



MINISTRY OF HIGHER EDUCATION MALAYSIA

# ENHANCING UNIVERSITY INCOME GENERATION, ENDOWMENT & WAQF

UNIVERSITY TRANSFORMATION PROGRAMME, PURPLE BOOK

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# University Transformation Programme Purple Book



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## PREAMBLE

# THE UNIVERSITY TRANSFORMATION PROGRAMME (UniTP) PURPLE BOOK

The Malaysia Education Blueprint 2015-2025 (Higher Education), or the MEB (HE), laid out ten shifts to spur continued excellence in Malaysia's higher education. **Shift #5: Financial Sustainability** aims to ensure long-term financial sustainability of the higher education system. To achieve this goal, the Ministry and public universities will improve the relevant governance structures at the universities. At the same time, Universities are expected to strengthen their income generation management, while staying focused on their core education missions.

Given that universities may have different starting points, the Ministry of Higher Education is collaborating with universities to launch the "University Transformation Programme" (UniTP) to assist public universities in creating and implementing their tailored transformation plans.

To guide universities through this process, the UniTP is identifying and codifying best practices in a series of books with practical guidance as universities embark on their own transformation programmes.

In line with this, the **UniTP Purple Book Enhancing University Income Generation, Endowment & Waqf** was developed, which serves as a relevant guide to navigating activities related to university income generation. In addition, the **UniTP Green Book Enhancing University Board Governance and Effectiveness** that was published earlier, had identified three entities that will play a big role in this initiative: the university holding companies, endowment, and waqf entities. It also proposed independent governance for the three entities. The proposed entities and governance are reproduced in Exhibit 1. With this, universities will have more flexibility to make their own decisions, implement agile management of resources, and be efficient, responsive, and innovative organisations, conducive to income generation activities.

With increased demand for quality higher education, and in the face of increasing cost and budgetary constraints, universities are expected to diversify and increase their income. This is even more pertinent due the following reasons for enhancing income generation:

- Economic context
- Dependency on public funding
- Risk mitigation
- Funding mission expansion
- Flexibility
- Competitiveness

These benefits are summarised in Exhibit 2.

Exhibit 3 shows the current and desired state of income sources for universities, and identifies three streams of income. This playbook concentrates on the third stream which consists of commercial activities and grants, endowment, and waqf. The third stream complements income from student fees and government grants.

## Exhibit 1

## Income generation by public universities

This UniTP Purple Book takes the governance perspective in terms of promoting income generation in public universities, as set out in the UniTP Green Book (Green Book). The Green Book recommended that an Independent Board of Trustees for endowment and a Waqf Board of Trustees be set up separately, similar to the University Board.

GOVERNANCE	University Board Finance and Investment Committee	Independent Board of Trustees	Waqf Board of Trustees
ENTITY	University Holding Companies	Endowment Funds	Waqf Funds
ACTIVITIES	<p>Income generation and commercial activities<sup>1</sup>, such as:</p> <ul style="list-style-type: none"> <li>• Commercialisation of research and intellectual property</li> <li>• Training, research or teaching contracts with private partners</li> <li>• Services, consultancy and advisory activities</li> <li>• Property management related to university assets</li> <li>• Management of university subsidiary companies</li> </ul>	<ul style="list-style-type: none"> <li>• Fundraising for the endowment</li> <li>• Engagement with fund donors</li> <li>• Investments and asset allocation, including in financial assets and real estate</li> </ul>	<ul style="list-style-type: none"> <li>• Fundraising for the waqf</li> <li>• Engagement with waqf donors</li> <li>• Investment and asset allocation adhering to Shariah principles</li> </ul>

<sup>1</sup>Income generation and commercial activities can also occur directly through faculty, institutes or centres of the university. See Chapters 1 and 4.

Adapted from “Enhancing University Board Governance and Effectiveness, UniTP Green Book”, Ministry of Higher Education Malaysia, 2015.

Currently, most universities already have mechanisms in place to support income generation activities such as corresponding university policy, a dedicated office, and related incentives, as shown in Exhibit 4. However, these mechanisms will need to be strengthened to further enhance the capabilities of the universities to generate income.

In addition to conventional sources of income such as government funding and tuition fees, universities can explore innovative ways of generating income from a multitude of sources. The seven main potential sources of income are: (1) Academic and Research Programmes; (2) Asset Monetisation, Retailing, and Services; (3) Financial Management Activities & Investment; (4) Corporate Alliances for Business Ventures; (5) Endowment; (6) Waqf; and (7) Fundraising. See Exhibit 5.

This UniTP Purple Book contains sets of guidelines for university leaders and administrators on ways to enhance income generation from alternative and complementary sources.

The aim is to streamline the understanding of key aspects of income generation and the common processes of carrying out the activities. It draws from analysis of the current state of play and understanding trends, as well as shared best practices locally and abroad.

As public universities are given greater autonomy, university leadership can create conducive environments for successful income generation. See Exhibit 6.

The guidelines are not meant to be prescriptive but only serve as a general guide for university leaders. Chapter 1 highlights income generation activities through four main initiatives: Education and Training Programmes; Research Grants and Commercialisation of Ideas; Asset Monetisation; and Commercial Activities through University Holding Companies. Chapters 2, 3, and 4 address three other main income generation activities, which are Endowment, Waqf and Fundraising Activities, respectively.

This UniTP Purple Book provides a basis to drive public universities towards adopting a more diversified income portfolio, shifting to a more entrepreneurial mindset, and ensuring the delivery of key institutional outcomes.

The objectives of this Purple Book is to:

- Enhance and further diversify sources of funding for universities via income-generating activities;
- Position universities for long-term financial stability through the establishment of an endowment; and
- Promote and enhance the implementation of the waqf model as a viable and sustainable source of funding;

It is important to note that universities must have policies on all income generation activities in order to uphold good governance, integrity and reputation.

## Exhibit 2

# Why universities need to enhance income generation

In increasingly dynamic operating environments, universities need to rapidly evolve their funding strategies, adopt more diversified income portfolios, and shift to a more commercial mindset in order to ensure financial sustainability, the delivery of growth and key institutional outcomes. Specifically, the universities need to enhance income generation due to the following reasons:

### Economic Context

In the current Malaysian economic context, pressures on the public budget have led to the rationalisation of public funding. To face this challenge, the MEB (HE) has outlined major initiatives in developing sustainable funding models for higher learning institutions.

### Dependency on Public Funding

In Malaysia, both public and private HLIs rely mainly on the government for direct grant allocation and student loans. Government grants today fund more than 90% of the expenditure at public HLIs. To reduce this dependency, the MEB (HE) requires that HLIs seek alternative sources of income to make them stronger, more flexible, and financially sustainable.

### Risk Mitigation

In the wake of public funding rationalisation, spreading risks in sourcing funding for teaching and research is crucial. Malaysian universities may find themselves in a position where developing additional funding streams becomes a requirement for sustainable growth and risk mitigation.

### Funding Mission Expansion

Expanded university missions placed on Malaysian universities and the expectations to excel have never been greater. To cater to increased expectations and their related strategic initiatives, universities need to generate additional income and diversify their sources of income. For example, to increase a university's global prominence, more resources would be required to fund students and staff mobility programmes, and to attract international collaborations.

### Flexibility

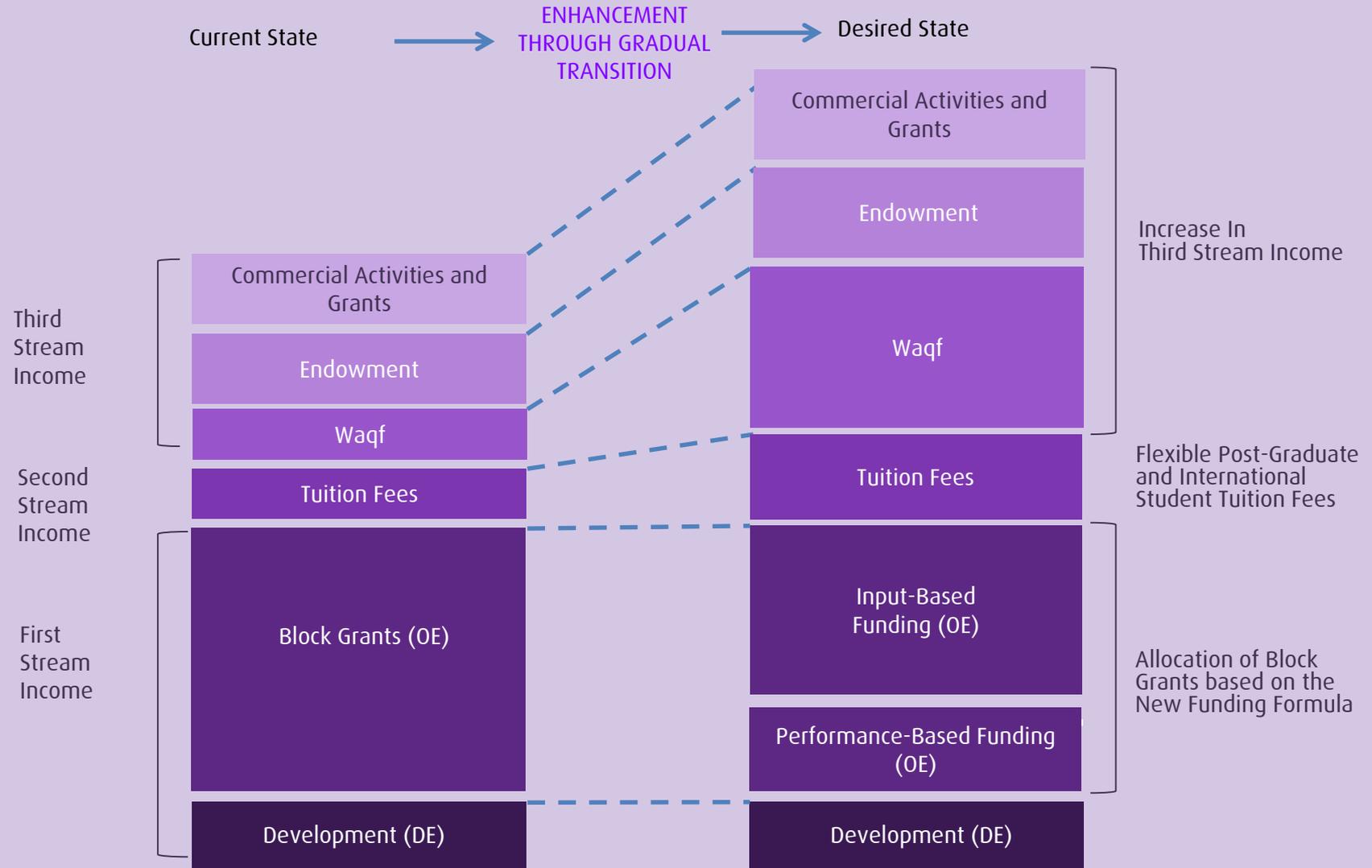
With self-generated income, universities will be able to reduce administrative bureaucracy in managing funds in the future. This will place universities in a more commanding position with regards to fund management and in exercising autonomy.

### Competitiveness

Public perception and awareness of world university rankings have placed Malaysian universities in a more challenging position to be amongst the best. Additional income from participating in competitive schemes, or through contractual research with industry and international partners are highly regarded. Such strategic alliances will further reinforce the competitive advantage of the universities.

## Exhibit 3

## Desired state of university income sources through diversification



## Exhibit 4

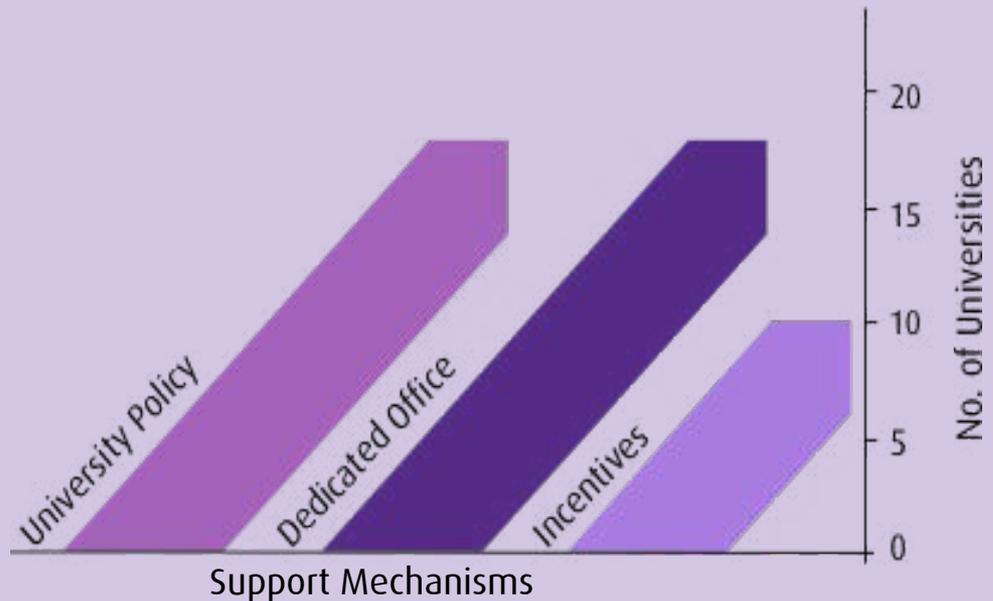
# Important mechanisms in supporting income generation activities at public universities

Three support mechanisms have been identified as important for income generation activities. They are a university income generation policy, a dedicated office to support income generation activities, and incentives to enhance income generation.

A survey amongst 20 public universities in 2015 shows 18 to already have an income generation policy and a dedicated office in place. Of these 18, only 10 have implemented some forms of incentives. Thus, only 10 universities have adopted all three important support mechanisms

The results show that the other half of the universities still need to work on establishing these important mechanisms to support their income generation activities.

**Number of public universities that have the three support mechanisms for income generation (2015)**



## Exhibit 5

# Seven main potential sources of income for universities

Universities can explore new ways of generating income from the sources shown below:

1

### Academic and Research Programs

#### Education and Training Programmes

- Academic Programmes
- Specialist and CPD courses
- Industry & executive training
- Online learning & MOOCs
- Conferences and seminars
- Twinning programmes

#### Research and Commercialisation of Ideas

- Research funding & grants
- Industry-sponsored research
- Intellectual property, patents, licenses, royalties
- Company spin-offs & commercialisation of R&D products and IPs
- Consulting & other services
- University start-up companies

7

### Fundraising

#### Public Donations

- Club/group memberships
- Public campaigns
- Crowdfunding

2

### Asset Monetisation, Retailing and Services

#### Rental and Lease of Facilities

- Conferences, seminars & convention centres
- Sports & recreational facilities
- Laboratories

#### Unlocking of Assets

- Science park development
- Property development
- Land and property leasing

#### Retailing and Services

- Shops
- Food & Beverages
- University Press
- University services

6

### Waqf

#### Waqf Contributions

- Corporate al-waqif
- Alumni al-waqif
- Public al-waqif
- Waqf Irshad (Government)

3

### Financial Management Activities & Investment

#### Project Financing

- Raising debt/bonds & equity
- Asset sale & leaseback arrangement

#### Investment

- Investment returns (including on endowment and waqf)
- Financial products (e.g. shares, bonds or fixed income products)

4

### Corporate Alliances for Business Ventures

#### Joint Ventures

- JV partnerships, PPP
- Joint marketing of products/services
- Co-branding

5

### Endowment

#### Philanthropy

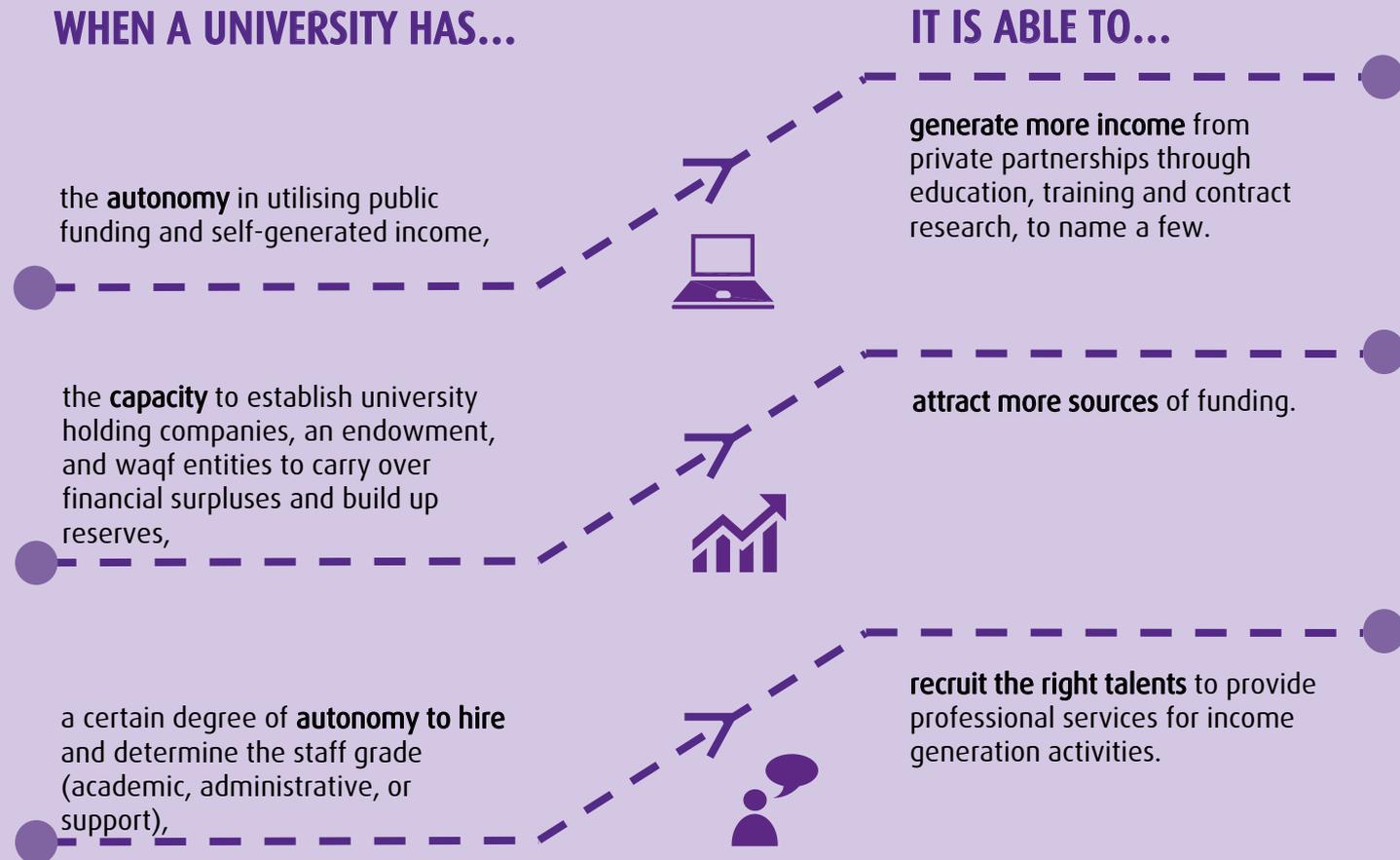
- Corporate donors
- Alumni donors
- Public donors

#### Government

## Exhibit 6

## Autonomy as a key enabler for successful income diversification

University autonomy is a pre-requisite for the successful implementation of income diversification strategies. As public universities are given greater autonomy, they should be able to establish a conducive environment for successful income diversification and generation, hence creating additional income.



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# INTRODUCTION

## EXECUTIVE SUMMARY

# ENHANCING UNIVERSITY INCOME GENERATION, ENDOWMENTS, AND WAQF

The MEB (HE) has highlighted that over the next decade, Malaysia will need to deliver quality higher education to almost twice as many students, if it is to fulfil the Ministry's aspiration to provide greater access to higher education. The total Government expenditure on higher education has been rising at a rate of 14% per annum, driven largely by subsidies to public HLIs, where 90% of their expenditure is government-funded.

Malaysia needs to move from a system that is highly dependent on government resources and focused on inputs to one that is focused on outcomes and where all stakeholders contribute, proportionate to their means.

**Financial sustainability** will be one of the key challenges for universities in the next decade; only those institutions that have sound financial structures and stable income flows will be able to fulfill their multiple missions and respond to current and future challenges.

Financial sustainability is not an end in itself; it aims to ensure a university's goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future academic and research activities.

Public and private HLIs must **draw on diverse sources of funding** to allow continuous improvement in the quality of their programmes, and be more prudent and innovative in using their resources. There will be more targeted support for socio-economically disadvantaged students to make enrolment more affordable and accessible to everyone who is eligible.

The UniTP Purple Book identifies the internal and external challenges to the development of successful income diversification. It also identifies best and transferable practices that can improve the framework conditions for universities and their ability to act strategically in this area.

The current drastic pressures on higher education budgets make this Purple Book a timely contribution to the ongoing debates on how to fund universities' operations and activities, by looking in particular at **the potentials of complementary income sources**.

**Public authorities play a key role** in supporting income diversification by providing the right framework, removing barriers and setting the right incentives. Granting more **institutional autonomy to HLIs**, simplifying national regulations, and moving towards funding on a full cost basis are among the most important actions to promote these conducive conditions.

*This Purple Book takes the governance perspective in terms of promoting income generation in public universities as set out in the Green Book*

Funding incentives can play a very important role in increasing private investment in higher education, but is still an under-used approach. The Ministry will work closely with other ministries to attract private investment through appropriate policies and schemes. The Ministry recognises the importance of leadership and management in implementing a successful diversification strategy. It calls for support and investment to help enhance institutional capacities in income generation.

The UniTP Purple Book focuses on providing practical approaches and framework to help universities address the challenges of diversifying and enhancing income.

The book begins with the justifications or reasons why universities need to diversify their income sources. It identifies three main methods for income generation and provides practical guides on how universities can derive income from these methods. The three main methods are commercial activities, enhancing endowment, and developing waqf.

**Chapter 1: Enhancing University Commercial Activities and Grant Acquisitions** identifies four main sources of incomes, which are:

- Education and Training Programmes
- Research Grants & Commercialisation of Ideas
- Asset Monetisation
- Commercial Activities through University Holding Companies

**Chapter 2: Enhancing University Endowment for Financial Sustainability** presents current practices and performance for endowment at public universities. It is clear that there is significant room for improvement, and a lot of potential that remains untapped.

This chapter also outlines:

- The concept of endowment; and
- Endowment investment management

**Chapter 3: Developing Sustainable Waqf at Public University** introduces waqf and its potential. It also describe steps in implementing waqf at public universities (Wakaf@UA) and proposes models of waqf governance at public universities.

**Chapter 4: Philanthropic Income and Fundraising Activities** presents an overview on the current performance in philanthropic income at public universities. It is worth noting that Malaysia as a nation has not done well in terms of giving donations. This therefore presents opportunities for Malaysian universities to tap into the potential of philanthropic income.

