

Part II: International Experience with Student Loans

Chapter 4 Student Loan Programmes in Developed and Developing Countries

During the 1950's and 1960's student loan programmes were established throughout Scandinavia and Europe, in Canada, Japan and the USA, and in a few developing countries. In Latin America, for example, the first loan programme, *Instituto Colombiano de Credito Educativo y Estudios Technicos en el Exterior* (ICETEX), was set up in Colombia in 1953.

New programmes were established in the 1970's, and by the early 1980's there were examples in at least thirty countries. A number of new loan programmes have been established in the 1980's. For example a loan programme was set up in Indonesia in 1982, and other countries have recently expanded existing schemes.

In several countries there has been a clear shift during the 1980's towards greater reliance on loans. In the USA the proportion of federal aid awarded in the form of grants increased during the 1970's until the peak year of 1975-6, when 80% of all federal aid consisted of grants. Since then grants have declined, and loans have

increased, so that by 1985 52% of all federal aid to students was in the form of loans. In other countries also, including Sweden and the Federal Republic of Germany, there is now increased reliance on loans as a form of financial aid for students in higher education.

There are several descriptions of student loan programmes in developed countries, including a comparative study of student loans in Canada, Sweden and the USA (Woodhall 1982) and a recent comparison of student aid programmes in Britain, France, Germany Sweden and the USA (Johnstone 1986).

In the USA there has been extensive research on student loans by such bodies as the American Council on Education, the College Board, and the National Association of Student Financial Aid Administrators (NASFAA). Much of this research is hardly relevant to the needs of a developing country first setting up a student loan programme. The American experience is valuable, however, in showing not only that loan programmes and a wide variety of types of loan are feasible, but also that in the USA, at least, students are perfectly willing to borrow and that reliance on loans as a way of financing both tuition fees and living costs has become widespread.

Student Loans in the USA

In 1985 more than 4 million loans were provided under a variety of programmes, and students borrowed more than US\$9 billion. The average size of loan in 1985 was US\$2,300 (about £1,500), but some students, particularly graduate students, borrowed considerably more than this.

The first loan programme was set up in the USA in 1958, in order to boost American science education, and it was a direct response to the launching of the Russian spacecraft or 'Sputnik'. The name of this first loan programme - the National Defense Student Loan Program (NDSLPL) - emphasised its original objective: to encourage and improve science education for defence purposes. Since then the NDSLPL has changed its name and been overtaken by a number of new loan programmes, sponsored or supported by the Federal Government. There is also a host of loan schemes operated by state government agencies and individual universities or colleges. The main Federal Government programmes are:

National Direct Student Loan Program (NDSLP)

The successor to the National Defense Student Loan Program. This offers highly subsidised loans to low-income students on the basis of a strict means test. When the programme was first established in 1958 the interest rate on NDSLP loans was 3%; it was raised to 4% in 1980 and 5% in 1981.

Guaranteed Student Loan Program (GSLP)

Intended for 'middle income' students, the GSLP offers subsidised loans, but at a higher rate of interest than NDSLP loans. When the GSLP was first introduced in 1965, interest was charged at 6%; the rate was increased to 7% in 1968 and 9% in 1981, but reduced to 8% in 1985.

Parent Loans for Undergraduate Students (PLUS)

PLUS loans are intended to help parents finance their children's education, or to provide additional funds for students who do not qualify for GSLP loans, in which case the loans are called Auxiliary Loans to Assist Students (ALAS). PLUS loans were first introduced in 1981, at 14% interest. The rate of interest was reduced to 12% in 1985.

Health Education Assistance Loans (HEAL)

This programme is specially designed for students training for medical and para-medical professions. Similar specialised schemes exist for certain other professions, notably law.

Apart from loans there are several other forms of student aid in the USA including federal government grants and the College Work-Study Program, which provides subsidised jobs on the college or university campus. The amount and type of aid received by individual students in the USA depends on their family circumstances and the funds available in their institution, most of which employ student financial aid administrators whose task is to measure a student's 'financial need' and assemble a student aid 'package' for each applicant. In principle, grants and NDSLP loans are intended for low-income students, and GSLP or PLUS loans for students with higher family incomes. However, individual packages vary considerably, because of the complexity of student

aid programmes in the USA. In the last decade there has been a marked shift towards greater reliance on loans. By 1985 more than half of all financial aid for students in higher education in the USA was provided in the form of loans.

