# Increasing Accessibility to Higher Education: A Role for Student Loans?

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## 1. Introduction

### 1.1 Government-backed student loans schemes

University systems around the world have undergone massive and rapid expansion over the last forty years. As evidenced in the steadily growing proportion of the relevant age-cohort that is enrolled in tertiary education, this expansion has provided the opportunity for numerous youngsters, worldwide, to access and reap the benefits of a university education. But these growing opportunities have not been shared equally by all socio-economic groups of the population. In most university systems - both in industrialized and developing countries - the ongoing thrust towards expanded university enrollment has left behind such traditionally disadvantaged groups as low income families, ethnic minorities and the rural poor. The central theme of this paper is how the availability of student loans may contribute towards increasing access to higher education, in general and of these disadvantaged groups in particular.

A major, but by no means singular, barrier to access of disadvantaged groups is financial[1]; overt costs of university attendance -including tuition fees, other educational expences and additional living costs - may place a university education well beyond the reach of many poor families. Yet even where tuition is provided free and the provision of accommodation and food is highly subsidized, the opportunity costs of university attendance (defined as the earnings forgone by the student, and the family, during the years of study) may be formidable.

Parallel with the expansion in higher education enrollments, has been the growth of government-sponsored student loans schemes in recent decades, both in industrialized and developing countries. Such loans schemes are in place in well over fifty countries and their introduction is on the policy agenda in many others. The underlying logic of government intervention in facilitating loans for students has been well documented[2]. We have noted that university education is expensive. In most markets, the burden of acquiring a costly asset may be eased through resort to borrowing from the banking system. This would be appropriate too in the sphere of higher education; a university education may be regarded as an investment in human capital, generally leading to improved lifetime careers and enhanced earnings from which loans are repaid. But private financial institutions are usually loath to provide loans to most students on a commercial basis; student lending is seen to be a risky activity, given the uncertain outcome of university study, a lack of collateral and the absence of effective guarantors. Hence the need of, and justification for, government intervention in the provision of student loans; this intervention may take a number of forms including the provision of loan capital, subsidizing loan interest charges and acting as guarantor (and thus shouldering the risk of repayment default).

In this paper, we shall discuss the role loans schemes can play in easing financial barriers to access. Illustrations and case study examples are drawn from three groups of countries around the world where loans schemes are in place. These are: loans schemes in Western European countries (the location of some of the veteran loans schemes as well as some newly-established ones); the five case studies that were examined in a recently completed UNESCO project on loans schemes in South-East Asia (China, Hong Kong region, the Republic of Korea, the Philippines and Thailand)[3]; and four individual cases that have been the subject to much interest and scrutiny in recent years (Australia, Canada, New Zealand and South Africa). In Table 1, these country loans schemes are shown, grouped by region and according to loan coverage (whether for tuition fees, living expences, or both).

**Table 1**
**Loans scheme country examples, by coverage (tuition and/or living expences):**

| Loans scheme coverage | Region | | |
|---|---|---|---|
| | **Western Europe** | **South-East Asia (UNESCO project)** | **Other** |
| **Loans scheme for tuition fees only** | | Hong Kong *(non-subsidized)*<br>Korean schemes<br>The Philippines<br>Thailand *(planned TICAL scheme)* | Australia |
| **Loans scheme for living expences only** | Denmark<br>England & Wales *(current scheme)*<br>Finland<br>Norway<br>Sweden | Hong Kong *(subsidized)*<br>Korea (*Ministry of Education)* | |
| **Loans scheme for tuition and living expences** | England & Wales *(from Sept. 2006)*<br>Netherlands<br>Scotland | China<br>Thailand *(current scheme)* | Canada<br>New Zealand<br>South Africa |

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## 1.2 Loans, grants and hidden grants

Student loans constitute only one type of student aid. Student aid may be direct or indirect. Direct support, including grants, merit-based scholarships, living subsidies, are received by the student; indirect aid consists of a range of subsidies accruing to students' parents, such a tax relief.[4] Student grants, usually means-tested, is the most pervasive form of student support. Covering tuition fees, living expences or both, they are available in most countries. Where student loans have been introduced, they often have replaced grants; but more usually grants and loans are used in combination as part of a unified student support programme.

There is an affinity between grants and loans that is not always recognised. Virtually all government-sponsored student loans schemes are subsidized. Lending conditions are almost always “softer” than those on regular commercial loans; this difference represents a subsidy received by the student, in the sense that the borrower is not required to pay back the full value of the loan received. These conditions include below-market interest rates on the loan, periods in which no interest is levied on outstanding debt (both during study and in grace periods after study completion) and repayments non-linked to the rate of inflation. The larger are these built-in subsidies, the less of the loan is the borrower required to repay; the difference between original loan size and actual required repayment (the subsidy element) represents, effectively, a “hidden grant’ to the student taking out a loan.

Virtually all student loans scheme incorporate a subsidy element (i.e. a loan is a partial grant); thus, a subsidized loan may be seen as lying somewhere on the continuum between an outright grant and a non-subsidized, commercial loan. While loans are more costly to administer, they entail smaller net outlays, given loan repayment. But outright grants might represent a more effective instrument for assisting the poor than does a highly subsidized loan. A central issue in student support policy, especially when aimed at the poor, is in what circumstances is it appropriate to use grants or loans alone or in combination (and, in this case, what should be the balance between them). This issue is taken up again in Section 4.

In practice, most student loans schemes operate in conjunction with a regime of grants. This is illustrated in Appendix Table 1, for a number of West European and Asian countries.

## 2. Alternative loans scheme objectives

Loans schemes vary widely from country to country; they may differ in terms of size, student coverage, type and extent of targeting, degree of subsidization, organizational structure, loans allocation policies and repayment mechanisms. We have noted that loans may be cover tuition fees only, be restricted to living expences or they may cover both. These differences across national loans schemes stem largely from different objectives pursued. In a recent paper, the author identified no less than eleven separate objectives (in five category groupings) that have underscored loans schemes around the world (Ziderman 2002). In the present paper we emphasize three overall purposes of loans schemes which impinge in a major way on university access.

### 2.1 Three central objectives

We refer to the first as the *Cost-sharing* model. As noted above, one central objective of many loans schemes is to facilitate greater cost-recovery (through the raising of tuition fees and other university costs) by countering deleterious effects on enrollment, and especially on the access of disadvantaged groups. The second is the *Social Targeting* model which is explicitly and directly concerned with accessibility of the poor. Where targeted specifically at disadvantaged groups, loans schemes (particularly where subsidized), can lead to greater access of the poor to university education, thus contributing to social equity. The third, *Student Assistance* model, is found typically in a number of well-established schemes in Western Europe. The objective of loans provision here (most usually covering living expences only) is to ease student financial burdens during study; these burdens may be present even for better off students. For example, in Nordic countries students are regarded as financially independent of their parents; they should not be forced to rely upon parental financial support which might not be forthcoming. Students' loans can maintain independence for the student (of varying family income backgrounds) and facilitate access of a broad range of the population

In practice, of course, at a given point of time a particular loans scheme may incorporate more than a single objective. A detailed discussion of the three models, and how they impinge on access, is presented in later sections of the paper.

Table 2 provides a matrix of loans schemes, in which loan coverage is mapped against loan scheme purpose (i.e. the three types of loan models, outlined above). The Cost-sharing model will be illustrated, principally, from experience on the working of the Australian scheme, though lessons will also be drawn from the veteran Dutch scheme and new schemes in the United Kingdom. Second, the discussion of the Social Targeting model draws heavily on the findings of the five Asian case studies comprising the UNESCO regional project. This model, which of the three presented, is the most explicit in addressing problems of the disadvantaged and in increasing their access, will receive a fuller treatment than the other two models, commensurate with its importance as a tool for enhancing access. The third, Student Assistance, model will be illustrated from a cluster of European countries where typically no tuition fees are charged and loans cover living expences only. In these, mainly Nordic, countries students are treated as independent for purposes of loans entitlement; and indeed, a larger proportion of students in these countries live away from home than is the case in European countries further South (Guille, 2002).

**Table 2**
**Loans scheme coverage and purpose: country examples**

| **Loans scheme coverage** | **Loan scheme purpose** | | |
|---|---|---|---|
| | **Model 1 Cost-sharing** | **Model 2 Social targeting** | **Model 3 Student assistance** |
| **Loans scheme for tuition fees only** | , **Australia** | **The Philippines** | Hong Kong*<br>Korean schemes<br>Thailand*** |
| **Loans scheme for living expences only** | *England & Wales++* | **Hong Kong****<br>**Korea - *(Ministry of Education scheme)*** | *Denmark*<br>*Finland*<br>*Norway*<br>*Sweden* |
| **Loans scheme for tuition and living expences** | England & Wales+++<br>Netherlands<br>New Zealand<br>*Scotland*<br>**South Africa** | **China**<br>**Thailand+** | *Canada* |

* Hong Kong: non-subsidized scheme (NLS)
** Hong Kong: subsidized scheme (LSFS)
*** Thailand: planned TICAL scheme
\+ Thailand: current scheme
++ England & Wales, current scheme
+++ England & Wales, from September 2006

It should be noted that Table 3 is static in nature, describing the currently designated purpose of the loans schemes enumerated in the table. However, over time, the main objective of a given loan scheme may change, reflecting evolving policy priorities (or there may be a shift in the relative importance ascribed to various current objectives, where multiple objectives are in place). This process is illustrated by two major loans schemes - in Thailand and in England and Wales – which are currently undergoing a process of dramatic reform and change in direction and objectives. A examination of the evolving Thai scheme is presented below; the changing scheme in England and Wales is discussed in Section 3.

## 2.2. Thailand: from social targeting to cost-sharing[5]

The Thai loans scheme, which began operations in 1996, is aimed at disadvantaged students, enrolled in both tertiary education and in upper secondary general and vocational schooling. A note to the Act setting up the scheme explains its purpose:

> "…there is a need to develop human resources in order to achieve economic growth and to increase the competitive capacity of the country. Given these needs, educational development needs to be accelerated. Existing problems of educational inequality within society can be solved by enlarging the educational opportunities of students from low-income families. This will play a major part

in improving general living standards. To achieve these goals, it is necessary to establish the Student Loan Scheme".

In the Act itself, the only objective mentioned is "to lend money to poor students for tuition, educational expenses and other expenses necessary for living during studying" (Clause 5).

