



Gaps in the Implementation of Uganda's Students' Loan Scheme

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Abstract. This study was conducted to examine the performance of the student loan scheme in Uganda. Making reference to related literature, views of selected stakeholders, and the performance of government's earlier lending programmes, the study identifies gaps in the performance of the scheme. These are in the areas of application procedures; disbursement; and structures for recovery. To enhance the reach of the loan scheme, it is recommended that government decentralises some of its operations to district level. It is recommended that the loan application forms be stationed at Advanced Level Secondary Schools to ease access. It is also recommended that the Higher Education Students Financing Board (HESFB) sensitises the general public about the law governing the university education loan scheme.

Keywords: Student loan schemes; Funding; Higher education reform.

1 Introduction

Loan schemes for Higher Education students now exist in many developed and developing countries. Examples of student loan programmes which are financed from public funds or backed by government guarantees, are found in Japan, Scandinavian countries and the U.S.A., where the idea of students borrowing from government funds to finance Higher Education dates from the 1940s and 1950s (Woodhall, 2004). According to World Bank (2010) and Nyahende (2013), the first developing country to establish a student loan programme was Colombia in 1953, and it was later followed by many other student loan programmes in the Asian, Pacific and Caribbean region. A study of students' loan programmes found official loan programmes that are run by government agencies or agencies backed by government guarantees in more than thirty countries (World Bank, 2010). Loan schemes are also being

operated in African countries such as Uganda, Kenya, Tanzania South Africa, Ghana and Rwanda (Shen & Ziderman, 2008). According to Johnstone (2004a) the population explosion, the higher cost of university education and the general poverty of the population in most African countries compelled some African countries to establish loan schemes for higher education students.

In Uganda, the government established a loan scheme for university and tertiary students in 2014. By establishing the loan scheme the government wanted to ensure equitable access of Ugandans to higher education, which majority of the qualifying post-secondary school students cannot afford; ensure regional balance for disadvantaged areas; and support programmes which are critical for social, economic and technological development of the country (HESFB, 2014).

2 Related Literature

The key strategy to increase access to higher education in many countries has been to implement a student loans scheme as a means of sharing the costs involved in the expansion of higher education (Hong & Chae, 2011). In this sense, they argue, student loans transfer higher education costs from a significant reliance on governments and taxpayers to parents and students, based on the rationale that greater equity in access to higher education is achieved through the user-pay system. Barr (2002), agree that when students and parents assume the costs of higher education through tuition fees, the government can spend the excess funding resulting from this shift in cost burden on financial aid to needy students. In this way, student loans have the potential to reform financial efficiency and accessibility of higher education. Hong and Chae (2011) contend that the phrase “aid to needy students” appears to be a more plausible and acceptable basis for student loans than the potentially discriminatory pronouncements by some Education Ministry officials who seem to be rooting for students doing science courses.

The World Bank (2010) gives clear clues on why South Korea, which was at a comparable level of economic development with Uganda a mere five or so decades ago, has practically reached for the sky while Uganda remains in a state of backwardness. In this case Ishengoma (2004) and Nyahende (2013) comment that in several instances, good policy has proved easier formulated than implemented in African countries. Field (2009), points to the growing body of evidence that the borrowers who struggle the most with student loan debt aren't necessarily those with the largest balances. Instead, borrowers who don't complete their degrees often find it challenging to repay their loans -even

if they're relatively small - likely because they didn't earn the credential that would give them an earnings boost in the labour market.

Johnstone (2004b) contends that at the core of the student loan concept is the belief that students who will benefit so much from the privilege of higher education can reasonably be expected to make a modest contribution toward its considerable costs. And student loans make a contribution toward equity by insulating this contribution from both the affluence and the attitudes of their parents. Ziderman (2004) and Woodhall (2002) agree that government-sponsored student loan schemes are in place in some 50 countries around the world, serving a combination of objectives including: revenue diversification or income generation, university system expansion, equity, or the targeted enhancement of participation by the poor, specialized manpower needs; and the financial benefit of students generally, expressing their greater time preference for present money.

