# STRENGTHENING AND EXPANSION OF THE STUDENT LOAN SCHEME


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## Introduction

Investing in higher education is essential to develop human capital and enhance its contribution to economic development. Therefore, making higher education accessible to eligible students and helping them develop their full potential is a national priority. Nevertheless, at present, over 70% of students who qualify at the GCE A/L examination cannot be admitted to a government university due to limited capacity.

Clearly, there is a need for greater investment in higher education by both the state and non-state sectors and genuine collaboration between the two sectors. The introduction of the Interest Free Student Loan Scheme (IFSLS) in 2017 marked a watershed in the development of public-private partnership in Sri Lankan higher education. IFSLS has contributed to the expansion of higher education opportunities while improving equality, equity, and access to higher education. This is not surprising given the fact that the introduction of loan schemes has been key to massification of higher education systems across the world. However, whether we have achieved enough over the past five years is a moot point, and no doubt, a lot can be done to improve and expand the IFSLS.

The present proposal seeks to address this challenge from the perspectives of the three key stakeholders, namely, the government that invest taxpayers' money, the students in need of training, and the non-state higher education institutions that provide the training. It is imperative that we strive to meet the expectations of all and arrive at a consensus where there is conflict of interest.

## Key Stakeholder Perspectives

### The Government

The government that invests taxpayers' money in higher education has an obligation to safeguard the public interest. Naturally, the government would want to ensure that its investment in IFSLS benefits the maximum number of students who need financial assistance and that IFSLS is sustainable.

The government is constrained by the multitude of demands on its annual revenue and the need to manage the budget deficit. Therefore, in funding the IFSLS, it may be necessary to tap multiple sources of income in addition to tax revenue; being a worthy cause, it may not be difficult to attract substantial funds from individual and institutional donors.

Unfortunately, we have a history of expanding education without a concomitant increase in funding leading to lowering of standards and unemployability of graduates. We must make sure that this historical mistake is not repeated and that the loan amount granted to students is adequate for them to receive quality education and be employable.

A unique advantage of the IFSLS from the government's perspective is the ability to recover a substantial part of the cost of education. Further, the government could vary the loan disbursements to different programs/disciplines to suit the manpower development needs of the economy.

Student Loan Recipients

Students wish to pursue a quality education programme that leads to employability; naturally, their aspiration is to pursue a rewarding career and a fulfilling life. They would be keen to commence and complete their education as early as possible.

At the same time, the students would be concerned about the future burden of loan repayment. Unfortunately, ours is a culture where taking loans is frowned upon. While looking for high quality education, they would want to minimize the loan burden. A subsidised scheme where part of the cost is borne by the taxpayer and tied to long repayment periods would be attractive. They would also want to be convinced that the education they receive will lead to gainful employment and that they will be able to conveniently pay off the loan with their future employment income.

Non-State Higher Education Institutes

The reputation of non-state higher education institutes and their future success depend on the provision of high-quality higher education leading to employability of graduates.

To achieve this objective, non-state higher education institutes would want to attract promising students and, in the least, a tuition fee income that is sufficient to cover the costs of a quality education service. In this context, it is important to appreciate that the cost of education varies from discipline to discipline. For example, the cost of education in Engineering and Sciences that require expensive laboratories/equipment is much higher than the cost of education in Arts and Humanities. The data collected and analysed by the UGC on 'unit recurrent cost per undergraduate students' prove this point. Therefore, it is only logical that the loan amount granted to students is varied depending on the discipline of study.

Non-state higher education institutes would be keen to expand their education provision in a commercially viable manner and make a significant and lasting contribution to human resource development and socioeconomic advancement. Yet, at present, the potential of the non-state sector is only marginally tapped in meeting the increasing demand for higher education.

## The Proposal

Given below are measures that could be taken to expand and improve the IFSLS while meeting the expectations of the stakeholders discussed above.

Establish a Student Loan Fund

We propose the establishment of a Student Loan Fund, like the Mahapola Scholarship Trust Fund. A Board of Management shall be responsible for effective management of the Fund, disbursement of loans through the banking system as recommended by the educational authorities, and collection of loan repayments. Surplus funds, if any, could be invested.

The Student Loan Fund may raise funds and receive grants and donations from local and foreign sources. Further, it is suggested that the corporate income tax collected from the non-state higher education institutes is channelled directly to the Fund for disbursement as education loans.

While the Student Loan Fund will expand and operate as a revolving loan fund benefiting increasing numbers of students, it is unlikely to be self-financing given the long repayment periods and the concessions given to students. Regular contributions by the government becomes mandatory, and this is a justifiable investment on education and training of more than 70% of students who are denied entry to the state sector.