From these and other citations, it is seen that the objectives of the Scheme are primarily social: the availability of student loans would lead to greater educational opportunities for the poor, higher living standards and greater degree of equality in the population. The longer run objectives - of enhancing the nation's human capital, competitiveness and development - are economic; but the human capital development will be secured through targeting on the needy. No other objectives are recorded.

The declared aim of the Thai loans scheme to increase the access of the poor to upper secondary and tertiary education – through the targeting of loans to needy students under extremely favorable repayment conditions – has been complemented, *de facto*, by other objectives. Thus while the scheme was not designed as a vehicle for extensive cost recovery, the introduction of the scheme in 1996 was accompanied by increases in tuition fees at public educational institutions, though not all. Upper secondary school fees, stable for many years, were raised by over seventy percent, placing them on a par with fees at public vocational schools. Tuition fees at Rajabhat teacher training colleges were also raised sharply; fees at public universities have shown a more steady upward trend over recent years.

In the context of policies for enhancing university access for the poor, the Thai scheme is of considerable interest. It is one of the few national loans schemes that is both unambiguously aimed at serving disadvantaged groups of the population and is also relatively large in size and wide in student coverage, ensuring a strong impact that is lacking in many other, more circumscribed, schemes also aimed at the poor. Thus, coverage of the scheme at the tertiary level is extensive, reaching about a third of university students (excluding the two open universities) and up to a half of all students enrolled in Rajabhat institutes. The scheme is run through the national Students Loans Scheme Committee (and its loans office), which receives annual subventions from the national budget.

Under the scheme, borrower selection is made by individual education institutions (schools, colleges and universities), which receive loans budgets through a system of top-down budget allocation, from the central loans committee, via the ministries of education and university affairs (now divisions in a combined ministry of education). Loans budget allocation to educational institutions is only very loosely based on the social profile of the institutions' student populations (in the case of universities, allocation criteria are not based at all on the socio-economic level of students within the university or on need). Individual educational institutions have considerable autonomy in the loans process, including decisions on the size of individual loans (up to a designated maximum) and purpose of loan (tuition, accommodation and other living expences); this highly decentralized method of loans distribution leads to considerable inequities across the educational system. While the scheme is firmly aimed at the needy student, targeting is not effective. The family income ceiling set for loans eligibility is three times the income officially designated as defining poverty, so that many non-poor students receive loans.

The rapid growth of the scheme, considerably in excess of plans, led to budgetary cutbacks. I Education institutions have evidently preferred to spread declining loans budgets over a broader student population, reducing individual loan size below recommended (maximum) levels; this has blunted further the effect of the scheme in assisting the most needy.

The scheme has been subject to much criticism (some of these shortcomings will be discussed, subsequently, in Section 5). In April 2004, the Thai Cabinet passed a resolution endorsing the plan for a new loans scheme for Thailand, for which planning and implementation was set in motion. The new scheme - the Thailand Income Contingent and Allowance Loan (TICAL) scheme – is closely modelled on the successful Australian Higher Education Contribution Scheme (HECS) - arguably too closely, given the very different institutional conexts in the two countries. Much attention has been paid to the technical arrangements for loan repayment collection under the new scheme; these too are based on HECS. Repayment collection is to be assigned to the tax authorities and would be income-contingent i.e. set a precentage of current income, with a higher percentage being due on larger incomes. But preoccupation with the technical workings of TICAL in public discussion has tended to mask a more fundamental issue: the complete reorientation of the objectives being persued by the national loans scheme.

The reform is aimed at lightening the heavy burden on the government of funding tertiary education through a massive reduction in direct budgetary allocations to institutions and considerably greater cost recovery. A substantial increase in university tuition fees will be accompanied by the introduction of TICAL. This represents a dramatic shift from supply-side (government) financing to demand-side finance (with more cost sharing being assumed by students and their families), which is facilitated by the broad availability of student loans. As with HECS, loans will be available to all members of the student population but will be restricted to covering tuition fees; alternatively, students may pay tuition fees up-front, at a discount. Loans for living expences are no long available but a special fund is to be set up to provide grant allowances to poor students, the amount of grant support depending on family income; this, again, parallels HECS provisions.

The availablity of maintence grants for the poor is a kind of safety-net, designed to contain any delitarious effects of the new loan measures on access of the poor. It does little to reach out to poor potential students, to attempt to raise, in any major way, the proportion of poor youngsters that enroll in tertiary education. In sum, under the new TICAL the aim of facilitating cost recovery is of central concern, displacing the more directly social objectives of broader access to higher education for the poor, that were dominant under the old scheme.

Against this background, we present a fuller discussion of these three models.

## 3. Cost-sharing model

We begin with an elaboration of the cost-sharing model. In many parts of the world, problems of access have been aggravated by the ongoing financial crisis facing university systems, the result of parsimony in government budgets. Real resources available to universities have been eroded due to a combination of the dramatic and continuing expansion of student enrollments unmatched by public expenditures on higher education. Universities have attempted to alleviate these financial pressures through the development and extension of non-government sources of funding. Cost-sharing, (or, greater cost-recovery), where a larger and significant share of the costs of university education is shifted onto the main beneficiaries of university education (students and their families), is the dominant path that is pursued for revenue augmentation. In particular, this has taken the form of the introduction or raising of tuition fees to realistic levels. However, greater cost recovery for instruction or for university-provided student housing and meals will have adverse effects on access. The higher, more realistic tuition fee regimes are likely to result in disincentives to students to continue, or apply for, university studies. The result is increased dropout, both by current university students and by potential students completing secondary studies and failing to apply for university entry. These effects may be offset, at least in part, by student support schemes, such as the provision of grants and scholarships. But to be effective in facilitating greater access, such measures will need to be introduced on a fairly large scale; this may be overly costly.

Student loan schemes may constitute a more affordable alternative. The disincentive effects of up-front tuition fee increases may be offset also by the availability of loans for students that will cover these augmented costs. Payment is delayed through the receipt of a loan, thus neutralizing the initial disincentive effect of higher fees. Loans enable student-borrowers to avoid up-front payments for higher education (whether for tuition or living expences) by delaying payment, which will be rendered in manageable installments after graduation.

The introduction of a student loans scheme may neutralize any student hardship resulting from the imposition or augmentation of tuition fees; it may also render tuition fee increases politically acceptable. In Singapore, the 1988 university tuition fee rises were accompanied by subsidized loans equivalent to about half the value of the new tuition fees. The much-discussed Australian loans scheme was introduced in tandem with the imposition of university tuition fees in 1989. And in the early 1980s, large tuition fee increases in Chile were accompanied by the introduction student loans programmes administered by the universities.

The problems resulting from tuition fee increases may be particularly severe for the poor student, who may already be hard-pressed to cover other costs of university attendance; the result is sizeable student drop-out amongst the poor and strong disincentives to apply for university studies. Student loans can play a role in mitigating these effects on the poor, and in promoting access, in two rather different contexts, as discussed.

### 3.1 Demand for loans exceeds supply

The first context is where the supply of available loan slots falls considerably short of the demand for loans. A procedure then must be adopted to allocate the limited number of available loans amongst potential borrowers. This can take a number of forms. One approach is to distribute loans on a "first come, first served" basis[6]. While this method is administratively simple and obviates the need for eligibility-screening, the method is arbitrary and can lead to corruption and mal-practice. The most efficient approach is to distribute loans on the basis of academic merit. There is much less risk involved in lending to academically-talented students; they are likely to complete their studies competently and in a timely manner and their subsequent job prospects are high[7]. Thus in terms of purely enhancing the internal efficiency of a loans scheme, it might be better to target students of greater academic ability, with the aim of *excluding* various categories of high-risk students, including the poor. But rather than focusing on low-risk students, priority is more usually given to students facing hardship, i.e. for whom the access barrier posed by tuition fee increases is particularly high. This is the approach adopted in many countries. Evidence suggests, that amongst the poor the price elasticity of demand for tertiary studies is high (students from poor families are more responsive to price increases than higher income groups)[8]. This indicates that higher fees, in the absence of focused student support (grants or loans) would choke off demand for university entry from amongst disadvantaged groups.

But in these cases where loans allocation is needs-based and directed towards poor students, the central objective of the scheme is not that of reaching the poor student, as such. Rather, giving preference to the poor is to be regarded as a loans-allocation device that is judged to be socially appropriate.

#### *3.1.1 National Student Financial Aid Scheme: South Africa*

The South African National Student Financial Aid Scheme (NSFAS) is often regarded as having dominantly social objectives. It "seeks to impact on South Africa's racially skewed student, diplomate and graduate populations by providing a sustainable financial aid system that enables academically deserving and financially needy students to meet their own and South Africa's development needs" (NSFAS mission statement). Some 100,000 loan awards are made annually to disadvantaged students (99 per cent of whom are black), representing some 20 percent of the university student population (excluding open university students). But the scheme may more appropriately be seen as one that conforms to the cost-sharing model. In practice, the loans scheme provides the means whereby large numbers of academically able but poor black students are able to meet the high and rising costs of higher education, the result of on-going increases in university tuition fees (which rose by nearly 60 per cent between 1996 and 2001 alone) and extended cost-sharing. While often regarded as a success, the scheme is evidently under-funded, as evidenced in the periodic appeals for additional funding that are heard from NSFAS. Thus large numbers of less poor, current students and potential students, can not receive loans because of funding constraints; loans demand outstrips funding supply.

### 3.2 Loans are generally available

More usually, for loans schemes based on the cost sharing model, loans are generally available to all students. Preferential treatment for the poor in the allocation process should not be necessary. But it has been argued that poor students - and poor potential students – may be unwilling to take up available loan opportunities at established loan conditions. There may be significant debt aversion amongst the poor and, in particular, a greater reluctance to resort to borrowing to finance higher education[9]. Take-up of loans may be low for these disadvantaged groups and difficulties in meeting costs of higher education will deter pursuance of university studies. In this case, it is argued, loans should be made available to disadvantaged students at *more favourable* lending conditions, i.e. they would be more highly subsidized than are loans to other students. Subsidies could take a number of forms, alone or combined: lowered rates of interest, extended grace periods before repayment, longer repayment horizon, and even partial loan "forgiveness" in particular cases. This is the practice adopted in one of the more successful Asian loans schemes, the dual loans scheme in Hong Kong, where loans subsidies to the poor are sizeable..