Student Loans in other Developed Countries

The Federal Republic of Germany has recently replaced grants for students in higher education by a system of loans. German university students do not pay tuition fees, and students from low income families receive financial aid towards their living expenses. Financial assistance for needy students was first provided under the Federal Law for the Promotion of Education, *Bundesausbildungsforderungsgesetz* — colloquially known as BAfög — of 1971. Originally BAfög provided means-tested grants, but a loan element was introduced in the 1970's to supplement the grant, and in 1984 grants were abolished and loans became the only source of financial aid for students. The replacement of grants by loans aroused considerable controversy in Germany, but the government argued that the change was necessary in the light of increasing financial stringency. Nevertheless the loan scheme is extremely generous: graduates can repay their loans over 20 years, the loans are interest-free, and students who complete their course in a shorter than average time, or who graduate in the top 30%, have up to 25% of their debt cancelled.

In Japan, also, loans are the only form of financial aid for students. The Japan Scholarship Society was first established, in 1943, as a private foundation. Its legal status was later changed to make it a quasi-governmental organisation, and in 1953 it became the Japan Scholarship Foundation. All the 'scholarships' are in fact loans, which must be repaid. There are two types of loan. Interest free loans are provided for students in upper secondary schools and technical colleges, and loans at 3% interest are provided for undergraduate students.

In Sweden students receive a mixture of loans and grants, but the proportion of repayable loan has increased from 75% in 1965 to over 90% in 1985. Sweden is unusual in treating all students as financially independent from the age of 20. Parental income is not taken into account, and the majority of students are eligible for

loans, which must be repaid by their 50th birthdays. During the 1960's, graduates had to repay their loans in terms of constant purchasing power, and their debt was indexed in terms of the Cost of Living Index. However, this has now been changed and an annual 'adjustment index' of 4.2% is charged. All the other Scandinavian countries (i.e. Denmark, Norway and Finland) also have student loans.

Other developed countries with student loan programmes include Canada, where there is a Canada Student Loan Program, administered by commercial banks with a Federal government guarantee, and a number of provincial programmes. New Zealand is currently reviewing student aid policy and considering a loan programme, and in Britain student loans are back on the political agenda (as discussed in Chapter 1).

Student Loans in Developing Countries

Much less information is available on student loans in developing countries. A review for the World Bank of international experience with student loans (Woodhall 1983) includes information about student loans in more than fifteen countries in Latin America and the Caribbean, several countries in Asia (Pakistan and Sri Lanka), and the Middle East (Egypt and Israel). In Africa there are several small loan programmes, and proposals have been made for more extensive programmes in Kenya and Nigeria.

A short-lived experiment with loans in Ghana (described in more detail by Williams 1974) was discontinued in 1972, when a change of government led to the abolition of a loan programme introduced by the previous government in 1971. There is still a small 'Book Loan' programme in Ghana, but few attempts are made to secure repayment of these loans and many students simply regard them as grants. The experience in Ghana is sometimes quoted as evidence that student loan programmes do not work in developing countries. In fact, however, such a conclusion seems unduly pessimistic. Chapter 2 provides several instances of loan programmes in developing countries, and a number of other countries are now actively considering the introduction of loans.

The remainder of this chapter looks in more detail at three case studies:

- * The *Instituto Colombiano de Credito Educativo y Estudios Technicos en el Exterior* (ICETEX) in Colombia
- * The Student Revolving Loan Fund of Barbados
- * The loan programme operated by the Joint Committee on Student Finance (JCSF) in Hong Kong.

Case Study: ICETEX in Colombia

ICETEX was the first student loan programme in Latin America, established in Colombia in 1953. Initially, loans were provided only for study abroad, but since 1958 loans have also been given for university study in Colombia, and the number of loans has increased rapidly since the programme was established. Between 1953 and 1984 ICETEX provided over 260,000 loans, and in 1984 it made 29,209 loans to students in Colombia and nearly 1,000 loans for study abroad (mostly in Spain, France, Mexico and the USA).

