STUDENT LOANS IN HIGHER EDUCATION

Derebssa Duferra

Student loans have been widely advocated as a way of financing the private costs of investing in higher education and more than 50 countries now have loan schemes which enable students to borrow from government agencies or commercial banks in order to finance their tuition fees or living expenses and to repay the loans after graduation. Most loan schemes offer government guarantee and some form of interest subsidy and in many countries students receive financial support through a combination of loans, grants, scholarships or bursars.

Student loans were established on a significant scale in the 1950s and 1960s in many developed countries (Canada, Denmark, Sweden and the USA) and in a few developing countries (Colombia, India). More recently there has been a new upsurge of interest in students in both developed and developing countries. The world Bank has advocated loans on grounds of both efficiency and equity (World Bank 1986 and 1988) and published guidelines for developing countries considering how to design a student loan program (Wood Hall, 1987).

At present Ethiopia is seriously considering student loan as a means of financing higher Education. The subject of student loans is therefore very topical and this paper provides a summary of an educational forums organized by the international Institute for Educational Planning (IIEP) on the issue of student loan in higher Education.

Summary of the Forums of IIEP on the Issue of Student Loan in Higher Education

The first of the IIEP "Educational Forums" on student loan was held in Paris in 1989 and was concerned with recent experiences in Western Europe and the USA. Similar forums were held in Asia (In Malaysia in November 1990), in English-speaking Africa (in Kenya in June 1991) and in Latin America and the Caribbean (Dominican Republic, in June 1992). For the details of the forums see Wood Hall 1990, 1991, 1992 and 1993).

The purpose of these forums is to share experiences on student loans, to analyze the main issues raised by the introduction and use of loans and discuss ways of overcoming problems and difficulties and improving the management of loan programs in the future. Participants in the forums have exchanged information and ideas in a very frank and open way. Discussions have raised both positive and negative issues, and the countries represented at the seminar include countries where loan programs are regarded as successful (Japan and Hong Kong), countries which have encountered major problems, but which are embarking on attempts to improve and reform loan programs (Kenya and Nigeria), countries which have already introduced major changes to reform student loans (Sweden and Ghana), countries where loans are regarded as unsuccessful (India) or which have abandoned government financed student loans (Indonesia) and finally countries which are currently considering introducing loans (Botswana and Uganda).

* Assistant Prof., Institute of Educational Research (Addis Ababa University)

Reasons for interest in student Loans

Higher education is highly subsidized in many countries and students receive not only free tuition but also grants or bursories covering living expenses. Many countries now have loan schemes to provide financial support for students living expenses, books and in a few cases, tuition fees. In Africa there are now student loan schemes in six English speaking countries: Ghana, Kenya, Lesotho, Malawi, Nigeria and Zimbabwe. The government of Botswana and Uganda are currently considering introducing student loans.

Students loans have been justified on grounds of financial stringency, increasing efficiency or improving equity. Four main reasons were identified for the interest in student loans in developing countries:

1. Financial pressures on public budgets, which mean that many governments are seeking ways to increase private contribution to the costs of higher Education

2. Changing educational priorities have resulted in several governments giving higher priority to primary and secondary education, and trying to increase cost recovery in higher education, in order to free resources for lower levels of education.

3. Attempt to improve the efficiency of higher education.

4. Concern about equity leads advocates of loans to argue that loans will result in a more equitable sharing of the costs of higher education than a system of grants, scholarships and free tuition, financed from government revenue, which mainly benefits students from upper-income families, who in future are likely to enjoy higher than average incomes.

The design and Management of Student Loan Programs

Student loan schemes differ widely in their design, form of administration and management extent of public subsidy and methods of collection. Although loans are advocated on the grounds that they will help overcome the severe financial constraints facing governments, by shifting part of the financial burden of higher education from public to private funds, Albrecht and Ziderman (1992) conclude that the high degree of subsidy and default in most loan programs in developing countries mean that "the government continues to bear the cost burden of higher education and/or student maintenance and in some instances, loans have been more expensive than outright grants.

In Asia and Africa default rates are high and cost savings are minimal. Financial problems caused the government to abandon student loans in Indonesia and Sri Lanka. High default rates have plagued loan schemes in Nigeria, Ghana and Zimbabwe, and Albrecht and Ziderman calculate that in Kenya the high costs of interest subsidies combined with default rates of over 80% mean that loans are actively more costly to administer than grants.

Although there are considerable differences between countries in the way student loan programs are administered, there was general agreement at the forums that conditions for the effective management of student loan include:

1. Sound financial management to ensure that the purchasing power of the capital of a student loan fund is maintained, and the cost of administration of loans are adequately covered. This means that realistic interest rates must be charged on student loans;

2. A sound legal framework for student loans, to ensure that loans recover is legally enforceable;

3. effective machinery for targeting financial support and selecting recipients of subsidies on grounds of financial need or manpower priorities;

4. effective machinery for loan recovery, to minimize default; and

5. publicity campaigns to ensure widespread understanding and acceptance of the principles of student loans and the importance of the obligation to repay loans.

The Feasibility of Student Loans in Developing Countries

Critics of student loans question whether loan schemes are feasible in developing countries which lack the financial and administrative infrastructure needed to ensure effective management and loan recovery. High rates of default, problems of graduate unemployment, inadequate banking mechanisms and political oppositions and public hostility to the idea of loans are all cited as reasons why loan programs would not work in developing countries.