Operated by an autonomous public loans organization, that component of the Hong Kong scheme which aims at assisting the poor (the Local Student Finance Scheme - LSFS) provides interest-free, means-tested loans to cover living expences; these loans complement grants given towards educational expences. The scheme is sustained by continuing government subsidy. The second component, the Non-subsidized Loans Scheme (NLS), for which student status is the only requirement, provides loans at market rates for both tuition and living expences; it is expected to operate on a "no-loss, no-gain" basis (Chung, 2003).

Also, the New Zealand scheme poor students pay zero interest during the study period CHECK

But do poor students indeed require more favourable loan conditions to counter a general reluctance to take up available loans? The Australian loans scheme (HECS), another scheme that is open to all prospective students, does not offer favourable repayment conditions related to income status (unlike the LSFS system in Hong Kong). The issue of loans take-up by the poor within HECS has been widely studied. The evidence on this issue is reviewed in the following section.

### 3.3 Lessons from the Australian scheme

*3.3.1. Moving towards cost-sharing*

Following the imposition of a small tuition charge in 1987, the Australian government embarked two years later on an overt policy of cost-sharing through the imposition of an unvarying university tuition fees roughly equal to some 20 percent of unit costs. This was a response to a shortage of state funding for public higher education institutions (all of which operated free tuition regimes since 1973), the result of a national policy goal of expanding access. The introduction of these new charges was accompanied by subsidized loans (HECS) available to all students, regardless of their personal resources. Students were given two options. They could pay the new charges as an "up-front" free (at a 15 per cent discount, subsequently raised to 25 percent). Or payment could be made in installments after graduation, when the repayment charges would be collected on an income-contingent basis by the tax authorities. The vast majority chose the latter option. In 1996, tuition fees, differentiated by course-subject, were raised by about 40 per cent, on average.

The particular feature of the new Higher Education Contribution Scheme which has attracted much international attention - that loan repayments are income-contingent and collected through the national tax system - is not the focus of our interest in the present context. The question posed here is whether the introduction of HECS in 1989, and subsequent amendment some years later, had adverse consequences for access generally, and in particular for the access of relatively disadvantaged prospective students. HECS was designed to avoid this. Bruce Chapman, the architect of HECS and a leading contributor to the student loans literature, has noted that:

> "At the time the major rational for income contingency was to have a charging system that would maximize the participation in higher education of the less advantaged ..…... repayments based on future income would have a minimal impact on both aggregate student demand and the participation of prospective students from relatively disadvantaged backgrounds" (Chapman and Ryan, 2005).

To achieve this aim, repayments were not onerous: zero on all incomes below a defined income threshold, two percent of taxable income above this threshold, subsequently rising to three or four per cent for higher taxable incomes. Moreover, debt obligations were linked to the cost-of-living index only, so that effectively graduates paid a zero real rate of interest on outstanding debt; the effect is that the longer is the period of repayment (i.e. the lower are annual earnings), the greater are the subsidies received, *ex post*[10] (Chapman and Ryan, 2005).

While income contingency repayment may have been seen by its initiators as a method of avoiding additional access barriers to the poor, this was not the central aim of HECS, which was, rather, the augmentation of university resources through cost-sharing. Indeed, it is possible to achieve the same objective of protecting the low-earning graduates through repayment obligation adjustments in the more widespread system of mortgage-type repayments[11]. Thus our interest in HECS lies not in the income contingency aspects of the scheme but rather in the scheme as a solid example of cost-sharing, achieved through a combination of tuition fee increases and delayed payments. Bearing in mind that needy students in Australia continue to have access to grants for living expences, does such a system of delayed tuition payments place additional barriers in the path of access of the poor? Does it have deleterious effects on their participation in higher education? And if so, should a loans scheme be accompanied by additional, focused subsidies/incentives to enhance the willingness of disadvantaged groups to enroll in tertiary education?

### *3.3.2 Access implications of HECS*

There is now available a large empirical literature that has examined whether or not HECS has had negative effects on the participation of disadvantaged prospective students. Some studies have concentrated on the effects on the participation of disadvantaged groups, following the introduction of HECS in 1989; others have focused on the impact of the 1996 changes on enrollment. This literature, which is probably more extensive than for any other national scheme, has two strands (Chapman and Ryan, 2002)[12].

The first approach consists of surveys asking potential or current students how far HECS has influenced their decision to enroll in higher education. Robertson, Sloan and Bardsley (1990) probed the effects of the introduction of HECS on enrollment in West Australia and Victoria. Enrollments generally were unaffected by HECS; however, the very small number of respondents claiming HECS to be an important factor mitigating against enrollment were mainly from disadvantaged groups. In a 1991 Higher Education Council survey, HECS ranked only 13 out of 17 possible factors that might lead to non-participation in higher education. The report concluded that:

> "……. most qualified applicants from across all sub-populations in the study would not be significantly deterred by HECS" (Higher Education Council, 1992, quoted by Cheng, 2005).

A more recent survey by Ramsay *et al* (1998) examined the Special Access Scheme (USANET) for low socio-economic status (SES) students at the University of South Australia. It asked respondents (low SES students and a control group of students) how great an influence HECS had exerted on the decision to enroll; this followed the announcement in 1996 of increased stringencies in HECS. There was no difference in the percentage of low SES and of control group students (12 percent) who declared that HECS exerted a very negative influence on the decision to enroll. Interestingly, 17 percent of low SES students regarded HECS as exerting a positive influence on their decision to enroll, compared with 8.6 percent for the control group of students.

Chapman and Ryan (2005), examining the intentions of secondary school students concerning university participation after the HECS modifications, found an across-the-board decrease in intention to enroll for all wealth groups. However, this proved to be temporary; in the following year enrollment intentions rebounded back to their previous level, for all SES groups.

Overall, the evidence from attitudinal surveys does not indicate that HECS has had any major negative influence on enrollments, neither in general nor for low socio-economic status groups in particular.

The second, more substantial, part of this research literature examines the extent to which there were significant differences in university participation between different SES groups, both following the introduction of HECS and in response to the hardening of loans conditions in 1997. Did HECS lead to changes in the enrollment patterns of low SES groups that differed from higher SES groups?

Andrews (1997) showed that, parallel with an upward trend in the general higher education participation rate, the proportion of students drawn from low SES backgrounds (i.e. those in the bottom income quartile) did not change as a result of the stiffened loan conditions introduced in 1997; this remained constant at about 20 per cent. These results are consistent with those of later studies that have used longitudinal panel data to probe changes in the participation of the poor in response to HECS; these include Long, Carpenter and Hayden (1999), Marks *et al* (2000) and Chapman and Ryan (2005).

While it is difficult to provide a summary of the extensive findings from these studies, the overall thrust of the research, in the present context, may be indicated from some key results of the Chapman and Ryan research. They examined and compared participation for different wealth groups at three points of time: in 1998 (prior to the introduction of HECS), in 1993 when it was operating under the original arrangements, and in 1999, after the changes in HECS had been implemented. Looking at the proportion of 18-year olds from each wealth group that enrolled in university study, they showed that the participation proportions for all wealth groups (including lower SES groups) were higher in 1999 than in 1998. Neither the introduction of HECS nor the more stringent conditions announced subsequently, were associated with a fall in the proportion of lower SES groups enrolling in university studies, though the relative expansion was greater for middle-level wealth groups.

### *3.3.3 Conclusions from research on HECS*

The foregoing discussion may be summarized as follows. In the cost sharing model, as exemplified in HECS in Australia, student loans play a supporting role in policies for increasing the share of the costs of higher education borne by students, yet without imposing additional financial burdens during the period of study. Even though poor students may be more vulnerable during study, overall they do not seem to have been affected adversely by the introduction of HECS or the more severe repayment conditions implemented subsequently. Reviewing the evidence Baoyan Cheng concludes:

> "All in all, these studies do not provide compelling or conclusive evidence for HECS presenting barrier to college access for students from low SES family backgrounds although they do illustrate the high possibility of students from disadvantaged family backgrounds not benefiting as much as those from more privileged backgrounds. However, considering that HECs is essentially a cost-recovery mechanism…… one has to admit to its success of expanding general access without having a significantly negative effect on access for students from disadvantaged family backgrounds" (Cheng 2005).

Lleras (2004) observes that HECS fulfilled the double goals of increasing the government's capacity to provide higher education while not marginalizing students from low-income backgrounds (Quoted in Cheng, 2005). Overall the Australian evidence does not support the view that, where a loans scheme is introduced as part of a programme of cost sharing, additional loan subsidies are necessary for poor students, in order to reduce the risk of drop-out of current students or to counter possible deleterious effects on access of the poor.

But these conclusions may be thought to offer poor praise for HECS, in the context of the present discussion. While not damaging the prospects of the poor to enroll in tertiary education, it did little to seriously promote their access in a major way. But of course, this was not the objective of HECS.

## 3.4. England & Wales: from grants to cost-sharing

England and Wales has also moved strongly in the direction of greater cost sharing, though in a rather different context.[13] As with HECS, the system of student support, and particularly new cost sharing measures, are not directly aimed at increasing the access of poor students. But there has been considerable public debate on how arrangements under succeeding loans schemes are likely to effect access of these disadvantaged groups. On this issue, conclusions have been less sanguine than for Australia.

The system of student support has gone through four major phases in little over a decade and a half.[14] For very many years, the government subsidized both tuition costs and living expences. Until 1990, no tuition fees were paid by students. Means-tested maintenance grants were available, the size of the grant depending on family income. Parents were expected to make up the difference between living expences and the assessed grant - the parental contribution. A loan scheme, introduced in 1990, represents the first major step taken in the direction of cost-sharing. A gradual process of replacing grants by loans ensued. The subsidized loan (carrying a zero real rate of interest) covered half of living expences; the remainder was covered by a maintenance grant for poorer students or by a parental contribution for others. There were still no tuition fees falling on students.

