informal education prescribed with non specific curriculum. Non-formal education, basically derived from formal education, but this kind of education, usually organized by homogeneous group and serving the need of identified group.

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Since, the provision and reserves that a system provides to education institution perform a critical role in how education system performs as they empower education stakeholders to focus on their core business of delivering effective teaching and learning. A country’s or public’s investment in its education system is therefore an important measure of its commitment. Hence, this study organized by five sections. In the second section after introduction we provided description of government expense of education. The third section we discuss how education expenditure will effect on and economic growth. Section four is how Waqf playing role regarding the issue of education expenses. Proposed and the benefit of the model will be represented on fifth section, and lastly the conclusion.

Traditionally, waqf revenue is spending mostly for religious purposes, such a mosque, including to pay the imam salary and mosque operational cost. Kahf (2010) stated that since seventeenth of the century, general education is the second largest recipients of Waqf revenue. This financing covers libraries, books, teachers and staffs salary and also students. The big idea is, education freedom not only specific for religious purposes or religious education, it has to embrace every level of social community, preferably the poor. Quoting Al-Syed, pp. 237-258 in Kahf (2010), the freedom of education resulting in many Moslem scholars come form rural area or slavery segment society where in times they will strongly stood for the public defense as the opposed of rulers. This will create significant changes in a socio-economy society phenomenon, when the poor can access education the same way the have could have. They will have the same opportunity and the circulation of wealth will be equally disbursed among them many level of socio-economy segments. The monopoly issues in education will diminish respectfully and in long term will create a dynamic change in leadership among Moslem society. Equal distribution of education means equal opportunity in education, where only certain people can access for education. Quoting Zaim (2002), through Waqf, the prosperity is no longer certain segment ownership or owned by state only. It is assignned to society in order to provide the defined needs of all level society, in this case is education. Thus Waqf enclose a specific public wealth that connected between secluded ownership and public ownership.

2. **HOW MUCH DO WE SPEND ON EDUCATION?**

Refer to United Nations Educational, Scientific, and Cultural Organization (UNESCO), Government or Public expenditure on education consists of current and capital public expenditure on education includes government spending on educational institutions (both public and private), education administration as well as subsidies for private entities (students/households and other private entities).

Example for this Issue based on the World Competitiveness Yearbook 2010 issued by the Institute for Development Management, in terms of education expenditure average Malaysian ranked fourth out of 57 economically-competitive countries. The report ranks Thailand at number 32, Singapore (53), the Philippines (56) and Indonesia (57). The average expenditure for each student during the period was RM3, 354 for primary school and RM4, 039 for secondary school. The government also provided 22 other types of assistance, totaling RM3 billion a year. The Malaysian federal government’s spending on primary and secondary education, as a percentage of Gross Domestic Product (GDP), was the highest in East Asia. In 2011, the amount spent, at 3.8% of GDP or 16% of total government spending, was not only higher than the OECD average of 3.4% of GDP and 8.7% of total public spending respectively, but also at par with or more than top-performing systems like Singapore, Japan,
and South Korea (Exhibit 1). In 2012, with an education budget of RM37 billion, the Government has continued to devote the largest proportion of its budget, 16% to the Ministry.

The figure shows that how government expenditure serves as a central instrument in pursuit of income distribution policy goals it is useful to analytically classify the various components of government expenditure in terms of their influence on quality of education.

3. EDUCATION EXPENDITURE AND ECONOMIC GROWTH

Several studies such as Uzawa (1965), Stevens and Weale, (2003) have confirmed that education expenditure and economic growth closely correlated. By assuming the existence of an “educational sector” in the economy, Uzawa (1965) recognize the importance of knowledge and human capital for economic growth. Uzawa (1965) introduced the idea of a “trade-off” between producing consumer goods and investing in human capital. Following the work of Arrow (1962) who introduced the notion of “learning by doing” and Uzawa (1965), Romer (1986) then incorporated in his model a factor of production (“knowledge”) which is characterized by increasing marginal productivity, although its production is constrained by diminishing returns.