Student loans programs around the world have compiled an impressive record of failures, including notable African examples in Ghana, Kenya, and Nigeria. Akwap (2015) adds that a number of newer and lesser known programs such as those in Uganda and Burkina Faso are also looking like failures, at least on the criterion of disbursement and cost recovery. Merisotis & Gilleland (2000) and Meagan (2004) contend that at the present time, only the South African loan programme appears to be successful with success defined as the twofold ability to expand accessibility by putting critical funds into the hands of students, and to generate a cost recovery that shifts some of the costs of this financial assistance to the students themselves. Dynarski (2014) opines that the revitalized and supposedly reformed loans programs in Ghana and Kenya are promising, although somewhat less than successful as of 2003. In Uganda, the students were required to produce collateral in form of land titles -most likely of their parents- as a guarantee they would repay the loan. The government expected all the students who borrow the money to repay them after three to five years, after a beneficiary has graduated. The loans are interest-free, and if one fails to get a job, the repayment would be deferred to when they get a job.

More than one-quarter of student loan borrowers have debt, but nothing to show for it. About 28% of Americans with student debt didn't complete the educational program for which they took on the loans, according to the 2016 National Financial Capability Study published Tuesday by the Financial Industry Regulatory Authority. The most striking single example of institutional cost-sharing in Sub-Saharan Africa is probably in the adoption by Uganda's Makerere University of an aggressive policy of dual track tuition. As reported by Sawyerr (2002) and Court (2000), the admission of more than 70 percent of Makerere's students as fee-paying while allowing the government and the university still to be able to claim that Uganda and Makerere provide

higher education free of charge (to the very fortunate 20-30 percent) has significantly improved the revenue position and thus both the capacity and the quality of Makerere. According to the World Bank (2000), Makerere University moved from the brink of collapse to the point where it aspires to become one of East Africa's preeminent intellectual and capacity-building resources, as it was in the 1960s.

Less aggressively (and somewhat less successfully financially), other East African universities in Kenya (Oketch, 2003), Tanzania (Ishengoma, 2001), and Ethiopia have also turned to variations on the theme of dual track tuition, opening their doors to students whose examination scores fall below the "cut off" for the highly selective tuition fee-free slots, but who are still able to do university-level work—and whose parents can and will gladly pay for them to do so. (A slightly different kind of dual track fee policy has been adopted in Nigeria, where the politically visible and volatile national universities have been kept tuition-free, while the regional state universities have been allowed to charge tuition (Ishengoma, 2002).

3 Uganda's Historical Context

Uganda experienced a military *coup d'état* on 25th January 1971 and the army commander Major General Amin took power and plunged the country into political social and economic chaos. He chased Asians who dominated commerce and industry. The production of cash crops such as coffee, cotton, Tea, Tobacco declined considerably as Ugandans resorted to subsistence agriculture. The production of copper ceased and the vibrant tourism sector also collapsed as tourists could not come to a country engulfed in murder, terror and state-inspired violence. When the military government was toppled by Tanzanian Army and Ugandan exiles in April 1979, the country was left broken and the economy ruined. The only institution of Higher Learning Makerere University suffered greatly from underfunding, crumbling infrastructure, lack of books, stationery, laboratory equipment and the loss of manpower as some members of staff had been murdered or had fled to exile. The post- Amin governments were engaged in a bitter civil war in central Uganda and failed to revive Uganda's economy and Makerere University.