The Dearing Report (1997) ushered in the third, current phase. In line with the Report's conclusion that "the costs of higher education should be shared among those who benefit from it", students became liable for the payment of tuition fees for the first time. Initially set at 1000 pounds in the 1998/99 academic year but reaching 1075 pounds subsequently, tuition fees still account for only a small part of total tuition costs; however, the imposition of sizeable tuition fees represents a major break both with the past and with current practice in many West European countries. The introduction of tuition fees, for which poor students are exempt, is accompanied by income contingent student loans for living expences (grants for living expences are now fully phased out); 75 percent of the maximal loan for living expences is available to all students, regardless of income. The number of students from low-income families receiving exemption from fee payment is substantial: 30 percent of all students received full per cent exemption, 30 received partial exemption and the better-off 40 percent paid full fees (Vossensteyn, 2001).

The design of the current system was much influenced by HECS, but there is an essential difference between them. Loans serve a very different purpose under each of the schemes. HECS provides loans for tuition fees, which are levied on all students regardless of SES background; there is only minimal support for living costs, in the form of grants for poor students. Under the English scheme, loans are provided for living expences and not for tuition; tuition fees are paid up front (though poor students can receive a grant for tuition costs).

Another difference between the two schemes has been the very different conclusions drawn in public debate in the two countries, concerning the effect of the loans scheme on students from low income families. As we have seen, HECS has been given a largely clean bill of health in this regard. There seems to be wide agreement that problems of access (seen in terms of any deterioration in access) seem to have been avoided by the combination of tuition fees with deferred payments. In Britain, there is considerable social concern over access issues. The need to increase the participation of lower SES groups in higher education is an issue that attracts very wide public support (it was a tenet of the Robbins Commission which initiated the expansion programme in the early1960s). Yet the massive expansion of university education over the past four decades has not been accompanied by any sizeable increase in the proportional representation of lower socio-economic groups. Thus there is considerable criticism of the1998/89 reforms scheme related to the effects they are having on access. It is argued that the low level of individual support acts both as a barrier to access for poor youngsters considering university studies and also forces large numbers of students (particularly of low SES) to take on part time jobs to the detriment of their studies. This may be aggravated by the system of parental contributions, which may not be functioning well.

Criticism has not been abated by the considerable changes that will take effect in the 2006/07 academic year (the fourth phase). Under the provisions of the 2004 Higher Education Act, the up-front, standard fee is to be replaced by variable fees across universities and subjects (differential top-up fees, capped at 3,000 pounds). The loan system is broadened to cover tuition fees (some of which will be very substantially raised; in parallel, the loan size for living expences is increased. These reforms represent a further, decisive move towards greater cost sharing, facilitated by deferred payments. The effects of these measures on access are likely to be mixed. Poor students will now be liable to pay tuition fees for the first time but this may be mitigated by the reintroduction of maintenance grants, available for poor students in addition to a loan. There is ongoing criticism that the level of the maintenance grant is too low and that the eligibility income ceiling is set too high. And while university education will be generally free at point of entry, the greater accumulated debt and larger repayment obligation falling on graduates may be seen as countering government policy of raising the participation in higher education of under-represented (lower SES) groups.[15] Claire Callendar, a respected researcher in this field, shares this view:

> "Debt aversion deterred entry into higher education and had the greatest impact on the participation of the very groups the Government most wants to attract into higher education. Student funding policies, predicated on the accumulation of debt, will deter higher education entry among those with no financial resource to call upon to fund their higher education. So the Government's widening participation policies are being undermined by their student funding policies" (Callendar, 2003)

These misgivings about access are out of kilter with the findings for Australia (and also for the Netherlands - see Footnote 9). But this dissonance does emphasize the dangers inherent in institutional imitation across countries. What may work well in one country setting, may not be so in another; eclectic adaptation is appropriate, rather than over-eager adoption. Hence lessons from international experience in the field of student loans, as in other policy areas, need to be learned with care.

A system of student loans that operates within the context of cost sharing policies constitutes a weak tool for raising the access of youngsters from low SES groups, though it may maintain the status quo, as in Australia. Increasing the access of the poor is not its main concern and cost sharing regimes are generally not directed strongly towards this goal, though this may be a subsidiary objective. Student loans can take on a more positive role in increasing access of the poor when that is its central goal. This is considered in detail in Section 4.

## 4. Social targeting model

A student loans scheme may serve a more active, and deliberate, role in increasing the participation of the poor and of other marginal groups in higher education. In many countries the relatively low enrolment of poor and disadvantaged youth in tertiary (and also in non-compulsory secondary education) is a cause of social concern. Increasing the access to university education among these segments of the population has become a major element in educational and social policy. While the cause of low access of the poor is multi-faceted (and a discussion is beyond the scope of this paper), financial constraints evidently play a major explanatory role. There is now a broad consensus on the need to offer clear financial incentives to poor, potential students, not only to overcome the burden of fee payment and living expenses but also to offset both parental resistance to reductions in family income and the fear that the benefits of the educational process may not be sizeable. The provision of financial aid therefore may be regarded as a necessary though not sufficient condition for achieving greater participation of the poor.

### 4.1. Loans versus grants

But what form should this financial assistance take? The traditional, and most effective, method of enhancing the educational access of the poor has been through the provision of means-tested grants to cover tuition fees (where schooling is not free) and usually living expenses as well. However, a widespread grants scheme is likely to be expensive. The use of loans, rather than grants, proactively targeted on the poor, offers a method that may both increase access for the poor and reduce, or at least contain, public expenditure on student support over the longer term, as loan repayments build up.

To be effective in increasing the education access of the poor, loans may need to be made available under "softer" lending conditions. While the justification for loan subsidies for all borrowers under the cost-sharing model, and particularly general interest-rate subsidies, is weak (Ziderman 2002), there is wider agreement on the need for subsidized loans for the poor under the social targeting model, in order to encourage them to borrow. Loan subsidies can take a number of forms: below-market rates of interest, grace periods for repayment or repayments not fully linked to inflation. Whatever the form that loan subsidies take, the upshot of subsidization is that the student is required to pay back substantially less than the original capital cost of the loan.  We have noted that the part of the loan that is not repaid may be seen as a "hidden grant" to the borrower, the size of which is a reflection of the amount of subsidy built into the loan scheme.

In many loans schemes, the hidden grant element is substantial. Ziderman and Albrecht (1995) calculated interest subsidies for over twenty loans schemes in the 1980s and early 1990s; they showed hidden grants ranging from13 per cent in Barbados to 93 per cent in Venezuela. It is in this sense that a loan offered at market rates and a straight grant may be seen as two ends of a continuum, with subsidized loans (hidden grants) lying somewhere in between. The larger is the loan subsidy, the greater is the hidden grant element. Given the need to subsidize student loans for the poor (to offer implicit grants) and, in addition, the higher administrative costs of loans (compared with grants)  and the probabilities of repayment default, a significant part of total loan scheme outlays will not be recouped by the loan authorities. Since a grant offers a stronger and more direct incentive for access than does a (partially) repayable loan, the apparent advantage of loans over grants is less clear-cut. This highlights a central conundrum in loans policy: at what level of loans subsidy does a grant become a more cost-effective instrument for helping the poor than a subsidized loan? It also suggests that an appropriate financial aid programme for the poor is likely to involve a combination of both loans and grants, with a relatively larger overt grant element for the very poor. This is the practice in the Hong Kong scheme, England and Wales and many other loans schemes.

### 4.2. Conditions for loans scheme efficacy

The success of a loans scheme in leading to greater participation of the poor is contingent on many factors. Three, however, are essential ingredients for success.

- *Targeting*:  The scheme must be carefully targeted to reach the poor and other disadvantaged groups; otherwise the central objective of the scheme will be lost

- *Impact:*  Student coverage of the scheme must be wide enough to achieve national impact

- *Adequacy*: The level of individual support must be sufficiently high to cover private educational costs

These criteria are discussed, in turn, in the following three sections.

These issues were examined in depth in the five UNESCO case studies set in S.E Asia. The findings of these case studies will be used to illustrate the issues of targeting, impact and adequacy. Summary details of these schemes are provided in Table 3.

**Table 3**
**Asian Case Studies: General Description**

| Case Study | Description |
|---|---|
| China | Two national schemes, still being developed. The major scheme, aimed at the poor, is subsidized by government. The second scheme operates on commercial lines. Limited coverage but growing. |
| Hong Kong region | Veteran, centralized dual loans scheme, part of a comprehensive framework, providing grants and subsidized loans for the poor and non-subsidized loans for non-poor students. Broad regional coverage. |
| Republic of Korea | A number of separate schemes, each run independently and aimed at different target populations. The largest scheme, Ministry of Education and Human Resources Development (MOE), is aimed at the poor. |
| The Philippines | A very small, long-established national loans scheme, complemented with two new schemes (one in a poor region, the other for high-level institutions). Aimed at the poor but marginal in total size and impact. |
| Thailand | New, highly-subsidized, with broad national coverage; aimed at the poor. Includes students enrolled at the upper secondary and tertiary levels. To be replaced by the TICAL scheme, based on cost-sharing. |

## 4.3. Targeting: do loans reach the poor?

Loans schemes, aimed at needy students to encourage access, tend to be highly subsidized in order to provide strong access incentives. A central challenge in designing and administering these schemes is to ensure that loans are successfully directed to the poor. If targeting is not successful (and loans are received, also, by the better-off), two undesirable consequences will follow. Not only will achievement of the central objective of the loan scheme be compromised but also the heavy subsidies will not be justified. Yet, in practice, many loans schemes, ostensibly directed towards the poor to increase access, including some of the schemes examined in the UNESCO Asian case studies, are not well targeted to reach the poor student. Targeting thus becomes a critical issue in appraising the efficacy of loans schemes that are directed towards increasing the access of disadvantaged students.

### *4.3.1. Reaching the poor*[16]

The central consideration in loans schemes where the central objective is to provide loans to students from poor families, is whether the scheme does indeed reach this target group. Targeting the poor requires not only the setting of definitions for loans eligibility (usually in terms of a family income ceiling) but also the ability to check and test the veracity of such information supplied by loans applicants. Where it is difficult to authenticate this information, the scheme may be subject to abuse, with non-poor students gaining access to subsidized loans. This is doubly unfortunate, in terms of the scheme's objectives. It is both wasteful and inequitable to provide students, not in poverty, with these subsidized financial benefits. And without careful targeting, it may well be that the students most in need are the ones who are excluded.