This chapter outlines recommendations on how Malaysian universities can increase their income through philanthropic and fundraising activities through:

- Fundraising matrices and models
- Crowdfunding initiatives
- Recommended structures and functions for fundraising initiatives

# MALAYSIA EDUCATION BLUEPRINT 2015-2025 (HIGHER EDUCATION)

## THE TEN SHIFTS

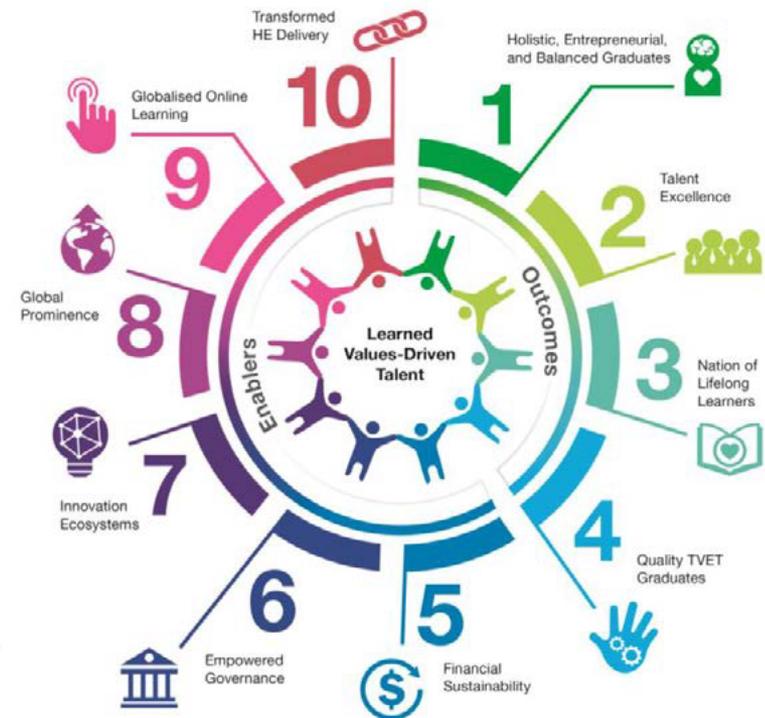
Financial sustainability for Malaysian higher learning institutions (HLIs) is one of the ten shifts defined in the Malaysia Education Blueprint 2015-2025 (Higher Education), or MEB (HE).

Malaysia needs a long-term financing system for higher education that can sustain and rapidly improve the nation's ability to provide accessible, equitable, high-quality education that meets international standards. The financial sustainability of the higher education system can be addressed at three levels:

- System level: Ensure continued access to affordable, quality higher education that meets international standards;
- Institution level: Ensure HLIs have a wide range of funding sources that can help develop and realise their long-term academic and strategic goals; and
- Student level: Ensure no qualified student is denied higher education due to affordability.

Currently, both public and private HLIs rely mainly on the Government for direct grants, allocations, and student loans, particularly from the National Higher Education Fund Corporation or *Perbadanan Tabung Pendidikan Tinggi Nasional* (PTPTN). Government grants today fund more than 90% of the expenditure of public HLIs. While private HLIs are primarily funded by student fees, around 48% of their students benefit from student loans from PTPTN.

The MEB (HE) requires HLIs in Malaysia to seek alternative additional sources of revenue to make them stronger, more flexible, and financially sustainable. It will also enable them to forge mutually-beneficial alliances with industries.



# MALAYSIA EDUCATION BLUEPRINT (HIGHER EDUCATION)

# THE UNIVERSITY TRANSFORMATION PROGRAMME

*The transformation of the higher education sector must be driven by universities and not directly by the Ministry*

Every university is unique. The role, operating model, and even composition of an academic community has to be tailored to the university's specific context—its history and current situation, and its priorities. Each university today will have its own strengths, weaknesses, challenges and aspirations, as well as different starting points.

Consequently, any implementation needs to be structured in a modular manner, so that universities can adopt the elements that are best suited to their situation and pace.

Accordingly, the UniTP has been developed as an important initiative under the MEB (HE) to help Malaysia's 20 public universities accelerate their transformation journeys.

The UniTP consists of eight elements. Four elements focus on helping universities develop their own transformation plan by ensuring universities have the right tools and support available to them. These four elements include the development of transformation playbooks for the most important reform areas, the involvement of pilot universities to “lead the way” in playbook implementation, and the development of tailored transformation plans by each university, and the establishment of the Putrajaya Higher Education Taskforce to enable cross-ministry decision-making.

The remaining four elements focus on improving accountability for better performance and outcomes. These include developing Headline Key Performance Indicators (KPIs) and Key Intangible Performance Indicators (KIPs) to monitor the overall performance and health of universities, establishing performance contracts linked to those KPIs and KIPs, defining a new funding formula that shifts universities towards performance-based funding, and lastly, ongoing consultation, monitoring and reporting by the Ministry.

The first element under the UniTP is the development of five transformation playbooks, which contain best practice guidance and tools, on the topics of (i) university governance; (ii) academic productivity; (iii) talent development; (iv) income generation; and (v) performance management and financial reporting. Pilot universities have been identified to “lead the way” in implementation, and lessons will be disseminated to all universities upon completion of the pilots.



5 Transformation Playbooks include:

- Enhancing University Board Governance and Effectiveness
- Enhancing Academic Productivity and Cost Efficiency
- Strengthening Academic Career Pathways and Leadership Development
- Enhancing University Income Generation, Endowment, and Waqf
- Strengthening University Performance Management and Financial Reporting

# SOURCE MATERIAL AND SPECIAL THANKS

## APPROACH TO DEVELOPING THE PURPLE BOOK

The UniTP Purple Book was developed by the Ministry of Higher Education with the support and guidance from advisors and administrators from Malaysian public universities and the Ministry of Higher Education. It draws upon local and global best practices in higher education, and those with relevant expertise from public universities and university holding companies.

During initial drafting, a survey was distributed to the bursars of 20 Malaysian public universities to obtain the current status on income generation, endowment, and waqf. The survey sought to gather useful insight not only on the size of income streams but also the kind of governance and support systems that exist in public universities with regard to their income generation efforts.

Benchmarking visits to waqf organisations in Turkey and Singapore, and the State Islamic Religious Council (SIRC) in Malaysia were performed to learn best practices in managing and governing waqf.

Engagement and roundtable discussions were also performed with representatives from the State Islamic Religious Council (SIRC), public universities' BOD Chairmen and top management, waqf corporate leaders, university researchers in waqf, and Majlis Professor Negara (MPN) to further refine the ideas and recommendations put forth in this book.

The results of the survey, benchmarking studies and engagement with researchers, as well as an analysis of the governance and management practices in Malaysian public universities, were used to align the UniTP Purple Book's content with common challenges and issues most critical to today's university financial sustainability agenda.

*The Ministry would like to thank all who have contributed to the publication of this book, including university leaders and Ministry staff*



CHAPTER ONE

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**ENHANCING  
UNIVERSITY  
COMMERCIAL  
ACTIVITIES AND  
GRANTS  
ACQUISITION**

## CHAPTER ONE

# ENHANCING UNIVERSITY COMMERCIAL ACTIVITIES AND GRANTS ACQUISITIONS

Commercial activities and grant acquisitions are two sources of income that can be employed by universities. Since commercial activities offer a very different risk/return profile compared to activities traditionally associated with universities, it is important that the governing bodies of universities employ careful scrutiny and proper monitoring of commercial activities. The university must have policies, support systems, and the right incentives for commercial activities in order to protect the university's interests, reputation, and mission. These activities should not be carried out at the expense of a university's core responsibilities.

Commercial activities can be carried out directly by the universities or through university holdings and subsidiaries. The university holdings or their subsidiaries can also consider joint ventures with, or outsourcing to, third parties. This chapter describes four main categories of income generation through commercial activities and grant acquisitions.

### Education and Training Programmes

Education and training is one of the core functions of universities. HLIs can leverage their expertise and facilities to offer education and training programmes such as academic programmes, CPD, LLL or online courses. It is recommended that universities offer these programmes through their private education wings. Several business and profit-sharing models between faculties and the private wings can be developed.

### Asset Monetisation

Universities can monetise their tangible and non-tangible assets. The monetisation of assets can be done through leasing, joint ventures with third parties, outsourcing to third parties, improving utilisation, and commercialisation. When done properly, the potential gain from asset monetisation is enormous.

### Research Grant Acquisition & Commercialisation of Ideas

Universities need to continuously acquire grants for research and development in order to support one of their core functions. Universities can adopt various strategies such as strengthening industry and international collaborations to enhance grants acquisitions. They can also strengthen their technology transfer office to increase commercialisation of IPs and expertise.

### Commercial Activities through University Holding Companies

University holding companies act as both commercial and investment arms to enable university participation in business activities. They are also established to protect universities from liabilities or legal suits that could arise from commercial activities, collaboration, or joint venture agreements with third parties.

## EDUCATION AND TRAINING PROGRAMMES

*The education sector is expected to generate approximately RM33.6 billion in Gross National Income and 3.3 million jobs by 2020<sup>1</sup>, which can provide universities with increased opportunities for income generation. However, providing quality education should remain the core mission of universities*

In general, the primary role of universities is to provide quality, wider access to education through a high-quality delivery system that emphasises the development of values, competencies, and the skill set necessary for a knowledge society.

Universities also need to provide lifelong learning (LLL) opportunities to enable Malaysians to meet the economy's changing skill demands through re-skilling and upskilling programmes.

Public universities can enhance their income significantly through education and training programmes. Some of the current education and training programmes conducted by universities include academic programmes, CPD, LLL, online learning courses, as well as executive and twinning programmes.

In 2015, a survey of 20 public universities shows that three main players had generated a total revenue of RM73.2 million in 2014 through education and training programmes. This indicates that universities can generate significant income from education and training.

In addition, the university that generated the highest revenue offered its education and training programmes through its private education wing. Some universities have internal units that conduct education and training programmes. However, these universities have not been able to objectively determine the financial performance of these units. Thus it is recommended that all programmes under these units are managed under a private education wing.

Current and future trends in education reflect the need for a flexible approach that is education for Anyone, Anywhere and at Anytime. Hence, universities could adopt MOOCs, e-Learning, distant learning and hybrid programmes to support flexible education.

Further, universities can increase their franchising and licensing of education and training programmes, and establish credit transfer for MOOCs. This will result in wider access to quality education, and increased income generation.

To encourage youths to engage in learning, universities can enhance their delivery through gamification. This enhancement will also result in wider access to quality education and increased income generation.

All these enhancements (see Exhibit 7) will result in the following outcomes:

- A knowledge society
- An increased number of skilled workers
- Learned, values-driven talent
- Enhanced income generation

<sup>1</sup> SOURCE: Malaysia Education Blueprint 2015-2025 (Higher Education)

## Exhibit 7

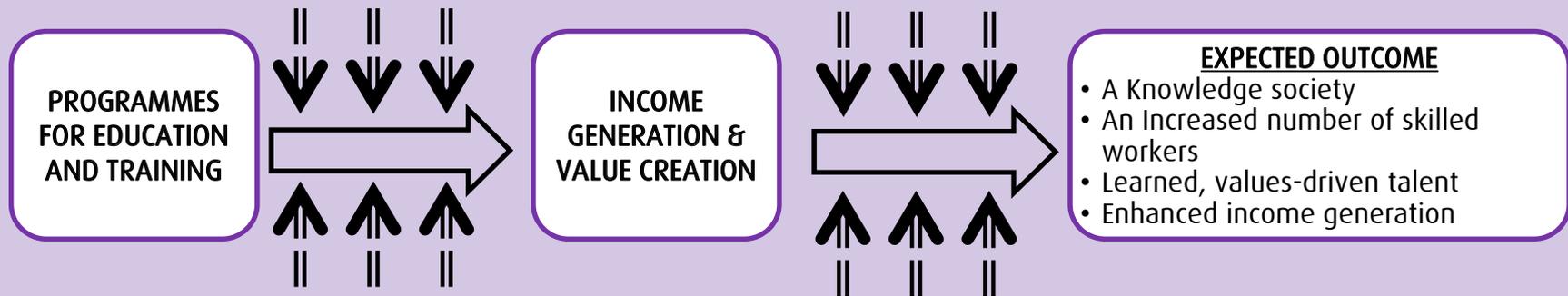
## Enhancing Income Generation through Education and Training Programmes

## TRENDS IN EDUCATION

- Flexible Education—Anyone, Anywhere and Anytime
- MOOCs
- e-Learning
- Hybrid programmes

## EDUCATION AND TRAINING PROGRAMMES

- Academic programmes
- Specialist courses and CPD
- Industry & executive training
- Online learning & MOOCs
- Conferences and seminars
- Twinning programmes



## UNDERLYING FACTORS

- Primary role of university to provide education
- Higher participation and wider access for the public
- High-quality delivery system and outcome
- Relevant core competencies and skillsets necessary to promote a knowledge society
- Sustainable monetary vs. non-monetary outcomes
- Supportive policies and incentives

## RECOMMENDATIONS

- Develop a structured, flexible education
- Establish a private education wing
- Increase franchising & licensing of education and training programmes
- Establish credit transfer for MOOCs
- Enhance CPD programmes
- Enhance delivery such as through gamification

*“Flexible education can enhance income generation for HLIs”*

# RESEARCH GRANTS ACQUISITION & COMMERCIALISATION OF IDEAS

Research is one of the core activities of universities and it requires support in terms of grants and talent. Universities need to strengthen their innovation ecosystems where knowledge generation, knowledge exchange and technology transfer occur through collaboration with relevant government agencies, industries and communities. This quadruple helix collaboration will not only improve university income generation but also increase the creation of new knowledge and the commercialisation of ideas.

## Research Grants Acquisition

A substantial amount of grants are available for universities. Universities have access to public grants, and grants from private agencies and international bodies. In 2014 and 2015, universities were able to obtain a total of RM1.35 billion, RM81 million and RM40 million from public grants, private agencies and international bodies, respectively.<sup>1</sup>

The availability of such grants is expected to continue. Hence, universities can enhance their income through the acquisition of these grants. Universities can achieve this by strengthening their innovation ecosystems, and through strategic collaboration with other organisations.

## Commercialisation of Ideas

Research conducted at the universities are expected to benefit communities and industries. University IPs and expertise are important assets that can be used to generate income. It is recommended that universities strengthen their Technology Transfer Office (TTO) and increase collaboration with industries and communities so that these assets can be commercialised.

The TTOs play an important role in stimulating technology transfer from academia to industry by providing a set of end-to-end support services which include IP sourcing, IP strategy, proof of concept, licensing and incubation, and start up and ideation space.

<sup>1</sup>SOURCE: Ministry of Higher Education Malaysia

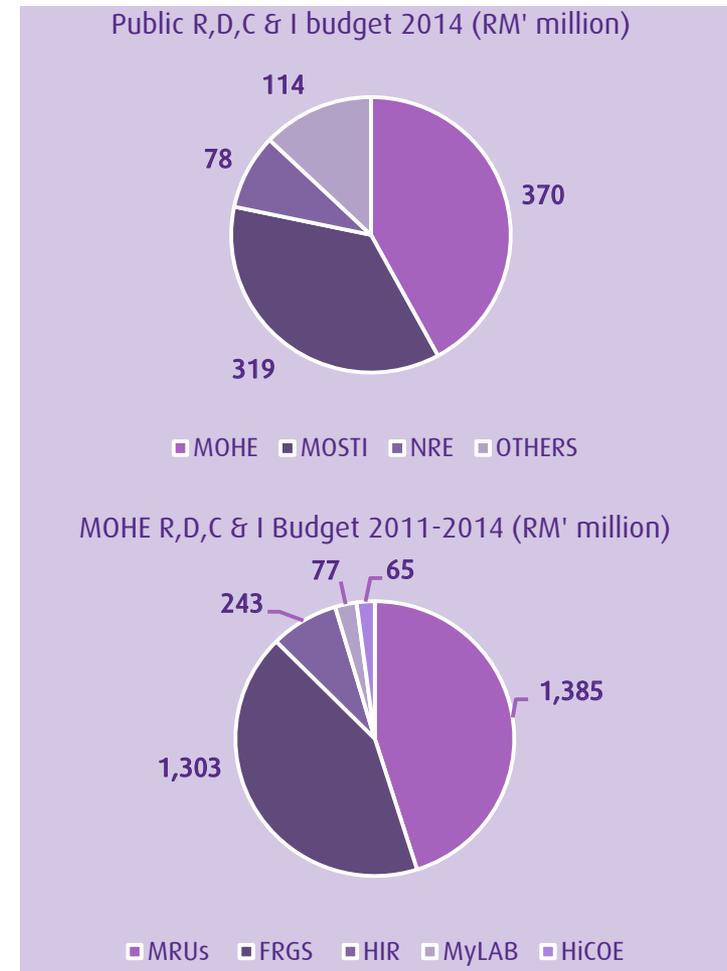
# Research Grants Acquisition

*Universities can enhance their income through acquiring research grants, which are available from public grants, private agencies and international bodies*

There are 14 ministries and agencies who are main players in Malaysia's innovation landscape. The major public funding agencies for higher learning institutions (HLIs) are the Ministry of Higher Education (MOHE) and the Ministry of Science, Technology and Innovation (MOSTI). In 2014, MOHE was the largest funding agency in the innovation landscape where it received 42% (RM370 million) of the government's budget for research, development, and commercialisation (R, D & C), and a total of RM3.07 billion from 2011 to 2014.<sup>1</sup> The funding covers the entire value chain from pre-R&D, R&D, to pre-commercialisation through various programmes including Malaysian Research University (MRU), Fundamental Research Grant Scheme (FRGS), High Impact Research (HIR), Malaysian Laboratories Academia and Business (MyLAB) and Higher Institution Centre of Excellence (HiCoE) (as shown in the opposite diagram).

Other ministries such as the Ministry of Natural Resources and Environment (NRE), Ministry of Energy, Green Technology and Water (KeTTHA), Ministry of Plantation Industries & Commodities (MPIC), Ministry of Agriculture (MOA), Ministry of Finance (MOF) and Ministry of Health (MOH) also manage funds for research in focused areas.

Some international and local agencies and companies such as TORAY Foundation, MAKNA, L'Oreal and Nippon Sheet Glass Foundation also provide funds for research on a regular basis, based on a bidding concept. Business enterprises in Malaysia also finance market-driven research. In fact, a UNESCO report showed that research funded by business enterprises exceeded the amount funded by the government at a ratio of 0.6:0.4 in 2012.<sup>2</sup> A list of available grants from national and international sources are shown in Exhibit 8.



<sup>1</sup>SOURCE: Malaysia Education Blueprint 2015-2025 (Higher Education)

In 2014 and 2015, universities managed to obtain a total of RM1.35 billion, RM81 million and RM40 million from public grants, private agencies and international bodies respectively.<sup>1</sup> With these encouraging achievements, universities should continue to put more effort towards enhancing income generation through research grant acquisition.

In addition, MOHE and universities should continue to expand research collaborations with other agencies or organisations. An example of a successful research collaboration with industry is the MyPERANTI programme, which is coordinated by CREST (Collaborative Research in Engineering, Science and Technology) and involves a consortium of universities and companies in the Electronics and Electrical (E&E) industry. Another successful research collaboration involving multinational industries and universities is coordinated by the Aerospace Malaysia Innovation Centre (AMIC). In 2015, MOHE initiated the Public-Private Research Network (PPRN) connecting researchers in HLIs to local SMEs. The PPRN is a platform for researchers to provide solution to industry.

To successfully bid for research grants in different research categories and from various sources, universities need to develop research capacity and capability, excellent talent, and multi-institutional collaborations. Universities also need to strengthen the capacity and capability of their technology transfer office (TTO) in order to develop ideas into commercialised products and know-how. An excellent TTO with the right policies and personnel will also enable universities to secure sufficient funds for the critical phase of commercialisation, that is to cross the “Valley of Death”.

Access to industrial-scale facilities and national-scale laboratories will increase universities’ success rate in acquiring research grants, especially from private and international organisations. It will also enable universities to embark on high-impact, high-value research.

Universities can increase their chances of acquiring research grants by enhancing current initiatives and introducing new approaches. In summary, universities are recommended to do the following:

- Align research with national priority areas
- Align talent with priority research areas
- Encourage student-led entrepreneurship and innovation (E&I) activities
- Provide active support and training for researchers to obtain international grants, and maintain active links
- Create a critical mass of resources with other ministries and agencies
- Engage Quadruple Helix stakeholders from ideation to commercialisation
- Promote co-utilisation of infrastructure
- Strengthen the technology transfer office
- Provide easy public access to university IPs
- Increase the use of matching schemes
- Implement crowdfunding initiatives

The overall framework for enhancing income generation through research grant acquisition is shown in Exhibit 9.

<sup>1</sup>SOURCE: Ministry of Higher Education Malaysia

## Exhibit 8

## Possible Sources of National and International Research Grants

National<sup>1</sup>

- Pre-commercialisation grant (Malaysian Innovation Agency): RM100 million allocated for 2016
- Funding scheme for Technology and Innovation Acceleration: RM200 million allocated under Malaysia Debt Venture Bhd. for 2016
- Leading Regional Entrepreneurship and Innovation Hub: RM35 million allocated to MAGIC for 2016
- Corporate Entrepreneurs Responsibility Fund: RM10 million allocated for 2016
- Youth Entrepreneurship programmes such as Global Entrepreneurship Community, BAHTERA, GREAT, 1MET: RM30 million allocated for 2016
- To accelerate demand-driven innovation through the Public-Private Research Network: RM50 million allocated for 2016
- Science and Technology Research Grant (STRG) by TORAY Foundation: RM900,000 allocated per year

International<sup>2</sup>

- Horizon 2020: 2014 to 2020 with a EUR80 billion budget
- Competitiveness of Enterprises and SMEs (COSME): 2014 to 2020, with a planned budget of EUR2.3 billion
- Multinational Consumer Programme: 2014-2020 has a planned budget of EUR188 million
- 3rd Health Programme: 2014 to 2020, with a planned budget of EUR449 million
- Justice Programme: 2014-2020 period is EUR378 million
- The Rights, Equality and Citizenship Programme: EUR439.5 million over the period 2014-2020
- Wellcome Trust, UK: a total fund of GBP615,752,906 for 2014-2015
- Bill & Melinda Gates Foundation: a total fund of USD8.1 billion for 2014 and 2015
- Qatar Science Foundation: a total fund of USD121 million for year 2013



wellcome trust

BILL & MELINDA  
GATES foundation

مؤسسة قطر  
Qatar Foundation

## Exhibit 9

## Enhancing Income Generation through Grant Acquisition

## SOURCES OF GRANTS

- Public grants e.g. MOHE, MOSTI, MTDC, AIM, MAGIC
- Private grants e.g. TORAY Foundation, MAKNA, L'Oreal and NIPPON Sheet Glass Foundation
- International grants e.g. Bill and Melinda Gates Foundation, Qatar Science Foundation, Wellcome Trust

## CURRENT INITIATIVES

- Fundamental research e.g. FRGS, LRGS
- Applied research e.g. E-science
- Pre-commercialisation e.g. Techno-fund, CRADLE
- Public-private collaboration e.g. CREST, PPRN, MyLab
- International collaborations e.g. Newton Fund, Strateps

**EXPECTED OUTCOME**

- A Knowledge society
- An Increased number of skilled workers
- Learned, values-driven talent
- Enhanced income generation

## UNDERLYING FACTORS

- Different research categories (fundamental, applied, developmental and translational)
- Multi-institutional and industry collaborations
- Research capacity and capability, and development of talent and technopreneurs
- Capacity and capability of the university technology transfer office
- Sufficient funds during the critical phase of commercialisation (to cross the "Valley of Death")
- Supportive policies and incentives
- Industrial-scale facilities for university research outputs
- National-scale laboratories for critical areas of research

## RECOMMENDATIONS

- Align research with national priority areas
- Align talent with priority research areas
- Encourage student-led entrepreneurship and innovation (E&I) activities
- Provide active support and training for researchers to obtain international grants and maintain active links
- Create a critical mass of resources with other ministries and agencies
- Engage Quadruple Helix stakeholders from ideation to commercialisation
- Promote co-utilisation of infrastructure
- Strengthen the technology transfer office
- Provide easy public access to university IPs
- Increase the use of matching schemes
- Implement crowdfunding initiatives

# Commercialisation of Ideas

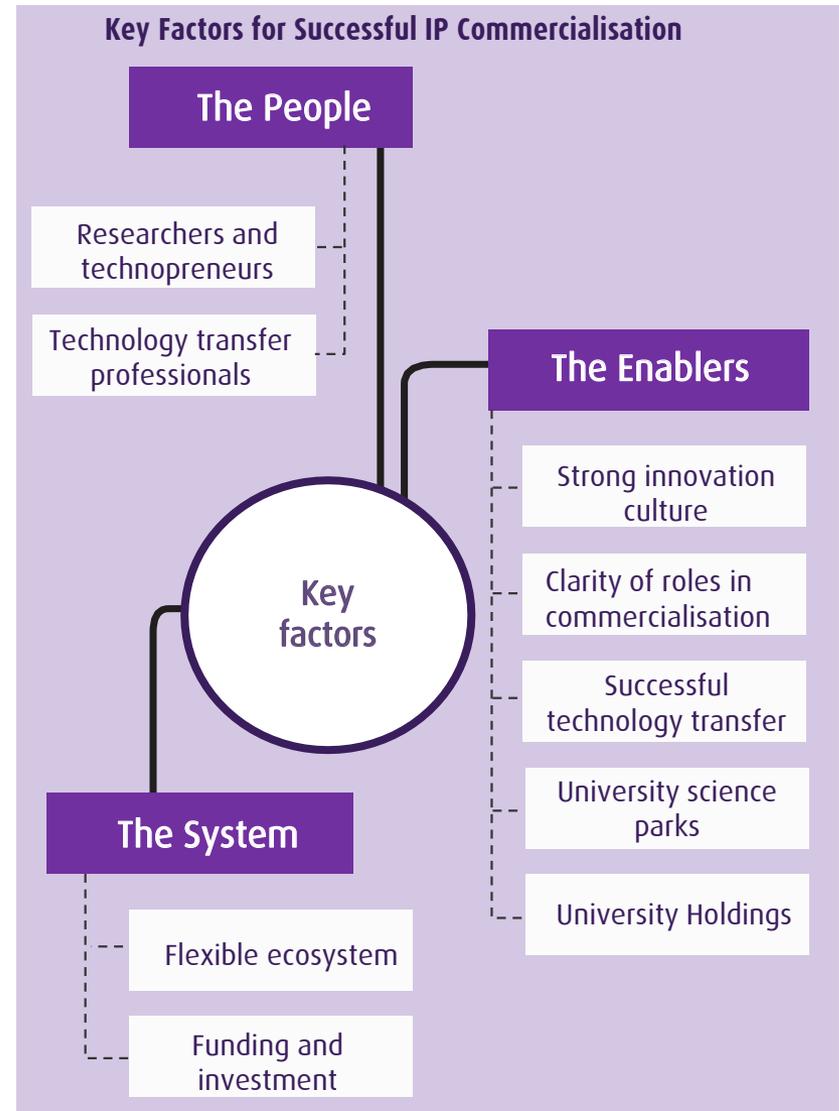
Universities play an important role as solution providers to industry and communities, as they have valuable intangible assets in the form of staff expertise and intellectual property. Therefore, they can generate significant income through the commercialisation of expertise, ideas, or Intellectual Properties (IPs). Universities have successfully commercialised many technologies, and some have exceeded RM10 million in sales. Examples of university IP which have been successfully commercialised are shown in Exhibit 10.

