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## ***Sulh* Approach in Reforming the Education Loans' Repayment for the National Higher Education Fund Corporation (PTPTN)**

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### **Abstract**

PTPTN is an established government organization that provides education loan among Malaysian students. Nowadays, the number of unpaid debts by the graduate students granted by PTPTN is increased. PTPTN has taken a step further in order to minimize the inactive payers by collaborating with immigration body and CCRIS. While, Al-Quran has stated the role of creditor in facilitates debtors by giving a delay or just waived the debts even though the debtors are responsible for settling the debt. This paper brings Sulh approach as an alternative to reconcile between PTPTN as the creditor and the higher learning's students as the debtors in accordance to re-evaluate their knowledge of debt repayment priority. By using the approach of Sulh as the medium of arbitration between two conflicting parties, this paper explores a solution to provide a win – win situation that able to harmonize the parties' interest. Therefore, the first objective of this paper is to suggest new elements of sulh between PTPTN and graduate students. The second objective is to propose the framework of Sulh from the elements suggested that verifies the better off to all parties involved. This paper found that, Sulh approach can create an assessment in determining a discounted loan repayment. The PTPTN's comprehensive assessment on the students' profiles such as academic results, university activities participation and families background is discovered. The assessment created by Sulh approach shows the potential benefits gained by the PTPTN's collections and savings as compared to its current practice, and for students, it motivates them for setting the target on discounted loan settlement that matches their own ability and reality as it entertains them holistically through the introduction of elements of Sulh.

### **Introduction**

*Al-Sulh* is a word derived from Arabic which means conciliation. Al-Raghib al-Asfahani states that one of the objectives of *al-sulh* is to eliminate hatred among humans and to find peace (Mun'im, 1999). While earlier Muslim Scholars' discussions regarding the implementation of *Sulh* in debt settlement

were not clearly stated, some Quranic verses and Hadiths could be a back-up to the debate as to how creditors should be tolerant of the debt owed to the borrower. Allah says:

*And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know. (al-Baqarah: 280). In hadith that relation the story about Abu Qatadah, he said that he once had heard about Prophet says: Whoever lends the loan to the borrower - or eliminates it - then he is in the shadow of` Arsy on the Day of Judgment. (Narrated by Muslim)*

Based on the Quranic verses and Hadith above, it is concluded that the need for consideration of both parties in settling the debt. Although it is the responsibility of the borrower to repay the debt, their circumstances must also be examined so that the lender is not too urgent in making claims while they are in difficult situation. However, there are also many other borrowers who can pay the loan but cannot pay it as a whole. This is because the income they earn does not entitle them to raise money to repay their debts within the prescribed time. Hence, some of the actions and considerations considered appropriate should be highlighted as giving an additional repayment period, giving specific intentions, such as granting a conditional discount and so on.

### **Methodology**

This paper uses analytic induction. Analytic induction is a working knowledge that departs from a single proposition or specific and drawn conclusions to be considered true and generalization. (Clive Seal, 2007). However, the induction will never have been complete. This is because it is based on facts and data that is found only, and then draw a general conclusion that applies to all data and facts, including data and facts that have not been found. It is also based on the truth that is never to be definitive conclusion, and certainly, because it always just opens the possibility that there are new facts and data that will abort the earlier conclusions. In using this method through the formation of new assessment of loan repayment, the current situation is observed and analyzed, where the dependency on the only variable -academic performance- is not significantly related to the debt collection and to the motivation of repayment by reduction and discount offer. Therefore, the variable of assessment is being expanded to make it more flexible and more opportunity to students in debt repayment as well as the debt collection to PTPTN.

### **Results**

In term of the loan's repayment, current PTPTN assessment was found to be less flexible in intensifying the borrowers. Recently, PTPTN only gives exemptions to first-degree holders, at the Cumulative Grade Point Average (CGPA) scores 3.5-3.7 and above, depending on the definition of first-degree qualification by their respective universities. In addition to these scores, the borrower has no other choice but to pay back the 100% loan received along with other costs such as *ujrah* and so forth. Through the *Sulh* approach, PTPTN and the borrower can make a win-win situation, whereby PTPTN can diversify loan repayment rates other than exclusions for first-class degrees or 100% non-degree first class. A certain rate of the exceptions are assessed and suggested by this framework. The score of the iCGPA, the level of student extracurricular activities in the campus and the background

of the students either from a difficult family or not and so on are considered as the elements used in this Sulh reconciliation model.

