

Policy Research and Dialogue  
Student Loans Schemes in Asia

# Student loans in Thailand: are they effective, equitable, sustainable?

**Adrian Ziderman**



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# Contents

<b>List of abbreviations</b>	<b>7</b>
<b>List of tables</b>	<b>8</b>
<b>Statistical appendix tables</b>	<b>10</b>
<b>List of figures</b>	<b>11</b>
<b>Foreword</b>	<b>12</b>
<b>Preface to the series</b>	<b>13</b>
<b>Acknowledgements</b>	<b>16</b>
<b>Chapter 1. The Thai education system</b>	<b>17</b>
Economic and social background	17
The education system: budgets and financing	19
Student enrolment	21
Institutional structure	24
<b>Chapter 2. Objectives and expectations</b>	<b>27</b>
Alternative loans scheme objectives and policies	27
Objectives of the Thai loans scheme	30
Particular characteristics of the Thai loans scheme	33
<b>Chapter 3. Organizational structure and administration</b>	<b>35</b>
Student Loans Scheme Committee	35
Allocating the national loans budget	40
Loan distribution	46
Loan repayment	50
Concluding remarks	50
<b>Chapter 4. Main lines of development: a statistical account</b>	<b>53</b>
Plans versus outcomes	53
National loans scheme budget	55
Number of borrowers and loans disbursement	58
Loan repayment	65
<b>Chapter 5. Financial analysis</b>	<b>69</b>
Formal loan conditions	70

	The individual loan account	72
	Loan recovery with default and administration costs (the loan recovery ratio)	76
	Loans scheme viability: revolving fund or open-ended commitment	80
<b>Chapter 6</b>	<b>Targeting for equity and access</b>	<b>83</b>
	Reach of the scheme	83
	Effect on access and drop-out prevention	89
	Horizontal equity	93
	Case study: MOE provincial loans budget allocation	98
<b>Chapter 7</b>	<b>Policy conclusions and implications for reform</b>	<b>103</b>
	Two major areas for reform	103
	Organizational reform: improving targeting and horizontal equity	104
	Finance reform	110
	The loans scheme and educational reform	111
	Recommendations from the 1999 Policy Review and their implementation	114
	<b>References</b>	<b>119</b>
	<b>Appendices</b>	
	1. Loans Interview Surveys	121
	2. Improving financial performance: a simulation approach	123
	3. Student aid: grants and scholarships	131
	<b>Statistical appendix</b>	<b>141</b>

## List of abbreviations

ADB	Asian Development Bank
GDP	Gross Domestic Product
KTB	Krung Thai Bank
LEAs	Local Education Authorities
MOE	Ministry of Education
MOF	Ministry of Finance
MUA	Ministry of University Affairs
NEC	National Education Commission
NESDB	National Economic and Social Development Board
ONEC	Office of the National Education Commission
RIT	Rajamangala Institute of Technology
SES	Social and Economic Survey (of the NESDB)
SLO	Student Loans Office
SLS	Student Loans Scheme
SLSB	Student Loans and Scholarships Bureau
SLSC	Student Loans Scheme Committee

## List of tables

- Table 1.1 Government expenditure on education, 1966-2001
- Table 1.2 Number of students and enrolment ratios by educational level, 2001
- Table 1.3 Number of educational institutions, upper secondary to first-degree level, 1999
- Table 3.1 MOE loans budget allocation, 2000
- Table 3.2 Criteria used to allocate MOE loan budgets to the provincial offices
- Table 4.1 Number of borrowers and total loans expenditure: planned and actual
- Table 4.2 Total annual budget allocations and loans disbursement: 1996-2002
- Table 4.3 Annual budget surplus (budgeted allocation less loans distribution)
- Table 4.4 Number of loan recipients and loans coverage, open and closed public universities and private universities, 2000
- Table 4.5 Total loan disbursement by education category
- Table 4.6 Loan repayments, cohorts with repayments due to commence in 1999 and 2000
- Table 4.7 Income of non-payers, 1999 repayment cohort
- Table 5.1 Loans maxima, 1998
- Table 5.2 Student loans: annual repayment schedules
- Table 5.3 Hidden grant and repayment ratio on selected student loans programmes: alternative discount rates
- Table 5.4 Annual loan repayment burden: undergraduate courses, by gender
- Table 5.5 Net recovery ratio on loans (with 5 per cent default and alternative administration costs)
- Table 6.1 Reach of the loans scheme: upper-secondary level of schooling, 1999
- Table 6.2 Upper-secondary school loan recipients
- Table 6.3 Number of youth aged 15-17 in poor households, by school attendance, 1999