Expertise in the universities can be commercialised through university holdings or university business units in the form of education and training programmes, consultancies, services and contract research. Commercialisation of IPs can be more complex as it requires systematic and well-supported strategies.

One strategy is to have an innovation hub in the university. An innovation hub consists of a melting pot of scientists, researchers, technopreneurs and industry players. It is headed by a technology transfer officer who facilitates and leads the hub. It is strongly recommended that the hub be located inside the university, because the nucleus of innovation is at the university. This is where the researchers are situated, and it is where innovation should be nurtured and developed until market ready in the form of IPs or products.

Universities can also set up a shared TTO in order to pool resources among HLIs as well as public and private research institutes. An example would be the MTU Showcase set up in 2015 by the Malaysian Technical Universities Network (MTUN) to spearhead their commercialisation of ideas.

The opposite diagram summarises the key factors for successful IP commercialisation.



## Exhibit 10

## Case Study on Commercialisation of R&amp;D Products by Malaysian Researchers

**RM 16 million**



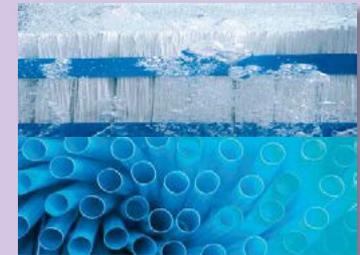
**USM: TYPHIDOT**

**RM 6.1 million**



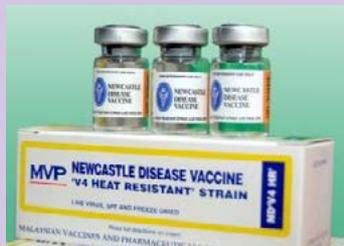
**UPM: BIOFILL**

**RM 3.7 million**



**UTM: Membrane Technology**

**RM 7.8 million**



**UPM: Vaccines**

**RM 26.9 million**



**UPM: Vita Grow & Zappa**

**RM 1.6 million**



**USM: Brugia Rapid**

## Key Factors for Successful IP Commercialisation

*One strategy for successful IP Commercialisation is to have an innovation hub in the university.*

### The People

#### ① Researchers and technopreneurs

Universities need to develop a critical mass of researchers who can then be trained to become technopreneurs. They will work on translating technologies and innovations into market-viable products. With the help of entrepreneurs, they will develop the best go-to-market plans through market validation exercises.

Researchers and technopreneurs need the assistance of marketing and business personnel.

#### ② Technology transfer professionals

Technology transfer professionals will facilitate the value creation of innovation by technopreneurs, lead bridging initiatives and designing go-to-market plans, negotiate and prepare legal documents for technology transfer incorporating the detailed plan, while mitigating human, financial, legal and bureaucracy risks and issues.

Technology transfer professionals must be recognised and employed within the university technology transfer office. Their roles must be defined and go beyond being IP registration officers.

### The System

#### ① Flexible ecosystem

There is a wide spectrum of innovations, ranging in readiness level, disruptive characteristics, clusters, areas or fields, market segments or just plain uniqueness. Standardisation of commercialisation pathways may hamper or even kill innovations. There must be enough flexibility, within the boundary of existing laws and regulations, for innovations to find their way to the market.

Selecting “successful” commercialisations as standard for others may not be useful as each innovation has its unique pathway towards commercialisation. Instead, universities need to have a flexible ecosystem that can accommodate the wide spectrum of potential innovations.

#### ② Funding and investment

The funding and investment systems in place must support innovations throughout the initial phases, such as by providing seed funds for selected innovations. University TTOs need to be well supported so that they can help technopreneurs find external grants or investments beyond the pre-commercialisation phase.

## The Enablers

### 1 Strong innovation culture

Universities need to promote and strengthen their culture of innovation. This culture will encourage the right talents to innovate, and give them a better chance to commercialise their research products. Encouraging high-tech research and patenting the IPs will give universities a head start.

### 2 Clear understanding of industry and academia roles in commercialisation

Universities play the role of developing research outputs and transferring the associated technologies to industries that are willing to explore the commercial potential of the technologies. Hence, industries do not only play the role of traders but are also risk-takers in investing in and bringing the technologies to the next stage of development.

Universities need to get industries to come in at an earlier stage of commercialisation to work hand-in-hand with them, provide access to industrial-scale production that is not available at the universities, and adopt viable university technologies.

### 3 Successful technology transfer

Universities need to transfer the “legal rights” to monetise their IPs to another business entity, including their own respective holding companies, on a profit-sharing basis.

There are many legal terms and clauses to be agreed upon by both parties. For example, this would include issues of intellectual property maintenance, joint venture liability, and compliance with regulations and standards.

Continuous technical support from researchers is also important for a successful technology transfer. A conducive ecosystem must be in place to engage researchers towards participating in industry ventures.

Successful technology transfers entail:

- coaching all parties in planning and designing the commercial journey;
- capturing each party’s responsibilities in an agreement that will be approved by the respective boards;
- monitoring the execution, and intervening when necessary;
- uncovering and creating the value and demand for innovations; and
- ascertaining the value of IPs.

#### 4 University science parks

Research at universities are mostly fundamental, pushing the frontiers of knowledge. Innovations derived from this research tend not to be market ready. The feasibility of entering the market depends largely on there being a sustainable and profitable business model for the innovation, a factor which is often disregarded by researchers. Hence, there is a need to have industrial collaborators right from the ideation stage, where both industry and university researchers work together continuously throughout the development of the innovation, discussing and debating the best and most viable product to be developed.

A science park inside universities would rapidly enhance knowledge and technology transfer, as universities are often the nucleus where new and innovative technologies are studied and developed. Furthermore, the university science park itself would provide a conducive ecosystem to build and nurture knowledge-based businesses, an important key player in the quadruple helix model. The science park can serve as a melting pot for researchers, businesses and industries, government agencies and the public (e.g. Stanford University Research Park).

Innovation hubs are startup incubators within the university which can also act as enablers, provided that there is a reliable nurturing and mentoring ecosystem in place.

#### 5 University Holdings

University Holdings should be the first entity to look into the potential of university innovations, and invest in their development for commercialisation. University Holdings can also consider holding equity in spin-offs and startups resulting from these innovations. However, they must be prepared for the risks involved, especially the late maturation of the business. It is widely known that business from innovations takes a long time to grow.

University Holdings can also make a business out of IP licensing and sub-licensing after they acquire university IPs. However, they must have enough trained human resources and financial capability to manage and pay for continuous filing, especially in countries where there is market and annual maintenance. They must also have a way to engage the technology providers or researchers, throughout the licensing duration, for a successful technology transfer. They also need to help foster the collaborative chemistry between researchers and companies.

# ASSET MONETISATION

**Asset monetisation** is a business transaction that converts an asset from one that does not directly generate income or other financial value into one that does. Monetisation of assets includes the development of land bank, rental of existing facilities, licensing of brands and logos, commercialisation of IPs and creation of an academic chair. The following describes the possible ways that asset monetisation can be carried out.

1

## Asset Leasing and Sales

Universities can lease and sell both their tangible and intangible assets. If the assets are tangible (e.g. buildings, lands etc) the valuation is straightforward. For operational assets, the two variations of an outright lease are lease with or without future use. Valuation of intangible assets or going concern valuation (e.g. IPs and business units) can be more complex. Under normal practices, IPs are licensed, however, in certain cases, IPs can also be sold outright.

2

## JV with Third Party

University can set up a special purpose entity owned by the university and a third party. The entity acquires assets with the explicit purpose of providing services back to the university, and marketing the services to external enterprises. Each contributing party gets an ownership stake in the entity to be able to gain future benefits and revenue possibilities.

3

## Outsourcing to Third Party

Intangible assets of universities are important source of income. The right to its use can be transferred to a third party through an outsourcing transaction. The new service provider (third party) uses the asset to serve clients in addition to the issuing university. University can get income through a profit sharing arrangement with the third party. Examples of intangible assets include university logo, IPs, expertise, processes and services.

4

### Improved Asset Utilisation

University equipment that are underutilised can be used for income generation to compensate the cost of purchasing and maintaining the assets. For example, laboratory equipment or campus facilities that are underutilised can be offered to other universities or outside organisations. Universities may also look at their space utilisation and can adopt strategies such as consolidating operations to free up the space to monetise them.

5

### Asset Commercialisation

University can change the use of an asset that has been utilised internally for research and teaching into commercial purposes. This strategy often requires an investment in the asset to make it suitable for commercial purposes and be applicable to a broad customer base. For example, university can license a software application developed for internal use to other universities or enterprises, and convert an internal process into an outsourced service.

Exhibit 11 shows the possible questions to ask when assessing asset monetisation options. Answering these questions will help universities consider all aspects of asset monetisation before making the appropriate decision. Exhibit 12 is an example of asset monetisation initiative by a public university.

## Exhibit 11

## Possible Questions to Ask when Assessing Asset Monetisation Options

<p>What are we trying to achieve?</p>	<p>The management team must agree on reasons for asset monetization:</p> <ul style="list-style-type: none"> <li>▪ Is it a cash infusion?</li> <li>▪ Ongoing lower operating costs?</li> <li>▪ Improving the balance sheet and capital structure?</li> <li>▪ A combination of all these elements?</li> <li>▪ Other motivations?</li> </ul>
<p>What assets do we want to monetise?</p>	<p>The types of assets can be:</p> <ul style="list-style-type: none"> <li>▪ Tangible assets such as university buildings, lecture halls, sports facilities, stadiums, laboratory facilities, and living labs.</li> <li>▪ Intangible assets such as expertise, developed software, unique business processes, intellectual property, royalty agreements, and patents.</li> </ul>
<p>What are the assets worth?</p>	<p>The worth of the asset is dependent on the intrinsic value of the asset plus the added value which is affected by the chosen asset monetisation strategy.</p>
<p>What is the business model?</p>	<p>Common considerations for a model would be that of “High risk/high return, low risk/low return”, or “Low volume/high price, high volume/low price”.</p>

## Exhibit 12

## Example of Asset Monetisation by Universiti Teknologi Malaysia (UTM)

In view of the high cost of living around the Kuala Lumpur campus area, the UTM management decided to develop part of its land asset (4.28 acres) to provide international-standard accommodation for students. The project is being financed by EPF through a 15-year loan of RM171.5 million. The loan will be serviced using income generated from rentals. The project procurement method was to Design and Build through selective tendering. In order to optimise the operational costs of managing the project, a UTM project management team of highly experienced and qualified personnel manages the project during the pre- and post-contract period. The building complex, which is expected to be completed in 2017, will become a new landmark for UTMKL as it will serve as a one-stop centre providing various amenities and services not only to the tenants but also to the surrounding community and visitors to the campus.

### Land Asset Monetisation for UTMKL's Student Accommodation Complex



Block 1 – 22 Levels

Block 2 – 13 Levels

Block 3 – 11 Levels

Block 4 – 14 Levels

Multipurpose Hall

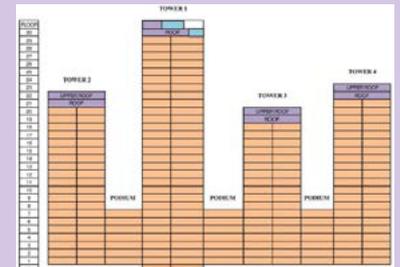
Bowling Hall

Podium – 7 Levels  
 Level 7 (Roof)  
 - Gymnasium  
 - Club house

Level 6  
 - Multipurpose hall  
 - Bowling hall

Level 3, 4, 5  
 - Parking

Level 1, 2  
 - Retails and ancillary



Progress as at June 2016

# COMMERCIAL ACTIVITIES THROUGH UNIVERSITY HOLDING COMPANIES

University Holding Companies (UHCs) are established to enable participation in business activities, while leveraging the core competencies of public universities. In line with practices of good governance, universities must ensure that there is a clear separation of management between the universities and that of the UHCs.

## Purpose of University Holding Companies

Section 4A(1)(b) of the universities and University Colleges Act 1971 empowers public universities to establish companies under the Companies Act 1965 to embark on commercial activities. The fundamental rationale is to ensure that universities are protected via the corporate veil from any legal suits brought about in the course of its commercial activities, collaboration or joint venture agreements with any third parties. Hence, even though universities can engage in some commercial activities, they are not encouraged to do so directly, because the legal and financial risks are high. The UHCs should be directly accountable to the University Board. Proper corporate governance structure is fundamental for a well-run UHC. This may include the establishment of an Audit & Risks Committee, an Investment Committee, a Nominations & Remuneration Committee, and a Remedial & Grievances Committee.

## Enhancing Support for University Holding Companies

One of the biggest challenges facing UHCs is that many are undercapitalised to embark on big projects due to gearing ratio limitations. Universities can enhance the revenue stream of UHCs by increasing the capital base and transforming the universities' wealth generation culture through the enculturation of business acumen among their staff. Alternatively, UHCs can collaborate to form a consortium to undertake bigger projects which can significantly contribute to income generation for public universities..

Universities can further enhance the income generation of their holding companies by providing greater support and ensuring that these holding companies participate in all commercial activities that involved the universities. A first right of refusal for UHCs in undertaking all projects and/or UHCs in being the preferred vendor/supplier can be incorporated into University Board Charters to ensure optimum gain to the University. It is recommended that appropriate mechanisms such as assignments or the revocable Power of Attorney of university assets may be given to UHCs to facilitate monetisation activities.

# Purpose of University Holding Companies

University Holding Companies (UHCs) are an important vehicle for universities to generate income from various commercial activities such as education and training programmes, research collaboration, commercialisation of ideas and asset monetisation. In summary, UHCs support the universities in income generation and in several other ways:

- 1 Cash contributions in the form of dividends from earnings generated from business activities.
- 2 Other cash contributions made in the course of business activities including:
  - Payment of royalties for academic programmes conferred by universities but managed by UHCs;
  - Payment of licensing and/or royalties for IPs;
  - Payment for rental of facilities and leasing of assets owned by the universities.
- 3 Provision of facility management or other services to universities at a discount on market prices.
- 4 Corporate Social Responsibility fund for universities' programmes and activities.
- 5 Creation of value for the universities through increased asset capitalisation and appreciation in market valuation. Universities can realise the value created by partial or total divestment of profitable businesses.

## PERFORMANCE

**RM 667 million**

Total revenue in 2015

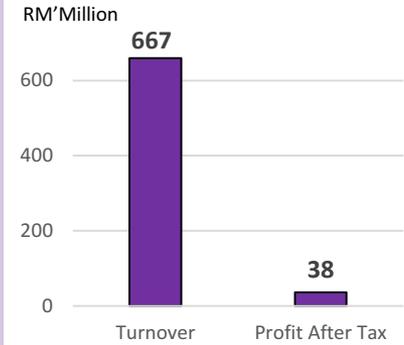
**RM 38 million**

Total net earnings in 2015

15 companies generated RM51 million in earnings

5 companies recorded RM13 million losses

## Financial Performance for Year 2015



**7.8%**

Profit Margin (PBT)

**5.6%**

Profit Margins (Earnings)

**1.2 times**

Current Ratio

**3.3%**

Return on Assets (Total Assets)

**13.5%**

Return on Capital Employed (Net Assets)

For the 2015 financial year, the aggregate gross revenue generated by 20 UHCs totalled RM667 million. Of these, 15 companies generated a combined earnings of RM51 million, after deducting expenses, financial expenses and taxation. 5 companies recorded a combined losses of RM13 million.

From the initial investment of RM107 million, the aggregate shareholder funds of the 20 UHCs has increased more than double to RM279 million and an estimated market valuation of its business to more than RM500 million.

SOURCE: Ministry of Higher Education Malaysia

# Enhancing Support for University Holding Companies

Universities can enhance the income generation of their holding companies by boosting the paid-up capital of the University Holding Companies (UHCs) and ensuring that they are given a chance to participate in all the university's commercial activities.

The paid-up capital of all twenty University Holding Companies (UHCs) totalled RM107 million, averaging approximately RM5.0 million per company. Only two companies had a paid-up capital of RM20 million or more. Seven companies had a paid-up capital of RM1.0 million or less, which meant that they were under-capitalised to undertake major projects.

For the UHCs to contribute substantially, they must expand their business activities and embark on bigger projects. In lieu of increasing the paid-up capital, UHCs can undertake big projects by combining resources and forming consortiums. An example of combining resources would be the joint collaboration of all UHCs to form a consortium for the MyREN dark fibre network project. This project is valued at approximately RM1.0 billion. Another example is the participation of 11 universities in establishing METEOR Sdn Bhd (METEOR) which operates Open University Malaysia under its subsidiary UNITEM Sdn Bhd. METEOR is now generating an average annual income of RM200 million<sup>1</sup>.

These commercial companies should be managed by dedicated full-time managers. Ensuring that these managers have the right skills is crucial to the success of the UHCs. The UHCs should be directly accountable to the University Board and adhere to corporate governance best practices. See Exhibit 13.

## Paid- Up Capital of University Holding Companies as of December, 2015

Up to RM1.0 mil



Between RM1.0 to RM5.0 mil



More than RM5.0 mil



<sup>1</sup> SOURCE: METEOR Sdn Bhd Annual Report, 2013-2015

## Exhibit 13

# Enhancing governance and accountability of the University Holding Companies<sup>1</sup>

*The university holding company (UHC) should be directly accountable to the University Board and adhere to corporate governance best practices*

University Holding Companies (UHCs) and their Boards must be directly accountable to the University Board. The UHC is a 100% subsidiary of the university, which necessitates clear accountability to the University Board.

Like all Boards, a UHC Board should have a balanced composition—a mix of representation from university management, the University Board (less than 30%), and external members. Ministry or other government officers should not sit on the holding company Board. There should be clear delineation of responsibilities between the university Vice-Chancellor and management, and the UHC Board and management.

In selecting UHC Board members, University Boards should consider the following factors, among others:

- Need for specific skills or knowledge as required by the holding company;
- Need for university management to be sufficiently empowered to effect changes at the holding company; and
- Need for the University Board to have sufficient oversight and control over the subsidiary.

University Board members or university management should not chair the UHC Board, but can play an important role as Board members on the UHC Board, such as:

- When the performance of the UHC is poor, but it remains strategically important or is a large contributor of university revenue;
- When internal systems of control or checks and balances are weak; and
- When exposure to the UHC would increase the University Board's overall understanding of the company.

The UHC often needs specific knowledge and skills on the UHC Board that go beyond what the university management or Board can provide, and parties external to the university should be appointed to the UHC Board.

<sup>1</sup> Adapted from the UniTP Green Book: Enhancing University Board Governance and Effectiveness, Ministry of Higher Education Malaysia, 2015.

CHAPTER TWO

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**ENHANCING  
UNIVERSITY  
ENDOWMENT  
FOR FINANCIAL  
SUSTAINABILITY**

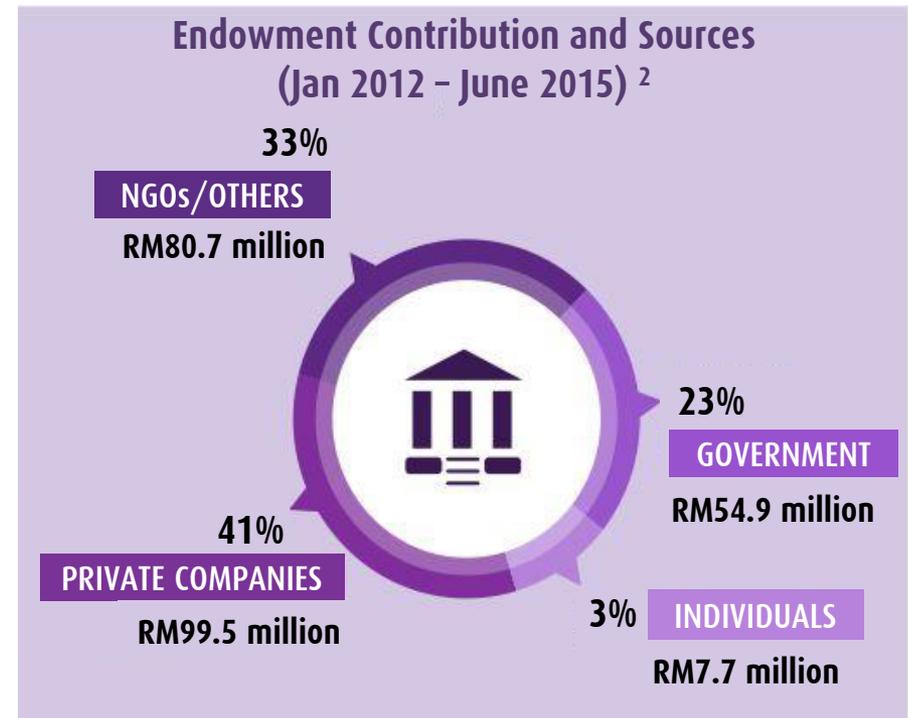
## CHAPTER TWO

# ENHANCING UNIVERSITY ENDOWMENT FOR FINANCIAL SUSTAINABILITY

Endowment funds are an important source of income to universities. The funds are developed to provide long-term support for the institution and its programmes. The funds are invested to provide both spendable income and principal growth to allow future spending to be at least equal to inflation. Although often associated with large private universities, an increasing number of smaller universities report annually on the size of their endowment, as further growth is typically an important part of their long-term plans.