The concept of targeting and reach may be clarified by reference to Figure 9.1: the "egg diagram". The outside (largest) “egg” relates to the total population of university age and includes both youngsters who have left the school system and those currently attending tertiary education (the middle egg). Within the schooling population, some students are in receipt of loans (the smallest egg). On the basis of the particular eligibility measure adopted (the dotted curve), only part of this total youth population is defined as poor - located in the north-east area of the diagram. Total loan recipients are shown in areas A and D of the chart. Those in area A are defined as deserving of support and thus entitled to a loan. Students in area D, while formally not eligible for support, are in receipt of loan. This occurs because loans distribution does not conform to defined eligibility criteria or the loans scheme is being abused.

The targeted *school* population consists of all poor youngsters enrolled in tertiary educations (areas A and B); of these only A receive loans while B are not reached. The *total* target population consists of A and B plus a portion of C (those poor youngsters who have left school but are qualified for university entrance and could be drawn back into the education system through the availability of loans). Monitoring, on a continuing basis, will show how successfully the targeted population is being reached. Thus in considering the success of any loans scheme aimed at assisting the poor, attention must be paid to the *reach of the scheme.* Does the scheme indeed reach the target group? Which deserving groups are not reached? Are some ineligible students in receipt of loans?

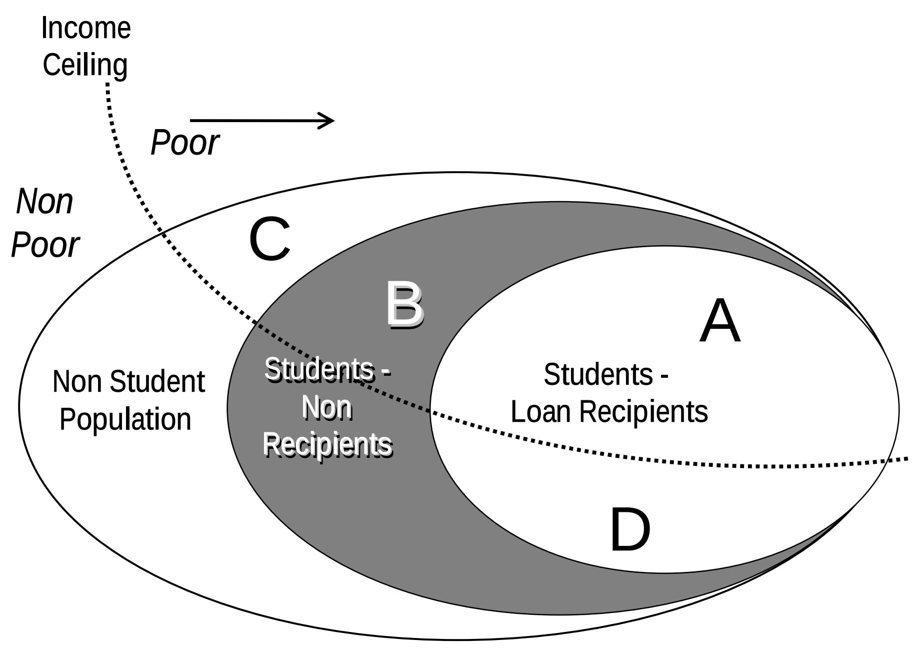


**Figure 1**
**The Egg Diagram: Reaching the Poor**

This leads to the important distinction between targeting and screening. A loans scheme that is based on screening (rather than real targeting) focuses on the vetting of applications for their eligibility for inclusion, in terms of the defined entry criteria. It is less concerned with actual composition of those accepted for a loan (and whether they constitute the group most in need of a loan), nor with the self-excluded but eligible individuals who do not apply. It is essentially passive in approach, emphasizing legal entitlement rather than satisfying need. In contrast, a well targeted scheme actively focuses on those most in need; it aims at reaching out to a target population defined in terms of those most deserving of help, including such less readily reached populations as student dropouts in need and the rural poor.

### *4.3.2 Targeting in UNESCO case studies*

How well have the Asian case-study loans schemes performed in terms of targeting the poorthe foregoing discussion? Table 3 summarizes the situation for those schemes which were aimed at the poor student. The results are mixed (Column 1). The case studies for the Korea (Ministry of Education) and Thailand schemes both indicate a sizeable leakage of loan approvals to non-poor students; this is evidently the case also in the China scheme too. The Hong Kong subsidized scheme and the three Philippines schemes are more successful in directing loans solely to poor students.

**Table 4**
**Loans Schemes Aimed at Increasing Access of the Poor: Asian Case Studies**

| **Case study** ***(loans scheme)*** | **(1) Is there 'leakage' of loans to non-poor students?** | **(2) How is the eligibility income ceiling fixed?** | **(3) Who provides verification of declared family income?** |
|---|---|---|---|
| China *(subsidized scheme – GSSLS)* | Yes (?) | Local government poverty line | Local authority |
| Hong Kong region *(subsidized scheme - LSFS)* | No | Amount of loan offered is in inverse proportion to family income and assets. | Applicant provides documentation such as salary statement, profit & loss account |
| Korea *(Ministry of Education scheme)* | Yes | Ministry of Education (eligibility ceiling is above poverty line) | Education institution; banks |
| Philippines *(all three schemes)* | No | Official poverty line | Parents' employer |
| Thailand *(current scheme)* | Yes | Loans Scheme Office (eligibility ceiling is above poverty line) | Government official (level 4 and above); village head |

### *4.3.3. Defining eligibility*

A loans scheme targeted on needy students must define eligibility criteria for receiving a loan. Most student loans schemes aimed at the poor do so in terms of a maximal family income ceiling; this is also the practice in the Asian case study loans schemes aimed at the poor student. The central policy question is: what level of family income should constitute the eligibility ceiling? If this ceiling is set too high, with a consequent enlargement in the number of eligible students, there is a danger that the less disadvantaged amongst eligible students, may be the ones who receive loans rather than those most in need. In this way, the central objective of increasing access of the poor is frustrated. This is likely to arise in those schemes where the number of eligible, and potential, borrowers greatly exceeds the supply of available loans slots. Thus many schemes define the eligibility ceiling in terms of the official poverty, to ensure that only those most in need are eligible to take up loans.

In the case studies, the Chinese subsidized scheme and the Philippines schemes confine eligibility to students from families in poverty, as defined by the official poverty line (Table 4, Column 2).[17] However, in the Korean (MOE) and Thai schemes, both formally aimed at poor students, the designated eligibility ceiling is an income level *in excess* of the official poverty line; in Thailand, the income ceiling defining eligibility is three times the official poverty line for a family with three children. The policy result is that many students, not drawn from the ranks of the very poor, are eligible to receive a loan.

This issue is compounded by the difficulty in checking the veracity of the information on family income that is provided by loans applicants; this is a central problem where an effective system of income taxation is lacking or where the rural and informal sectors are relatively large. As indicated in Table 4 (Column 3), the case study loans schemes employ alternative methods to check the veracity of declared family income. In some cases, the educational institution certifies that the declared income is correct, on the basis of institutional familiarity with the socio-economic background of the student-applicant; more usually, a civil servant provides certification. In Thailand the village head may provide this certification; however, if the loyalty of the village head is stronger towards the student and his family than to the loans scheme, this certification may constitute little more than a rubber stamp.

More generally, the use of family income as the sole criterion for eligibility, whether or not set at the official poverty level, is itself of questionable validity. The family income measure fails to take into account a number of factors such as the number of children or elderly in the family, number of other students in the family, whether the head of household is female and the amount of private property owned. Over time broader, more sophisticated, measures for defining students in need, probably based on an index related to the foregoing factors, will need to be developed.

The problem of defining an appropriate eligibility criterion may again be illustrated by the egg diagram (Figure 2). It is intention of policy makers to provide loans to the very poor student and potential student (groups A1, B1 and C1 – the target group). However, difficulties in defining this in-need target group (the dashed curve) and the adoption, in practice, of a more generous eligibility criterion (the dotted curve) - usually based on family income but set above the poverty line - means that eligible, but less deserving, students are in receipts of a loan (A2). The problem is not only that non-eligible students succeed in receiving a loan (D) but, more important, that non-targeted but eligible A2 students may crowd out the target groups. A1 may be relatively small in practice and B1 and C1 are excluded; relatively few of the targeted population are reached and consequently loans scheme efficacy in raising access of the targeted poor is blunted.

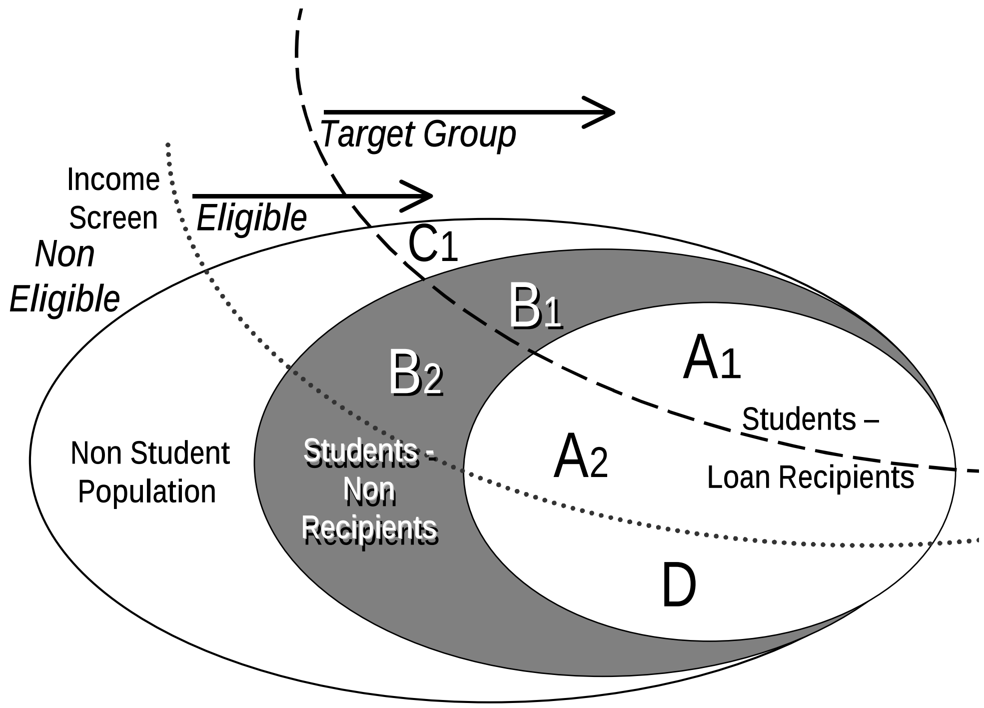


**Figure 2**
**Defining eligibility**

*4.3.4. Reach of loans schemes: case study experience*

We turn to the three schemes, while all formally aimed at serving the poor, performed poorly in terms of both targeting and the reach of the scheme.