- Table 6.4 Annual household income of loan recipients, selected provinces and institutions
- Table 6.5 Possible consequences of lack of loan for recipients
- Table 6.6 Reasons for not taking a student loan, non-borrowing students
- Table 6.7 Reasons for discontinuing studies (drop-out), non-student youth aged 15-17
- Table 6.8 Average loan size, recipients in MUA demonstration schools, 1998
- Table 6.9 Maximum loan ceilings, RIT (Khon Kaen), 1998
- Table 6.10 Correlation matrix of five target measures
- Table 6.11 Bivariate correlations between loan allocation and target measures
- Table 7.1 Student Loans Scheme review (1999): summary matrix of findings and recommendations
- 
- Table A2.1 Student loans: possible 8-year annual repayment schedule
- Table A2.2 Repayment ratio: the effect of alternative changes on loan repayment conditions, undergraduate programmes
- Table A2.3 Recovery ratios on loans: the effect of changes in repayment conditions at alternative levels of administration costs, undergraduate programmes
- Table A2.4 Present values of repayment burden: loan repayment as a percentage of annual income, alternative repayment conditions
- Table A2.5 Annual loan repayment burden, undergraduate courses by gender: alternative repayment conditions
- Table A2.6 Present values of repayment burden: loan repayment as a percentage of incremental income, alternative repayment conditions
- Table A3.1 SEMA Life Development Fund, classified by ministry
- Table A3.2 Grants from various large private non-profit foundations
- Table A3.3 Grants administered by the MUA, 2000
- Table A3.4 Grants at the university level, selected examples
- Table A3.5 Total amount of student grant and scholarship aid, tertiary institutions, 1999

## Statistical appendix tables

Table 1	Number of loan recipients, 1996-2000
Table 2	Loans scheme coverage, 1996-2000
Table 3	Total loan disbursements, 1996-2000
Table 4	Number of new and old loan recipients, 1996-2000
Table 5	Average loan size, new and old recipients, 1996-2000
Table 6	Number of borrowers and total loans allocation, MOE and MUA, 1996-2000
Table 7	Number and percentage of loan recipients by income group and institution, selected universities, 1997
Table 8	School/institution type classified by level/type of education and unit of control
Table 9	Grant/scholarship aid, by type: selected universities, 1999

## List of figures

- Figure 1.1 Real GDP growth, 1992-2001
- Figure 1.2 Percentage distribution of the education budget, fiscal year 2002
- Figure 1.3 Distribution of students in public and private institutions, by level of education, 2000
- Figure 3.1 Student loans budget allocation
- Figure 4.1 Number of borrowers and total loan disbursements: MOE and MUA, percentage distribution, 1996-2000
- Figure 4.2 Student Loans Scheme coverage, 2000
- Figure 4.3 Number of loan recipients: total and new, 1996-2000
- Figure 4.4 Average loan size, new and old recipients, 1996-2000
- Figure 6.1 Reach of the loans scheme
- Figure 6.2 Percentage of loan recipients, by income group: selected universities, 1997
- Figure 6.3 Loan ceilings, RIT, Khon Kaen, 1998
- Figure 7.1 Alternative scenarios for loans allocation reform
- Figure A3.1 Line of administration: student grants/scholarships

## Foreword

UNESCO's mandate – both globally and in Asia and the Pacific – is the important mandate to serve as a standard setter, a clearing house, a capacity builder, a catalyst for international co-operation and a provider of impartial policy advisory services to governments and other partners in the region.