This chapter gives an overview of the basic concepts of endowment, the types and categories of endowment, and the underlying reasons why universities would want to create endowment. The chapter also identifies the potential sources of endowment and includes a brief description on how university endowments work, and the good practices for managing it, drawing from experiences locally and globally. In the Malaysian context, private companies form the biggest contributor of universities endowment (see the diagram opposite). A six-step plan for establishing an endowment fund is presented in Exhibit 14.

University leaders, especially the board or trustees, vice-chancellors, and staff, bursars and chief financial officers play an important role in creating the right environment and support to ensure that the endowment allows the university to achieve its organisational mission. Based on guidelines from the UniTP Green Book<sup>1</sup>, the role of the Board is crucial in driving fundraising efforts, and providing leadership for identifying potential sources and soliciting significant gifts to the university.



## Exhibit 14

## A six-step plan for establishing an endowment

Endowment funds represent money or other financial assets that are donated to HLIs. The endowment is purely for investment purposes, to ensure stability of income to the HLI, and is independent of fundraising or operations of the HLI. Typically, endowment funds follow strict investment and asset allocation policies and guidelines to yield the targeted return requirement without taking on too much risk. There are six steps recommended to establish an endowment, as listed below. These steps are also applicable in establishing a waqf fund.



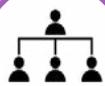
**Form an advisory board** to assess the readiness of the HLI, and will review the proposed mission, structure, and donor base, as well as seek commitment from main governance bodies, stakeholders, and HLI leadership;



**Develop a case statement** that outlines how the endowment fund will support the mission and vision of the HLI as well as any future development or priority areas;



**Design an organisational model** for the endowment funds, including internal governance structures and decision-making authorities;



**Set up the organisation** and recruit staff for the steering and investment committee; establish the legal entity and agree on endowment policies; recruit staff to run fundraising and administration;



**Start fundraising** by developing the marketing plan and identifying target groups such as alumni, corporations and foundations; identifying the best communication channels for each target group; and



**Build stewardship** to manage relationships with donors to establish sustained, long-term relationships between them and the HLI, and establish a basis for future contributions.

## WHAT IS AN ENDOWMENT?

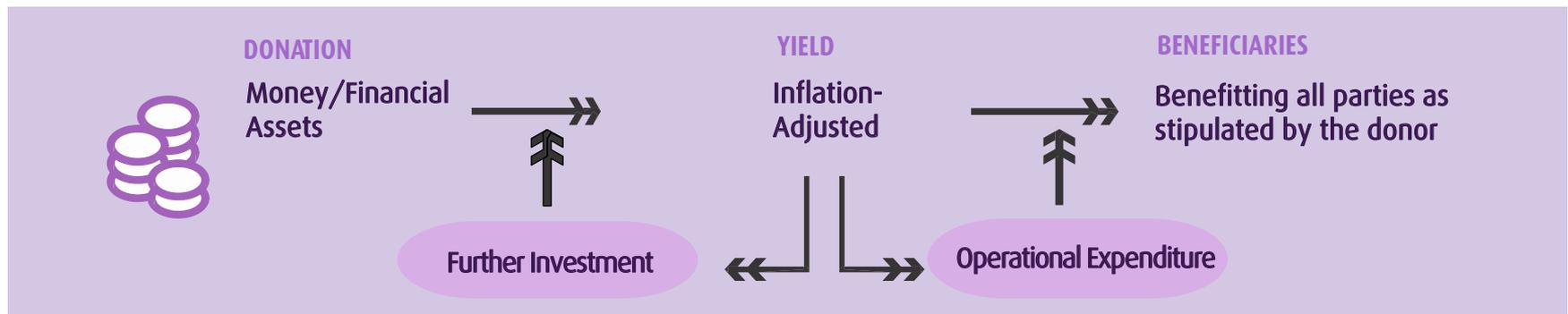
Endowments represent money or other financial assets that are donated to universities. The purpose of an endowment is to provide a perpetual source of support for the university and its mission. In managing an endowment, the principal is invested so that the total asset value will yield an inflation-adjusted principal amount, along with additional income for further investments and operational expenditures (see the diagram below). Endowment donors can stipulate the use of the money. Other than these stipulations, universities can use the rest of the allotted spending amount as standard income. Typically, endowment funds follow a fairly strict policy allocation, which is a set of long-term guidelines that dictates the asset allocation that will yield the targeted return requirement. In doing so, the board should be mindful of the risks involved, yet seek innovative, creative and profitable portfolio management. This process of managing endowments is also applicable to waqf funds.

Endowment donors can sometimes restrict universities on how they can use this money. Examples of such restrictions are:

- The donors can decide to use a portion of an endowment's scheduled income on a merit-based or need-based scholarship.
- The use of an endowment's income for endowed professorships (or chairs), which are used to attract world-class educators.

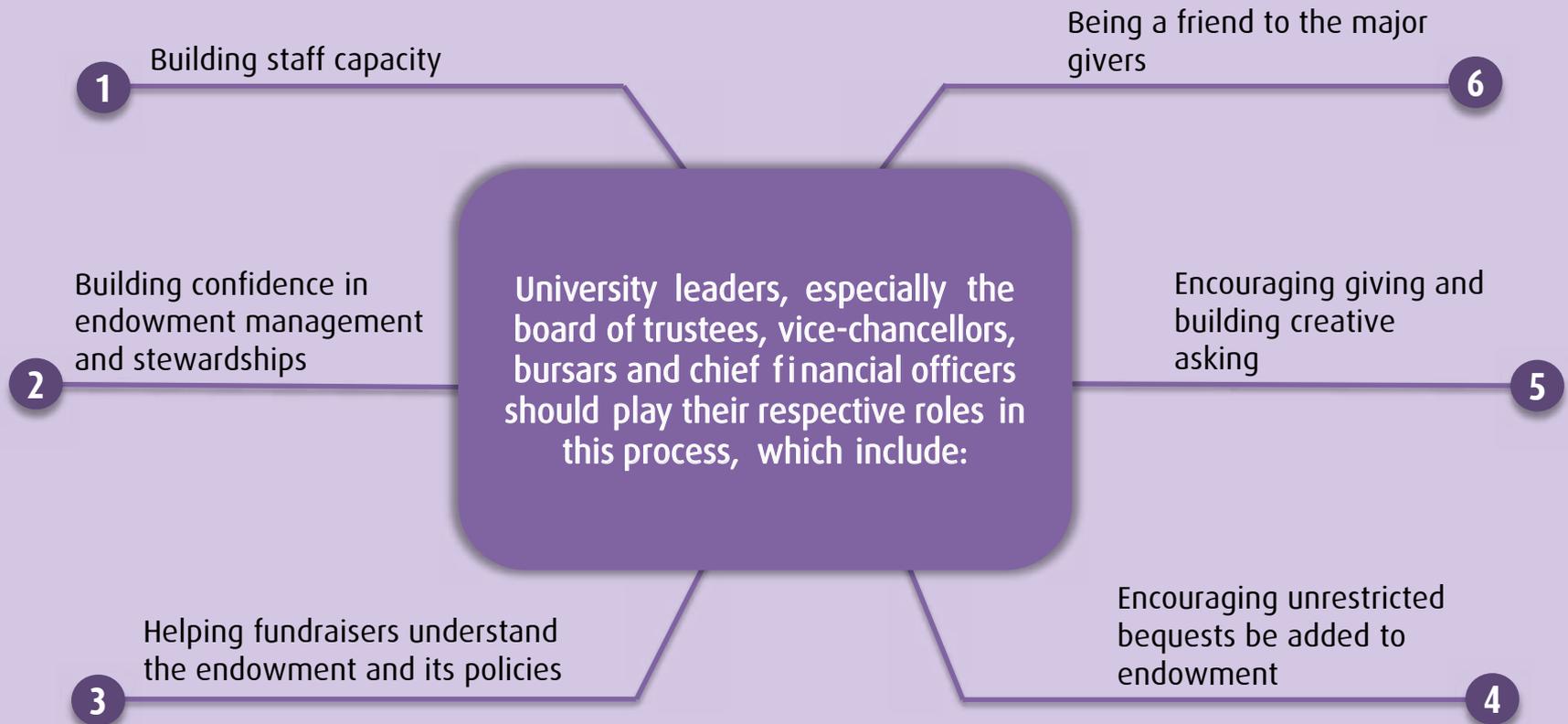
Other than these restrictions, universities can use the rest of the allocated spending amount as standard income. Decisions about whether it should be spent on hiring professors, upgrading or repairing facilities, or funding more scholarships is left up to the appointed trustees. An endowment's investment income can also significantly lower tuition costs for students. Endowment can come from national or international sources, from the government, corporate sector, or general public. In addition, a **true endowment** consists of funds permanently set aside (by document or otherwise legally restricted) to generate income for a non-profit entity. The principal may not be spent. Income may be defined as the dividends, interest, and rental income from the endowed assets. **Quasi-endowments** are unrestricted funds by the donors and their use is decided by the board of trustees.

The role of university leaders in enhancing endowment growth is shown in Exhibit 15.



## Exhibit 15

## Role of university leaders in enhancing endowment growth



# Critical Elements in Endowment Investment Management

*The more flexible a university is, the higher endowment risk it can tolerate, and that will mean a higher average return and higher sustainable spending. Flexibility and reward for risk are the two keys to successful endowment management*

Annual funding from the endowment helps to fund student scholarships, academic chairs, library resources, and other annual operating expenses designated by donors or the Board of Trustees. Thus, endowment investment should be managed through an appropriate governance structure, proper asset allocation and diversification, and investment performance monitoring.

## Endowment Management & Governance

Most of the assets within the endowment are pooled and invested in one managed endowment portfolio, over which the university has investment discretion. Decisions regarding investment policy, strategy, asset allocation targets, and changes in investments are made by members of the University's Investment Committee. The recommended best practices of managing endowment funds is shown in Exhibit 16. The Investment Committee meets at least on a quarterly basis and may have three subcommittees that are empowered to make investment decisions within certain sectors or strategies:

- Hedge Fund Subcommittee
- Private Capital Subcommittee
- Real Asset Subcommittee

## Asset Allocation & Diversification

Investment performance is affected primarily by asset allocation and the selection of external investment managers. The endowment assets are diversified among asset classes, and diversified among sectors and industries, quality, market capitalisation, and investment strategy within each asset class. The actual asset allocation normally fluctuates with market conditions, and is rebalanced periodically. The University should set realistic annual targets for long-term asset allocation. As an illustrated guide, a typical target distribution in an US university is as indicated in Exhibit 17.

## Investment Performance

The University has an infinite time horizon with respect to the investment of endowment assets. Superior investment performance should, over the long term and depending on market conditions, enhance the purchasing power of the endowment so that its income distribution will provide at least as much support for the annual University budget in the future. The University compares the performance of its managed endowment against public market benchmarks, a policy benchmark, and other endowments within the higher education industry.

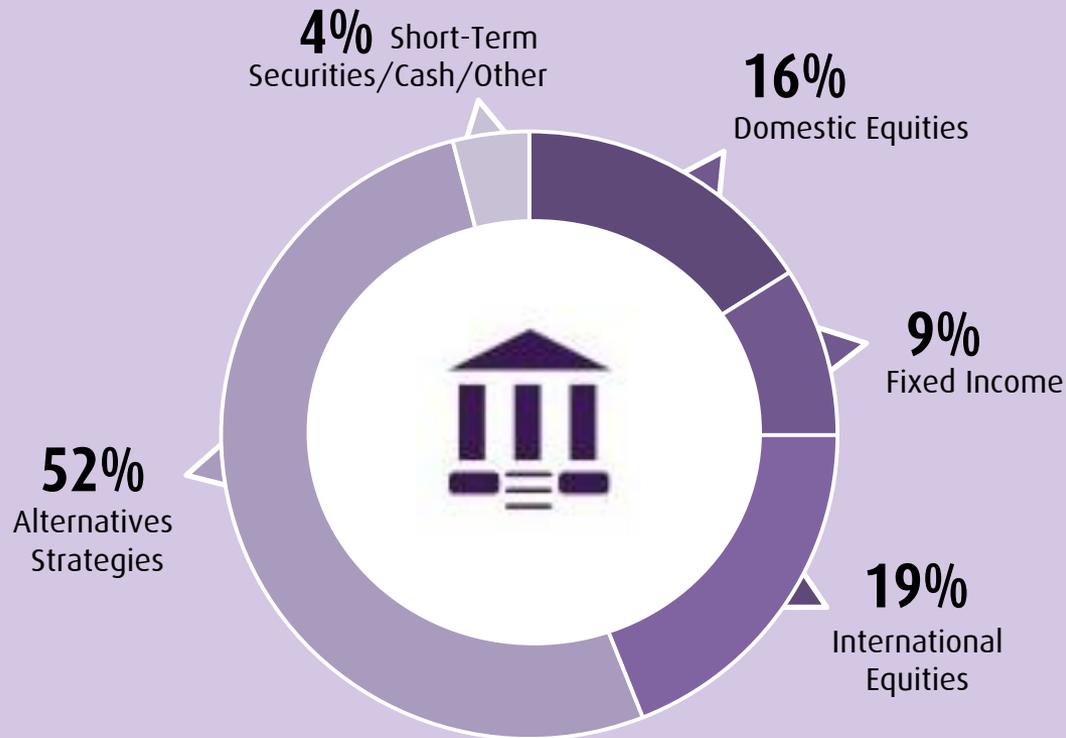
## Exhibit 16

## Good Practices for Managing Endowment Funds

Endowment investment should be managed through an appropriate governance structure, proper asset allocation and diversification, and investment performance monitoring. Effective management of investments is a critical component in fulfilling the objectives of the fund. The following are some good practices for managing endowment funds:

- 1 Ensure that investment policy is current and that it complies with established rules of conduct for managing institutional funds, appropriating funds, and also standards for delegating management and investment functions to outside agents;
- 2 Ensure that roles and responsibilities for managing investments are well-defined. Identify who is responsible for determining asset allocation guidelines, hiring investment managers, investment trading and rebalancing, and reviewing valuations;
- 3 If the Chief Investment Officer (CIO) function is outsourced to an independent advisor, ensure that appropriate Board oversight of the advisor is performed;
- 4 Review spending policy on a regular basis to ensure that it is reasonable relative to the risk profile, expected rate of return, and the rate of inflation;
- 5 Document board appropriations of endowment spending on an annual basis, even if these appropriations are made in accordance with the spending policy as part of the normal budget process;
- 6 Ensure that the minutes of the investment committee are sufficiently robust. It is especially important that the due diligence of fund managers, valuation assessments, and spending decisions, along with decisions on asset allocations, fund performance, and any changes in advisors or fund managers are documented;
- 7 Perform due diligence on fund managers throughout the year. Set up a schedule for performing due diligence. Fund managers should report to the investment committee on a regular basis, whether by telephone or face-to-face;
- 8 It is critical that management and the investment committee have a thorough understanding of how their investments are valued and who is performing the valuation;
- 9 Challenge the investment advisors and the fund managers. Ask questions and document their responses. This is particularly important when the investments lack transparency, which is often the case with hedge funds, certain real estate, and private equity investments; and
- 10 Finally, ensure that any written records adequately reflect the good work that is being done in managing the university's precious assets.

## Exhibit 17

Sample of Endowment Investment Returns for US Colleges and Universities<sup>1</sup>

Asset Allocations for Financial Year 2015 (Data for 812 US Colleges and Universities)

**Note :** Alternatives Strategies include Private Equities, Hedge Funds, Absolute Returns, Venture Capital, Real Estate (Non-Campus), Energy & Natural Resources & Commodities

<sup>1</sup> Adapted from "National Association of College and University Business Officers (NACUBO)—Commonfund Study of Endowment (NCSE) 2015", [http://www.nacubo.org/Research/NACUBO-Commonfund\\_Study\\_of\\_Endowments.html](http://www.nacubo.org/Research/NACUBO-Commonfund_Study_of_Endowments.html)

CHAPTER THREE

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**DEVELOPING  
SUSTAINABLE  
WAQF AT  
PUBLIC  
UNIVERSITIES  
(Wakaf@UA)**

## CHAPTER THREE

# DEVELOPING SUSTAINABLE WAQF AT PUBLIC UNIVERSITIES

Waqf is an Islamic socio-economic institution which functions as a source of funding to and catalyst for community development. It has demonstrated diverse and remarkable roles throughout the history of Islamic civilization. Both waqf and endowment are permanent funds with their own specified restrictions, and the principal of which is preserved. The funds are invested and the proceeds are used for purposes stipulated by the giver. However, despite these similarities, waqf, in principle, is not the same as endowment.

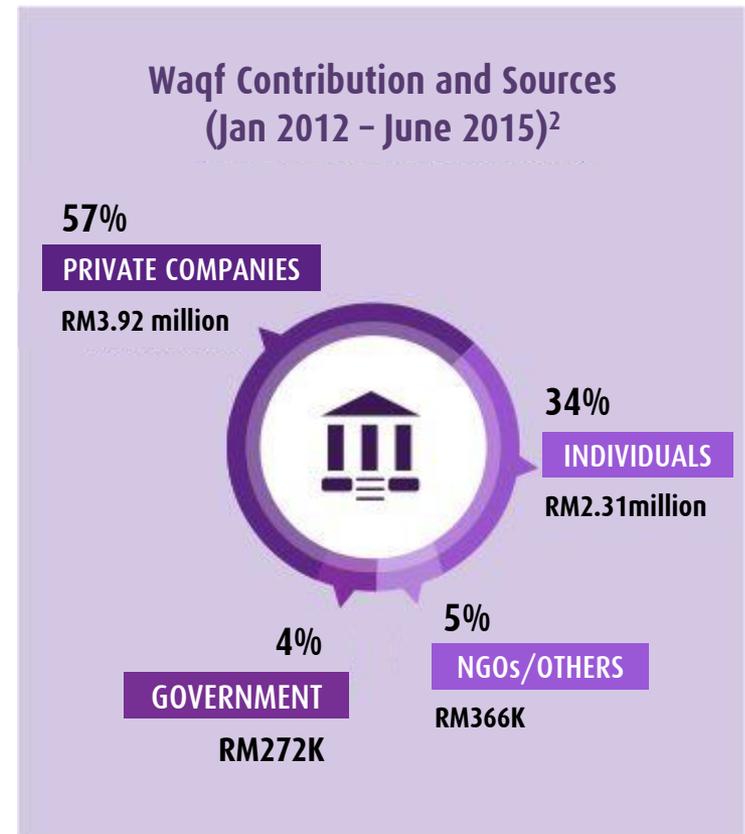
The total waqf fund collected by universities between 2012 to 2015 was about RM6.873 million. The biggest contributions came from private companies (57%), followed by individuals (34%) (see the diagram opposite). It had been reported that waqf actually has significant potential in Malaysia, where the waqf asset value could be worth \$325 billion<sup>1</sup>.

This chapter describes:

- A brief overview of waqf including the pillars and tenets of waqf;
- Waqf implementation at public universities (Wakaf@UA), including basic concepts for waqf implementation, challenges and key success factors, various modes of waqf funding, and a Shariah-compliant marketing model; and
- Three waqf governance models.

Depending on its readiness, a university can choose one of the recommended waqf governance models and apply suitable implementation strategies.

SOURCES: <sup>1</sup> The Waqf industry: The Sleeping giant of Islamic Finance, Vol. 9, Issue 38, Islamic Finance News, Sept 2012; <sup>2</sup> Ministry of Higher Education Malaysia



## WHAT IS WAQF?

Waqf, in the Arabic language, means to stop, contain, or preserve. It is the phrase used to delineate trusts. In Shariah texts, it is known as a *sadaqah*.

In Islamic terms, waqf refers to a religious endowment—a voluntary and irrevocable dedication of one's wealth or a portion of it. It can be in the form of cash or properties (such as land or buildings), and is disbursed for Shariah-compliant projects (such as mosques, learning institutions, hospitals or public amenities).

Once a waqf is created, it can never be donated as a gift, inherited, or sold. Disbursement of its returns is done in accordance with the giver's wishes.

Waqf (plural: Awqaf) denotes a gift which is to be used solely for the purposes recognised under Islamic law as god-fearing, religious, or charitable. It is a perpetual and long-term alternative source of funding for universities, benefiting from the altruistic deeds of individuals, groups or organisations.

In principle, waqf assets become capital and forever remain as such the moment they are registered as waqf. The uniqueness of waqf lies in its perpetuity, and the ownership of waqf assets are deemed as Allah's. The differences between waqf and endowment are presented in Exhibit 18.

The four tenets of waqf are the Givers, the Clear Statement, the Designated Assets, and the Beneficiaries. In addition, waqf has three pillars, namely irrevocability, perpetuity and inalienability of waqf assets. For a donation to be considered as waqf, it has to satisfy these four tenets and three pillars. The tenets and pillars of waqf are shown in Exhibit 19.

There are two types of waqf: (1) **General Waqf**, which refers to an asset given by a party (*al-waqif*) without any specific stipulations on how it should be used. The asset (such as the property or cash) can be freely managed by a *Mutawalli* (sole trustee), in accordance with Shariah; and (2) **Specific Waqf**, which refers to an asset given by a party (*al-waqif*) with specific stipulations how it should be used. The asset (such as the property or cash) must be managed by a *Mutawalli*, in accordance to the specific stipulations of the giver and Shariah.

The waqf assets should be invested so that the returns from the investment of these assets continues to generate benefits for the beneficiaries, which can be used to provide free education and healthcare, alleviation of poverty, creation of jobs and many more. In understanding waqf, it is best to know the basis for having waqf.

Exhibit 20 lists the ten stipulations for the creation and sustainability of waqf.

## Exhibit 18

## Why Waqf is Not Endowment

Both waqf and endowment are permanent funds with their own specified restrictions, the principal of which is preserved. The funds are invested and the proceeds are used for purposes stipulated by the giver. However, apart from these similarities, waqf in principle is not endowment, not is it merely Islamic endowment. The key differences between waqf and endowment are described below. The distinctions between the governance of the two are described in the UniTP Green Book<sup>1</sup>.

Aspects	Waqf	Endowment
<b>Purpose</b>	Fulfilment of Islamic Shariah	Any legally permissible purpose
<b>Tenets of Establishment</b>	Fulfilling the four tenets of waqf	Per agreed terms and conditions
<b>The Gift</b>	The source of the asset must be <b>legally-owned and halal</b>	The source of the asset must be <b>legally-owned, but there is no requirement for it to be halal</b>
<b>Owner of Asset</b>	Allah SWT (entrusted to the <i>Mutawalli</i> )	The Trustees or The Donor (subject to the agreed terms and conditions)
<b>Policy-Level Decisions</b>	- The Giver ( <i>Al-Waqif</i> ) - In the event of contention in implementation, the final decision rests with the Shariah Court	- The Trustees or The Donor - In the event of contention in implementation, the final decision rests with the Court of Law
<b>Right to Manage</b>	The Waqf Board	The Trustees
<b>Compliance to Pillars</b>	Irrevocable, Perpetual & Inalienable	Set by The Trustees or The Donor (subject to the agreed terms and conditions)

<sup>1</sup> UniTP Green Book: Enhancing University Board Governance and Effectiveness, Ministry of Higher Education Malaysia, 2015.

