STUDENT LOAN SCHEME

PROGRAMME KICKS OFF THIS YEAR

GRAPHICS BY BRIAN SEKAMATE AND DAN NSEREKO

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Plans to introduce the loan scheme in Uganda were mooted in 1990, but had never materialised. The idea behind the Students' Loan Scheme is to ensure private contributions to the cost of higher education, increase access and equity, as well as improve efficiency in the provision of higher education.

In Uganda, although the Government had managed to enhance access to primary and secondary education through universal primary and secondary education programmes respectively, it only catered for just 4,000 or 9% of the students eligible for joining higher institutions of learning.

This means that 91% of students qualifying to join universities and other tertiary institutions had to pay for themselves.

Statistics from the education ministry indicate that less than 40,000 privately-sponsored students enroll in universities and tertiary institutions out of over 60,000 who qualify annually. More than 20,000 students stop at Senior Six due to lack of tuition fees. But even then, the attrition rate in universities is high, as many privately-sponsored students do not complete their courses for a variety of reasons including inability to pay.

Loan schemes, first implemented in Colombia in 1953 to assist graduate students to meet the costs of overseas study, have been replicated in various forms in over 50 countries worldwide.

LOAN REPAYMENT

Beneficiaries will be expected to start repaying the loan, with a specific interest rate, one year after completing their higher education studies.

The board running the scheme, shall within 30 days after the end of the one-year period after graduation, inform the person who received a loan to start repaying it.

But in case someone is not employed and has no income from which deductions may be made for the repayment of the loan, he will be expected to bring his case before the Board within two weeks of receiving the repayment notice. The board, after verifying the information contained in the plea letter, can extend the time of repayment.

Note should be taken that according to the Bill in the offing, "the board shall determine the schedule and instalments for the repayment of the student loan."

Deductions will be made on wages. Whoever takes a loan must inform the board when he gets a job.

The same Bill says whoever employs a person, whose loan is due for repayment, shall every month deduct the amount specified by the board from the salary of that person to repay the loan.

Such an employer is also expected to notify the board about the employment of such a person within two weeks period. But, the deduction shall not exceed 30% of the net salary or income of the employee.

The Bill also says in case the employer fails to notify the board, such a person commits an offence and is liable on conviction to a fine or imprisonment.

More so, the Students' Loan Scheme will be complemented by the bonding of students to Government employment after their respective courses, which will serve towards the repayment of the Student Loan.

Experts say efficacy of any loan scheme depends mainly on the recovery ratio. Thus, critics observe that a student loan scheme would serve well in an economy where graduates find no challenges getting jobs.

They predict that the loan scheme is likely to suffer from high default in countries like Uganda, where unemployment rates are high.

A number of African countries, including the neighbouring Kenya, also operate student loan schemes. But Kenya's programme suffered setbacks of poor administration, high costs and high default rates, as Dr. Wycliffe Otieno, a Nairobi-based scholar, puts it in a book, *Student Loans in Kenya; Past Experiences, Current Hurdles, and Opportunities for the Future.*

Otieno, in his book says in 1995, the Kenyan Government disbursed Ksh630m (about sh17b) as loans to 6,316 first-year students. But by 2004, it had recovered only Ksh6.420m (about sh162m) monthly from 3,000 students, the majority of whom were teachers.