### Improve Quality Assurance and Accreditation

It is paramount that the student loan recipients pursue study programmes that are of high quality and standard. The current arrangements for institutional and programme accreditation and approval must be enhanced and streamlined. Frequent monitoring of programme delivery and periodic re-accreditation of institutions/programmes is mandatory.

Regrettably, the expertise available in the non-state higher education sector is not utilized in quality assurance and accreditation or management of quality assurance and accreditation. This means that the unique perspectives and ethos of the non-state higher education sector are not considered.

It is suggested that representatives of the non-state higher education sector be included in the relevant management committees such as the Standing Committee on Accreditation and Quality Assurance (SCAQA) and technical committees that undertake quality assurance and accreditation.

### Eliminate Delay in Student Admission/Loan Approval

There is an undue delay after the A/L Examination in calling applications and admitting students to approved study programmes through the IFSLS. This results in students' wasting precious time and sometimes losing interest in higher education.

We would like to propose that applications for admission to approved study programmes in the non-state sector through IFSLS be called simultaneously with calling applications for state university admissions.

The processing of admissions to both state and non-state sectors could be undertaken parallelly. Any students who get selected to both sectors could be removed from the non-state sector promptly. This will allow the non-state higher education institutes to commence study programmes early in line with the commencement of study programmes in the state sector.

### Increase the Student Loan Amount

Presently, students receive a loan amount of Rs 200,000 per year, irrespective of the discipline of study; this amounts to a total disbursement of Rs 600,000 for a 3-year degree and Rs 800,000 for a 4-year degree. This amount is grossly inadequate to cover the costs of education and provide a high-quality education service in any discipline. This problem got seriously aggravated with the runaway inflation we have been experiencing since March 2022.

We propose that the loan amount granted to individual students should be increased urgently and substantially to reflect the actual cost of education. Further, we propose differential loan disbursements where the loan amount granted to individual students varies depending on the discipline of study; in other words, those pursuing costly study programmes such as Engineering would receive a higher loan amount.

The data available with the UGC on 'unit recurrent cost per undergraduate students' may be used to allocate a 'weightage' to each discipline. Then, a baseline annual allocation will be multiplied by the relevant weightage to determine the loan amount applicable to a given discipline. For example, if the base annual allocation is Rs 300,000 and the weightages assigned to Computing and Engineering are 1.5 and 2.0 respectively, then the annual loan amount granted to students in Computing and Engineering would be Rs 450,000 and Rs 600,000 respectively.

### Increase the Annual Student Stipend

Presently, students are given an annual stipend of Rs 75,000 towards their living costs. This too is grossly inadequate given the escalation of the cost of living. Therefore, there is an urgent need to increase significantly the stipend granted to students to support their living costs.

Moreover, both the loan amount and the stipend should increase annually to reflect the increasing cost of living.

### Make IFSLS Attractive

Despite the transformative effect of higher education on students and their families, the uptake of student loans appears to be low. This unwillingness on the part of students, particularly those of low-income families, could be due to cultural factors and a fear associated with the future burden of loan repayment. For a lot of people, debt carries negative connotations.

To make student loans attractive, we would like to suggest that, as practised in some other countries, the loan repayment be made income contingent. That is, the graduates are required to commence repayment only when they are employed, and when their employment income exceeds a certain threshold. Further, the repayment amount could be specified as a percentage of the income that exceeds the given threshold.

Another step to make loans attractive is to provide tax concessions; for example, any interest payments on loans could be made deductible in assessing taxable income.

It is further suggested that any loan amount that has not been paid back in 20 years since graduation be written off. The related principle is simple. Quality higher education should lead to gainful employment and repayment of the loan with ease. The graduates cannot be blamed for unemployment or underemployment which is often the outcome of poor training. It is the responsibility of the higher education institutes and the government through its quality assurance measures to ensure that the programs that are approved for IFSLS are of sufficient standard and quality and produce employable graduates.

Improve Awareness

There is a need to foster greater awareness about IFSLS amongst students and parents. Many do not seem to understand the transformative effect the scheme could have on students who would otherwise have to forgo higher education.

It is suggested that long-term awareness campaigns are undertaken for school children through the Ministry of Education. It is equally important to give wide publicity to the societal benefits of the student loan scheme to secure public support.

## Conclusion

Student loans will help the government expand higher education at much lower cost as a significant portion of the cost of education can be recovered from the students. It will improve access to higher education allowing those without means to pursue higher education and uplift their lives. Therefore, the student loan scheme that has been in operation for a few years now should be sustained, improved, and further expanded. A strengthened and expanded student loan scheme has the potential to transform our higher education and help build the skilled manpower for economic development of Sri Lanka.