## Exhibit 19

## Tenets and Pillars of Waqf

## 4 TENETS OF WAQF



**The Giver** (*al-waqif*) is an individual or an organization who has surrendered an asset as waqf and designated its beneficiary.



**The Clear Statement** (*al-Sighah*) made by the Giver when surrendering assets for purpose of waqf.



**The Designated Asset** (*al-Mawquf*) surrendered must be in compliance with Shariah and rightfully owned by the Giver.



**The Beneficiary** (*al-Mawquf-Alaihi*) can be an individual(s) or an institution(s) which is awarded the income generated from investing the waqf.

Source: Razali Othman, *Institusi Wakaf: Sejarah dan Amalan Masa Kini*, Dewan Bahasa dan Pustaka, 2013, pp. 195.

## 3 PILLARS OF WAQF

## Irrevocability

- Any transfer of property to a waqf has to be irrevocable. Any rights obtained by the al-waqif would need to be of a fiduciary nature and typically reserved in the foundation document itself.

## Perpetuity

- The duration of waqf should be unlimited. Only in the Maliki School of Law was it permissible to allow the creation of a waqf for a limited time by reference to lives or series of lives following which the property might revert to the Giver or his heirs.

## Inalienability

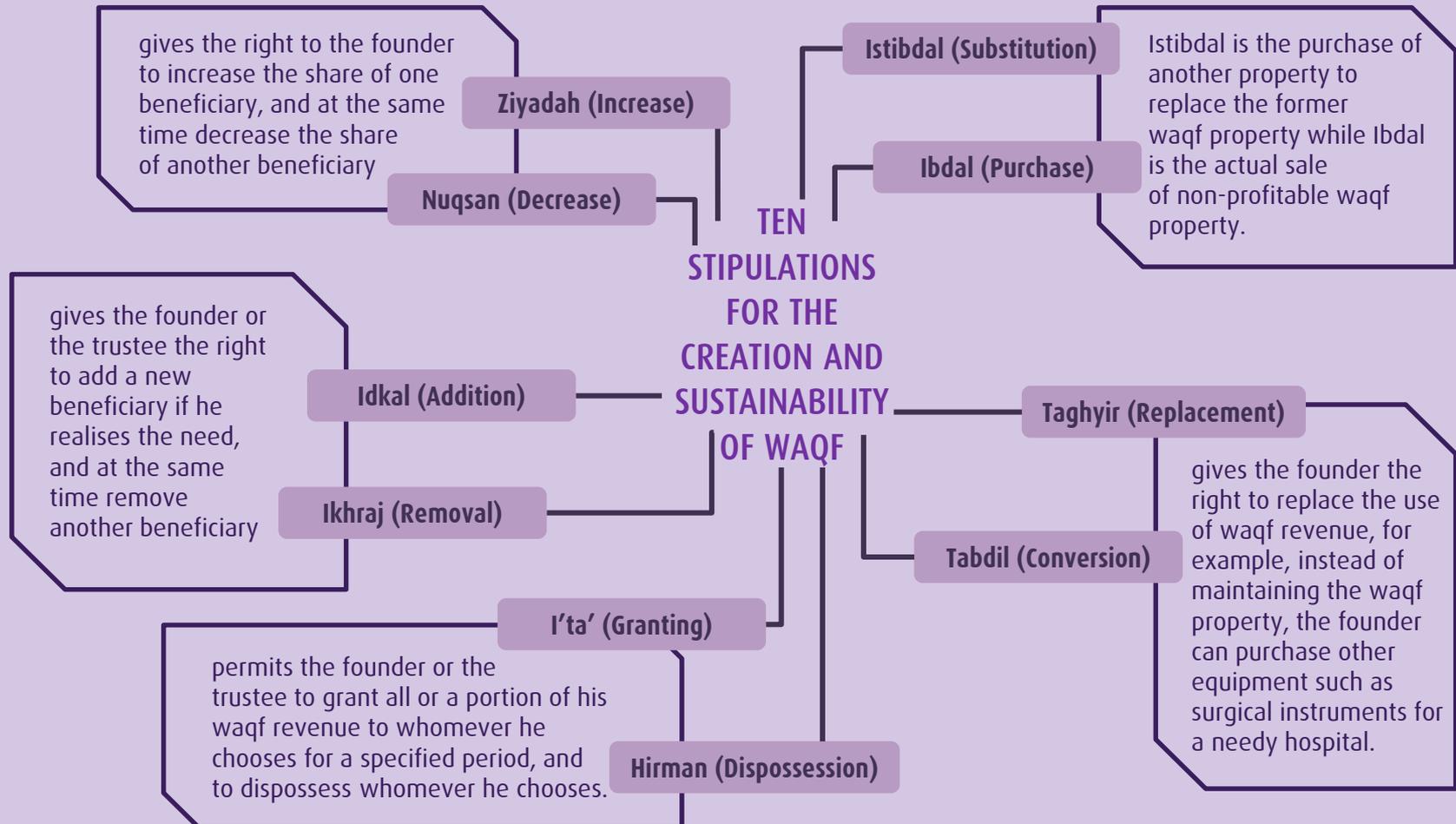
- Waqf is inalienable except when there is an exchange of property of equal value, or alternatively the transaction has been authorised by a judge (*qadi*), or otherwise is legally permissible.

Source: P. Stibbard, D. Russell, B. Bromley, *Understanding of the waqf in the world of the trust*, *Trust & Trustees*, Vol. 18, No. 8, Sept. 2012, pp. 785-810

## Exhibit 20

## Ten Stipulations for Waqf Creation and Sustainability

*The ten stipulations give flexibility to the trustee in managing the waqf fund to ensure its growth and sustainability*



# IMPLEMENTING WAQF AT PUBLIC UNIVERSITIES (Wakaf@UA)

Public universities must recognise and accept that under the existing Malaysian legal provisions, the State Islamic Religious Council (SIRC) is the sole trustee of waqf in its respective state. Thus, in establishing a waqf, universities must acquire the legal status as waqf administrators from the respective SIRC.

Wakaf@UA is put forth in this book as a brand to institutionalise waqf at Malaysian public universities. It is aimed at streamlining waqf initiatives through collaborations with SIRCs under the guidance of the Ministry of Higher Education. Malaysian public universities could consider the following factors with regards to setting up and managing their waqf. These factors are pertinent to universities irrespective of their stage of waqf development, whether they are at the beginning stage of their waqf establishment, or they have already been awarded the administrator status.

The pertinent factors below are discussed further in the following pages.

## Basic Concepts

Explains roles and responsibilities of different waqf stakeholders.

## Modes of Waqf Funding

Describes the twelve available modes of waqf funding.

## Challenges

Describes six challenges in waqf implementation ranging from awareness to legal framework.

## Steps in Setting Up Wakaf@UA

Describes the actions to be taken by universities in establishing Wakaf@UA.

## Success Factors

Highlights the key success factors for sustainable waqf at public universities.

## Waqf Marketing

Explains the Shariah-compliant Service Marketing Triangle Based on Islam for managing Wakaf@UA.

# Basic Concepts of Waqf Implementation

The following are the SIRC stakeholders in waqf implementation at public universities, which represents the basic concepts of waqf.

## The Giver (*al-waqif*)

A Giver (*al-waqif*) is a party that willingly gives movable or immovable lawfully-owned assets (*Al-Mawquf*) for an intended purpose (*niyyah*) to benefit others (beneficiaries).

Waqf allows a Giver the opportunity to demonstrate his/her submission to Allah SWT through good deeds.

In addition, waqf provides an avenue for the public to perform perpetual deeds with confidence. The seven steps to become a Giver are listed in Exhibit 21.

## Sole Trustee (*Mutawalli*)

In the Malaysian context, the SIRC is the **sole trustee** (*Mutawalli*) of waqf in its respective state. Therefore, a public university must acquire the permission of its respective SIRC to allow it to become a waqf administrator. Considerations in the appointment of a *Mutawalli* are discussed in Exhibit 21.

## Waqf Administrators

As a waqf administrator, a public university is empowered by the SIRC to establish a sustainable infrastructure which will collect, raise, use, manage, invest, and develop waqf funds, as well as distribute waqf proceeds as agreed in the MoA between the public university and the respective SIRC.

Universities must use all of their expertise, tools and strategies to ensure the growth of waqf and that the waqf is Shariah-compliant. This can only be achieved by having a proper waqf office and governance structure at the university.

Waqf administrators can adopt various strategies to monetise waqf assets, as shown in Exhibit 22.

## Beneficiaries (*Mauquf Alaihi*)

The proceeds from waqf may be distributed to Muslims or non-Muslims. The benefits could be in the form of scholarships, research grants, professorial chairs, travel allowances and sponsorships, among others.

## Exhibit 21

Steps to Become an *Al-Waqif* and Considerations in the Appointment of *Mutawalli*7 Steps to become a Giver (*al-waqif*)

- 1 Make a *niyyah* that you wish to make a waqf.
- 2 Decide whether you want the waqf for your personal benefit, or that of someone near and dear to you, or a deceased person.
- 3 Decide whether you want the waqf to be general (discretionary) or specific (designated).
- 4 If specific (designated), you need to decide who the specific beneficiaries of your waqf shall be, e.g. education, research or infrastructure.
- 5 Decide on the form of the waqf: cash, goods, property.
- 6 Choose and contact the university to be the beneficiaries of your gift.
- 7 Submit and complete the registration of your gift with the chosen university and the relevant actions required to finalise the setting up of your waqf.

Considerations in the Appointment of *Mutawalli*

## Requirements

- Be Muslim, mentally sane & mature in age
- Be just—a trustworthy individual who obeys the orders of Allah and is of good ethics and conduct
- Be wise—follow the endower's interest

## Duties

- Upkeep the waqf and fulfill the Giver's wishes
- Defend the waqf rights and pay waqf-related debts
- Spend the waqf revenue on the designated beneficiaries and abide by the set date for disbursement

## Permissible &amp; Prohibited Acts

- Lease the waqf to the *Mutawalli* or his or her children (permissible)
- Use the waqf as a guarantee for the *Mutawalli's* loan (prohibited)
- Pawn or lend the waqf to an individual or an institution other than the designated beneficiary (prohibited)

## Fees

- It is permissible to award the *Mutawalli* monthly or yearly fees, or a portion of the waqf revenues
- If the Giver did not mention such fees, the judge has the right to grant the *Mutawalli* fair fees

## Removal

- The *Mutawalli* can be removed by the Giver or the judge for valid reasons
- Removal will come into effect once the *Mutawalli* is officially informed

## Exhibit 22

## Adopting Various Strategies to Monetise Waqf Assets

01

Turning Existing Buildings into Waqf



Existing assets (buildings, lecture halls, bus stops, cafeterias, etc.) may be put up as waqf. *Al-waqif* (the Giver) will take full responsibility of an asset that is turned into a waqf. Maintenance and any or all costs involved in the operation or running of the assets is covered by the proceeds from the money given by the *al-waqif*.

02

Turning Existing Land into Waqf



A land asset that is endowed as waqf can be developed according to its suitability, such as the construction of student accommodation, labs and training facilities. The waqf lands can also be utilised or developed for agricultural projects.

03

Turning Facilities and Equipment into Waqf



This waqf is specifically designed to benefit universities through the setting up of facilities such as laboratory equipment, audio-visual equipment, air-conditioning units and prayer mats placed at various premises. In fact, such facilities may be set up inside a waqf building.

04

Turning Money/Cash into Waqf



Universities may set up a cash waqf to receive cash contributions from their alumni, staff members, strategic partners or members of the public. Contributions from various givers are made through the selling of coupons, on-line transactions or cash handed at office counters.

05

Turning Intangible Assets into Waqf



Universities may also capitalise upon their intangible assets as waqf such as through proceeds from patents, industrial designs, copyrights, trademarks and other forms of intellectual property (IP).

# Challenges in Implementing Sustainable Waqf at Public Universities

Waqf has not been widely established in Malaysian universities. As of 2015, there were only four Malaysian public universities that had established waqf, each with different degrees of success. Each of the four adopted different modes and stipulations of waqf, and different management strategies. For example, both UPM and USM chose cash waqf mode, but USM adopted *Istibdal* (Substitution) in its waqf implementation and was managed by Yayasan USM (see Exhibit 23).

There are six main challenges in implementing sustainable waqf initiatives at universities in Malaysia (see the diagram below). The challenges include a lack of awareness, different understandings of waqf implementation, and the different legal frameworks practiced in each state. Universities need to be aware of the existence of relevant acts and legal frameworks in their respective states. Particular attention is to be given to levels of awareness as this is deemed to be the main challenge in waqf implementation. A heightened awareness shall open windows of opportunity for people to properly participate in waqf ventures.

**Financial Support**—A lack of creative fundraising activities to support waqf's inherent ability to generate alternative sources of income.

**Need for Talent**—Lack of competent managers with professional and technical expertise in waqf management.

**Awareness**—Lack of information or knowledge about waqf; misunderstandings about the concept of waqf, such as that waqf is confined to a small section of community activities or assumed to be similar to endowment.



**Legal Restrictions**—The use of the term waqf that requires permission by the State Islamic Religious Councils is assumed to be a hindrance. In actual fact, it is a regulatory requirement.

**Nature of Waqf**—The waqf properties of inalienability, remaining in perpetuity, and that it cannot be used as collateral are misunderstood to restrict returns on waqf expansion, when it is not so.

**Administrative Lapses**—Institutional governance issues; lack of top management support; lack of buy-in from the Board.

## Exhibit 23

## Waqf Implementation in Selected Malaysian Universities



### Dana Wakaf Ilmu, UPM

Dana Wakaf Ilmu was set up in UPM in 2011, offering opportunities for campus communities and the general public to contribute to the waqf fund. The waqf fund has several schemes: General Waqf, Kitab Waqf, Facility Waqf, and Special Needs Waqf.

**Collection Method:** Waqf contributions are made through the UPM waqf counter, waqf collection boxes placed at various offices in UPM, CIMBClicks, monthly salary deduction, and staff claims facility (e-claim).

A total of RM7.1 million has been collected as of May 2016.

**Beneficiaries:** The proceeds from the waqf funds benefit UPM students.



### ISDEV Cash Waqf, USM

The Centre for Islamic Development Management Studies (ISDEV) Cash Waqf was granted approval by the Majlis Agama Islam Pulau Pinang on 24<sup>th</sup> Nov., 2009. The fund is managed by Yayasan Universiti Sains Malaysia.

**Collection Method:** Waqf contributions are collected through cash coupons or bank transfers, which are later converted (*badaʿ*) into fixed assets once the fund reach the eligible amount for the conversion.

A total of RM50,000 has been collected as of May 2016.

**Beneficiaries:** The proceeds from the waqf funds are used for education and research development.



### Waqf Clinic, USIM

A specialist clinic was set up as a waqf clinic through a collaboration between USIM and Majlis Agama Islam Negeri Sembilan. The clinic was set up in Nilai Square and started operating in April 2014.

**Collection Method:** The Waqf Clinic is fully funded by the Negeri Sembilan State Government.

A total of RM4.25 million has been contributed by the State Government as of May 2016.

**Beneficiaries:** The clinic provides health services to the *asnaf*, such as the community of the poor and less fortunate living in USIM's surrounding area.



### Dana Waqf UKM

Dana Waqf UKM was launched in 2010.

**Collection Method:** Waqf contributions are collected through personal communications and internal advertisement.

A total of RM365,000 has been collected as of May 2016.

**Beneficiaries:** student education and welfare, student development, academic research & development, industry & community networking.

# Key Success Factors for Sustainable Waqf<sup>1</sup>

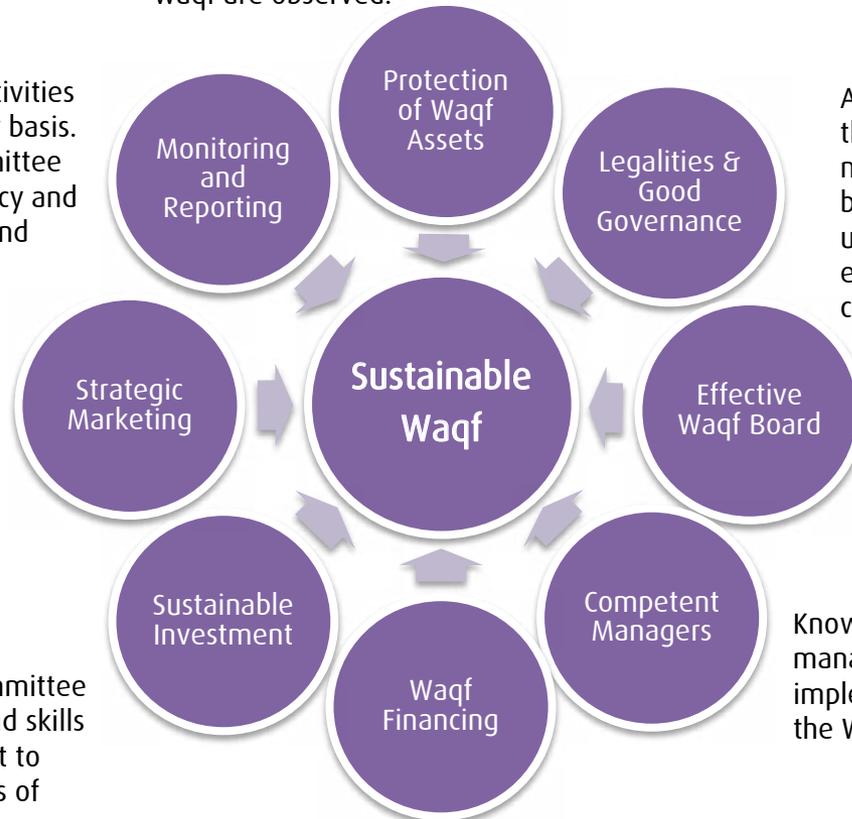
There are eight key success factors in ensuring sustainability of waqf at Malaysian public universities. They are summarised in the diagram below.

Both the Waqf Board and managers must be convinced and be accountable in ensuring that the tenets and pillars of waqf are observed.

Documentation of all waqf activities must be reported on a regular basis. The Waqf Management Committee must demonstrate transparency and accountability. Both internal and external audits are required.

Market surveillance and intelligence is necessary for the effective promotion of waqf products and donor cultivation must be carried out on a continuous basis.

The Waqf Management Committee must possess knowledge and skills in Shariah-based investment to ensure the tenets and pillars of waqf are upheld.



All parties involved must take it upon themselves to be answerable to Allah, make decisions through *musyawarah*, be transparent in all decision making, uphold current legislations, and establish suitable recourse to address contention.

Board members must take it upon themselves to ensure the expressed intent (*niyyah*) of *al-waqif* is fulfilled.

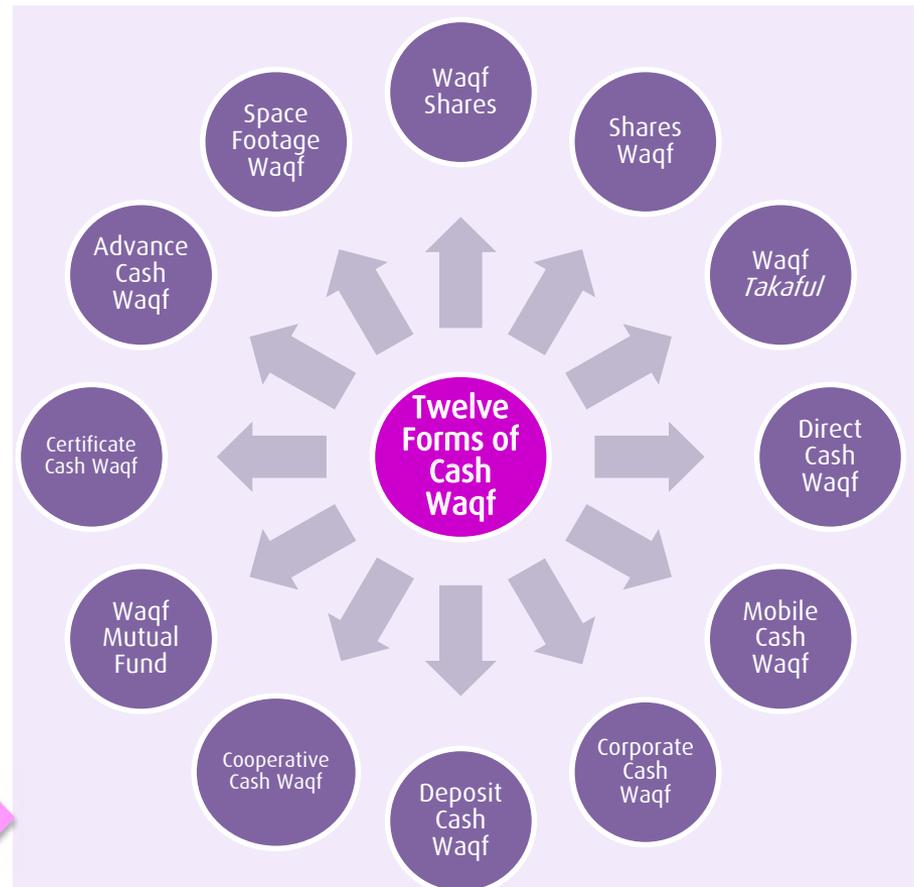
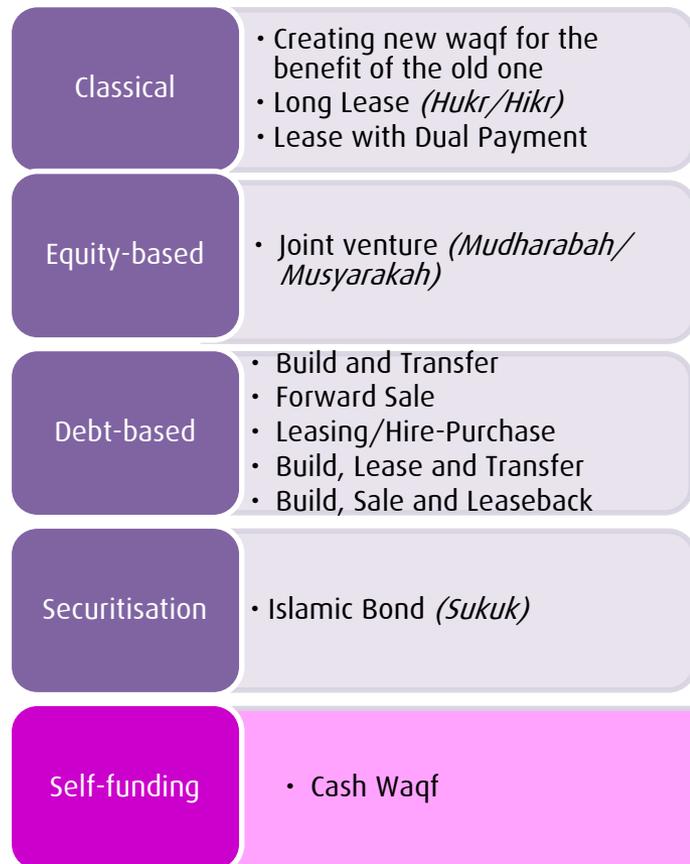
Knowledgeable, skilful and innovative managers are necessary to implement the guidelines provided by the Waqf Board.