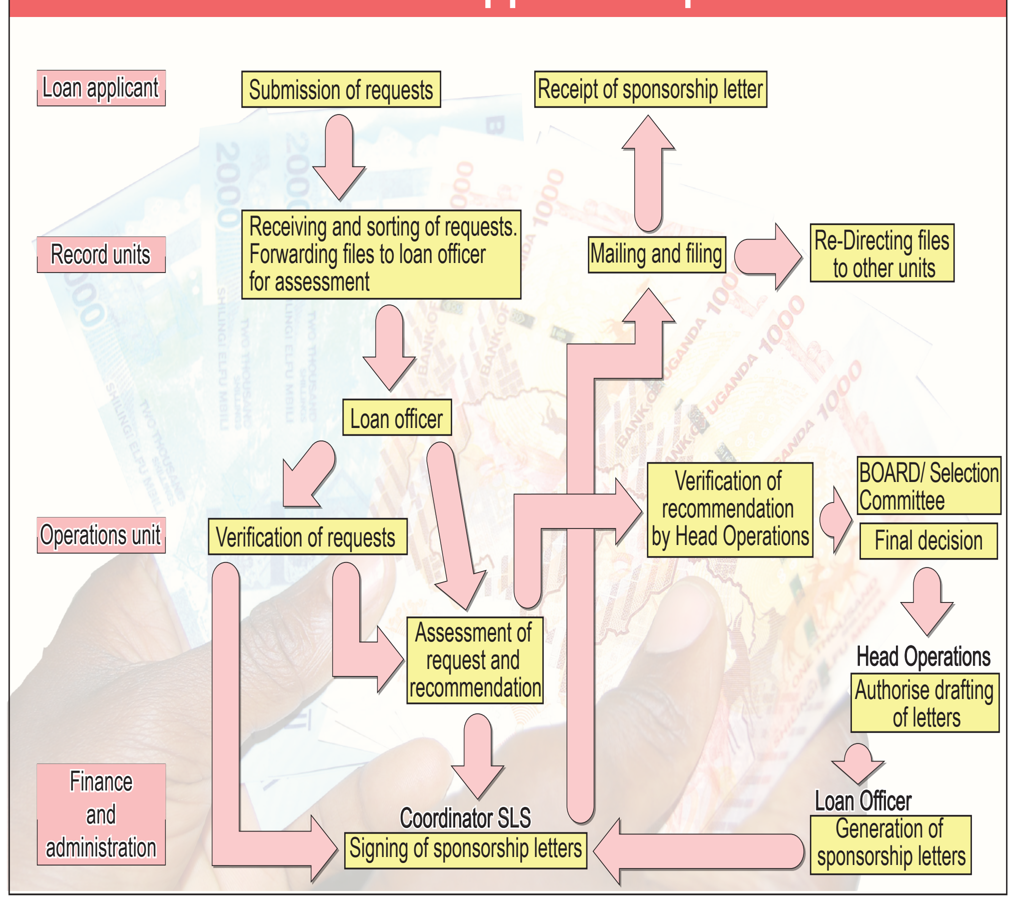
In that period, the country recorded default rates of over 80%. Thus, Otieno concluded, the loans were more costly to administer than grants. But this has or recent improved to 68%.

The education ministry is focusing on creating collaboration between the National Students' Tuition Loan Scheme Board with the Uganda National Examinations Board, Uganda Revenue Authority and the National Social Security Fund, plans to track down and ensure that all beneficiaries pay back.

According to the plan, all beneficiaries will be required to get personal Tax Identification Numbers (TINs), a system that has proved efficient in tracking down individuals.

There is also a plan to involve the public service ministry such that loan money for graduates who get jobs in the civil service is deducted at the source.

Students' loan application process



Public and private universities to benefit from students' loans 2013/2014

UNIVERSITY	REGION
Public Universities	
Makerere University	Central
Kyambogo University	Central
Mbarara University of Sci. and Technology (MUST)	Western
Gulu University	Northern
Busitema University	Eastern
Private Chartered Universities	
Islamic University in Uganda	Central & Eastern
Uganda Christian University	Central
Kampala International University	Central & Western
Bugema University	Central
Nkumba University	Central
Uganda Martyrs University-Nkozi	Central
Ndejje University	Central

Jessica Alupo

Programmes to benefit from Students' Loans 2013/14

Bach. of Medicine and Surgery
Bach. of Pharmacy
Bach. of Nursing
Bach. of Dentistry
Bach. of Medical Lab Sci.s
Bach. of Medical Lab Completion
Bach. of Clinical Medicine and Comm Health
Bach. of Community Health
Bach. of Sci. in Medical Radiography
Bach. of Veterinary Medicine
Bach. of Nursing Completion
Bach. of Pharmaceutical Sci.s
Bach. of Physiotherapy
Bach. of Sci. with Education
Bach. of Agriculture
Bach. of Sci. with Agriculture Mech
Bach. of Sci. Water Resource Eng
Bach. of Sci. Agro Processing Eng
Bach. of Sci. Animal Pdn. and Mgnt
Bach. of Sci. Mining
Bach. of Agric and Ent
Bach. of Voc. Studies in Agric with Education
Bach. of Sci. Electrical Eng
Bach. of Sci. Civil Eng
Bach. of Sci. Mechanical Eng
Bach. of Sci. in Petroleum Eng

'Loan scheme; best, but tricky choice'

The expected Student Loan Scheme should resolve one of the major problems of financing higher education.

One of the biggest problems is ensuring that higher education institutions get the real unit cost from each of the students they enroll as a way of guaranteeing the quality of education. The other problem is ensuring that payment of the real unit cost to institutions does not exclude the poor from accessing higher education.