The government of Colombia plans to expand the educational credit provided by ICETEX by US\$45 million, with the help of a US\$20 million loan from the Inter-American Development Bank (IDB).

Administration of loans

ICETEX is an autonomous government agency, established to administer both loans and scholarships. A small number of scholarships are provided, financed through the Regional Development Budget; but the main activity of ICETEX, is educational credit, or loans.

At the moment, ICETEX offers three types of loan:

- * short-term loans which must be repaid during the course of study
- * medium-term loans, which are partly repaid during the course of study and partly after the studies are complete
- * long-term loans, which are repaid after the student has completed a course of study.

Other loans are also available to students in Colombia, at higher rates of interest. Commercial banks make short-term loans to

students and charge interest slightly below commercial rates, and some private universities also offer loans to students to help them pay fees.

In 1985 ICETEX was servicing over 90,000 loans. It estimated that the cost of administering the loans was about US\$55 per loan.

Who is eligible for loans?

Student loans are intended to help poor students to pay for university education in either public or private universities. Less than 10 per cent of all students in higher education received loans in 1985, and more than 75% of these came from low income families. Borrowers must provide a personal guarantee, from a parent or other responsible adult who is liable for the debt if the loan is not repaid.

Loan repayment terms

During the 1970's the inflation rose dramatically throughout Latin America, and though the rate of interest charged on student loans also increased it never kept pace with inflation. In 1985 the annual rate of interest on ICETEX loans was 25%, after a grace period of 6 months after graduation. The length of repayment was as follows:

- (a) loans for postgraduate study in Colombia to be repaid over 4 years
- (b) loans for undergraduate study in Colombia to be repaid over 5 years
- (c) loans for study abroad to be repaid over 6 years.

There are no loan forgiveness provisions, and all loans must be repaid in full.

Default rates

Part of the interest charged on the loans (1% of the 25% charged in 1985) is used to pay for insurance against non-repayment of the loan in case of death or permanent disability. ICETEX finances this guarantee through the *Fondo de Garantias* (Guarantee Fund), which had assets of US\$1.2 million in 1985.

High interest rates and rising levels of unemployment caused an increase in the rate of default on loans from ICETEX in the 1970's. Even so, the majority of borrowers still repay their loans. In 1985 the total value of outstanding loans was US\$17.2 billion, and of this, only \$2.1 billion (or 12% of the total) was in arrears.

Borrowers who are late in paying the monthly instalments on a loan are sent three reminder letters. If four instalments are in arrears, a commercial debt collection agency attempts to secure repayment. If this is unsuccessful, the borrower's employer will be asked to deduct repayments from monthly salary. Prosecution results only when all these steps have failed to secure repayment of the loan.

The results of the loan programme

ICETEX regards the loan programme as extremely successful, and it is popular with students and institutions. Research conducted by ICETEX suggests that loan recipients finish their studies in a shorter period of time than those without loans, who are more likely to interrupt their studies or take part-time jobs to help finance their education, thus considerably lengthening their study period.

Research by the World Bank in the early 1970's concluded that ICETEX was not very successful in redistributing resources from rich to poor, since many loan recipients were already relatively privileged. However ICETEX now tries to concentrate loans on less wealthy students.

Case Study: the Student Revolving Loan Fund in Barbados

The Student Revolving Loan Fund (SRLF) of Barbados was established in 1976 with the help of a loan from the Inter-American Development Bank (IDB). The purpose of the Fund is to provide long-term loans for students in higher education, in order to help meet the manpower needs of the economy.

Initially, the number of loans provided by the SRLF was very small, but both the Government of Barbados and IDB regarded the first stage of the loan programme as successful, and the Fund has therefore been expanded since 1983, with the help of a further loan from IDB. The Government plans eventually to replace the entire scholarship programme by a programme of 'loan-grants' to be administered by SRLF.

Administration of the loan fund

The SRLF is a government agency located within the Ministry of Education, but operating as an autonomous agency. Its administrative structure consists of:-

- (a) The *Management Committee*, which includes representatives of:
- * Ministry of Education
 - * Ministry of Finance and Planning
 - * University of the West Indies
 - * National Training Board
 - * Other educational and training institutions.