### Elements of Sulh

This paper suggests several elements of Sulh which can be the medium of reconciliation between PTPTN and higher education students. These elements are conceptualized in this paper by using the method of content analysis. The elements are academic results and performance (iCGPA), university curricular activities participation and family background. The selection of iCGPA and curricular activities as the elements of Sulh approach model is grounded by human resource standard and quality in Malaysia. According to literature reviewed, these two elements are regarded as the key performance among higher education students' as both of it can reflect their achievement in their universities. While, family background is a major element which considered the indicator of debt payment postponement.

#### a. Academic Performance

There are many studies, which highlights the significance of academic performance. Students who are exposed to higher levels of motivation and study skills can achieve better result in academic performance. However, the effect of academic performance together with the participation of curricular activities towards the debt repayment behaviour or ratios are still needing to be tested. In Sulh approach, the element of academic performance is reliable to become the mediator between the conflicts between PTPTN and education loan payers. The current exception of debt repayment is only offered to the first-class degree students regardless their family background and performance in curricular activities. Therefore, in Sulh approach, it is suggested to the government to offer a discount of up to 50% from outstanding balance of PTPTN loan for second-class upper degree holder but with the condition the payer have any experience in leadership management such as student representative councils, societies and college administration. On the other hand, an excellent degree holder or first-class student without any participation in societies and organization should not be given the 100% exceptional. This assessment offers the benefits to all levels of higher education students. Sulh approach also promotes the concept of *wasatiyyah* in debt settlement conflicts between the parties. This assessment is supported by the Hadith of our Prophet Muhammad SAW as he said to Ka'ab ibn Malik: *"Please reduce (a certain amount) from the debt that you have given to debtor."*

#### b. University Activities Participation

In higher education, the students are required to perform in both academic and soft skills enhancement such as communication skills, public relations, leadership and life-long learning. Participation of students in curricular is reliable to become the elements of Sulh approach. This is because Islam promotes the loan repayment reduction to anybody regardless the certain level of people. Many of the students cannot achieve the academic excellent because of their involvement in leadership and management activities. The government should not deny their achievement, as it is become one of the human resource requirements in any industrial or organizational companies and

business. Therefore, this paper suggests the element of students' participation in university activities to be included in the loan repayment reduction.

c. Family background

Family background is the most important element of Sulh approach. The household income, siblings' education background and other financial data should become the concern of PTPTN organization. Islam considers a loan as a social support to poor and needy society. Therefore, the PTPTN as a creditor should consider a certain condition regarding family background history in reducing the poor repayment among students with poor families.