The current sponsorship scheme, by rewarding those who have got the best examination marks, favours those who have gone to the best and, therefore, the most costly schools. Only the well-to-do, can afford to go to "first-world schools" from which most of the sponsored students come.

A number of studies we have done testify to this sad reality. If the loan scheme administrators can devise an income indicator tool, which in many countries is called a means test, to isolate the needy students from those pretending to be poor, part of the problem of access should be resolved.

The other problem, of course, is how to get borrowers pay to the Loans Board what they owe to society. Ghana and Kenya have devised systems where loan payments are collected through the taxation system and it works.

LOAN SCHEMES IN OTHER COUNTRIES

In many countries, including Kenya, Tanzania, South Africa, Ghana and Rwanda, governments use student-loan systems to make sure that universities receive realistic fees, while assuring that poor students get higher-education financing.

In this model, students defer payments until they start to work. The seed money for establishing loan schemes could come from the state, the private sector, or innovative activities such as lotteries, as is done in one state in Brazil.

However, unless well-managed, loan systems are subject to abuse. A means test to determine who accesses loans and well-organised debt-collection systems are necessary for loan schemes to succeed. Loans enhance the principle of cost-sharing, since the state guarantees them and the student pays back at a future date.

MERITS OF SCHEME

There are a number of advantages to loan schemes as a method of financing high education.

First, loan schemes enable institutions to collect market-rate fees based on unit costs where these have been calculated instead of fee levels being determined on emotional, ad hoc or political grounds. In turn, this enhances proper funding of universities and, if well-managed, the latter institutions can deliver quality education.

Secondly, loans reduce the amount of money states may pay for education as student contributions will be assured.

Thirdly, if a means test is effective, loans reduce the transfer of income from low to high income social groups.

More so, loans make the consumer pay for the product he receives at an affordable price and pays at a reasonable pace. They also improve cost-consciousness and reduce waste. Students who have invested money in their education are likely to value it more and do not often drop out.

It should also be noted that such loans flexible than grants because they can be used when students need them, and their repayment levels are negotiable. They also spread the responsibility for financing higher education to more stakeholders, including parents, the state, and thus the taxpayers, than direct public subsidies.

BUT LOANS HAVE PROBLEMS

However, loans have problems that need to be addressed. Unless a thorough method of identifying deserving students is in place, loans could be obtained by the well-to-do and thus increase, instead of eliminating, social inequity.

One of the usual ways to minimise this problem is to have a means test to identify poor, but academically able students. Without a national identity card system or income tax register for every citizen, this may be difficult.

Secondly, loans are difficult to collect because of the inability to repay debts or outright evasion. Therefore, the loan fund may experience liquidity problems. There is a worked out a checklist of policy options for deferred cost recovery that policy makers can look at. For copyright reasons, they cannot be reproduced in this article. I will be glad to share them with officials of this body if they want and are not proud to get advice from retired old men.

Prof. A. B Kasozi

It should be remembered that loans tend to reduce the necessity of awarding any merit and, therefore, increase chances of funding areas of national need like science and technology. In many countries where loans have been introduced, scholarships, grants and bursaries for disciplines that are considered key to national development are specifically reserved and made available to deserving students. In this way, the nation can ably plan its human resources requirements using data from the Loans Board.

For developing countries like Uganda, the establishment of a loan scheme must be well-studied. In developing countries, there are high rates of default, problems of graduate unemployment, inadequate banking, financial systems and inadequate tracking mechanisms. For example, in Ghana, a loan system was put in place in 1971, but was abandoned and not floated again until years later. Learning from past mistakes, now Ghana collects repayments through the tax, social security and national insurance systems.

The absence of a developed private sector that can support loan scheme liquidity is another major obstacle to instituting loan systems. In the end, the state may remain the major contributor and guarantor of a loan scheme. But this is better and more socially just than the sponsorship scheme which transfers wealth, from the poor to the well-to-do whose children can afford to go to "first world schools".

BEST OF MANY A DIFFICULT CHOICE

There are not many choices for properly funding higher education. A loan scheme is one of the few options we can take.

Despite these problems, all countries that surround Uganda have put student loan schemes in place on the premise that you learn to swim by leaping into the pool.

If you do not get in the water, you cannot learn how to swim. In Uganda, we must study the ways of the water and dive in.

Both Kenya and Tanzania support more tertiary students than Uganda due to the presence of loan schemes. Ghana, Kenya and other countries loan schemes have now stabilised the management of their loan schemes.

Uganda can do the same.

The writer is the former executive director, National Council for Higher Education