In the furtherance of this mandate, the UNESCO Asia and Pacific Regional Bureau for Education in Bangkok (UNESCO Bangkok) is developing an active portfolio of research and policy analysis studies which will serve as input into ongoing policy debates on education development and reform. Such studies will explore a wide range of issues found both within all levels and forms of education and in the linkages between education and other development sectors. Major policy challenges and priorities in the Asia and Pacific region will guide the selection of operational research topics. The ambition is to support and publish action-oriented, state-of-the-art research grounded in longstanding practical experience of countries in the region and of UNESCO. The series aims at providing education practitioners and advisors working in government institutions and the private sector with a comparative information and knowledge base to support policy dialogue and decision-making in education sector management and reform.

Most of the research to be published under the series will be part of ongoing UNESCO work in the areas of education sector policy and management of countries in the region. Relevant research prepared by partner institutions and individuals will also be considered for publication.

Sheldon Shaeffer  
Director  
UNESCO Bangkok

## Preface to the series

This book is part of a series of in-depth studies on the functioning of government-sponsored student loans schemes in Asia. It was written in the framework of a regional comparative policy review on student loans schemes undertaken by the Bangkok-based UNESCO Asia and Pacific Regional Bureau for Education (UNESCO Bangkok) in association with the International Institute for Educational Planning (IIEP). This regional project covered five countries and territories including P.R. China, Hong Kong S.A.R. China, the Republic of Korea, the Philippines and Thailand. Additional studies are being commissioned by IIEP, and a regional comparative assessment prepared by UNESCO Bangkok is forthcoming.

Most countries in Asia are experiencing a dramatic increase in demand for higher levels of education at a time of both severe public budget constraints and profound overhaul of education systems aimed at significantly increasing their impact and relevance. In an attempt to ease the burden on public budgets, a number of countries have introduced student loans schemes, hoping to recover costs and increase the revenue base for the expansion of education, while at the same time providing opportunities for poorer segments of the population to access higher levels of education.

In an attempt to increase the knowledge base available to governments and provide practical insights which might be useful for national education policy, the UNESCO Asia and Pacific Regional Bureau for Education initiated in 2001 a regional comparative study to examine the performance of student loans schemes in a number of countries in Asia. The study is intended to be instrumental in improving the efficacy and financial efficiency of existing schemes and in providing a comparative information base for countries intending to introduce a student loans scheme.

A joint endeavor by UNESCO Bangkok and IIEP, this regional policy study was initiated and its implementation co-ordinated by the Planning and Sector Analysis Unit (PSA) at UNESCO Bangkok. It benefited from technical support by IIEP and was able to draw on a wide range of regional and international expertise available at research institutes, universities and ministries in the participating countries. Five research teams led by academics and senior-level practitioners were involved in producing the monographs. UNESCO Bangkok and the Korean Educational Development Institute (KEDI) hosted several research seminars bringing together research teams and practitioners from the countries participating in the project.

Partner institutions involved in the study included the Korean Educational Development Institute (KEDI); Huazhong University of Science and Technology (Graduate School of Education), Wuhan; Peking University (Graduate School of Education); the Chinese University of Hong Kong (Department of Educational Policy and Administration); the Commission for Higher Education (CHED) in the Philippines (Office of Student Services, Office of Policy Planning, Research and Information) and the Asian Development Bank collaborating in the framework of an ongoing Education Sector Development Program in the Philippines. Researchers and officials from several universities, education and finance ministries and national agencies such as student loans offices in the participating countries collaborated in the preparation of the case studies. UNESCO Bangkok and IIEP would like to thank all those individuals who provided their expertise and professional experience to this research and therefore helped to assemble a considerable cross-sectoral information base required for comparative loans policy analysis. The important contributions by individual researchers and authors are acknowledged in this book.