China:[18] It is estimated that 19 percent of Chinese students may be classified as poor (and 8 percent as very poor). The question is whether those students who are most in need are able to receive a loan. By the end of 2002, some 526,000 students had received a loan; this is nearly 40 percent of all loan applicants and 5.5 percent of total student enrollment. However, even if *only* poor students were in receipt of these loans as intended, this would imply, at best, that less than 29 percent of all poor students received a loan.

Korea: The major purpose of this loans scheme, run by the Ministry of Education, is to aid poorer students; operationally, the aim is that priority be given to children of the unemployed and low income recipients. In practice, targeting is blunted by malfunctioning of the selection process; any student can apply for a loan and selection (the issuing of letters of recommendation to the participating commercial banks who provide the loans) is usually made on a first-come-first-served basis. Thus, only some 13 percent of students from the lowest family income group receive a loans (7 per cent of all loans) and 15 percent from the second-lowest tier. On the other hand, some 9 percent of students from the highest income families receive a loan (4.3 percent of all loans). While 35 percent of all students receive a scholarship (42 percent for public institutions), the scholarship system focuses on students' academic achievement rather than financial status.

Thailand: The ground rules of the loan scheme require that priority be given to poorer students. This is often not the case in practice. Since loans are distributed by educational institutions, whose loans budgets are not fixed in proportion to the number of poor students enrolled, there are considerable differences in the eligibility cut-off point for family incomes across institutions. In the case of upper secondary students, for whom loans are also available, 452,000 loans were allocated in 1999, representing less than a third of eligible students (with family annual income of less than the 150,000 Baht ceiling). We have no data on the reach of the scheme. How many of thee loans were allocated to the 313,000 very poor students (in families living below the official poverty line)? Or did most of the loans accrue to the 429,000 better-off, but eligible, students in the 101,000-150,000 Baht family income bracket? Impressionistic evidence suggests that the latter is he case.

The upshot of this section is to emphasize the need to fashion more precise yet operational definitions of the poor and to develop sharper mechanisms for targeting the poor; these should be combined with steps to generate better data on the reach of loans schemes, as an indispensable tool for appraising and improving the efficacy of loans scheme targeting.

### 4.4. Coverage: is there national impact?

#### *4.4.1 Factors limiting loans scheme coverage*

A student loans scheme aimed at increasing the access of the poor cannot be regarded as successful in the national context, unless it is sufficiently sizeable to achieve an impact nationally. Some country loans schemes remain very small in size and cover only a small percentage of enrolled students. While these schemes no doubt provide a very valuable service to the students who receive a loan, the small coverage size limits their efficacy in achieving the national objectives set for the loans scheme in terms of increased access.

National coverage (measured in terms of the percentage of the target group that receives a loan) may be low for two main reasons:

- the *supply* of loans funds may be constrained, with sufficient funding available to provide loans for only a fraction of the eligible, low income population
- the take up of available loan slots by targeted low-income groups may be low, reflecting low *demand* for loans

We discuss these in turn.

#### *4.4.2 Limited supply of loans funds*

All loans schemes need to be funded. Funding may come from government, commercial banks or from other financial institutions. Most loans schemes worldwide derive their initial capital funding from the central government (from the current budget or borrowing). A common misconception is that initial loans scheme capital can be regarded as a revolving fund, with the build-up of annual loan repayment receipts over time, providing the finance for new loan commitments. But accumulated repayments will fall short of the original sums borrowed because of loans subsidies, repayment default and government-absorbed administrative costs. Given less than full cost recovery and growing student enrollments, a government commitment of continuing funding will be necessary to ensure loans fund sustainability over the longer term. Government funded loans schemes, following the cost-sharing and student assistance models, and which are usually open to all students, are generally adequately budgeted – a politically expediency given that all students have the right to a loan. This is the case with well-endowed schemes as in Australia, England & Wales and the non-subsidized Hong Kong scheme.

In contrast, government budgeting for loans schemes aimed at social targeting and increasing the access of low income groups, is often circumscribed. There are many reasons for this.

Under-provision of budgetary support may stem from poor estimates of need in the planning process, because of a lack of precision in defining the target population, estimating its size and the size of loans demand. While the subsidized Hong Kong scheme, aimed at the poor, is well financed and provides adequate loans support for well over a third of student enrollment, the no less extensive Thai scheme has been constrained by poor planning, leading to inadequate government budgeting, thus tempering the growth of the scheme and levels of support. Or the scheme may derive from "showcase legislation": the initial setting up of a scheme of limited scope but with a lack of political will necessary to follow through with the additional budgetary commitment necessary to establish a larger scheme with national impact. This is the case with the long established Study Now Pay Later scheme in the Philippines which has always operated on a very small scale, with little impact on the higher education system as a whole. The meager level of government budgetary support is fossilized in outdated legislation and the scheme reaches less than 2000 new students a year.

Non-government sources of loans capital can be employed to fund a loans scheme but usually on a more limited scale than would secure national impact. Commercial banks provide funding for government-sponsored loans scheme in a number of countries (such as in Canada, until 20000). Amongst the Asian case studies, on the Chinese scheme and the Korean scheme run by the education ministry, initial loans capital is provided by commercial banks. This obviates the need for government initial funding, though not for ongoing subsidy as the government must usually subsidize the interest rate on the loan and shoulder the risks of repayment default. The considerable advantage of employing the commercial banking sector, rather than the government budget, is evident. But there are many difficulties inherent in this approach, particularly in inducing banks to cooperate extensively, and most schemes have resorted to government budgets. HUNGARY etc

A third option is to use an existing fund or quasi-government financial institution to provide the loan capital. But usually the capacity for these financial institutions to furnish considerable funding is limited. Yet these arrangements have not always worked well. The Korean loans scheme for government employees and their families was financed by borrowings from the government employees' pension fund.[19] Since the scheme is highly subsidized (it provides loans free of interest) and full loans recovery is not possible, it would seem that the overall effect of the scheme was to weaken the financial robustness of the government employees pension scheme. After temporary suspension in 1999, loans were resumed with the financial resources of government. In the early years of the Philippine Study Now Pay Later scheme, an obligation to fund the scheme was imposed on various government financing institutions, including the Social Security System, the Government Service Insurance System and various public banks. The disinclination of these agencies to disburse funds earmarked for student loans, given the high levels of required subsidy and therefore agency losses, lead to the disengagement of these agencies from the scheme and the entry of government as the provider of capital (albeit on a very limited scale) and operator of the scheme.

### *4.4.3 Low loans demand*

Even when the number of available loan slots is not limited by funding-supply constraints, low loans take-up by the poor remains a perennial problem in loans schemes aimed at increasing access of low income groups. However this problem relates more to the composition of loans demand than to its total size. There may be insufficient demand for loans amongst the most disadvantaged, i.e. the very groups that the loans scheme wishes to reach. This appears to be the case in the Thai scheme. In this case, the need for pro-active targeting, including information dissemination, is indicated (as discussed in the section on targeting).

## 4.5. Adequacy: do loans fully cover necessary expences?

### *4.5.1 Necessary conditions for adequacy of loan size*

A successful loan scheme must provide loans that are sufficiently sizeable to meet the needs of the students at whom the scheme is directed; this includes both tuition costs and living expences. In many loans schemes, loans are not available for tuition fees (where these are in force) or for living expences. Even where both expenditure categories are covered by the loan, the size of loan may fall short of students' expenditure needs. The implication of small loan size is that higher education remains beyond the means of the very poor, thus largely defeating the purpose of the scheme. In most of the Asian schemes examined, loan size falls short of student needs for education and living expences

Three conditions must be present in well-working loans schemes to ensure adequacy of individual loans size. These necessary conditions are: that the total amount of funding available for distribution is sufficiently large; that accurate, up-to-date information on students' expenditure needs is available; and that appropriate loans distribution policies and practices are in place. As the issue of loans funding supply was treated in section 4.4.2, our present discussion will relate to the need for accurate information on students' expenditure needs and the efficacy of policies for loans distribution.

### *4.5.2 Information on students' expenditure needs*

Where loans are provided to cover tuition fees, and particularly where there are standard fees across universities, there is no information gap with regard to loan size for tuition. The problem tends to be more serious for loans for living expences; in many cases, accurate information of students' living expenditure needs is lacking and maximum loans size, which is thus fixed arbitrarily, may fall short of expenditure need. Alternatively, loans may be too generous (and thus wasteful), in putting more money into the hands of students than is necessary. In the Chinese subsidized scheme, loan recipients frequently find that they are insufficient even to cover tuition fees, given the variation in fees across institutions and study disciplines. The issue is more severe in the budgetary-deficient Philippine scheme; maximum loan amount, prescribed in out-dated legislation, often falls short of the tuition fee. In Thailand, the loan size ceilings ceilings set centrally by the Student Loans Committee are, evidently, are set arbitrarily and no account is taken of the results of available student education expenditure surveys and costs. Moreover, in the Phillipines and Thai schemes there is no linkage to rising educational costs (as in Hong Kong, so the real value of loans falls over time. Of all the schemes examined, the Hong Kong case is the most satisfactory in terms of providing an adequate level of student assistance. Loan size (depending on family income) is adjusted periodically, via surveys of student expences and the compilation of a Student Price Index, to ensure an adequate level of support.

<u>The Hong Kong case</u>: As described by Chung (2003), Hong Kong has adopted an empirical approach to ascertaining the level of individual assistance required. It does so by conducting periodical sample surveys on student expenditures, the first in 1982, and subsequently in 1988 and 1990. A representative sample of students is asked to fill out detailed diaries of actual spending over a fortnight, at different periods of the year. This information is used to

construct annual student expenditure patterns. A Student Price Index is developed (similar to a cost-of-living index, but relating only to items used by students, as identified in the surveys) and used to maintain the real value of loans and grants. Subsequent surveys have revealed changing student expenditure patterns over time, thus justifying this approach.