Responsibilities of the Management Committee include:

- * establishing terms and conditions of student loans, and
- * ensuring that correct financial procedures are followed.

- (b) The *Administrative Committee*, which consists of a Secretary/Accountant, Clerical Officers and Secretarial staff.

Responsibilities of the Administrative Committee include:

- * publicity
- * processing loan applications
- * determining eligibility in accordance with regulations laid down by the Management Committee
- * keeping up-to-date records of student loans
- * keeping financial and other statistical data on the operation of the fund.

- (c) The *Financial Agent* (the Barbados National Bank) which has responsibility for:

- * drawing up contracts for loan repayments
- * disbursement of loans
- * collection of loan repayments

- * refer all loans in arrears (more than 180 days) to the Management Committee
- * carrying out internal audits.

The conditions of the IDB loan require the SRLF to carry out regular evaluations of the loan programme and to monitor this effectiveness by collecting data on:

- * number of loans awarded
- * the family income level of borrowers
- * their educational progress
- * number of drop-outs and reasons
- * number of graduates, by subject
- * their subsequent employment.

Initially, the Fund provided loans only for university students at the University of the West Indies or those studying abroad. The expanded programme also provides loans for students in the Polytechnic and the Teacher Training College. The loans cover both tuition fees and living expenses. The disbursement and collection of the loans is carried out by commercial banks for the SRLF.

Who receives loans?

Between 1976 and 1983, 118 students financed their university education in Barbados or abroad by means of a loan from SRLF. The majority of these were from below-average income families. Eighty percent had family incomes below US\$9,000: and about a third were from families classified as having 'very low' income, on the basis of a means test administered by SRLF.

Repayment of the loans

The repayment terms for the loans depend on the level of study, the size of debt and the progress of the borrower. The length of repayment varies between 5 and 10 years, and the rate of interest between 6 and 12%. In 1982 the proportion of loans in arrears was less than 5%. On the basis of income expectations in 1983, it is thought that loan repayments will require between 5 and 10% of

graduates' annual income. A new feature of the expanded scheme is 'loan-grants'. Part of the loan can be cancelled if the borrower completes higher or vocational education successfully in the normal time, achieves satisfactory grades and subsequently works in Barbados for an agreed time.

Evaluation of the Student Revolving Loan Fund

It is too early yet to evaluate the expanded loan programme, which plans to provide more than 500 loans, but the small-scale programme which operated between 1976 and 1983 is judged to have been successful and the IDB regards the new project as a viable and potentially profitable investment. From the individual point of view, also, student loans are profitable. A tracer study of students who had received loans between 1976 and 1982 showed that after completing their studies, 87% found employment in Barbados and 65% had incomes above US\$9,000. The loans therefore proved to be a profitable investment for the individual students, and in fact an estimate of the rate of return to education in Barbados suggests that the private rate of return to higher and vocational education is over 26%. Even after repayment of their loans therefore, borrowers will enjoy substantially higher incomes.

Case Study: The Joint Committee on Student Finance in Hong Kong

The Hong Kong Government provides both grants and loans for tertiary students. Grants cover tuition fees, union fees and faculty expenses; and loans, which are interest-free, cover the cost of living. Some extra loans are administered by individual institutions from their own funds and from charitable bequests. In addition, from 1981 to 1983 loans were provided for students studying in Britain. However, this programme has been discontinued, and this case study concentrates on the government programme of loans for students in Hong Kong, which is administered by the Joint Committee on Student Finance (JCSF).

The programme was launched in 1969, and now assists students in the two universities, the two polytechnics and the tertiary Baptist College. It aims "to ensure that no student who has been offered a

place in one of these institutions should be unable to accept it because of lack of means". The scheme now caters for about 50% of full time students. Finance is provided only for students with low incomes, and applications are checked very carefully. In 1985-86, HK\$35 million (approx. US\$4 million) were given out as grants, and HK\$84 million (approx. US\$10.5 million) as loans. Over 10,000 students received a loan in 1985-86.

Operation of the Hong Kong system is costly. It requires a large group of administrative officers, many of whom must be highly trained. Application forms have to be processed by computer, and staff are employed to check the accuracy of applicants' statements. In some respects, the system is too complicated. However, the government feels that in general the scheme works well.