The policy study benefited from the technical expertise of Adrian Ziderman, Professor of Economics at Bar-Ilan University, Israel, acting as UNESCO international lead consultant. He provided methodological guidance to research teams along the lines of his earlier study on loans in Thailand, prepared under a joint UNESCO Bangkok – Asian Development Bank project, ‘Education management and financing study’, in 1999. Igor Kitaev, Programme Specialist (education financing), served as resource person from the IIEP in addition to authoring one of the studies.

Dominique Altner, Chief, Planning and Sector Analysis Unit, UNESCO Bangkok, with support from Toshiyuki Matsumoto, Assistant Programme Specialist, PSA, initiated and ensured the professional co-ordination for this study.

Gudmund Hernes, Director  
International Institute for Educational Planning, Paris

Sheldon Shaeffer, Director  
UNESCO Asia and Pacific Regional Bureau for Education, Bangkok

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This monograph was written by Adrian Ziderman, Professor of economics and education at Bar-Ilan University, Israel. It is a revised and updated version of an earlier policy study prepared by the author in 1999 as part of a joint UNESCO (Bangkok) – Asian Development Bank project, *Education management and financing study*.

The author acknowledges the research assistance provided in updating the earlier version, by Nonglak Wiratchai, Professor Emeritus, Department of educational research at Chulalongkorn University, Bangkok, and by Walairat Asaves, Educational Officer, Office of the National Education Commission, Bangkok.

# Chapter 1

## The Thai education system

### Economic and social background

#### *The Asian financial crisis*

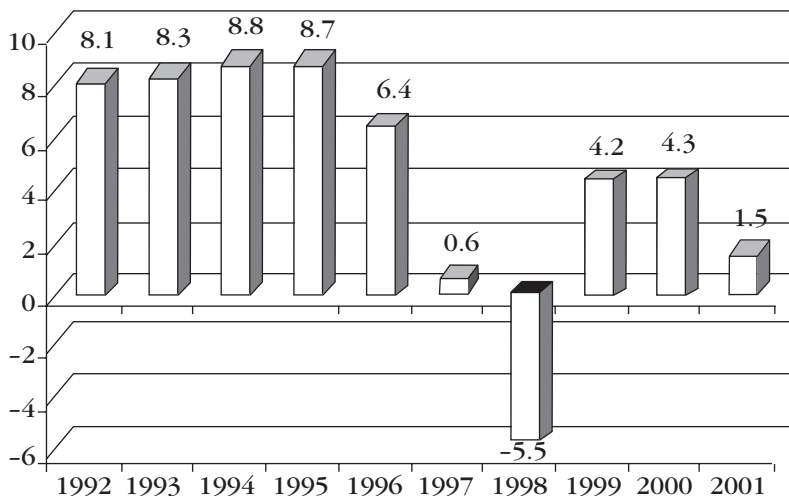
The initiation and early development of the student loans scheme in Thailand should be viewed in the context of the financial and economic crisis that hit the Thai economy in mid-1997, subsequently spreading to other countries in the region. The rapid economic development over the preceding decade had established Thailand as one of the new emerging Asian tigers; following double-digit economic growth from 1988-1990, the early nineties witnessed annual growth rates in GDP well in excess of 8 per cent (*Figure 1.1*). The initial, underlying factors leading to these extremely high economic growth rates were mainly external – rapid growth in the export sector, tourism and foreign investment; subsequently, domestic investment and consumption demand played a major role.