### *4.5.3 Equitable distribution policies*

Appropriate loans distribution policies and practices must be in place to ensure that all those who acquire a loan, receive the maximal amount to which they are entitled. In this context we may distinguish between centralized and decentralized loan distribution sytems. In very many loans schemes - including HECS, England & Wales and Hong Kong - loans are distributed through a central loans agency, to which individuals apply for loans. The advantage of a system of direct student applications to a centralized agency is that it operates on a level playing field; each applicant receives equitable treatment and the recommended loan size (in relation to need) can be preserved. At the other extreme, such as in the Thailand case, each university receives a loans budget, which it distributed amongst eligible student applicants. One advantage of this decentralized system is that it might facilitate pro-active targeting, as eductional institutions are better placed both to identify students in need and also to encourage potential students to take up loans.

Two conditions are necessary for the decentralized system to work successfully in providing adequate size loans to eligible students. First, the loans budget should be distributed to higher education institutions on the basis of objective needs-related criteria, i.e. based on the socio-economic profile of the student body in each univerity. Second, actual individual loan size and eligibility criteria (including the cut-off ceiling for parental income) are standardized across all institutions, to ensure horizontal equity.

Loans inadequacy in Thailand: These conditions are not met in the Thailand scheme. University loans budgets are fixed in relation to enrollment size rather than the number of low-income students; the result is that some universities with large numbers of poor students receive too few funds to provide loans to all students in need, while other universities are able to offer loans to eligible but not highly disadvantaged students. More important, the considerable autonomy granted to education institutions in fixing the size of individual loans results not only in considerable inequities across the system, but also inadequately sized loans. In particular, some private institutions, use the loans system as a mechanism for attracting students, by offering loans for tuition only to a larger number of students, not all of whom are highly disadvantaged. Consequently, many poor students do not receive loans for living expences at all, or the amounts received fall considerably short of the loan size recommended by the national Student Loans Scheme Committee, with negative effects on access.

## 4.6. Targeting, Coverage and Adequacy: Summary Findings for Asian Case Studies

In this section, we bring together our findings on targeting, coverage (reach) and adequacy to draw conclusions on the efficacy of the Asian case study schemes that were aimed at meeting the needs of low income groups and increasing their access.

**Table 5**

**Targeting, Coverage and Adequacy: Asian Case Study Loans Schemes Aimed at the Poor**

| **Case study** *(loans scheme)* | **1st criterion: Targeting** | **2nd criterion: Impact** | **3rd criterion: Adequacy** | |
|---|---|---|---|---|
| | **Loans received only by poor students?** | **% of poor students receiving a loan** | **Loans for tuition and/or living expences?** | **Loans sufficient to cover designated expenditures?** |
| China *(subsidized scheme - GSSLS)* | No | Low | Tuition and living | No |
| Hong Kong *(subsidized scheme - LSFS)* | Yes | Substantial | Living (tuition is covered by a grant) | Yes |
| Korea *(Ministry of Education scheme)* | No | Low | Tuition | Yes (?) |
| Philippines *(all three schemes)* | Yes | Marginal | Tuition | No |
| Thailand *(current scheme)* | No | Substantial | Tuition and living | Tuition – yes Living – often not |

Based on Table 5, we may draw the following conclusions. The Chinese scheme does not perform well as a vehicle for assisting the poor (though it should be noted that many changes have been introduced since Shen and Li carried out their study): there is leakage to loans to the non-poor, coverage of the poor is low and loans are insufficient to cover expences. The Philippines schemes are too marginal to have any significant impact on the poor and the Thai scheme, though it does have considerable national impact, is not confined to the poor nor are levels of individual support sufficient in very many cases. The Hong Kong scheme emerges as the most successful in meeting its objective of reaching poor students: there is little leakage of loans to non-poor students, the scheme reaches a substantial percentage of poor students and loan size is sufficient to cover actual (ascertained) living expences.

## 4. Student assistance model

This short section discusses the third model, Student Assistance, found typically in a number of well-established loans schemes in Western Europe. The objective of loans provision here (generally covering living expences only) is to ease student financial burdens during study; these burdens may be present even for students from better off families.

There is a wide diversity in cost-sharing practices and forms of student support across countries in Europe.[20] This diversity takes a number of forms (see Appendix Table 1). The first distinction relates to tuition fees. In some countries, universities charge tuition fees and indeed these have been increasing in recent years (England &Wales, Italy, the Netherlands, Portugal and Spain are examples), while in others tuition remains free. This latter group of countries includes Austria, France, Germany, Ireland and the Nordic countries of Denmark, Finland, Norway and Sweden. A second distinction relates to the form of student support adopted: grants, loans or a combination. In those countries where tuition is free, differing forms of student support for living expences have been adopted: grants only in Austrian and Ireland, and a combined regime of grants and loans, as in the Nordic countries. Even when tuition fees are minimal, students may face considerable financial burdens: potential earnings are forgone while studying, and living expenses may be sizeable, especially when the student does not attend a local university. In many cases, students may chose to combine work with study, rather than take loans (and this has been a growing trend in the Netherlands). Thirdly, there is the method by which eligibility for means- tested support is determined, an issue of central importance for the student assistance model.

There are two dominant approaches to means-tested support in European countries (Biffl and Isaac, 2002). The usual approach is based on the concept of family responsibility, in which students are regarded as being dependent on their parents: this is the approach in Austria, Germany, France, Italy, Portugal, Spain, and the UK. Eligibility, and the extent of support, is determined by parental income. The concept of parental support is a central building block of support schemes in these countries but parents are not legally required to make the designated "parental contribution". Thus many students, including those from non-poor backgrounds, may face financial difficulties during study, leading to cessation of studies, while potential students may not enroll if they feel that the parental contribution will not be forthcoming. A very different approach is taken in a number of countries, which base student support on the concept of student financial independence; student entitlement to grant and loans support is based on student, not parental, income. Such arrangements are in place in Denmark, Finland, Sweden, Norway and in the Netherlands. In the latter case, grant and loans support is available for tuition and living expences: in the Nordic countries, where tuition is free, grants and loans are for living expences only.

Where support for living is based on the concept of student financial independence, the potential problem of the lack of parental contribution is obviated. The broad availability of loans (supplemented by grants) becomes an important tool for facilitating access; in Norway and Sweden, the average support package is about three-quarters loan and one quarter grant.

In the student assistance model, loans are not aimed specifically at increasing the access of low income groups (this is the task of the social targeting model). However, once student financial needs are defined (more realistically, in many country settings) in terms of the economic means of students, rather than by the socio-economic status of the family, large numbers of students are consequently recognized as being in need of, and become eligible for, support. The long-established Nordic schemes have been successful in providing support and easing access for a considerable proportion of student enrolment, based upon the economic circumstances of the student, including those from more affluent backgrounds.

## 6. Conclusions and a Caveat

This paper has been concerned with the influence of student loans on the accessibility of higher education. It has discussed this influence in three different loans scheme contexts. First, we examined the case where loans schemes are introduced in the context of cost-sharing policies (usually in the form of cost recovery through raised tuition fees). A central issue of concern is the effect of these measures on the access of the poor. The evidence is not conclusive. Research on HECS in Australia shows that access of the poor has not suffered from these policies, while in the UK research indicates that these measures are likely to impose hardship on students and to have deleterious effects on access. Second, the varied experience in Asia with loans schemes aimed directly at enhancing the access of the poor, was examined. The conclusion drawn is that these schemes are often to be faulted because they lack a number of necessary prior conditions for success.

However, these schemes can be made to operate successfully in both reaching the poor and enhancing access if they are appropriately designed and operated; five key points for success are listed in the following subsection. Third, due to space constraints, we did little more that flag veteran European loans schemes that are aimed at assisting the general student in need; these students, regarded as financially independent and therefore unable to rely on the availability of parental support for financing their studies, came from a range of socio-economic backgrounds, including the relatively well-to-do, as well as the poor.

### *6.1 Five points of emphasis*

Loans schemes, which centrally aim at making a contribution to the task of increasing the access of the poor and other disadvantaged groups, will fail unless the following five key conditions are satisfied; unfortunately, they are often neglected.

Effective eligibility and screening criteria: Where the central objective of a loans scheme is to increase the access of poor families through the provision of loans, procedures must be developed to ensure that loans do indeed reach this target group. Effective screening mechanisms need to be in place. This requires not only the setting of workable definitions for loans eligibility but also the ability to check and test the veracity of such information supplied by loans applicants. Where it is difficult to authenticate this information, the scheme is subject to abuse, with non-poor students gaining access to subsidized loans at the expense of target groups.

Pro-active targeting: Effective targeting requires more than ensuring that loans reach only eligible students. It should be more concerned with the actual composition of those accepted for a loan (and whether they constitute the group most in need of a loan), as well as with reaching out to the self-excluded but eligible individuals who do not apply. Too often it is the eligible but only moderately poor students that apply for loans, rather than those most in need. Thus a pro-active targeting focuses on those most in need; it aims at reaching the most deserving sections of the target population defined in terms of those most in need of help, including such less readily reached populations as student dropouts in need and the rural poor.

National impact: Some country loans schemes remain very small in size, often constrained by government budgetary limitations; they cover only a small percentage of poor enrolled and potential students. A limited loans scheme size constrains its efficacy in achieving the national objectives set for the loans scheme in question. A student loans scheme cannot be regarded as successful in the national context, unless it is sufficiently sizeable to achieve an impact nationally.

Adequacy of loans size: Individual loans should be sufficiently large to meet the needs of the students at whom the scheme is directed. In many schemes, loan size falls short of student needs for education and living expences. The implication of small loan size is that higher education remains beyond the means of the very poor, thus largely defeating the purpose of the scheme. Three elements are required to ensure adequacy of loans size: sufficient total available funding; information on students' financial needs (probably via surveys of student expences); and equitable distribution policies.

Unifying grants and loans policy: We have noted that, due to loan subsidies, student loans usually incorporate a hidden grant which may be sizeable. This emphasizes the complementarities between loans and grants, and the importance of operating unified loans and grants policies. A regime of outright grants for low-income students may be effective in increasing access but is too expensive to be available on a broad basis. Hidden grants (subsidized loans) are more affordable but less efficacious in increasing the access of the poor; poor students may be loath to take up low subsidy loans. A balanced policy of student support, aimed at increasing accessibility to higher education, will need to offer grants and loans in combination, with an emphasis on (mainly) grants for the very poor and subsidized loans for the needy (the degree of subsidy depending on socio-economic background); student loans for non-equity objectives would carry low levels of subsidy, only.