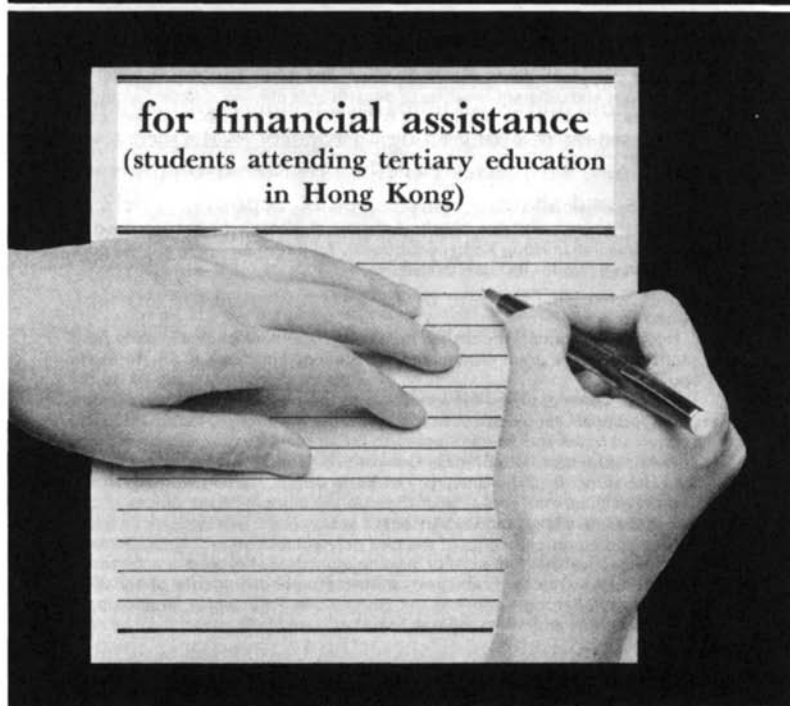
How much does it cost to run the scheme?

The JCSF employs 27 full-time staff, and during the peak season employs additional staff equivalent to 112 person-months. The annual salary bill is about HK\$2.5 million, which is about 2.3% of the total amount given out as grants and loans. Additional allowance must be made for the salaries of Treasury personnel who receive repayments, and for the Student Affairs staff in the tertiary education institutions who spend a lot of time helping students to fill in forms. And one must also add the cost of buildings, computers, printing and general maintenance. Thus the total annual cost is probably about HK\$4.5 million, which is about 3.9% of the total amount given out as grants and loans. This is higher than the proportion spent in Sweden, for example, where the authorities expect administration to consume only about 1.8 per cent of the budget for student aid.

The application procedure

In April each year, the JCSF advertises the scheme in the local newspapers. Most students apply through the institution where they will be studying, but new students in the two universities apply

How to apply



Explanation Booklet for Applicants, Hong Kong.

direct to the JCSF. Applications must be submitted by the end of July, and the academic year begins in September.

Each applicant must provide a lot of information:

1. She/he must fill two copies of a detailed, 10 page form. Among facts required are:
 - (a) personal data: name, address, sex, date of birth, etc.,
 - (b) the course to be undertaken,
 - (c) details on all the people living in the applicant's household: their names, identity card numbers, occupations, employers, and incomes,
 - (d) similar details on all the applicant's parents, brothers and sisters living away from the household (including those living or studying overseas),
 - (e) details of all property owned by the each member of the household and by all unmarried members of the family who are resident in Hong Kong. 'Property' is defined to include buildings, businesses (whether registered or unregistered), stocks and shares, vehicles, bank deposits, jewellery, and cash in hand. The applicant must indicate the date when the property was acquired, the value of the property at that date, and an estimate of its current value.
 - (f) the size and number of rooms in the residence occupied by the household, the monthly rent/mortgage, and the name, address and telephone number of the landlord/investment company,
 - (g) details of all members of the household who were in full-time study during the last academic year, and
 - (h) signatures of (i) all members of the household who earn money or receive pensions, and (ii) all unmarried family members who are also resident in Hong Kong and who also earn money or receive pensions. These signatures provide legal authorisation for the JCSF to investigate the truth of statements.