The run on the baht in mid-1997 was followed by depression of other financial and asset markets; by mid-1998, the value of the baht had fallen by 40 per cent and stock values by 50 per cent (Cresswell, 1999). These climactic events exerted their toll on economic activity. In 1997, GDP growth fell some six percentage points and was negative (-5.5 per cent) in 1998. Unemployment and underemployment increased. While strong moves towards economic recovery were apparent in 1999, these were not sustained; GDP growth rates exceeded 4 per cent in 1999 and 2000, but subsequently fell to 1.5 per cent in 2001 (*Figure 1.1*). In 2002, growth is only about 1 per cent.

The effects of the crisis on the education system were harsh. The resulting strain on the government budget led to reductions in public resources available for the education sector. The crisis also affected the education sector through its impact on family incomes and welfare. It reduced the ability of families to finance tuition fees and other education

costs, with a resulting increase in late tuition payments, reduced schooling enrolments and greater student drop-out (Cresswell, 1999). Poorer families were particularly hard hit.

Figure 1.1 Real GDP growth, 1992-2001 (%)



The student loans scheme, which began operation in 1996, is aimed particularly at easing the financial burden on students studying at the upper secondary and tertiary levels; its ultimate aim is to increase educational access (to upper secondary and tertiary education) for poorer sections of the population, leading to increased equality of educational opportunity and greater social equity. While the scheme was planned, and set in motion, prior to the onset of the crisis, it was seen as playing an important role in maintaining student enrolments and in countering student drop-out from the education system. One of the central themes of this monograph is how far this has proved to be the case in practice.

### *Social background*

The total population in Thailand was approximately 62 million in 2000, of which 53 per cent was in the labour force and 80 per cent lived in non-urban areas.

We may identify two, rather different, categories in the occupational and social class structure of Thailand. The first relates to the hierarchical class structure characterizing urban dwellers in the Bangkok Metropolis and big provinces. Considerable differences in well-being are found amongst the segments of urban society, which is highly stratified in terms of wealth, income, social position and education level; rich and middle-class lifestyles coexist with extreme urban poverty, exacerbated by inward migration from the rural areas. In parallel, a more homogeneous social structure is found in the largely classless populations in the small villages and districts, which is characterized by a common, basic cultural pattern, subsistence agriculture and widespread rural poverty.

High economic growth in the past had contributed to a substantial improvement in the standard of living, especially in rural areas (Kakwani and Pothong, 1998); these improvements were largely halted by the economic crisis and the already high disparities between rural and urban areas, and between regions, have increased. The impact of the crisis was strongest in the poorest, north-eastern region, which contains the country's five most poverty-stricken provinces.

## The education system: budgets and financing

Overall, the public sector is the dominant provider and funding source of education in Thailand, as in most countries, though we will note the importance of private education provision in some sectors, particularly in vocational education and at the university level. This section provides information on the government's role in funding education, the distribution of the education budget between sub-sectors and recent trends in the private financing of education.

### *Public educational expenditure*

Central government spending on education is in the order of 225 billion baht (*Table 1.1*); this includes considerable subsidies for local government expenditure and subsidies for private education.

The level of spending on education in relation to the gross domestic product (GDP) – the major measure of overall economic activity – compares well with that of other countries in the region (Cresswell, 1999). Overall, an upward trend is discernible over recent years. On average,

government spending on education accounted for 3.16 per cent of GDP over the period 1987-1997 (ONEC, 1997); in recent years this ratio has well exceeded 4 per cent (*Table 1.1*).