Universities must provide financial support as an initial outlay for the operation of waqf management. The use of waqf money can be apportioned to cover administrative expenses, including salary, subject to consent or agreement by *al-waqif*. Some staffing positions may be supported by a waqf bequeathed for it.

<sup>1</sup>Adapted from Razali Othman (2001). "Konsep, Prinsip dan Pelaksanaan Institusi Wakaf: Kajian Kes di Negeri Selangor". Disertasi Sarjana Pengurusan Perniagaan dan Pentadbiran, UKM. pp 125-168

## Implementing Various Modes of Waqf Funding

The practice of waqf using money (Cash Waqf) is considered the most influential and the key contributor to the success of the institution of waqf today. The more financial methods there are available to the public, the better the chances of developing waqf properties will be. The uniqueness of cash or money, especially its ease of use through the various denominations available in the market and the availability of cash to people from all walks of life, offers great opportunities for charitable giving to all potential *al-waqif*. Today, five major modes of financing are offered in the market (listed below) and of these, the self-funding mode which is practiced through cash waqf may be adopted by universities through twelve applications (shown in the diagram below).



# Recommended Steps in Setting Up Waqf at Public Universities (Wakaf@UA)

Based on the general six-step plan for establishing endowment and waqf funds as stipulated in Exhibit 14, the following are specific recommended steps for setting up Wakaf@UA:

## Setting up

1. University Management to establish a Waqf Task Force/Working Committee.
2. Waqf Task Force to work on establishing a University Waqf Office.
3. University Waqf Office to register with the relevant State Islamic Religious Council (SIRC) to acquire authorised administrator status for the University.
4. University Management Committee to propose Waqf Board membership for appointment by SIRC.
5. University Management Committee to propose a financial arrangement agreement for approval by the University Waqf Board.
6. University Waqf Office to set up bank accounts or means to facilitate Giving, and acquire tax exemption for *al-waqif*.
7. University Waqf Board to establish appropriate policies on Waqf management for the University Waqf Office.

## Managing

1. University Waqf office must be manned by competent staff, especially competent managers.
2. University Waqf office must develop a strategic plan for University Waqf activities.
3. University Waqf Office must develop Waqf guidelines for the University to mobilise its talent and assets to promote its Waqf plans and programs, seek out Givers (*al-waqif*) and establish Waqf.
4. Explain and educate all stakeholders, especially members of BoD, staff, students, alumni and the public at large.
5. Ensure that neither the Giver nor the Gift is tainted by scandal or social unacceptability.
6. Identify and develop strategies to promote Waqf. A strategic marketing approach may facilitate increased awareness and solicit more Giving.
7. Develop educational and promotional modules and tools to increase awareness, understanding and appreciation of waqf amongst the public.

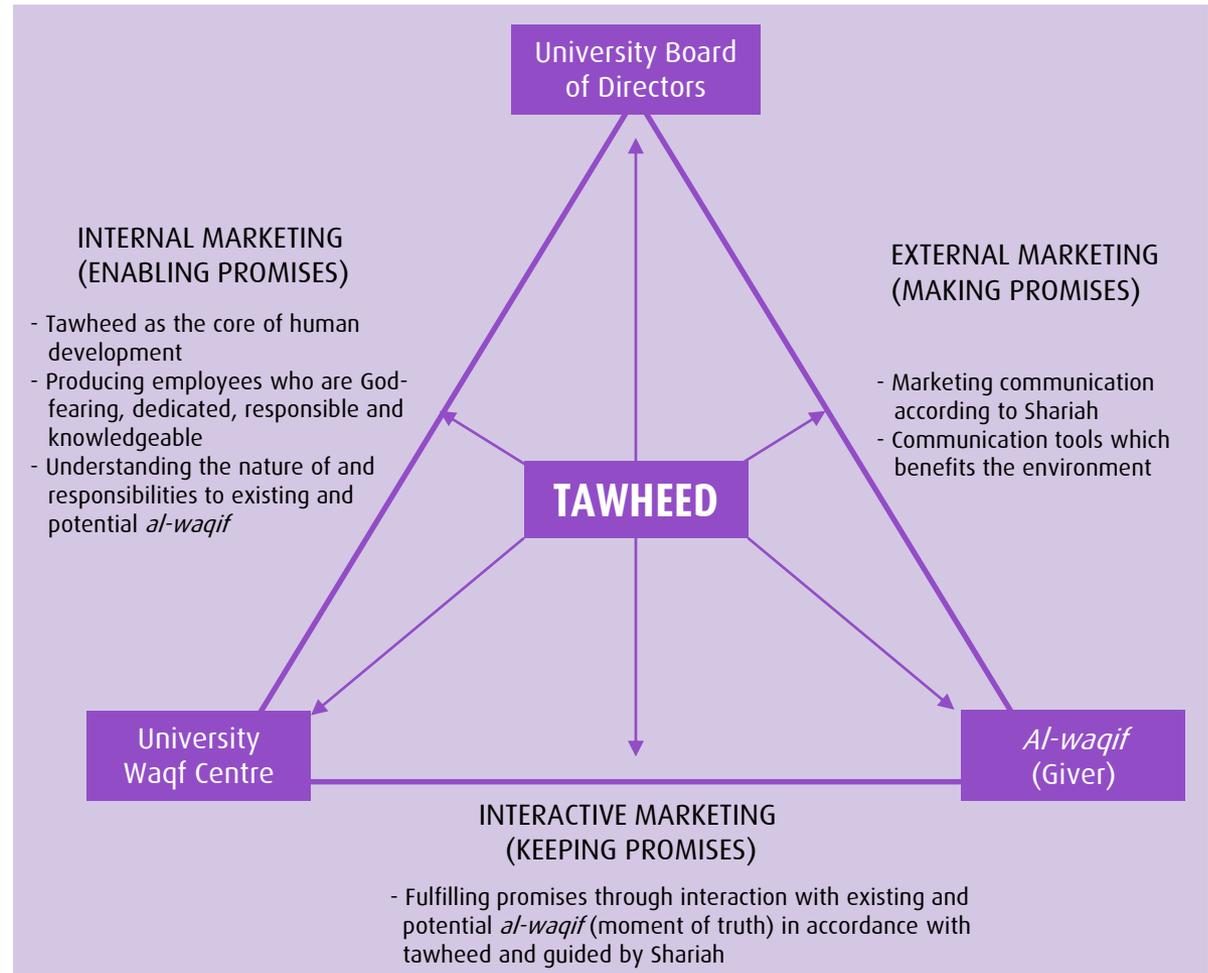
# Applying Service Marketing Triangle Based on Islam in Wakaf@UA Management

The marketing approach in waqf management should always adhere to the principles set under Shariah. This is best depicted using the Model of Service Marketing Triangle Based on Islam (SMTBI) as shown in the opposite diagram<sup>1</sup>.

The SMTBI model shows the three interlinked components in waqf management (University Board of Directors, University Waqf Centre, and *al-waqif*) working together to develop, promote and deliver the implementation of waqf.

There are three types of marketing activities within the triangle which must be successfully carried out for a waqf to be successful, namely external, internal and interactive marketing. These three marketing activities are essential for building and maintaining relationship with *al-waqif*.

At the heart of the SMTBI model is TAWHEED, which guides all activities according to Shariah.

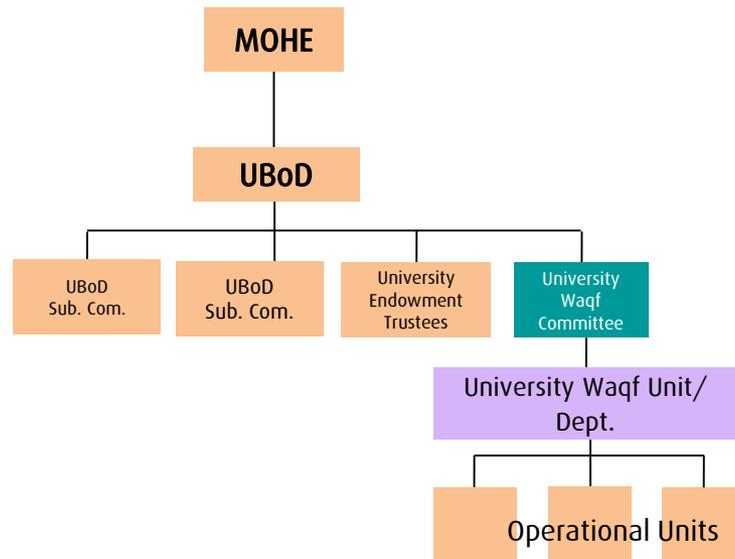


<sup>1</sup>Adapted from Othman R.,(2012). "Pembangunan Semula Institusi Wakaf Melalui Strategi Pemasaran Dalam (PD) Berteraskan Islam". Paper presented as part of the FRGS research at the Universiti Sultan Zainal Abidin (UniSZA), Terengganu.

# RECOMMENDED MODELS OF WAQF GOVERNANCE AT PUBLIC UNIVERSITIES

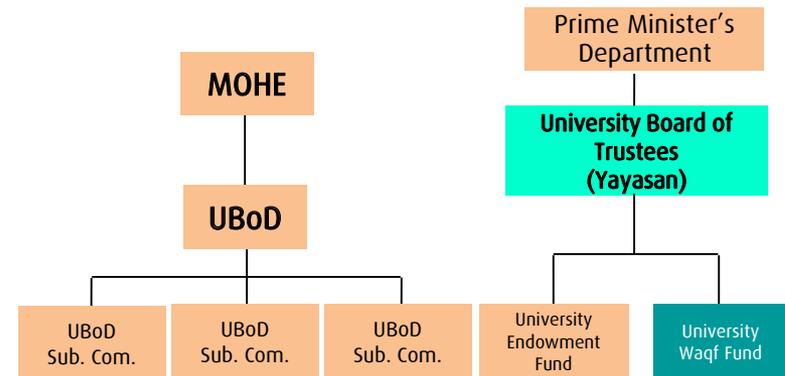
There are three possible models of waqf governance that can be adopted by public universities in managing waqf. The universities can select any of these models depending on the level of readiness, and the advice from the State Islamic Religious Council (SIRC). The preferred model is Model 3 where an independent University Waqf Board is set up as per recommended in the UniTP Green Book.

## Model 1



Under this model, a university that has been awarded the administrator status sets up a unit or department within the university itself. In addition, a University Waqf Committee is set up under the University Board of Directors (UBoD) as one of the Board committees. All decisions on waqf programmes and activities are made upon approval by university management. All accounts and financial management of waqf are under the jurisdiction of the university management.

## Model 2



Under this model, a university sets up a waqf office under the University Board of Trustees. The University Waqf Fund is put under the Board of Trustees as a project under the University Foundation (Yayasan), and will have a separate account and financial management. All decisions on waqf programmes and activities are conducted upon approval by the University Board of Trustees.

In Model 3, a University Waqf Board (UWB) is established as a separate and independent entity from the University. Collaboration and coordination, as well as roles and responsibilities of the UWB are spelled out in a written agreement or Waqf Deeds. UWB members comprise of representatives from both the University and SIRC.

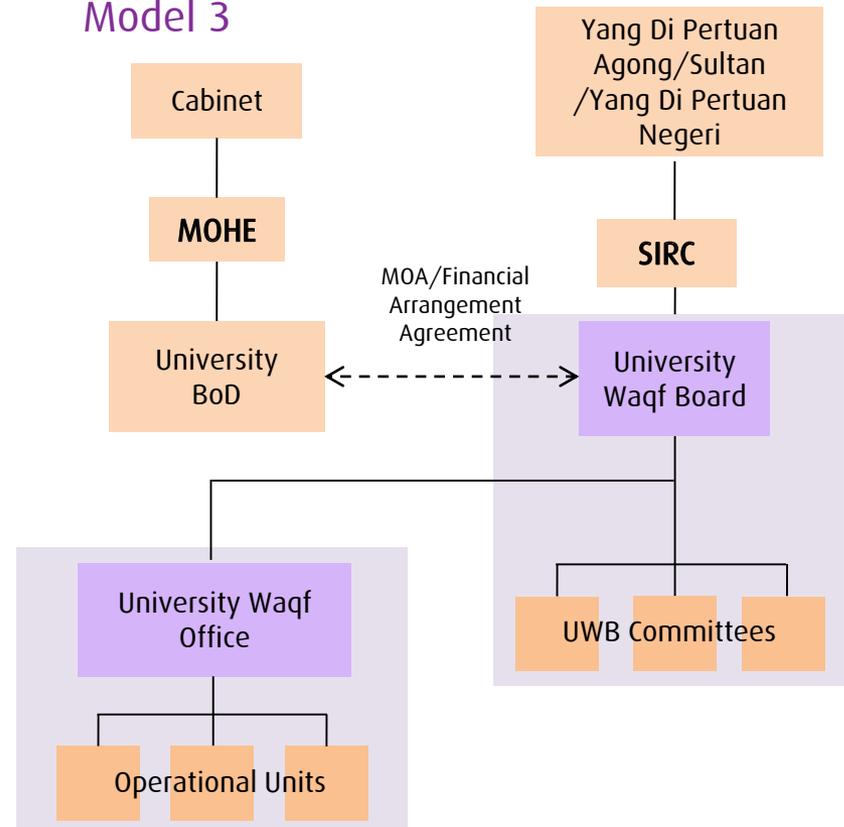
Recommended roles and scopes of authority of the University Waqf Board include:

- To uphold all stipulations in Waqf Deeds.
- To give direction for the administration of waqf
- To establish scheme of management for waqf
- To provide guidelines on registration, collection, investment and distribution of waqf that complies with Shariah.
- To scrutinise and approve the budgets submitted by the University Waqf Office.
- To sanction any transfer of immovable property of waqf by way of sale, gift, mortgage, exchange or lease.
- To monitor performance of Waqf Office including collections, investments, financial returns, and activities.
- To inspect or call for inspection of waqf properties, accounts or relevant deeds and documents.

Recommended roles of the University Waqf Office include:

- To manage all university waqf initiatives and any relevant matters.
- To prepare a quarterly report on waqf programs and activities conducted to submit to the UWB and UBoD.
- To take the necessary actions for the recovery of the loss of properties under any waqf.
- To investigate and determine the nature and extent of waqf and waqf properties.
- To institute and defend suits and proceedings relating to waqf.

## Model 3



### Proposed Membership of University Waqf Board

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Member of university BoD</li> <li>• Deputy Vice Chancellor</li> <li>• Director of University Waqf Office</li> <li>• One Representative from the university (e.g. Society of Academic Staff, Society of Administrators)</li> </ul> | <ul style="list-style-type: none"> <li>• Registrar of Waqf, SIRC</li> <li>• CEO of SIRC Waqf Corporation</li> <li>• Head of Economics Division, SIRC</li> <li>• SIRC Legal Advisor</li> </ul> |
|--|---|

CHAPTER FOUR

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# PHILANTHROPIC INCOME & FUNDRAISING ACTIVITIES

## CHAPTER FOUR

# PHILANTHROPIC INCOME & FUNDRAISING INITIATIVES

The level of philanthropy in Malaysia is rather low where Malaysia was ranked 76 out of 153 nations, in the World Giving Index Ranking 2010. Only 32% of the total population gives donations. In 2011, Malaysia's ranking dropped to 87.

Based on a survey, the total of philanthropic givings between January 2012 to June 2015 was RM306 million where 79% was given to endowment and only 2% was given to waqf. Of these givings, individual givers contributed only 4% (RM11.1 million) whilst the private companies made up the largest portion at 40% (RM 123.7 million) (see the diagram opposite).

This chapter deals with raising university income through philanthropic income and fundraising initiatives. It presents current performance in philanthropic income, a proposed fundraising matrix and models, examples of how universities benefit from crowdfunding, and recommended structures for fundraising initiatives.

### Fundraising matrix and models

There are four fundraising models which are labelled as: The Major Gift Model, the Foundation Research Model, the Multi-Mode Model and the Alumni Model. This section provides guidelines for universities in implementing fundraising models.

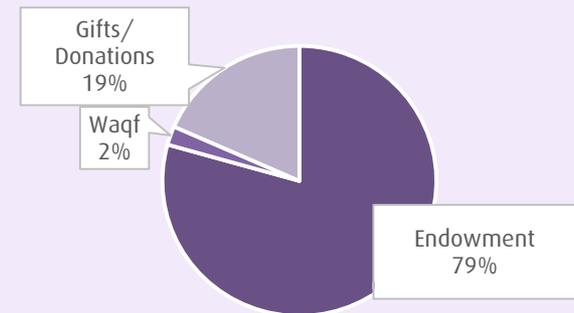
### How universities benefit from crowdfunding

Crowdfunding is a relatively new mode of fundraising and its scope is increasing due to greater access to the internet. This section describes how universities can benefit from crowdfunding, and provides some examples of crowdfunding activities.

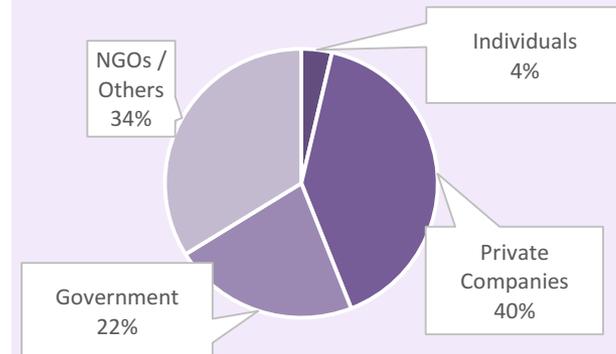
### Recommended structures and functions for fundraising initiatives

It is important for universities to have a well-structured, highly-functioning office to carry out fundraising initiatives. This section provides recommendations of such structures and functions.

### Philanthropic Giving at Public Universities (Jan 2012 – June 2015)



### Sources of Philanthropic Giving at Public Universities (Jan 2012 – June 2015)



SOURCE: Ministry of Higher Education Malaysia

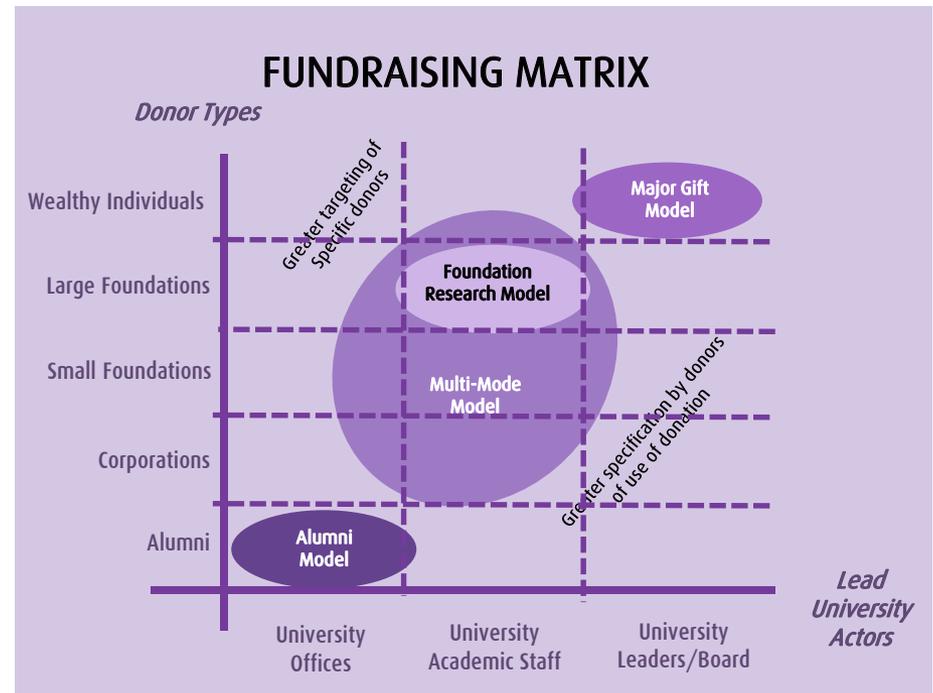
# FUNDRAISING MATRIX AND MODELS

There are a number of ways for universities to relate to prospective donors, and these can be codified in four different “models” of interaction. The four fundraising models are: (1) The Major Gift Model; (2) the Foundation Research Model; (3) the Multi-Mode Model; and (4) the Alumni Model.

These models are distinguished in terms of aspects such as donor types, the university actors taking the lead in philanthropic fundraising, the degree to which specific donors are targeted, the extent to which donors specify the use of donations, the formality of donors’ procedures, and the research specificity of the fundraising activities of universities.

All four models are usually present in institutions that have a tradition of philanthropic fundraising. It is not necessary, or perhaps even desirable, for universities attempting to raise funds from philanthropic sources for the first time to devote equal amounts of effort to all four modes simultaneously, but it is advisable for universities to have a long-term vision that eventually accommodates all these models.

The Fundraising Matrix diagram shows these four modes of interaction, defined by different donor types on the Y-axis and the different university actors taking the lead in fundraising on the X-axis. The targeting of specific donors and the degree to which donors specify the use of donations increases as one shifts upwards and to the right.



It is to be noted that the success factors for University-Donor interaction include the following:

- 1) The autonomy of universities;
- 2) Levels of transparency and accountability;
- 3) The commitment levels of leaders, academics and administrative staff;
- 4) A dedicated structure for raising funds from philanthropic sources;
- 5) The competence of fundraising staff;
- 6) External macroeconomic, fiscal and regulatory environments;
- 7) Government schemes; and
- 8) Cultural attitudes to philanthropic giving.

# HOW UNIVERSITIES BENEFIT FROM CROWDFUNDING

*Universities can harness the power of social networking and draw attention to a wide variety of projects. They can bring new donors for crowdfunding due to the accessibility of the Internet*

## What is crowdfunding for universities?

Crowdfunding is an online platform facilitating societal participation in contributing to the generation of income. Online crowdfunding platforms are a relatively new phenomenon that was first launched in 2009. Within four years, crowdfunding has proven to be a spectacular growth industry. In 2012, almost USD2.7 billion was raised through more than one million crowdfunding initiatives from around 450 separate platforms around the world, with successful projects typically attracting USD5,000 to USD10,000.<sup>1</sup>

Universities can develop crowdfunding platforms to generate alternative income. Members of the public can easily donate money directly based on their wishes and preferences for university projects. More importantly, crowdfunding provides greater transparency to ensure public confidence and continued support. Examples are mobilisation of students, commercialisation of projects, community outreach projects, and industry-related projects. Universities can also benefit from social media platforms such as Facebook, Twitter, and LinkedIn, or crowdfunding online applications and portals. This augurs well with the vision and mission of a university for all.

In order to make crowdfunding more successful, universities should facilitate tax incentives for all philanthropic contributions.

Universities may choose to adopt any one or a combination of the four models of crowdfunding, namely donation, rewards, equity and lending (see Exhibit 24). Adopting equity-based or lending-based crowdfunding will require a university to register with the Securities Commission of Malaysia (SCM) to comply with the Guidelines on Regulations of Markets under Section 34 of the Capital Markets and Services Act 2007 (Amendments 2015).<sup>2</sup>

The structure of university crowdfunding typically varies from the usual crowdfunding campaign due to the nature of a university. For that reason, university crowdfunding campaigns provide varying incentives and project-specific perks (e.g. recognition for contribution, naming rights) depending on the quantum provided by the donors. Varying levels of contribution usually explain what the specific donation amount will do to help the project, whereas perks offer individual recognition to the donor for their support to the cause. The three pillars are shown in Exhibit 25.

Before establishing a crowdfunding platform, universities should deliberate on seven considerations to ensure the success of a crowdfunding initiative (see Exhibit 26).

Examples of university crowdfunding initiatives are as shown in Exhibit 27.