Because the form is both long and complicated, it is accompanied by two sets of notes, which are written in both English and Chinese.

APPLICATION FOR FINANCIAL ASSISTANCE FOR 1985-86 一九八五至一九八六年度助学金及贷款申请书

This section should be completed in duplicate, carefully by the applicant using not more than one figure or letter in each space. Use black letters and pay special attention to the instructions about the various boxes which have to be filled in. (須利用電腦協助工作，須用英文正楷一式填寫填寫，齊求清楚)

PERSONAL DATA 個人資料

Hong Kong Identity Card No. _____

Letters and figures grid for Identity Card No.

20 A

Student No. _____

Letters and figures grid for Student No.

Full name in Chinese 中文姓名 _____

Characters (if applicable) _____

Full name in English _____

Personal names to be followed in Identity Card by Christian or first name _____

Sex: write 'M' for male; 'F' for female. _____

Marital status: write 'M' for married; 'S' for single. _____

Date of birth: write, for example, "080565" for 6th May, 1965. _____

Letters and figures grid for personal data.

20 B

RESIDENTIAL ADDRESS 住址

(Inform your Registrar, and the Secretary of the J.C.S.F. if you change your address after you have submitted this form. If your residential address cannot be reached by post, please indicate your correspondence address.) (Please see note 1 on page 8)

Phone No. 電話號碼 _____

SAVINGS ACCOUNT NO. 儲蓄戶口號碼 (Hong Kong and Shanghai Banking Corporation Hang Seng Bank)

Large grid for residential address.

101 (Office use)

UNIVERSITY DATA 大學資料

University of Hong Kong: Application Number _____ -19

Chinese University: Advanced Level Number/Higher Level Examination Number _____ -19

If you already have, or have accepted, a place at either University, complete the following boxes as instructed

If you have not yet gained admission have the following boxes blank

Write '10' for University of Hong Kong; '20' for Chinese University of Hong Kong; '21' for C.U. Chung Chi College; '22' for C.U. New Asia College; '23' for C.U. United College

Write 'A' for Arts; 'B' for Social Sciences; 'C' for Science; 'D' for Medicine; 'E' for Dentistry; 'F' for Engineering; 'G' for Architecture; 'H' for Law; 'I' for Business Administration; 'J' for Education

Give department curriculum coding (Please see note 2 and 3 on page 8 for code No.)

Write 'A' for Undergraduate; 'B' for full-time Postgraduate Diploma in Education; or 'C' for other Post-graduates

Give the year of the curriculum which will be followed in 1985-86 (e.g. '2' for '2nd')

Grids for university data.

20 C

FOR STUDENTS AT BOTH UNIVERSITIES

STATE THE AMOUNTS OF GRANT AND LOAN YOU RECEIVED FROM THE JOINT COMMITTEE ON STUDENT FINANCE IN 1984-85

Grant _____ Loan _____

SIGNATURE OF APPLICANT _____

申請人簽名 _____

Date _____

日期 _____

Grids for grant and loan amounts.

Application Form, Hong Kong. Note the boxes for direct transfer of numbers into the computer.

Secretary, Joint Committee on Student Finance
政府助學金聯合委員會秘書

RETURN OF EMPLOYEE'S REMUNERATION FOR THE YEAR ENDED 31ST MARCH 1985
僱員薪酬表截至一九八五年三月三十一日止之一年內

- Name of Employee 僱員姓名:
- Hong Kong Identity Card Number 香港身份證號碼:
- Capacity in which employed 受僱職位:
- Period of employment during year ended 31st March 1985:
截至一九八五年三月三十一日止一年內之僱用期間:
from 由 to 至
- Particulars of Income accruing during the year ended 31st March 1985:
截至一九八五年三月三十一日止一年內該僱員所得之入息明細表:

Particulars 細則	Period 期間						Amount 款額
	Day 日	Month 月	Year 年	Day 日	Month 月	Year 年	
Salary/Wages 薪俸/工資			to 至				\$
Commission/Bonus 佣金/花紅			to 至				\$
Overtime Pay 超時工作工資			to 至				\$
Back Pay 補發薪金			to 至				\$
Terminal Awards, Gratuities 退休或終止服務時之獎金或酬金			to 至				\$
Allowances (Meals/Traffic/Living, etc.) 津貼(膳食/交通/生活, 等等)			to 至				\$
Nature 性質:							
Others 其他			to 至				\$
Nature 性質:							
Total 總額							\$