The National Resistance Movement under Yoweri Museveni came to power in 1986 and like the previous post-Amin governments embraced the International Monetary Fund (IMF) and World Bank's Structural Adjustment Programmes (SAPs). According to Mamdani (2007), the government vigorously adopted de-regulation, divestiture, liberalisation and cost-sharing in Higher Education Institutions. Private entrepreneurs, Non-Government

Organisations and Religious bodies were encouraged and permitted to open up private schools and universities because of big government budgetary deficits, population explosion, mushrooming of universities and the exponential demand for higher education (Kajubi, 1992). Presently, there are 10 Public universities and almost 35 private universities (NCHE, 2016) and since most students are from peasant families who cannot afford university fees and costs, the government was compelled to start the loan scheme in 2014. It should be noted, however, that the plan to establish a higher education student loan scheme dates back to 1992 when *The Government White Paper (1992)* recommended that a system of study loans be established to extend educational loans to students who were unable to raise the necessary finances for their university education. Such loans, stated *the Government White Paper (1992)*, would be interest free and payable when students completed their studies and found gainful employment in government or the private sector. However, this plan did not materialise until mid-2013 when the Government of Uganda announced the introduction of the student loan scheme for university students that was to be implemented with effect from the financial year 2013/2014.

4 The Higher Education Students Financing Board

The Higher Education Students Financing Board (HESFB) was established by the Higher Education Students Financing Act, 2014, to manage the Students' Loan Scheme. This gives the Board legal powers for disbursement, management and recovery of student loans. The Board receives funds from the Government of Uganda to be used for financing qualified Ugandan Students who are pursuing studies in universities and other tertiary institutions in Uganda. Pursuant to Section 20 (1) of the Act, the scheme is for Ugandan undergraduate students seeking to pursue Higher Education in accredited public and private institutions of higher learning recognized by the National Council for Higher Education (NCHE). According to *the Uganda Students' Higher Education Financing Policy (2012)*, the following are the key objectives of the policy:

1. Increase equitable access to Higher Education in Uganda;
2. Support highly qualified students who may not afford higher education.
3. Ensure regional balance in Higher Education services in Uganda
4. Develop and support courses which are critical to national development and ensure quality education in institutions of higher learning through quality assurance and supervision.

According to HESFB (2014) it was announced that student loan eligibility would no longer be automatic, with means-testing introduced, and that food and accommodation would be charged at a cost. It is required for students to have two guarantors who at any given moment in time may be in the know of the whereabouts of the beneficiaries. The terms and conditions were stipulated thus;

1. The Higher Education Students' Financing Board is meant for Ugandan scholars only, pursuing higher education in recognized Public and Private Institutions of Higher Learning.
2. Initially the Loan shall cover Tuition, Functional fees, Research fees and Aids and appliances for PWDS only.
3. The Loan will attract Interest determined by the Minister of Education and Sports in consultation with the Minister in charge of finance.
4. A student who has received the loan shall start re-paying the loan at least one (1) year after completing his/her course

There are stipulated procedures and formalities before granting/releasing the academic transcript and degree certificate to the graduates and it was assumed that Parents' Associations were to help students in identifying employment opportunities locally and internationally. Those with prospective employment outside the country would equally be facilitated to take on the prospects through meeting the cost of the air ticket and also given some pocket money. The Association would get involved in implementation of projects and proposals that would end up providing viable employment prospects for some of the students on graduation. The ideas were rosy and theoretical by Ugandan standards.

Initially, to qualify for the loan, the student was supposed to have studied sciences at Advanced Level and attained two, or more principal passes. Above all, the applicant was supposed to be poor and that the ministry would track the applicant's status right from primary school to establish if that person's has a life of financial hardship. The board awarded the loans to 1,201 students to pursue 26 programmes under nine major disciplines. The minister promised that more money would be injected in the scheme. The Students Loan Scheme should also benefit arts students to balance our education needs. By 2015, 12 universities were participating in the scheme.

Student loans are expensive to collect, partly because of the need to maintain current records and frequently to "chase after" the borrowers, but also because the amounts are generally small to begin with, making the administrative and servicing costs, even if done professionally and with good technology, expensive on a per-dollar-of-loan basis. When these conditions are considered in a Sub Saharan African context—with a poor culture of credit, uneven postal and telephone services, generally inefficient governmental bureaucracies, and

unevenly enforced official machinery for keeping track of people (such as taxpayer or pension contribution numbers required of all employees)—it is little wonder that regular repayments are the exception and that borrowers are frequently lost altogether to the systems (Bakkabulindi, 2005; Blair, 1998). Against this background, this study was conducted to examine the performance of the scheme in its formative stage. Drawing from the literature and experiences of other countries/ loan schemes, the performance is considered from a comparative perspective, with the view to identify areas for and ways of improving it.