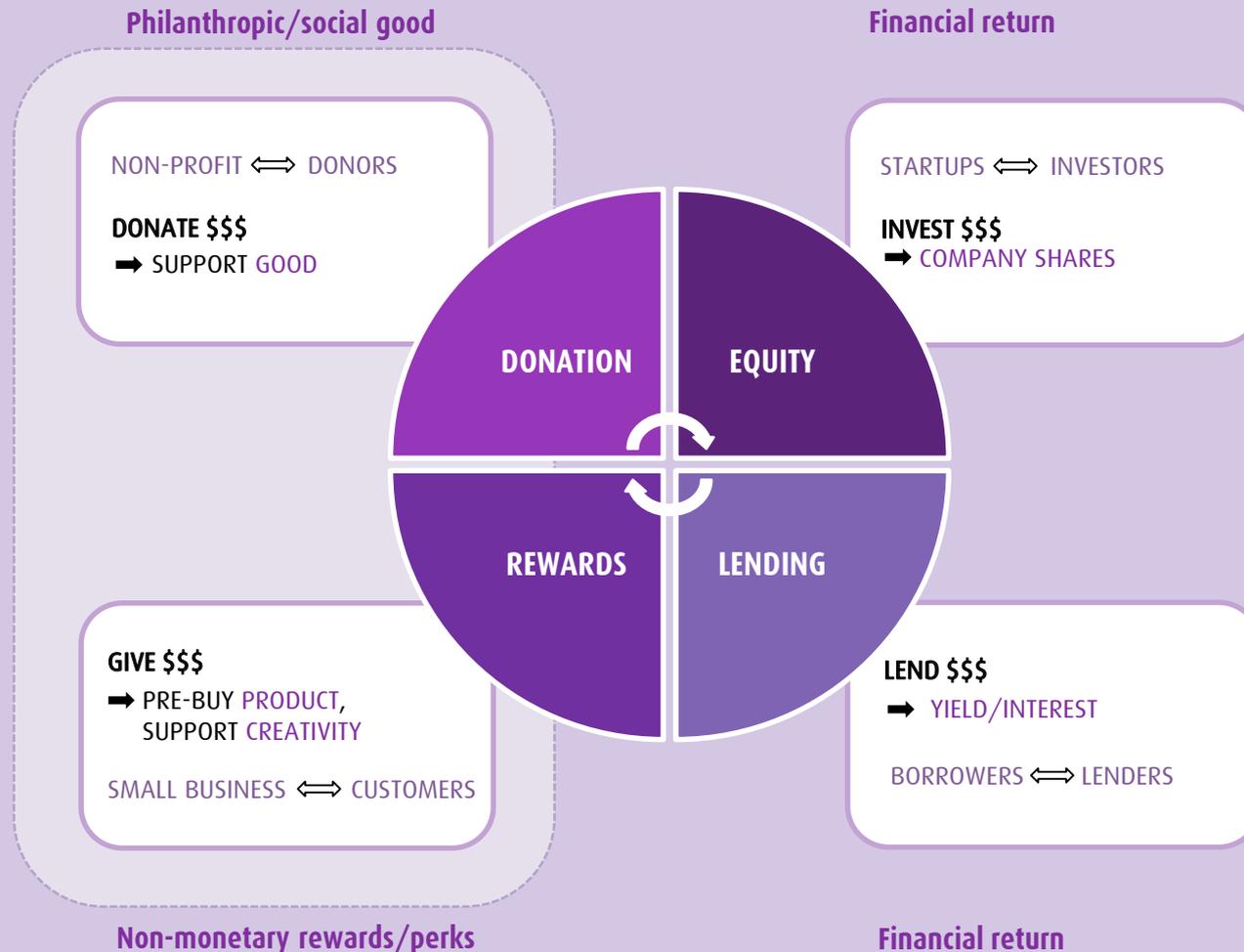
<sup>1</sup>Adapted from The Conversation, "Short on grant money? Five tips for crowdfunding success", September 19, 2013. (<http://theconversation.com/short-on-grant-money-five-tips-for-crowdfunding-success-18192>)

<sup>2</sup>Adapted from Belleflamme, P., Omani, N., & Peitz, M., The Economics of Crowdfunding Platforms, Discussion Paper 2015/15, Center for Operations Research and Econometrics. <http://www.uc.louvain.be/core>

## Exhibit 24

## Four Crowdfunding Models

## Four main types of crowdfunding today

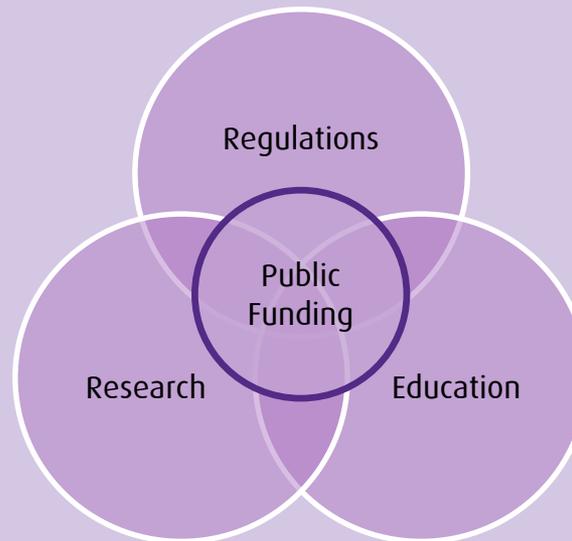


## Exhibit 25

## The Pillars of a Crowdfunding Framework

Crowdfunding programmes should meet the standards set for operational and financial transparency, security of information and payments, platform functionality, customer protection, and operational procedures.

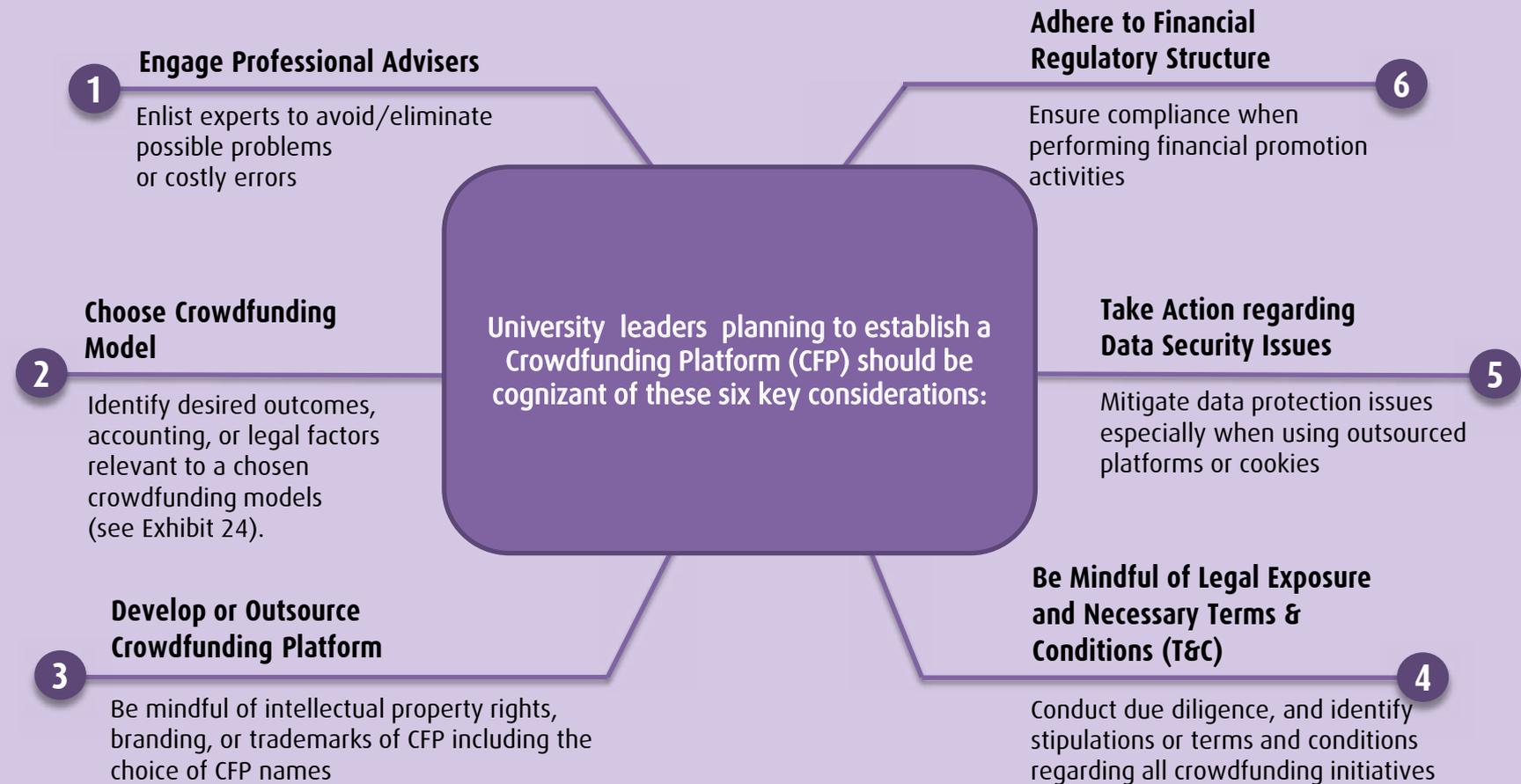
Academic and third-party analysts should capitalise on the great potential offered by crowdfunding data as findings from studies on crowdfunding may help universities create top-tier crowdfunding platforms and run successful campaigns. Positive findings of transparent research also help shape positive public image and support amongst policymakers.



Universities need to provide crowdfunding staff with training on how to run a successful campaign, identify the type of crowdfunding best for the university, and educate donors on how to choose a suitable campaign.

## Exhibit 26

## Six Considerations in Establishing University Crowdfunding Platforms



## Exhibit 27

## Examples of University Crowdfunding Initiatives

## University of Utah



University Tech Vault gives university researchers, inventors, and entrepreneurs a place to raise funds to advance disruptive ideas. Supporting these projects give alumni and other interested people a creative way to vault smart ideas into commercial reality.

**Axon Optics** raised \$10,000

**Support Migraine Relief Glasses by Axon Optics**  
By Benjamin Rollins

Science **24%** **FUNDED**

**iStar** raised \$25,000

**ISTAR5 - Tech talent development for youth with ASD**  
By Scott Wright

Social **34%** **FUNDED**

**Roll Control** raised \$10,000

**Roll Control**  
By Jerica Johnson

Science **4%** **FUNDED**

**Active Desk** raised \$10,000

**Active Desk: Promoting Physical Activity at Work**  
By Jim Martin, PhD

Social **142%** **FUNDED**

## University of Vermont



UVM Start allows student entrepreneurs to raise money through tax-deductible alumni donations. UVM Start connects student startups with alumni—gaining the connections, mentoring and capital necessary to get their companies off the ground.

**Doorack**  
Door-mountable ski racks that nesten bedrooms.  
**\$745**

\$745 1122 Days  
raised since project closed [READ MORE](#)

**Napo Natural**  
A delicious and powerful energy infused chocolate that is made directly from the Ecuadorian Amazon.  
Napo Natural is to serve  
**\$675**

\$675 1122 Days  
raised since project closed [READ MORE](#)

**Bike Station**  
Bike Station is an upright, covered bike rack that offers superior protection and convenience.  
I am raising \$3,000 to complete  
**\$876**

\$876 1122 Days  
raised since project closed [READ MORE](#)

**FILABOT** Filabot  
Personal Filament Printer  
Filabot is a desktop filament extruding system designed for the personal use of 3D printers. The system has the capacity to convert a wide v  
**\$1,500**

\$1,500 1122 Days  
raised since project closed [READ MORE](#)

# RECOMMENDED STRUCTURE AND FUNCTIONS FOR FUNDRAISING INITIATIVES

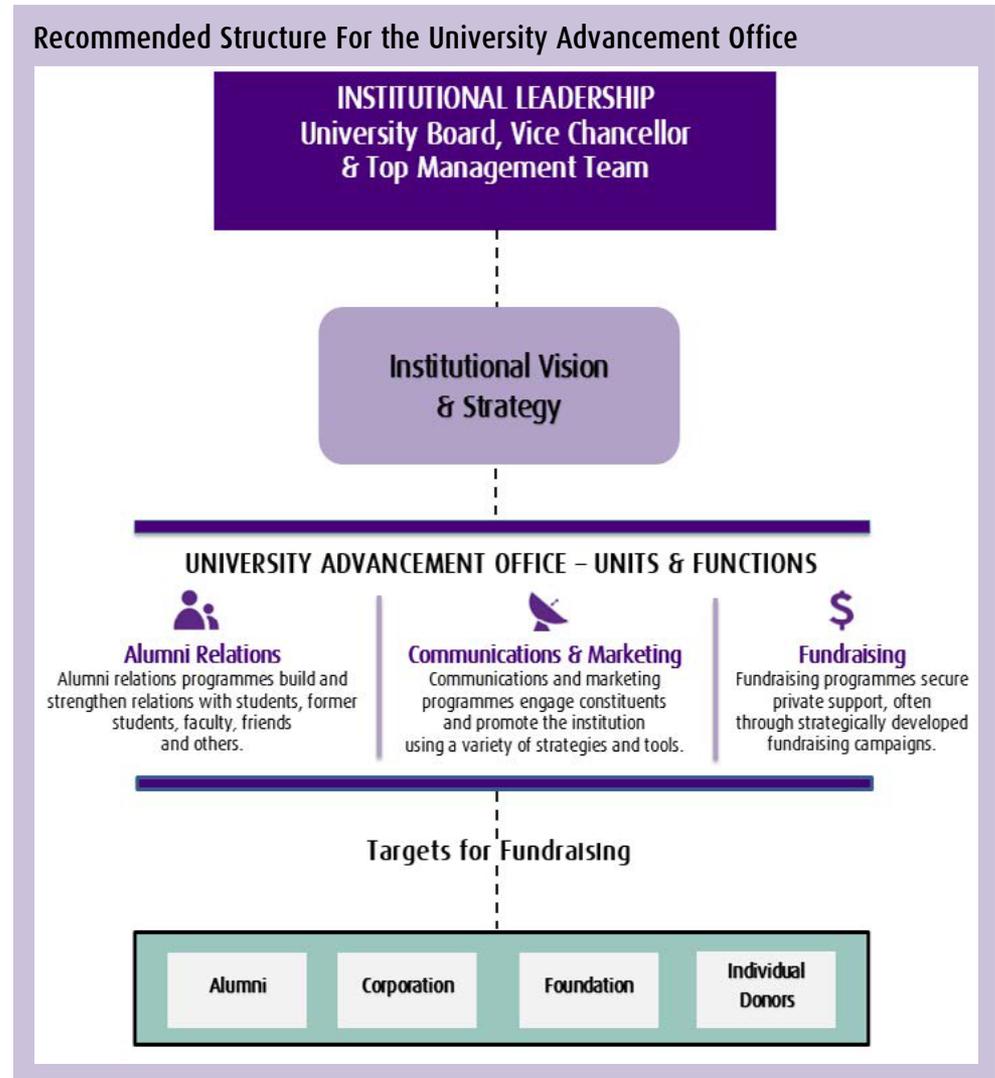
Fundraising promises great financial benefits to universities. The four common fundraising models shown in Exhibit 28 depict the various approaches required to engage different donor groups. The inherent intricacies and daunting tasks involved in fundraising calls for more focused attention and commitment from the management.

The responsibility to raise funds for institutional support should be under the purview of institutional advancement. For this purpose, it is recommended that universities set up a University Advancement Office (UAO) dedicated to fundraising and directly answerable to the Vice Chancellor. The recommended structure and functions are as shown in the diagram opposite.

The roles of the University Advancement Office may include but are not limited to the following:

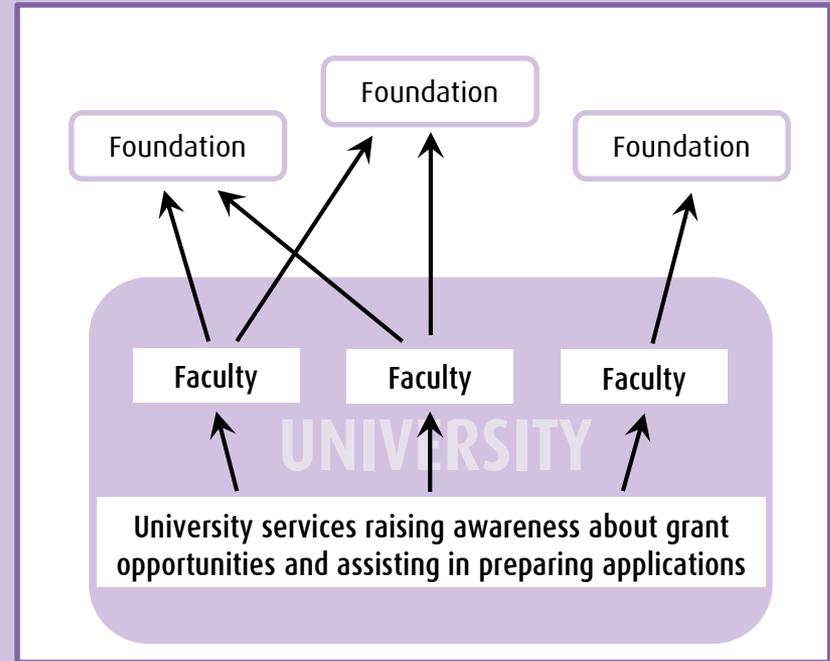
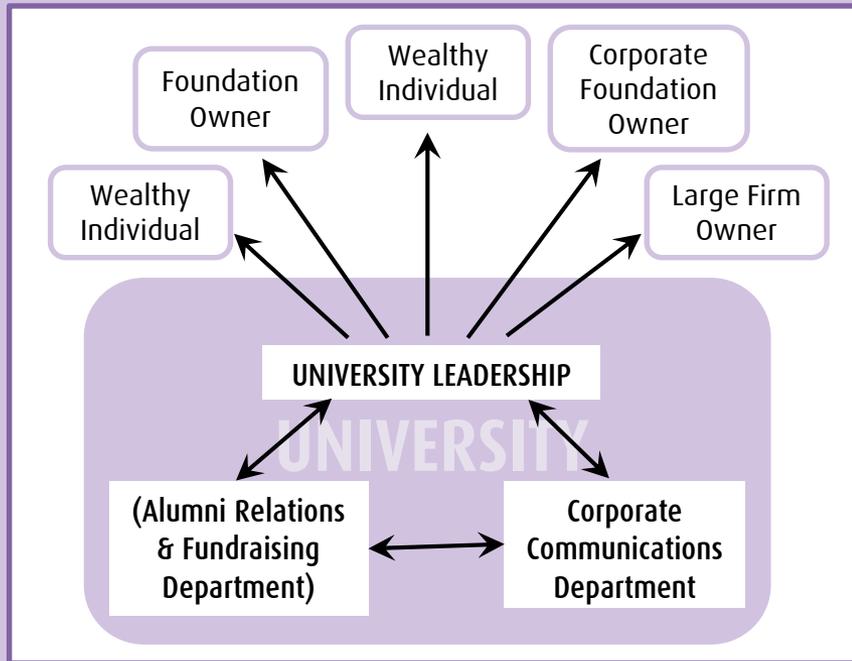
- secure private financial support from potential donors;
- engage alumni in the life of the institution;
- market the institution to prospective stakeholders; and
- communicate about the institution with those who have a stake in its success (see Exhibit 29).

Alternately, the university may hire professionals with experience in the areas of marketing, lobbying, fundraising, relationship management and media engagement. The person may be best placed within an existing university structure, such as the corporate communication office.



## Exhibit 28

## Fundraising Models



### 1 The Major Gift Model

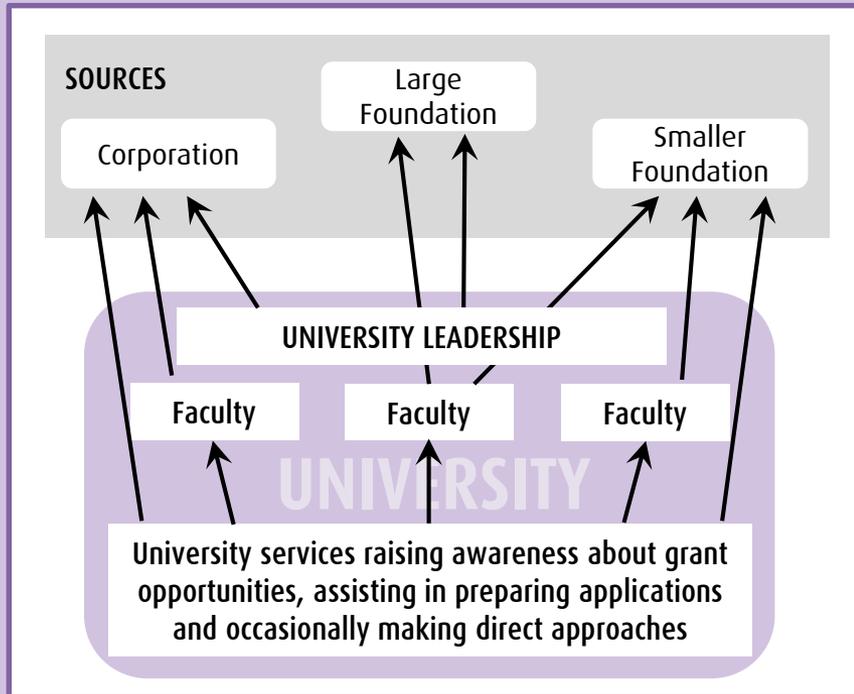
This model is geared towards large donations or “major gifts”:

- targets wealthy individuals and businessmen
- approached either directly or through foundations
- works best through personal relations and the networking of university leaders.

### 2 The Foundation Research Model

This model typically prevails when individual researchers or university authorities target large foundations (including corporate foundations):

- involves formal procedures, rules and criteria preset by the foundations; and
- donations can be for research projects, or scholarships for PhD programmes.

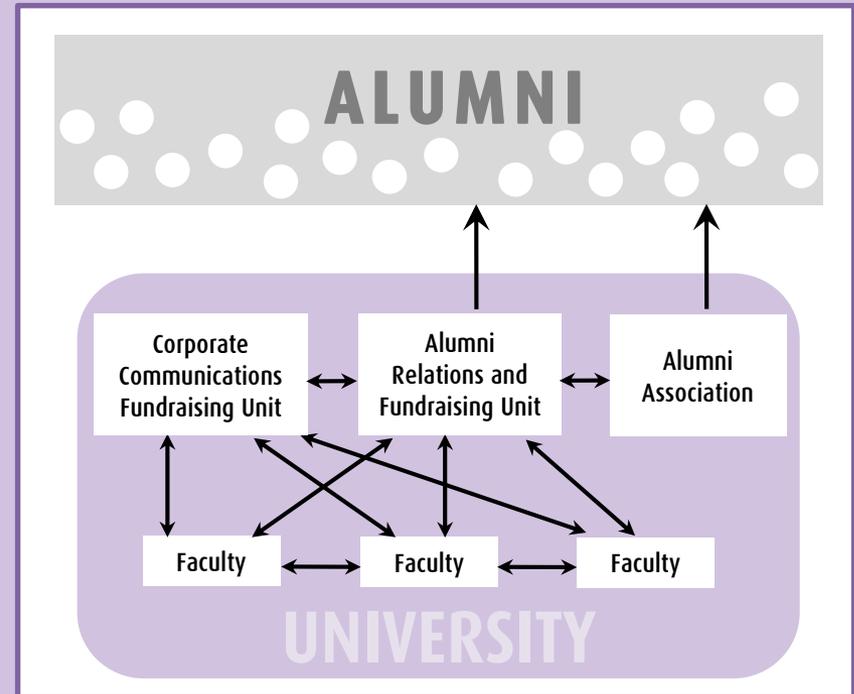


### 3 The Multi-Mode Model

This model leverages the interaction between a university and various foundations and corporations.