I certify that according to my/our records the above information is true and correct.
根據本人/本公司紀錄, 本人並證明上述資料全部正確無誤。

Employer's Official Chop
僱主/公司/商行印鑑

Signature of Employer
僱主或負責人簽署:

Name (in block letters):
姓名:
(請用正楷填寫)

Designation 職位:

Date 日期:

Name of Employer/Firm
僱主/公司/商行名稱:

Address 地址:

Telephone No. 電話號碼:

Applicants for assistance in Hong Kong must declare the incomes of all their family members. If they cannot provide other types of documentation, each earner must get a form like this filled in by his employer.

2. The applicant must provide documentary evidence, such as tax returns, salary statements and profit/loss accounts for the earned income of every member of the household, and for every unmarried relative who is resident in Hong Kong, for the last financial year. If these are not available, workers must ask their employers to fill up a special form confirming their incomes in detail (see p. 104).
3. Photocopies of bank statements of all family members resident at home, and unmarried family members who are resident elsewhere in Hong Kong.
4. Photocopies of either exam results or provisional offers of admission to the tertiary institutions.
5. Photocopies of receipts of, or payments for, rent.
6. Receipts for fees paid.
7. Social welfare or medical certificates in respect of household members who are permanently sick and requiring maintenance.
8. Statements of any likely changes or additional relevant information.

Processing of applications

Checking these forms and accompanying papers is a major exercise. During the peak season, the office employs a team of temporary staff. To help with its work:

- (a) the forms are colour-coded according to the type of institution in which the student will study,
- (b) the form is carefully designed so that its information can be typed straight into the computer,
- (c) a video-tape has been made to explain the scheme to applicants, and to tell them how to fill up the form.

Hong Kong is well known for the efficiency with which government and businesses operate, and the main decisions are taken and communicated in time for the new academic year. When the peak period of activity is over, officers check the details of applications more carefully.

How much can a student expect to receive?

When the scheme started, the amount available to individual students depended on the competition for a fixed sum of money. If

 **
 ** *Checking of Applications in Hong Kong* **
 **
 ** *Careful authentication of applications is carried out each* **
 ** *year. A percentage of successful applications is randomly* **
 ** *selected by the computer for verification. To ensure* **
 ** *appropriate sampling of cases, individuals are selected by* **
 ** *reference to institution and to annual disposable income.* **
 ** *Officers may visit applicants' homes, grouping cases* **
 ** *together so that more than one visit can be made on a* **
 ** *single journey. The most common discrepancies* **
 ** *discovered are understatement of earned income or bank* **
 ** *deposits, and the omission of full-time employment of* **
 ** *family members. Depending on the case, action to recover* **
 ** *payments may be taken, and individuals may be* **
 ** *prosecuted.* **
 **

there were many needy students, each one obtained a smaller sum than if there were few. But in 1981 the government agreed to make the scheme 'open ended' so that the needs of all students could be met in full.

Students in different institutions, faculties and departments are entitled to different amounts of help according to assessments of the money they will need. It is assumed, for example, that a medical student will have higher costs than a law student. Periodic student expenditure surveys are carried out to determine appropriate amounts.

An individual's entitlement is also based on her/his annual disposable income. JCSF officers calculate the annual income of all family members, deduct needs for rent, school fees and medical expenses for the chronically sick, and divide the net result by the number of persons in the family. The figure is regarded as the student's annual disposable income, 50% of which is set against a grant requirement and 50% against a loan requirement.

Students from low-income families are protected by a cut-off point below which their annual disposable income is completely disregarded and above which it is partially disregarded according

to a 'six-band' system. In the 1985-86 academic year, annual disposable incomes were completely disregarded when they were below HK\$4,200. The notional maximum grant was HK\$6,200, and the maximum loan was HK\$10,700.