Table 1.1 Government expenditure on education, 1996-2001

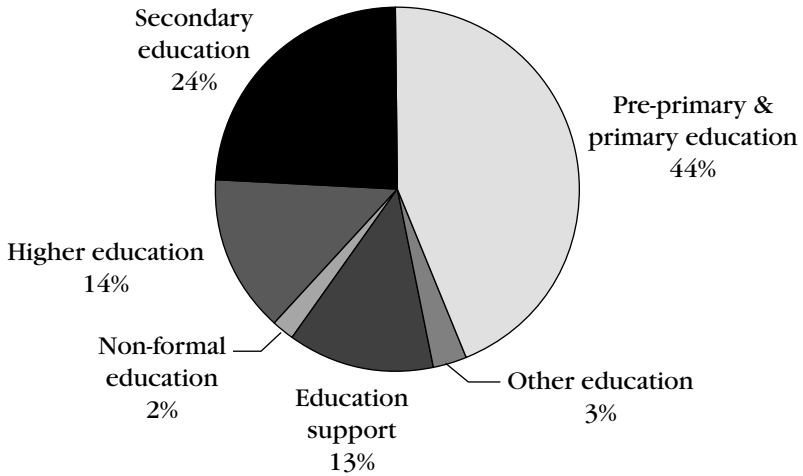
	1996	1997	1998	1999	2000	2001
Amount (billion baht)	170.1	202.9	201.7	207.3	220.6	224.1
% of GDP	3.7	3.9	3.9	3.7	4.3	4.3
% of national budget	20.3	20.6	25.2	25.1	25.7	24.6

The share of government spending on education in the overall central budget, has shown a clear, upward trend. For over a decade prior to 1996, this ratio fell considerably short of the 20 per cent figure for 1996; since 1998 the ratio has been about 25 per cent. In 1998, due to the ongoing economic crisis, the total government allocation to education from the national budget was reduced; however, the share of the budget allocated to education rose sharply to over 25 per cent. While this may be taken to represent a commitment of government to education development, even in times of economic austerity (ONEC, 2000), it also reflects the difficulty of imposing cuts in a sector with high levels of committed expenditure (Cresswell, 1999).

#### *Allocation of the education budget*

The distribution of the education budget levels and types of education is shown in *Figure 1.2*. While pre-primary and primary education still receive the largest allocation (44 per cent), over the longer term their share has declined markedly, from nearly 60 per cent in 1987 to 50 per cent a decade later. This decline no doubt is less indicative of parsimony of budgets for pre-primary and primary education than a reflection of the growth of other education sub-sectors, such as higher education (which now receives over 14 per cent of the budget, compared with about 10 per cent in the mid-1980s). Secondary education received 24 per cent of the education budget.

Figure 1.2 Percentage distribution of the education budget, fiscal year 2002



The overall conclusion reached in a recent, comprehensive survey of educational finance in Thailand is that, in the aggregate, government financial support for education is adequate by some standards, but found to be lacking by others (Cresswell, 1999). Total government educational spending in Thailand is comparable to that in other countries in the region and is not seen to be low in terms of wider international comparisons; allocations by major levels of education and across types of education are also found to be largely sound in terms of international comparisons. A number of problem areas were identified, including the high level of subsidies to higher education (particularly universities) relative to primary and secondary education and disparities in the allocation of resources for basic education across provinces and regions.

### Student enrolment

Over 14 million students are enrolled in the Thai formal education system, from pre-primary through to tertiary education (*Table 1.2*). The main education levels within the Thailand system are: pre-primary (three years of pre-school, consisting of a variety of programmes including kindergartens in primary schools and pre-school programmes run by

temples, communities and other organizations); primary (grades 1-6); lower secondary (grades 7-9); upper secondary (grades 10-12, including both general and vocational schools and streams); and tertiary or higher education. In Thai educational parlance, ‘basic education’ refers to schooling up to and including upper-secondary education. Free state education runs from primary through to lower-secondary education, though currently it is being extended to 12 years of basic education (to include upper-secondary education) under the provisions of the 1999 National Education Act.

### *Enrolment ratios*

Enrolment ratios by education level are shown in *Table 1.2*. The primary-level enrolment ratios have exceeded 100 per cent since 1998, the result of repetition as well as under- and over-age primary-level students. However, many children lack access to primary-level schooling, particularly those in remote rural areas and the handicapped (ONEC, 2000). The overall secondary enrolment ratio is some 70 per cent – 83 per cent at the lower, and some 60 per cent at the higher, secondary level; of the latter, two-thirds are in general, academic education and a third is enrolled in vocational programmes. A quarter of the population aged 18-21 is enrolled in tertiary education (excluding the open universities which cater for a broader age range), whether at the below-degree and diploma level or in first-degree programmes.