Certainly many programs have faced formidable problems. Student loans have been abandoned in Indonesia and Sri Lanka. One of the first schemes in Africa, the Ghana University students Loan Scheme, was introduced in 1971 but abandoned after less than a year due to political opposition and the fall of the government that had introduced loans. Despite the fact that loans were advocated in Ghana on grounds of social justice there was widespread hostility to the scheme, particularly from the politically vocal student body.

In fact Williams (1974) suggest that the failure to mobilize public opinion on the advantages of loan, and a feeling among students that they were being made "scapegoats" of the "countries failure to control higher education costs" were among the reasons why the student loan scheme ran into such immediate difficulties although he believes that student loans seemed to have been accepted by the public at large and even student opposition was less vocal once the scheme was in operation.

Loans were re-introduced in Ghana in 1975 but still faced problems of massive default. Kotey (1992) describes the latest attempts to reform loan recovery, by linking it with the social insurance system. Other means to improve loan recovery include the use of employers who can deduct loan repayment at source, which is being tried in China and proposed in Kenya. Both Nigeria and Zimbabwe are currently designing improved mechanisms for data management and loan recovery.

Several countries are also trying to develop means to identify financially needy students in order to target student aid more effectively, which is one of Albrecht and Ziderman's recommendations for improving the efficiency of student loan programs. Both Malawi and Uganda give Universities the responsibility for selecting students from the lowest income families to receive loans in Malawi and subsidized employment in Uganda. Selection on the basis of family income is also attempted in Nigeria, Zimbabwe, Indonesia and the Philippines. However, this would require accurate and sensitive tests of family income which are difficult to devise and administer. Accurate data on family income is very difficult to obtain in most developing countries. Developing countries in Africa and Asia have not yet attempted to devise variable repayment schedules, nor to offer automatic postponement of loan repayment for the unemployed or those with low incomes, as is the case in Australia, Sweden and the United Kingdom.

The general conclusion of the forums on student loans in developing countries was that student loans can make a contribution to relieving the financial pressures facing higher education provided that loan programs are properly designed, effectively managed and a high rate of loan recovery is achieved. They are not, however, simple solution to the financial problems facing higher education in developing countries, and in many countries reforms and improvements in the efficiency of existing programs are urgently needed.

Despite the administrative problems and low levels of loan recovery that have been a feature of many student loan programs in developing countries in the past, there was a general recognition at the forums of the need to find new sources of finance for higher education and to promote wider cost-sharing, a belief that student loans do have a part to play in achieving these objectives, and optimism about the scope for improving management and efficiency of existing loan programs.

Other options should also be considered, for example compulsory payment of a proportion of graduates' incomes which is currently adapted in Botswana, graduate payroll taxes, which have been advocated by Colclough (1990) who argues that they would generate more income for higher education than a student loan scheme, or community service schemes, as suggested by Albrecht and Ziderman.

It is hoped that the Educational Forum on student loan in other countries will contribute to the debate on how to design student loans in Ethiopia. Student loans are widely used throughout the world to provide financial support for students in higher education. An analysis of this experience will therefore be very valuable in showing how student loan programs can be designed and managed in order to maximize their contribution to efficiency and equity in higher education finance.

In Ethiopia almost all universities and colleges are public and receive 90-100 percent of funding from the government. The government of Ethiopia is now unable to fund the expansion of higher Education as required. Higher education enrollments have increased rapidly in the past three decades. This leads to increasing pressure on public budget and real expenditure per student has declined. As a result, access to tertiary education is closely screened. On average, 30% of those taking the Ethiopian School Leaving Certificate Examination (ESLCE) each year pass the exam and only 10% of those passed the exam are enrolled in tertiary education.

Expanding access to tertiary education will require substantial capital expenditure. About half of the total public recurrent expenditure on education is for primary education. The share spent on secondary education has been approximately 25%. The recurrent budget for higher education, however, has risen five-fold since 1975, rising from 17 million birr to 84 million birr in 1994 which accounts for 8% of the recurrent budget. The unit cost of tertiary education is high in comparison with primary and secondary education. For example, the average unit cost of tertiary education in 1993 was 4282 birr, as compared with 161 birr for primary education. This high unit cost of tertiary education and the disproportionate spending on this sector in relation to enrollment raise some fundamental questions about future public investment in the tertiary education. Therefore, some policy reforms such as encouraging private investors to participate in expanding tertiary education and introducing student loans programs should be introduced.

REFERENCES

Albrecht, D. and Ziderman, A. (1992). "*Student loans and Their Alternatives: Improving the Performance of Payment programs* **High Education** *vol. 23 No 4*, June 1992

Colclough, C. (1990). *Raising additional resources for education in developing countries: Are graduates payroll taxes superior to student loans?* **International Journal of Education Development**, Vol. 10

Kotey, N. (1992). ***Student Loan in Kenya*** **Higher Education**, vol. 23 No 4.

Mauscen Wood Hall, **Educational Forums Series** No. 1-4, IIEP, Paris, 1990-1993

Williams, P. (1974). "**Lending for learning**," Minerval Vol XII.

World Bank (1986). **Financing education in developing countries: an exploration of policy options.**

World Bank (1988). **Education in sub-Saharan Africa: Policy for adjustment, revitalization and expansion. Washington DC:**