 * *Should Total Funds be Fixed or Unlimited?* *
 * *Initially, the Hong Kong Government allocated only a* *
 * *fixed annual sum to the scheme. This was because it did* *
 * *not wish to undertake unlimited financial commitments.* *
 * *However, it later decided that this system prevented the* *
 * *scheme from meeting its objectives: in a year of heavy* *
 * *competition, needy students might still find themselves* *
 * *prevented from receiving higher education because of lack* *
 * *of finance. So in 1981 the system was made 'open ended'.* *
 * *Grants and loans still have a ceiling, and annual* *
 * *requirements can still be predicted fairly well. The scheme* *
 * *has been given an important element of flexibility.* *

Repayment and recovery of loans

Loans for university and Baptist College students are repayable in 20 equal quarterly instalments over five years following completion or withdrawal of studies. Different arrangements are made for polytechnic students, but those on courses lasting for more than one year also have to repay their loans within five years of completion.

Suspension of loan repayments is granted to certain applicants. People suffering from financial hardship or sickness may suspend repayments for up to six months, and individuals undertaking further study may suspend repayments for up to five years.

The number of defaulters on loans has recently been reduced to quite low levels. Some 985 default cases were outstanding in 1981-82, but they had been cut to 213 in 1985-86. These figures seem very low when it is pointed out that by 1985 over 109,000 loans had been awarded.

The number of default cases has been reduced in four main ways:

- * The JCSF has conducted a persistent campaign to ensure repayments.
- * When loans are given, students have to provide a guarantor. The guarantor must have a regular income and be able to supply a business address – housewives, students and pensioners are not acceptable. The guarantor signs a legal document, and can be taken to court if the loan is not repaid.
- * Since 1982, any instalments which are over seven days late have had a 5% surcharge levied on them.
- * The Immigration Department now includes the names of all emigrated defaulters and their guarantors in the list of wanted people which is checked at all of Hong Kong's entry and exit points.

Problems with the scheme

Although the scheme has been greatly improved since it began in 1969, it still suffers from several problems:

- * Administration is costly. Hong Kong has a good supply of skilled manpower, and has a strong enough economy to be able to pay them. But other governments may not be in so fortunate a position.
- * The forms are very complicated, and students often have considerable difficulty in filling them in. The tertiary institutions themselves have to help, and one institution reported that during the peak season the whole of the Student Affairs staff were completely occupied giving assistance for at least two weeks.
- * Students sometimes find that their relatives are unwilling to declare their incomes or to provide the considerable paperwork that is required. This may mean that the scheme still fails to meet its objectives – that some students are still unable to take up places because of lack of finance.
- * The procedures are still insufficiently flexible. It is hard for them to allow for changes in incomes. And the fact that students' forms which contain detected errors are immediately cast aside prevents the system from catering for everyone who needs it.

To improve the situation, the JCSF would like to interview all applicants. This would make the system more costly, but the Committee estimates that it would cost only an extra HK\$76,000 (equivalent to the average assistance given to 4.5 students) and thus could be a good investment. About half the students were interviewed on a trial basis during 1984-85, and the authorities found it a good way both to persuade applicants to be honest and to help those in need.

Meanwhile, government efforts are supplemented by the institutions themselves. For example, staff in the Hong Kong University Student Affairs Office state that the few needy students who are not catered for by the government scheme do nevertheless receive help from separately administered university funds. Thus, they feel, it is true that no student in Hong Kong is unable to take up a tertiary place because of lack of finance.

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* *Should the Grants be Replaced by Loans?* *
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* *In 1985, the Government's Director of Audit proposed* *
* *that all grants should be replaced by loans. Using civil* *
* *service salaries as a yardstick, he calculated that even the* *
* *extra earnings of graduates during the five years after* *
* *qualification would be considerably more than the loan* *
* *repayments that would be required, and therefore students* *
* *would easily be able to pay. He also pointed out that the* *
* *availability of both employment opportunities and* *
* *domestic help meant that female graduates need not be* *
* *disadvantaged in the way that they might be in other* *
* *countries; he also felt that students would be less likely to* *
* *give false information when applying to an all-loan* *
* *scheme, simply because they would have to pay the money* *
* *back. These are powerful points, and may cause future* *
* *changes.* *
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