Stevens and Weale (2003) revealing two basic reasons in explaining education linked to economic growth. Firstly, in general level, living standards have raised so much over the last millennium and in particular since 1800 because of education. Over the last two hundred years, progress of the sort enjoyed in Europe was not observed in the illiterate societies that have gradually merged into the world economy. To the most casual observer it must seem that there is a link between scientific advance and the way in which education has facilitated the development of knowledge. Of course the Curies and the Newton of this world are few and far between. But people with only very limited education often find it difficult to function at all in advanced societies. The people need education to benefit the scientific advance as well as to contribute to it. Secondly, in some econometric studies indicate that the incomes individuals depend on their level of education. People with education may earn more than those without, at least in the level of output per hour worked in a country, ought to depend on the educational attainment of the population.
Based on the above several studies show that refining the education of a nation is not only a goal in itself to enhance value of life but also its positive impact on the economic development of a nation. The establishment of education is a key constituent for authority to encourage extensive based policy of economic progression. The main asset of the poor is clearly their labor and both education and health services improve the productivity and earnings of workers. Education may improve the income distribution directly and thus may allow the poor to benefit from growth to greater extent, this merely indicate that expand of education expenditure or expense play critical role in economic development.

Zaim (2008) stated that, from the perspective of each of the Waqf board, aimed at any rate, is one of administration. In order to maintain the services that are appropriate to its purpose, it must be regarded as an economic administration. It is included the philosophies of administration itself, in additional arguments tangible, actual, abstractive organization, marketing, construction, sale, advertising, public relations, employer-employee relations, budgeting counting and control techniques, due to the fact that the administration works reasonably, efficiently, and rantable.

If we analyze Waqf in economy, through macro perspective:
- By implementing right targeted of wealth distribution, restructuring of national GDP, lower number of unemployment and distribution of resources it will lead to an established economy.
- By providing infrastructure and enhance the education system.
- By refining the structure of society as a process of development including education system.
- By contributing in health, education, urbanization and public works investments and by transferring government budget to economic investment influences on strengthen of state.
- By emerging life average of unfortunate people and broadening middle class provides social and political stability and reinforces stability through education, which is mandatory for economic development.
- A substantial divergence between distribution of wealth by Waqf and mainstream wealth distribution policies. Today the wealth, which comprises of fiscal and monetary concern, has enclosed both well fortuned community and less fortuned cluster.
- Through Waqf, it is expected to provide equal opportunity in health and education services., Hence will promote social righteousness resulting an increasing of total productivity.
- Waqf provides an balance point in allocating resources between individual and society needs. The essential point in a society is to stipulate an equilibrium between individual profit and social input, also, between private and public marginal revenue.

4. WAQF AND IT'S ROLE TO OVERCOME THE EDUCATION EXPENSE

Historically, Waqf has been known as one of socio economic institution which has significant impact economic development of Ummah. Waqf institution can provide many services, which in other economic systems had been under principle or responsibility of the state. This is by the fact that a countless of essential services such as health, education, municipal, etc., have been provided at no cost whatsoever by the government. Hoexter (1998), prior to even the 20th century a broad spectrum of public or municipal services in many
Muslim communities were setup, financed and maintained almost exclusively by waqf (Baskan, 2002).

According to Cizacka (2000) the waqf system can contribute significantly towards that ultimate goal of so many modern economists i.e. massive reduction in government expenditure, which leads to smaller budget deficit, which in turn lowers the need for regime borrowing thus lead to a reduction in the rate of interest, consequently reining in a basic impediment to private investment and growth. The waqf system does not only help reduce government expenditure and consequently the rate of interest and pave the way for growth, it is also achieve another modern economic goal i.e. a better distribution of income in the economy essentially through voluntary donations i.e. waqf. Waqf also could reducing a tax which means an enhancement in the consumers’ and producers’ surpluses and a decrease in the tax which consequently, would have a positive impact on aggregate production while at the same time reducing costs. Furthermore, the Waqf definitely solves the problem of the under supply of public goods. The services offered by the Waqf constitute public goods, the consumption of which is non-rivalries and the provision thereof non-excludable.

If the waqf institution is organized properly and efficiently, a significant amount of prosperity enable to be collected from the private sector for public purposes. This voluntary aid of the private sector able to cut government expenditure which ultimately lessens its involvement in the economy. The public goods and services made available through the waqf foundation can substitute the government’s liability and obligation (Nik Hassan, 2008).