It uses a mix between:

- structured and unstructured (or formal and informal) interactions;
- communication patterns;
- application procedures; and
- selection processes.



### 4 The Alumni Model

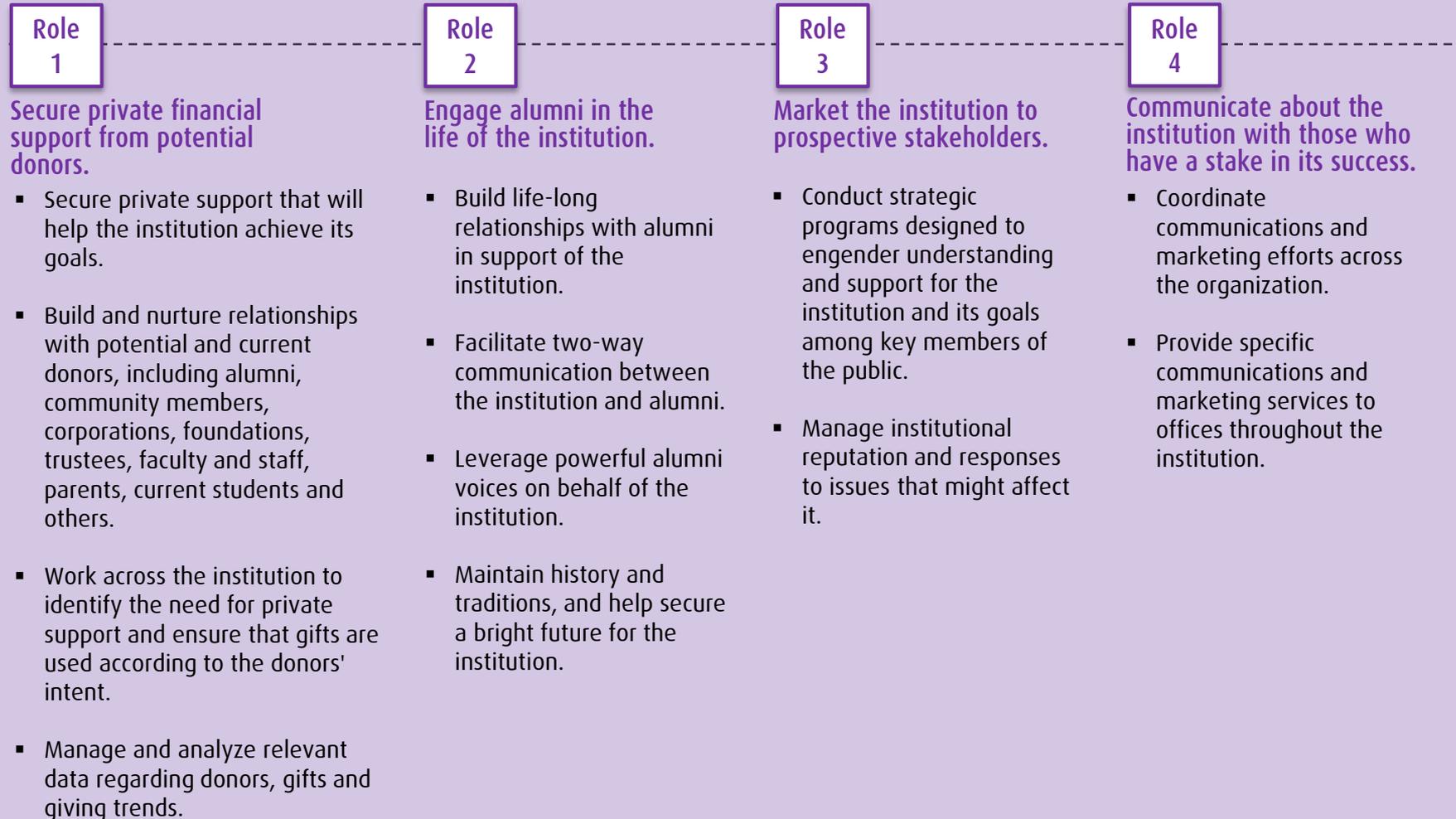
This model applies whenever large groups, such as the members of alumni associations or university staff, are targeted:

- Aims at getting small donations from a large pool of individuals; and
- A more personalized approach to evoke an emotional response.

## Exhibit 29

## The Roles of the University Advancement Office

Advancement personnel work on behalf of the universities in primary core disciplines of educational advancement which include alumni relations, communications, marketing and fundraising.



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# APPENDICES

# APPENDIX CONTENTS

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Indicators for university income generation activities

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How universities can generate income

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## **Appendix 3**

Tapping into philanthropic giving to diversify sources of funding

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## **Appendix 4**

Underutilised revenue—corporate donations

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## **Appendix 5**

The three driving forces behind corporate philanthropy

## Appendix 1

# INDICATORS FOR UNIVERSITY INCOME GENERATION ACTIVITIES

The following proposed indicators are related to organisational financial sustainability which have been derived from a more comprehensive set of measures of institutional development developed by The Nature Conservancy (Ref: *Four Pillars of Financial Sustainability*, Resources for Success Series, Volume 2, Copyright © 2001 by The Nature Conservancy, Arlington, Virginia, USA). These indicators are useful for universities in their income generation activities, as they provide a system of measuring progress in terms of financial sustainability and set a goal to strive for. It must be noted that, these indicators are constantly evolving and individual institutions are encouraged to continuously seek better solutions that will lead to success.

The indicators of institutional financial sustainability are grouped into three categories:

A: Indicators related to Strategic Vision and Leadership (A1, A2, A3)

B: Indicators related to Income Generating Capability (B1, B2, B3)

C: Indicators related to Financial Administration Capability (C1, C2, C3, C4, C5, C6)

## A

### Indicators related to Strategic Vision & Leadership

#### Indicator A1 Strategic Planning

<input type="radio"/> 5	The strategic plan includes long-term institutional financial plan (3-5 years) updated periodically as the result of a participatory process involving staff, board and outside advisors.
<input type="radio"/> 4	Staff uses the current strategic plan, which incorporates long-term institutional financial plan, to guide all major program decisions, including submission of grant proposals.
<input type="radio"/> 3	Current strategic plan exists. Staff is somewhat familiar with strategic plan.
<input type="radio"/> 2	Strategic plan outdated or being prepared.
<input type="radio"/> 1	No strategic plan exists.

# A

## Indicators related to Strategic Vision & Leadership

### Indicator A2 Board Effectiveness

<input type="radio"/> 5	Board members govern actively and effectively to guide the future of the organization and ensure its long-term institutional and financial stability. Committees have been formed to address specific issues such as investments, financial sustainability, fundraising, etc.
<input type="radio"/> 4	Most board members regularly provide leadership, financial oversight, set policies, participate in planning, give or obtain funds and provide continuity for leadership transitions.
<input type="radio"/> 3	Some board members occasionally assume leadership and oversight, and give or obtain funds for the organization.
<input type="radio"/> 2	Only a few board members contribute time, effort or money to organization's governance.
<input type="radio"/> 1	Board members are inactive, do not provide guidance and/or funding.

### Indicator A3 Strategic Financial Planning

<input type="radio"/> 5	Organizations' financial sustainability plan implemented and monitored; goals are being met and adjustments made.
<input type="radio"/> 4	Organization has tested and analyzed various approaches and integrated those strategies into a plan to achieve its financial goals, and has begun to achieve some of those goals.
<input type="radio"/> 3	Organization has begun to develop fund-raising and other income-generation strategies to respond to quantified financial need and has begun testing those approaches.
<input type="radio"/> 2	Organization has quantified financial need to accomplish administration and program objectives for the next 3-5 years.
<input type="radio"/> 1	Organization has not identified minimum financial need to accomplish administration and program objectives for the next 3-5 years.

# B

## Indicators related to Income Generating Capability

### Indicator B1 Fundraising Development Plan

<input type="radio"/> 5	The fundraising process is integrated with financial administrative systems, and monitored and adjusted on an ongoing basis.
<input type="radio"/> 4	Clearly defined fundraising goals and plan developed based on the organization's financial/strategic plans; responsibilities shared among several individuals as part of a systematic process.
<input type="radio"/> 3	Organization has begun to systematize resource generation activities; delegation of donor contacts and fund-raising efforts.
<input type="radio"/> 2	One individual responsible for almost all resource-generation.
<input type="radio"/> 1	No systematic resource-generation activities under way.

### Indicator B2 Income Diversification and Funding Sources

<input type="radio"/> 5	Organization has a broad funding base consisting of at least eight sources (donors); no one source contributes more than 25% of the total annual revenues.
<input type="radio"/> 4	At least five funding sources (donors) account for 60% of the organization's overall budget; no one source accounts for more than 25% of the organization's revenues.
<input type="radio"/> 3	One funding source (donor) accounts for more than 40% of organization's revenues; at least four other sources account for remaining 60%.
<input type="radio"/> 2	One funding source (donor) accounts for more than 60% of organization's revenues.
<input type="radio"/> 1	One funding source (donor) accounts for more than 80% of organization's revenues.

### Indicator B3 Generation of Unrestricted Income

<input type="radio"/> 5	Unrestricted income accounts for more than 40% of the organization's total annual budget.
<input type="radio"/> 4	Unrestricted income accounts for more than 20% of the organization's total annual budget.
<input type="radio"/> 3	Unrestricted income accounts for more than 50% of annual operations costs.
<input type="radio"/> 2	Unrestricted income accounts for less than 50% of annual operations costs.
<input type="radio"/> 1	Organization generates no unrestricted income.

Note: This indicator refers to funding that may be spent at the organization's discretion. This funding may have been earned (sale of products or services, income from a trust fund) or provided by donors without specific instructions on how the funds are to be spent. In order to answer this question, an organization must have previously determined its operations costs (also known as overhead or indirect costs), or determine that more than 20% of total income is derived from unrestricted sources.

# C

## Indicators related to Financial Administration Capability

### Indicator C1 Indirect Cost Recovery Rate

- |                         |  |
|-------------------------|--|
| <input type="radio"/> 5 | Indirect cost recovery rate (also called operations costs or overhead) has been calculated by external auditor and is being included in all grants (when donors allow it). |
| <input type="radio"/> 4 | Indirect cost recovery rate has been calculated by an external auditor and is included in most grants.   |
| <input type="radio"/> 3 | Indirect cost recovery rate calculated but not verified by external auditor; rate included in most grants.   |
| <input type="radio"/> 2 | Some indirect costs included in most grants, but a rate has not been calculated.   |
| <input type="radio"/> 1 | No indirect costs charged in project grants.   |

### Indicator C2 Accounting Systems

- |                         |   |
|-------------------------|---|
| <input type="radio"/> 5 | Accounting information utilized in decision-making process.                   |
| <input type="radio"/> 4 | Organization-wide chart of accounts permits cross-project financial analysis. |
| <input type="radio"/> 3 | Accounting done by project, "rolled-up" into organization-wide statement.     |
| <input type="radio"/> 2 | Accounting done by project or donor only, no roll-up.                         |
| <input type="radio"/> 1 | Accounting done by disbursement.  |

## C

Indicators related to **Financial Administration Capability****Indicator C3 External Financial Reporting**

<input type="radio"/> 5	Financial reports for external review are completed and delivered on time, and utilized regularly for decision making. Financial reports are included in organization's Annual Report and have been published for at least two consecutive years.
<input type="radio"/> 4	Financial reports for external review are completed and delivered on time, and occasionally utilized for decision making.
<input type="radio"/> 3	Financial reports for external review are usually completed and delivered on time.
<input type="radio"/> 2	Financial reports and statements for external review are often incomplete or delivered late, including donor reports, balance sheet, income and expense statement, and cash flow.
<input type="radio"/> 1	Financial reports and statements produced sporadically for internal use only.

**Indicator C4 Internal Financial Reporting**

<input type="radio"/> 5	Organization-wide and program-specific financial statements, showing cumulative actual income and expenditures versus budgets, produced and circulated quarterly for at least two consecutive years.
<input type="radio"/> 4	Organization-wide and program-specific financial statements, showing cumulative actual income and expenditures versus budgets, given at least quarterly to program managers and board.
<input type="radio"/> 3	Organization-wide and program-specific financial statements, showing cumulative actual income and expenditures versus budgets, produced but not circulated to program managers and/or board.
<input type="radio"/> 2	Some program-specific financial statements, showing cumulative actual income and expenditures versus budgets, produced but not circulated to program managers and/or board.
<input type="radio"/> 1	No financial statements showing cumulative actual income and expenditures versus budgets produced.

## C

Indicators related to **Financial Administration Capability****Indicator C5 External Oversight (Audits)**

<input type="radio"/> 5	Both internal and external audits conducted on a periodic basis and all recommendations fully implemented.
<input type="radio"/> 4	Both internal and external audits conducted on a periodic basis and recommendations partially implemented.
<input type="radio"/> 3	Both internal and external audits conducted on a periodic basis.
<input type="radio"/> 2	Only internal audits conducted.
<input type="radio"/> 1	No internal or external audit or formal board review of organization's financial statements conducted.

**Indicator C6 Cash Flows**

<input type="radio"/> 5	Cash flow, calculated quarterly, guides programmatic decisions for at least two consecutive years. No negative annual cash flow exists for two consecutive years (annual income equal to or exceeds expenses).
<input type="radio"/> 4	Cash flow, calculated quarterly, guides programmatic decisions. No negative annual cash flow exists.
<input type="radio"/> 3	Cash flow calculated annually, used to guide programmatic decisions.
<input type="radio"/> 2	Cash flow calculated occasionally or for specific projects.
<input type="radio"/> 1	No cash flow analyses done.

## Appendix 2

# HOW UNIVERSITIES CAN GENERATE INCOME

The following is an excerpt from “Four Pillars of Financial Sustainability”, Resources for Success Series, Volume 2, Copyright © 2001 by The Nature Conservancy, Arlington, Virginia, USA. The “Questions to Ponder” presented in different subject areas will help expand your vision as you undertake this exercise. These reflection questions are part of a diagnostic tool to determine financial sustainability. The sole purpose of this exercise to aid your organisation’s development.

### Academic and Research Programs

Questions to Ponder:

1. Has your university undertaken any such initiatives? If so, list them.
2. Do you know if the initiative is making a profit? If so, how much does it contribute to the university?
3. If it is not making a profit, do you know what the financial projections are? When will it reaches the breakeven point?
4. How much has the university invested in order to launch this initiative?

### Business Activities, Retailing & Unlocking of Assets

Questions to Ponder:

1. Has your university undertaken any such initiatives? If so, list them.
2. Do you know if the initiative is making a profit? If so, how much does it contribute to the university?
3. If it is not making a profit, do you know what the financial projections are? When will it reach the break-even point?
4. How much has the university invested in order to launch this initiative?
5. Are there partners to share the risk?
6. Is the initiative compatible with your university’s mission?

### Financial Management Activities & Investment

Questions to Ponder:

1. Has your university generated income through financial management? If yes, how much?
2. If it has not generated income, do you know of any obstacles to your university using this strategy?
3. Do you know if any donors oppose generating interest through financial management?
4. Does your organization has financial management policies?

### Trust, Endowment & Waqf

Questions to Ponder:

1. Does your university have a trust fund? Endowment? Waqf?
2. If so, have policies been established to maintain or increase its value over time?
3. If you do not have any of these funds, it is a projected goal?
4. Does your university have any other asset, such as property, that is capable of generating revenue?

### Corporate Alliances for Business Ventures

Questions to Ponder:

1. Is the university in alliance with a corporation?
2. Do you know if the institution is making a profit? If so, how much does it contribute to the university?
3. If it is not making a profit, do you know what the financial projections are?
4. Do you know what the public image of the corporation is?
5. How much has the university invested to launch this initiative?

### Fundraising

Questions to Ponder:

1. Has your university requested these types of funds?
2. What was the outcome?
3. Do you think other opportunities are available to raise these types of funds?

### Public Contribution

Questions to Ponder:

1. Has your university undertaken any such initiatives? If so, list them.
2. Do you know if the initiative is making a profit? If so, how much does it contribute to the university?
3. If it is not making a profit, do you know what the financial projections are? When will it reach the break-even point?
4. How much has the university invested in order to launch this initiative?

## Not-for-Profit does not mean For-Loss!

The financial sustainability of a non-profit organization (such as a public university) is its capacity to obtain revenue in response to a demand, in order to sustain productive processes at a steady or growing rate to produce results and to obtain a surplus.

It is not true that non-profit organizations are not allowed to retain more money than they can spend. What non-profit organizations may not do is spend money for purposes unrelated to their mission, or distribute profits for personal gain.

Surplus-generation is a need, not a luxury. A surplus is crucial to planning for the future as well as meeting current challenges. With an income surplus, universities can better respond to changes and take precautions against risks and uncertainties that might arise in the future, such as political or economic crises.

Questions to Ponder:

1. Do you know if your university has a surplus, a deficit, or a "0" balance?
2. If there is a surplus or deficit, do you know where it is coming from?
3. Has financial sustainability been established as a goal? If so, has the financial goal been identified?

## Appendix 3

# Tapping into Philanthropic Giving to Diversify Sources of Funding

This section aims to help release the untapped potential of philanthropy as additional alternative funding for universities. The target is the university leadership, academics, staff and fundraising personnel who are directly involved in fundraising activities or are considering the potential of philanthropy.

**Corporate philanthropy is the act of a corporation or business promoting the welfare of others, generally via charitable donations of funds or time** (“Defining Corporate Philanthropy”, <https://doublethedonation.com>).

## Potential of Philanthropic Income

Philanthropic income is particularly appealing to universities as it provides a flexible income stream to support the projects and activities that shrinking core funding cannot finance. In addition to funding streams from the government and the private sector, philanthropy or “giving” is a potentially important source of funding for Malaysian public universities, although it is not as well developed as in developed countries, such as in the US. This lower rate of giving is related to the Malaysian institutional context, perhaps associated with its tax system and its tradition of public funding for education and research, and more prominently its **culture of giving**.

With corporations contributing in excess of USD17bil per year to non-profit organisations and charities, corporate philanthropy has become a hot button topic, and a potential source of income that charities or higher education should not overlook. Corporate philanthropy can come through a variety of channels—monetary donations or gifts of time and talents (in-kind donations).

## The Changing Nature of Philanthropy

Over past few years, there is the emergence-in both the US and Europe-of new philanthropic practices, called “**Venture Philanthropy**” which involves supporting causes, while also paying particular attention to improving the management practices, growth and performance of the organisations funded.

It is increasingly the case that grantmakers now conduct extensive due diligence before deciding who to fund, much like an investor would before buying a company. Foundations offer management advice to the organisations they fund and teach them how to raise money and grow. Donors have also become more demanding and increasingly expect detailed accounts of how their money is spent. There is increased emphasis on social return, performance metrics and scalability, and a premium is put on transparency and accountability.

In this new context, it is important for university fundraisers to understand the changing nature of philanthropy and re-strategise their approaches accordingly.

*“People do not give to people. They give to people with causes. They give to people who ask on behalf of causes.”*

## Appendix 4

# Underutilised Revenue Drivers - Corporate Donations

The term **corporate donation** refers to any financial contribution made by a corporation to another organization that furthers the contributor's own objectives. Two major kinds of such donations deserve specific consideration: **charitable donations** & **political donations**. Corporations give to charitable causes, either because of the personal convictions of influential leaders within the corporation, or more commonly to help establish the public perception that the corporation is a good corporate citizen.

The highly-developed practice of philanthropic giving in the US demonstrates the diverse types of contributions from corporate donors, which can be explored by Malaysian universities in efforts towards engaging philanthropy. The various forms of direct cash or non-cash contributions have the potential to be tapped by the universities in their fundraising approaches.

### Direct Cash Contribution

#### Community Grants

Grants to support local community efforts or non-profits



#### Matching Gifts

Corporate donations to non-profits as a match to employee giving.



#### Volunteer Grants

Giving to nonprofits in recognition of employee-volunteer service to that organization.



### Non-Cash Contribution

#### Equipment or Supplies

Donations of computers and other electronic equipment, office supplies, and targeted supplies such as clothing, canned goods, or paper products.



#### Organizational Services or Facilities

Use of financial and administrative support, computer services, printing, mailing or copying.



#### Professional Services

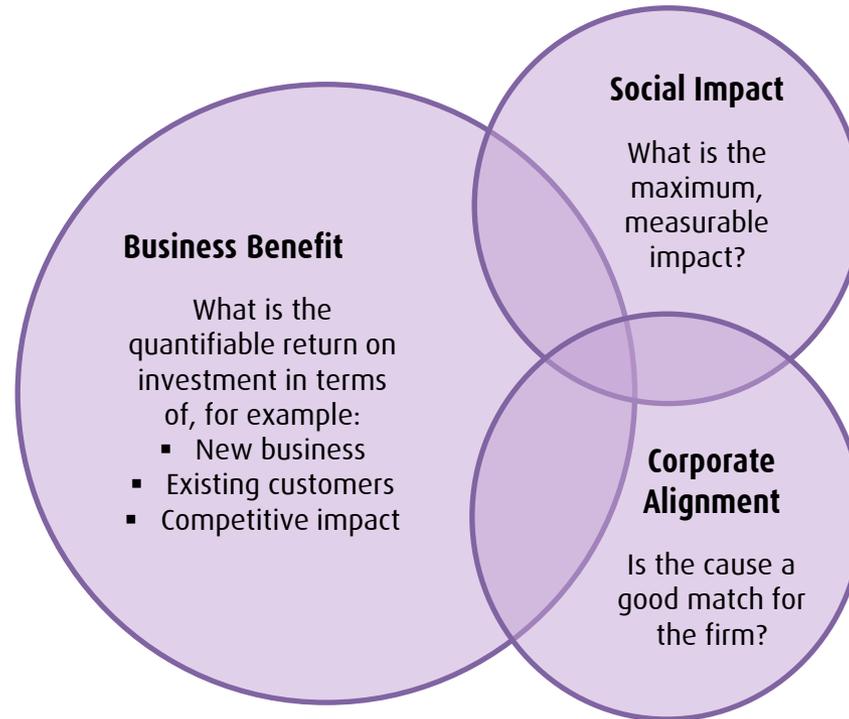
Services such as tax and financial advice, strategic planning and organizational development, graphic arts and copy writing, and legal assistance.



## Appendix 5

# The Three Driving Forces behind Corporate Philanthropy

Effective strategies for corporate support are informed by an understanding of how firms determine the focus of corporate giving, and what motivates targeted giving. Firms are under increased pressure to demonstrate that philanthropy is cost-effective and contributes to business objectives. University fundraisers must understand the driving forces behind corporate philanthropy.



Corporate firms' decisions about prospective philanthropic gifts are typically informed by three related concerns: social impact, corporate alignment and business benefit. This triple focus has come to define the modern approach to strategic corporate philanthropy, and is the lens through which corporate giving officers typically view proposals.

## 5 Tips on Corporate Philanthropy for University Fundraisers

Take the donor's view by recognising the three driving forces behind corporate philanthropy

1

Measuring impact is critical when it comes to corporate gifts

2

Non-cash giving has its own benefits, but should also be considered part of a fundraising strategy

3

Analyse trends in corporate philanthropy to inform and focus fundraising efforts.

4

Watch for emerging models of corporate philanthropy, including competitive crowdfunding.

5



UNIVERSITI MALAYA



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