5 Gaps in the Implementation of the Loan Schemes

It was found that Engineering courses received the highest number of beneficiaries placed at 349 students. They are followed by Science Education (291), Human Medicine (210), and Agriculture (98), among others. Petroleum and Geo-science engineering received the least number of students at 27. Of these, 18 are male and nine are female. Kampala International University had the highest number of students (372), Makerere University had 220, Kyambogo University had 150, Ndejje University had 137 while Busitema University had 99. Out of the 1,683 applicants for the loans, 1,325 (78.7 per cent) were approved, of which 298 (22.5 per cent) were female. MUST (77), Gulu (42), UCU (39), UMU (32), Nkumba (14), IUIU (11), and Bugema University (8). According to the findings, there were fewer female student beneficiaries in all the study programmes. For instance; in Animal science, female students constituted 11 percent. An official from the HESFB said the board was very gender-sensitive in awarding the loans albeit the figures obtained revealed a different picture. When interviewed he, he showed his frustration thus;

"We tried to even lower the marks for female students but we got fewer applications. Even if you try and go out to convince females to apply, they did not come and I don't know why. We wonder why girls shun the scheme and yet as future politicians, they will accuse government and society for being gender insensitive. It is an incomprehensible situation"

The funds come from the national annual budget and the budget is aid-driven and government departments survive on supplementary budgets and budget cuts are common. The loan fund caters for tuition and research and there are many needs for the university students such as accommodation, transport, stationary and personal effects. Inflation where money loses value all the time and the students are the ultimate losers because the fund revolves. The return of the money a student took originally at the same value may make little economic meaning and the interest rate will not help students either. Loan Recovery is not

very easy because of unemployment. With unemployment students would look for greener pastures abroad and dodge repayment. Lack of insurance cover for the loans in case of death, disability, wastage and desertion. There is lack of medical and comprehensive insurance in Uganda.

The scheme headquarters in Kampala is far from many students in the countryside. Without a good strategy, the student loan scheme may not help Uganda: To implement a good policy in a society staggering under the heavy weight of corruption, incompetence and sectarianism is a tall order. The Shillings 5 billion set aside by government in 2012 to start the loan scheme was a drop in the ocean. With too many students chasing too little money, claims of sectarianism in the allocation of loans emerged. Many credit schemes by government have failed due to corruption among its implementers and failure by most recipients to repay the money partly because of the mind-set where Ugandans believe that credit schemes by government is government hand-out or mere political benevolence and no repayment is required. Uganda lacks the technical team appointed to put in place a proper mechanism for disbursement and recovery of the loans comprising competent individuals knowledgeable in the complex aspects such as customer relationship management, systems design and application, capture of borrowers' data and electronic content management.

Some 113 students withdrew from the students' loan scheme citing various reasons, a report from the loans board has indicated. The HESFB (2015) report confirms that an assessment of loans awarded to semester one students of the academic year 2014/15 continued to confirm the number. The report shows that some 11 students were admitted on government merit scholarships; six had applied more than twice, four were continuing students while 18 could not raise their own funds for meals and accommodation. One student reportedly provided falsified information, while 49 benefited from other scholarships, one failed to join university due to illness, three opted for other universities, and one student abandoned the programme due to a crowded class. Nangonzi (2015) reveals that the funds meant for the 113 withdrawn students are still being kept by the board.

6 Conclusions

Students have already received loans since the academic year 2014/2015. This may have added modestly to enrolment in higher learning institutions in Uganda. The number of students granted loans had increased hence poses a challenge to HESFB to recover loans granted to beneficiaries since 2014 so as to bridge the gap between government subvention and the increasing funds requirements.