**Framework of Sulh**

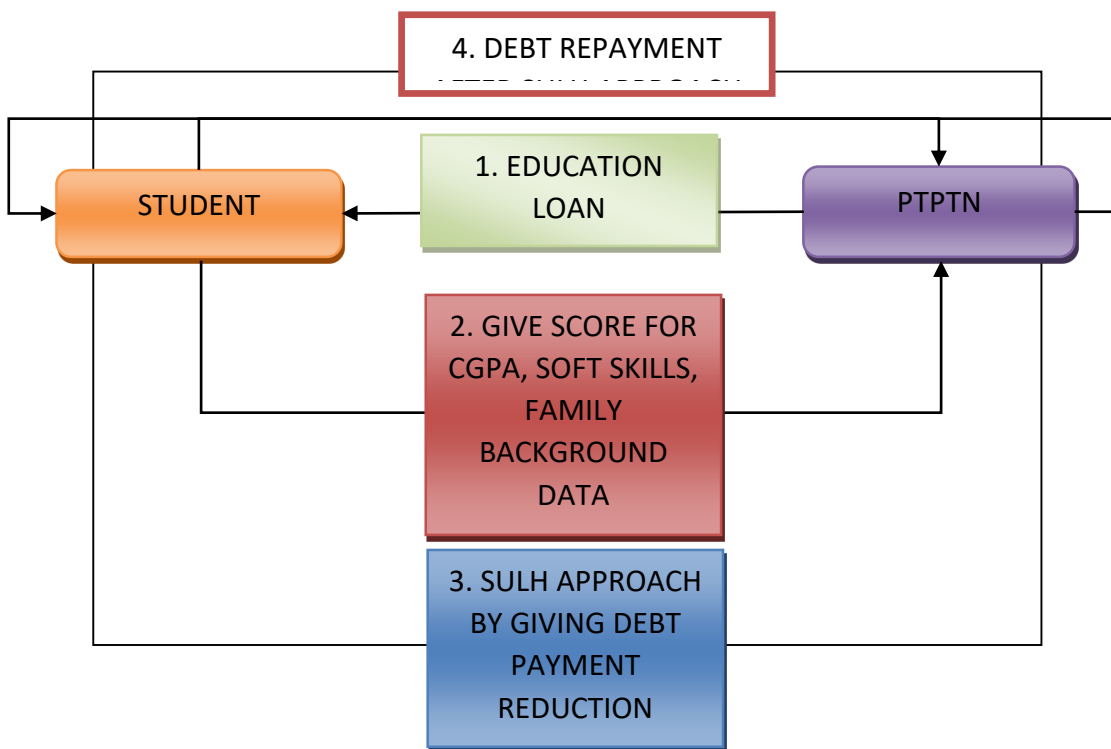


Figure 1.0 Framework of Sulh between PTPTN and Higher Education Students

Based on the framework above, the elements of Sulh can be simplified into the table below which are Cumulative Grade Points Average that scores 50% (Category 1), Soft skills scores 25% (Category 2) and family background scores 25% (Category 3)

## Category 1 (50%)

CGPA	Reduction rate (%)
3.70 and above	50
3.30 – 3.69	42
3.00 – 3.29	24
2.70 – 2.99	28
2.30 – 2.69	18
2.00 – 2.29	10
0.00 – 1.99	Not qualified

## Category 2 (25%)

Student Activities	Reduction rate (%)
Student Representative MPP) (President, Deputy President, Secretary, Treasurer)	10
JKMPP (Units)	5
Residential College/ Faculty/Club/Association/Class Representative	4
Program Committees	3
Program Sub-Committees	2
Participants	1

## Category 3 (25%)

Income	Reduction rate (%)
Below 2000	10
2000-3000	8
3000-4000	6
4000-5000	4
5000 and above	2
<b>Number of siblings</b>	
5 and above	5
3-4	3-4
2 and below	1-2
<b>Others</b>	
Disabled	2
Orphanage	2
Location	1

## Discussion

### National Higher Education Fund Corporation (PTPTN) and Education Loan

PTPTN was established under the National of Higher Education Act 1997 (Act 566) which has been enforced on the 1st July 1997 with the main objectives are to provide loans to eligible students in higher learning institutions, provide saving schemes and manage funds for higher education. PTPTN first operated was on the 1st of November 1997 at Wisma Chase Perdana building, off Jalan Semantan Damansara Height Kuala Lumpur. One of the roles play by the PTPTN are managing loans and provide deposit schemes for higher education, retrieves the loan given and perform other functions assigned to PTPTN by any other given written law. Its vision is to become the leading institution in managing the higher education finance by the year of 2020. Its mission is to manage funds and savings for the purpose of higher education loans through strategic and innovative financial management. The objective of PTPTN is to ensure the efficient financing loans are provided for eligible students in order to pursue education at higher learning institutions. It is one the government's aspiration to minimize the disqualification of students from tertiary education due to financial reasons.