### *6.2 Caveat: multiple barriers to access*

We conclude with a caveat. Student support policies (and loans in particular) cannot act alone; there are other, perhaps more entrenched barriers to access, both at university age and prior to it. Barr (2005) has refereed to the *dual* causes of the exclusion of the poor from higher education: financial poverty and information poverty. Loans, grants and scholarships are aimed at countering financial poverty. But problems of informational poverty are no less acute and should be tackled in tandem. Many youngsters and their families are badly informed about the benefits of university study. For example, a recent study shows that while substantial differences exist in Canadians' perceptions of the costs and returns of university education, the overestimation of costs and underestimation of benefits are particularly striking for low-income Canadians. The author notes that:

> " …..the extent to which perceptions differ from reality would appear to be so large that they may form a separate form of barrier to education all of their own"(Usher, 2005).

Poorly informed students (and their families) will be reluctant to borrow.

Yet while there is an important role to be played by student support policies (and notably loans) in raising access of the poor, this role needs to be complemented by appropriate action by other institutional players including the universities.[21] Further, it widely recognized that the lack of willingness of large numbers of the poor to enroll in higher education has its roots much earlier on in the education system. This calls for prior action to better inform schoolchildren and their parents and to raise their aspirations. In this we concur with Nicholas Barr:

> " ….. problems of access cannot be solved entirely within higher education. More resources are needed earlier in the system, not least because of the growing evidence that the roots of exclusion lie in early childhood" (Barr, 2005).

**Appendix Table 1**
**Student support regimes: selected countries**

<table>
<tr><th rowspan="2">Tuition fee Regime</th><th rowspan="2">Country</th><th colspan="3">Student support:</th></tr>
<tr><th>For tuition</th><th>For living expences</th><th>Students covered</th></tr>
<tr><td rowspan="3">Zero or nominal tuition fees</td><td>Ireland*</td><td></td><td>Grant</td><td>Means-tested</td></tr>
<tr><td>Slovenia**</td><td></td><td>Grant</td><td>Means-tested</td></tr>
<tr><td>Nordic countries</td><td></td><td>Loan plus grant</td><td>All students</td></tr>
<tr><td rowspan="13">Tuition fees are charged</td><td>Portugal</td><td>Grant</td><td>Grant</td><td>Means-tested</td></tr>
<tr><td>Netherlands</td><td>Loan plus grant</td><td>Loan plus grant</td><td>All students</td></tr>
<tr><td rowspan="2">Hong Kong</td><td>Grant</td><td>Loan</td><td>Poor</td></tr>
<tr><td>Loan</td><td>None</td><td>Non-poor</td></tr>
<tr><td rowspan="2">Australia</td><td>Loan</td><td>Grant</td><td>Poor</td></tr>
<tr><td>Loan</td><td>None</td><td>Non-poor</td></tr>
<tr><td rowspan="2">England & Wales<br>(current scheme)</td><td>Grant</td><td>Loan</td><td>Poor</td></tr>
<tr><td>None</td><td>Loan</td><td>Non-poor</td></tr>
<tr><td rowspan="2">England & Wales<br>(from Sept 2006)</td><td>Loan</td><td>Loan plus grant</td><td>Poor</td></tr>
<tr><td>Loan</td><td>Loan</td><td>Non-poor</td></tr>
<tr><td>Thailand<br>(current scheme)</td><td>Loan</td><td>Loan</td><td>Aimed at poor</td></tr>
<tr><td rowspan="2">Thailand<br>(planned TICAL scheme)</td><td>Loan</td><td>Grant</td><td>Poor</td></tr>
<tr><td>Loan</td><td>None</td><td>Non-poor</td></tr>
</table>

* Ireland: charges are made for registration and examinations
** Slovenia: loans scheme abandoned

## Appendix Table 2
## Loans Schemes in Asian Case Study countries

| Case study | Loans scheme | Loan scheme intended for: | Purpose of loan* | Number of borrowers as % of student enrollment |
|---|---|---|---|---|
| China | Government-Subsidized Student Loans Scheme (GSSLS) – subsidized scheme | Poor students | Tuition + living | Limited (3.8%, end of 2001) |
| | General-Commercial Student Loans Scheme (GCSLS) – commercial scheme | All students | | Marginal (< 1%) |
| Hong Kong | Local Student Finance Scheme (LSFS) – subsidized scheme | Poor students | Living (tuition covered by a grant) | Extensive (> 35 %) |
| | Non-means-tested Loans Scheme (NLS) – non-subsidized scheme | All students | Tuition +living | Limited (about 14 %) |
| Republic of Korea | Ministry of Education & Human Resources Development (MOE) | Poor students | Tuition | Limited (6.4%) |
| | Ministry of Education & Human Resources Development - loans for engineering students | Engineering students | Tuition | Limited (1%) |
| | Ministry of Labour loans scheme | Industrial employees | | |
| | Korea Research Foundation | Poor and competent students | | |
| | Korea Teachers Pension Corporation loans scheme | Teachers and their children | | |
| | Government Employees Pension Corporation loans scheme | Government employees and their children | Tuition | Limited (6%) |
| | Korea Labour Welfare Corporation | Industrial accident victims | | |
| Philippines | Study Now Pay Later scheme | Poor students | Tuition | Marginal (< 1%) |
| | Region V loans scheme | Poor students in Region V | Tuition | Marginal (< 1%) |
| | Student Loan Programme for Centres of Excellence | Poor students at Centres of Excellence | Tuition | Marginal (< 1%) |
| Thailand | Student Loans Scheme (current scheme) | Poor students in secondary and tertiary institutions | Tuition + living | Extensive (> 35%) |
| | New students loan scheme (TICAL) | All students | Tuition | Extensive |

* Tuition may include other fees such as registration

**Appendix Table 3**
**Four Phases in the Movement towards Cost-Sharing: England and Wales**

| Phase | Tuition fee regime | Student support: | | Students covered |
|---|---|---|---|---|
| | | Tuition | Living expences | |
| **Prior to 1990** | No tuition fees | None: no fees | Grants | Low income |
| **Introduced in 1990** | No tuition fees | None: no fees | Loan plus grant | Poor |
| | | | Loan | Non-poor |
| **Introduced in 1998/99: current arrangements** | Standard tuition fee | Grant | Loan | Poor |
| | | None | Loan | Non-poor |
| **From September 2006** | Higher, differential tuition fees | Loan | Loan plus grant | Poor |
| | | Loan | Loan | Non-poor |

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**Footnotes**

[1] Another is social-class attitudes to higher education.
[2] See, for example, Ziderman and Albrecht (1995, Chapter 4).
[3] The regional study, a joint endeavour of UNESCO-Bangkok and the International Institute for Educational Planning, consisted of five in-depth studies on the functioning of student loans schemes in Asia. The studies are reported in the following monographs: China (Shen and Li, 2003), Hong Kong (Chung, 2003), the Republic of Korea (Kim and Lee, 2003), the Philippines (Kiteav et al, 2003) and Thailand (Ziderman, 2003). A synthesis study is provided in Ziderman (2004).
[4] Vossensteyn (2004) provides an inventory of the various student support programmes available in 24 European countries.
[5] A detailed account of the working of the scheme is given in Ziderman (2003), from which this section is drawn.
[6] This is the case with the Ministry of Education and Human Resources Development loans scheme in Korea, the largest of six loans schemes run with government support. Though aimed at the poor (purportedly giving priority to children of unemployed and low income groups), any student may apply for a loan and in practice targeting the poor is not well achieved (Kim and Lee, 2003).
[7] This seems to be the approach adopted in Kazakhstan, where loans (called "state education credits") are awarded on the basis of performance in a national examination; however, some attention is paid to social status in the loans allocation process.
[8] The, now, classic reference relating to the US is Dynarski, (1999).
[9] Although it is widely held that poor families are debt averse, recent evidence for Australia and the Netherlands does nor support this. Andrews (1999), examining attitudes towards taking up student loans in Australia, failed to find differences in debt aversion between different SES groups. In a more recent study set in the Netherlands, Hans Vossensteyn found no relationship between willingness to take up student loans and SES background (Vossensteyn, 2005).
[10] However, this may not act as an incentive to poor potential students unless, as a group, they earn relatively low post-graduation earnings on average or, at least, expect to do so.
[11] See Johnstone (2004) for an extensive development of this approach.

[12] This literature has been reviewed and summarized in Chapman and Ryan (2005) and Cheng (2005).
[13] The discussion is concerned with England and Wales rather than with the United Kingdom as a whole (which includes Scotland) because a rather different scheme is currently in place in Scotland.
[14] Appendix Table 3 provides a synoptic presentation of the four phases of policy change in England and Wales and implications for support and access for the poor.
[15] These initiatives are set out in the Department for Education and Skills document *Widening Participation in Higher Education* (2003).
[16] The discussion in this section is based on Ziderman (2004, Chapter 9.
[17] In the Chinese case, the poverty line is not mentioned in official government eligibility criteria; however, in practice institutions and banks define as priority-eligible borrowers those students whose family income falls below the local poverty line.
[18] These figures, taken from Shen (2004), update the data provided in the case study report by Shen and Li (2003).
[19] Loans capital in other Korean loans schemes are also provided by existing financial funds: the Ministry of Labour scheme for industrial employees is financed from the Employment Insurance Fund; teachers and their children from the Korean teachers pension fund; and the Korean Labour Welfare Corporation for industrial accident victims from the Industrial Accident Compensation Insurance Fund.
[20] Good discussions on European loans schemes are given in Biffl and Isaac (2002), Guille (2002) and Debande (2004).
[21] Of interest in this regard is recent legislation in England and Wales, which comes into force in September 2006, together with the new system of optional variable tuition fees and tuition loans. Universities wishing to raise fees will need to reach agreement with the new Office for Fair Practice on activities to be undertaken by the institution to broaden access to higher education. This would include efforts to reach out to schools with low participation rates in higher education. In parallel, part of the additional income generated by variable tuition fees will be used by the institutions to establish bursaries for poor students enrolled in more expensive courses, which are additional to the state maintenance grant (Department for Education and Skills, 2003).