Student loans beneficiaries are willing to repay back the loans after completion of their studies. HESFB did a lot to ensure recovery of students' loans given out since 2014 through review of strategies for HESFB loan repayment and recovery which includes, enhancement of public awareness in respect of loan repayment, publishing names of untraced loan beneficiaries, follow-up on job vacancies advertised in print media and enforcing loan repayment in the mind-set of students beneficiaries and their employers,

These are families where a child has had education from a good primary school through to the secondary and because of the good education background these students end up with better passes and this scenario leaves no opportunity for those from poorer family backgrounds to be taken under the Government Sponsorship Scheme. In a nutshell, the Loan Scheme is a necessary development for keeping a balance in the economy so that the students from the poorer families are also catered for.

There is general poverty in the economy where a good number of the parents who sponsor their children part with value, for example selling of assets like land. Much of these assets would be put to better use and development instead of being sold off which leaves families poorer. A student in a Loan Scheme arrangement would study with certainty that he/she will complete his/her studies. Unlike the situation today when a number try and fall by the way side. Also the students who qualify for admission but fail to raise the funds will have chance to do their university studies without a big hurdle.

7 Recommendations

HESFB should institute a sound financial management system including setting appropriate interest rates to cover inflation, thus maintaining the capital value of the loan fund and covering administrative costs. This should be done in addition to the awareness campaign on obligation to repay which is proved to be done in this study, as it resulted into a big proportional of respondents being willing to repay back the loans. Other measures to ensure effective recovery by HESFB includes adequate legal frameworks to ensure that loan recovery is legally enforceable and effective loan collection machinery, using either commercial banks or engagement of debts collectors to ensure high rates of repayment and to minimize default. Guidelines and criteria for granting loans should be improved to include the assessment of economic status of students' loans applicants, because the economic status will determine their ability to repay back the loans. Students must have the willingness and ability to repay back the loans for a successful students' loans finance in Uganda. Therefore things like collateral security should be considered during loans application.

Students' enrolment decision making has been also affected by political factors, economic factors, cultural factors, family influence and school impact which are not part of this study. Therefore these factors needs to be considered for a successful students' loans financing for example economic downturn and increased unemployment have led to the increase in students' enrolment. In Uganda, the plan to establish a higher education student loan scheme dates back to the early 1990s. In the *Government White Paper* of 1992, it was recommended that a system of study loans be established to extend educational loans to students who were unable to raise the necessary finances for their university education (Uganda Government, 1992). Such loans, states the Government White Paper, would be interest free and payable when a student completes his/her studies and finds gainful employment.

A student loan program should be designed to collect (according to the present value of the reasonably-expected repayments discounted at the government's borrowing rate) something reasonably close to the amounts lent-less losses from defaults and other purposefully designed subsidies or repayment forgiveness features. Student loan program must be equipped with legal authority to collect, technology to maintain accurate records, collectors who can track borrowers and verify financial conditions, advisors and repayment counsellors in the universities, and the ability to enlist both the government's tax-collecting authority and employers in the collection of repayments. An income contingent repayment mode should not be employed unless incomes can be reasonable verified. If income contingency is politically necessary, it should not be the "default" repayment obligation, but rather an optional means of payment that requires the borrower to demonstrate that he/she can discharge the repayments by paying a percentage of earnings from a single employer that represents the a dominant earnings stream.

Mechanisms need to be added to the repayment process, especially if the repayment mode is a conventional, fixed schedule mode, to accommodate borrowers whose earnings are low, either temporarily or permanently. In short, a conventional loan needs the same kind of genuine low earnings protection that is presumed to follow by definition from an income contingent form of repayment obligation.

A loan program needs to have a collection agency that is viewed as professional, incorruptible and technically expert. Universities and other eligible tertiary level institutions must be enlisted as partners in the program, especially in impressing upon the student recipients that loans are legally enforceable obligations that must not be taken lightly or used in excess, and in keeping track of the borrower's whereabouts, at least during the in-school years.

The private sector and industry should also be encouraged to sponsor and bond students for students for their organisations. This can supplement

government effort to support as many students in Higher Education Institutions as possible.

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