### The Performance Of PTPTN In Loan's Provision And Collection

Since its establishment in 2014, this corporation has provided loans to 2.1 million borrowers with a total amount of RM47.8 billion. This education loan fund has successfully helped students to continue their studies. In general, PTPTN provides education loan according to program of study as follow (PTPTN, 2017):

Table 1: Education Loan Scope by Study Level and Category of Higher Learning Institution

STUDY LEVEL	CATEGORY OF HIGHER LEARNING INSTITUTION
Full time Diploma	IPTA, Polytechnic and IPTS
Part-time Diploma	IPTA, Polytechnic and IPTS*
PJJ Diploma (Long Distance Learning)	IPTA
Advanced Diploma	IPTA and Polytechnic
Full time Degree	IPTA and IPTS
Part-time Degree	IPTA and IPTS*
Full time / Part-time / Distance Learning Masters	IPTA
Full time / Part-time / Distance Learning Ph.D	IPTA
Full time / Part-time / Distance Learning Profesional Course	IPTA

According to year 2011 statistic, the total number of students received loans from PTPTN was 1,698,845 that involved about RM43.7 billion in total (PTPTN, 2011). The number increased every

year along with the increase of students to institutions of higher learning. It is reported that PTPTN will provide funding to 200,000 students annually (Hassan, 2017). As of September 2015, PTPTN has approved education funding to almost 2.4 million borrowers involving an allocation of RM 53.7 billion. These statistics are shown in tables 2 and 3 below:

Table 2: Total PTPTN Loan from year 2005 until 2010 (PTPTN, 2011, 2012, 2014, 2015; Zainon, 2013)

Year	Total Borrowers
2005	144,318
2006	149,471
2007	160,564
2008	156,853
2009	193,179
2010	238,722
2011	227,209
2012	2,086,820
2013	2,330,000
2014	2,430,000
2015	2,400,000

Table 3: Total Education Loan from year 2005 until 2015 (PTPTN, 2011, 2012, 2014, 2015; Zainon, 2013)

Year	Total Education Loan (RM Billion)
2010	5.52
2011	6.04
2012	46.87
2013	52.92
2014	55.66
2015	53.70

Table 2 and 3 above show the increase in number of PTPTN borrowers, from the year 2005, as well as the increase in the amount disbursed to borrowers by PTPTN. The increase in the amount disbursed, however, does not commensurate with the repayment rate of the borrowers. Table 3 below depicts the actual payback amount received by PTPTN, as compared to the amount it is supposed to receive. Each year, PTPTN requires RM5 billion to disburse loans to students of institutions of higher learning. Unfortunately, the poor repayment rate has affected the PTPTN's funds (Sinar Online, 2014).

Table 4: Total PTPTN Repayment from year 2005 until 2015 (PTPTN, 2011, 2015)



Year	Total Repayment (RM `000, 000)	Expected amount of collection (RM `000,000)
2005	97.4	195.0
2006	192.5	347.3
2007	294.8	516.6
2008	346.7	727.6
2009	553.7	1,070.8
2010	638.4	1,359.0
2011	No data	PTPTN targeted 800 million per year
2012	No data	
2013	1.2 billion	
2014	5.37 billion	11.77 billion
2015	6.7 billion	14.6 billion

Looking at the repayment trend of this loan, PTPTN had to reduce loans to students starting November 1, 2014. Total funding for both IPTA and IPTS was reduced by 15%. This method must be done to overcome the constraints faced by PTPTN. Based on the amount of funds obtained by PTPTN as compared to the number of borrowers, PTPTN can no longer provide full financing to all borrowers. On the other hand, the scaling to determine eligibility is done by looking at the total household income of the borrower. Borrowers or parents who are listed as One Malaysia's People Assistance or *Bantuan Rakyat Satu Malaysia* (BR1M) recipients will receive full funding from PTPTN while 75% of the financing will be given to families with income not exceeding RM8000 and 50% of the financing provided to families with income above RM8000 (Sinar Online, 2014).

However, in 2014 there was an increase for repayments. This increase may be due to several steps made by PTPTN to encourage borrowers to repay. Among the steps taken by PTPTN to encourage repayment of loans are to diversify loan repayment methods such as overpayment, salary deduction, internet banking, through PTPTN's official portal, withdrawing money through EPF's 2<sup>nd</sup> Accounts and Electronic Data Capture (PTPTN, 2014). In addition, PTPTN also took a drastic step by listing the name of the rigid borrower in the Central Credit Reference Information System (CCRIS) and restricting borrowers who failed to settle their debts from going overseas (Sinar Online, 2014). In the 2015 budget presentation, the government has approved a 20% discount to lenders who make a lump sum payment in the months between October 2014 and March 2015 (PTPTN, 2017). The positive impact on these measures has seen the amount of repayment increased from RM2 million a day to RM5 million since October 2014 (Jaafar, 2015).