5. PROPOSED MODEL

Some researchers [i.e, Sadeq, (2002), Sabit (2006)] have suggested several Islamic funding instruments, which can be applied for numerous Waqf undertakings. Sadeq, (2002) divided Waqf project into two types those are primary project and secondary project, as shown below:

![Diagram of Waqf Project]

Primary project (non-investment) is a Waqf project aimed to provide needs of the Waqf beneficiary. This type of Waqf is a charity project in nature; it is more towards giving the basic needs to needy people and children or widely social responsibility which. Secondary project (investment), basically is a Waqf project which aimed is to provide financial support for the primary project. This second type is a profitable project in nature. The project can be building hotel, leased office building and other profitable projects through several Islamic financial contracts. The profit gained from this project can be used to support primary project or it can also be accumulated in order to make another investment projects. However based on these two projects, there is still space may be more expand to explore the model in term of educational project as one of important public necessity. One of the proposed models described in previous section.
5.1 How Does The Model Work

5.2 Description of the Model

Basically, there are two sources of capital to inject the accumulation of education fund, i.e. from government expenditure and the public expenditure. These two sources of capital channelled into education expense and utilized in two ways, i.e. to bear educational spending and to be invested. Educational expense is made to all educational costs (Institutional, Management, Medical Cost, Living Cost) by the combination of subsidies from government and Waqf, of course in this session government expenditure reduced by Waqf. The management of fund can be established by the government or public through Non Profit Organization (NPO) or Government linked Companies (GLC) with Nadzir as the trustee to manage the property. This issue rises the importance of Institutionalizing Waqf system.

The profit from investments divided into two; first, would go into the fund that would finance all linked industrial education operation (including capital improvements) also help to subsidize programs for inmates. Thus, economically the financial basis for the system has the advantages of requiring no additional burdens on taxpayers. Intra-governmental also multiplier effect came into play. As the macro effect, government would get more value for its budget; Government’s money eventually injected into another budget national economy, i.e. staff salaries, inmate wages, and payments to private sector vendors. Second, would be paid for the labor of company’s revenues, to purchase goods from the institution commissary (to support their family budget and to pay restitution).

5.3 Benefit of Model

There are several benefits in which public or private financial institution can contribute from this model, some which are explained:
1. Cash Waqf: Public and Islamic financial or corporate institution can exercise their social responsibility by contributing directly to the Waqf fund, as described above. The education sector as one of basic necessity of community not excluded from social responsibility and delivered only under government budget. Contemporarily, the educational sector is one area where public or private corporate may contribute in line to the spirit of corporate social responsibility (CSR).

2. Equity Financing: by using particular Islamic financial contracts. Islamic financial institution can finance the operation of educational sector, and subsequently may generate profit share to all involve parties in the operation. But should be note that in this scheme, Islamic financial institution may involve into cash Waqf if the institution agree that a certain percentage of profit obtained should channeled to the Waqf fund.

3. Waqf funds that have accumulated can also be used to develop entrepreneurship systems which is also part of the government budget; to create and provide useful employment.

6. CONCLUSION

From the proposed and description model above, we can draw conclusions below: Waqf fund injection can reduce the government expenditure for specific purposes, especially education. This fund will cover education expenses entirely such as its operational cost, books, teachers and staffs salary, including student scholarship. There are two channels for waqf to be disbursed for the education; whether it will inject to education fund directly or to be invested. The revenue from investment can divided into two; first will go to all linked education industry for operation, including capital improvement, secondly, to help subsidize programmes.

Cooperation between government and waqf institution should make a significant contribution in managing the education expenditure. Therefore the government expenditures in education would reduced significantly by waqf. Manager fund is needed to manage the fund. The government role in this level is to establish an institution and pointed a manager or Nadzir as the trustee to manage the fund. The institution should be Non Profit Organization or Government Linked Companies. This source of waqf actually helps government and tax payer. Burden of budget (educational expenses) can divert into another government’s expenditure, therefore, no need additional tax collection to pay government’s expenditure. As the purpose of this study is to bring benefit for Ummah through waqf, prosperity in education will no longer for private segment, but it belongs to all people, where every level of society will have the same opportunity to access the education.

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