### Impact of Discounted Loan Repayment

Previous studies have shown that the loan repayment target by PTPTN in 2015 is still far from the actual target of RM14.6 billion compared to only RM6.7 billion that has been successfully collected. This affects the reduction of funding amount IPT students by 15%. Previous studies have also shown that granting 20% discount to lenders who make lump sum payments between October 2014 and March 2015 has increased the amount of loan repayment by RM3 million. (Mohamad Yasir Jaafar, 2015). With that tendency, a proposal to develop the incentives system by using the Sulh approach is introduced, where the incentive provided by PTPTN will encourage the lenders to increase their debt repayment. Through this system, the total of PTPTN debt repayment is not solely depending on CGPA scores but it covers the background of the students including their family's household income, the number of siblings, the disabled's status, the orphan's status as well as the performance of soft skills and charitable works. Each of these categories has a certain percentage in giving a certain score that ultimately affects the loan repayment amount. However, the CGPA is still giving a substantial percentage in the loan repayment score.

Table 5: The payment ratio by graduate students to PTPTN

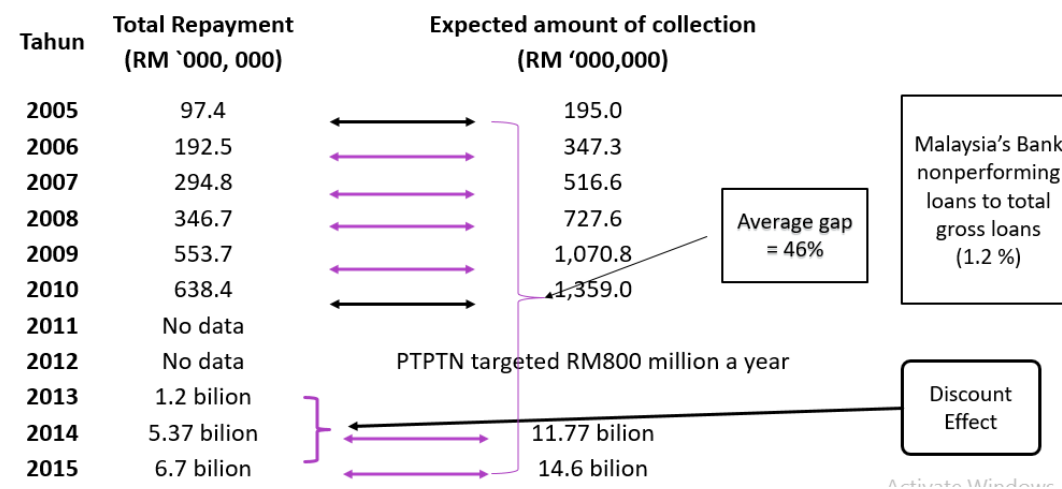


Table 5 shows that, from 2005 until 2015; the gap between expected amount of collection and total debt repayment is quite high which is 46% although the discount had been given by PTPTN. Previous studies have shown that the loan repayment targeted by PTPTN in 2015 is still far from the actual target of RM14.6 billion compared to only RM6.7 billion that has been successfully collected. This affects the reduction of funding amount higher education students by 15%. Previous studies have also shown that granting 20% discount to lenders who make lump sum payments between October 2014 and March 2015 has increased the amount of loan repayment by RM3 million (Mohamad Yasir Jaafar, 2015). With that tendency, a proposal to develop the incentives system by using *Sulh* approach is introduced, where the incentive provided by PTPTN will encourage the lenders to increase their debt repayment.

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### Conclusion

This paper features an innovation approach in introducing PTPTN's discount repayment debt assessment system, which recognizes the academic performance, families' background and the students' involvement in their institutions' association and activities. This holistic approach of the program aims to compensate the roles between the lender and the borrower as what is been suggested and encouraged by past studies and Islamic evidences. It is hoped in the near future, the approach will be widely discussed among society, government and lending institution for the betterment of all parties.

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