Table 1.2 Number of students and enrolment ratios by educational level, 2001

Education level	Age group	Student enrolment ('000)	Enrolment/Population ratio
Pre-primary education	3-5	2,790	96.0
Primary education	6-11	6,051	103.7
Lower-secondary education	12-14	2,358	82.9
Upper-secondary education	15-17	1,720	59.2
– <i>Academic track</i>	15-17	1,123	38.7
– <i>Vocational track</i>	15-17	597	20.6
Tertiary education*	18-21	1,085	25.0
Total	3-21	14,004	-

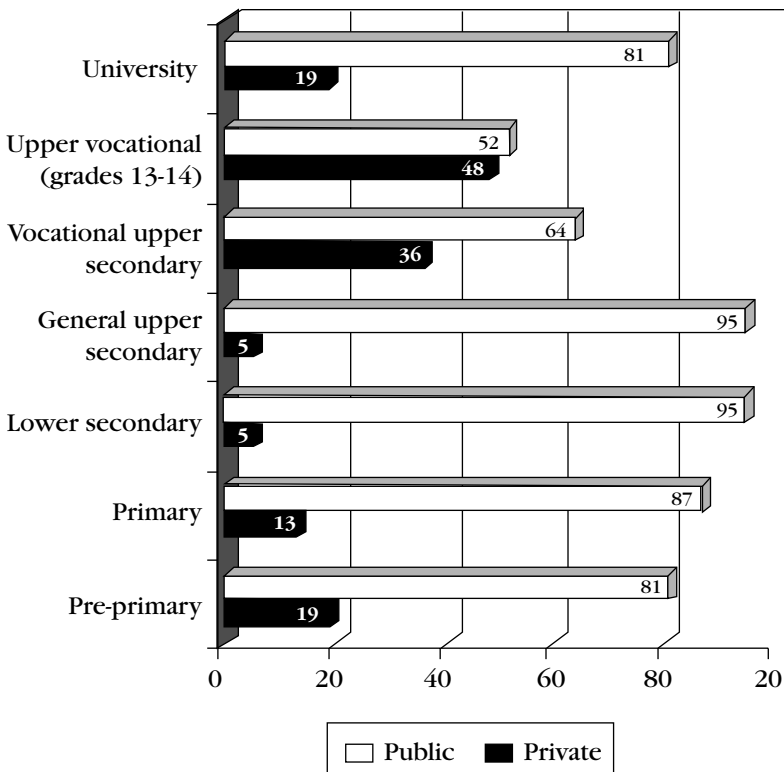
\* Excludes students in open universities.

Source: ONEC (2001).

*Enrolment in private education*

About 15 per cent of overall student enrolment in the academic year 2000 was in private education institutions; however, the relative importance of private education differs by educational level and type (Figure 1.3). The highest proportion of private enrolments is found in vocational education – at the upper-secondary level some 36 per cent of students are enrolled in private institutions, while at the upper vocational (tertiary level – grades 13-14) nearly half of all enrolments are in the private sector. The private sector has played a minor role in general secondary education; only 5 per cent both of lower and of upper-general secondary students are enrolled in private-sector schools. About a fifth of all university students study at private institutions.

Figure 1.3 Distribution of students in public and private institutions, by level of education (%), 2000



## Institutional structure

### *Overall administrative structure*

The Office of the National Education Commission (ONEC), within the Office of the Prime Minister, is responsible overall for educational policy, planning and research. There are two ministries centrally concerned with the provision, management and quality control of education: the Ministry of Education (MOE) and the Ministry of University Affairs (MUA).

The MUA is responsible for higher education provision in all government universities, institutions and colleges; and is in charge of curriculum approval in all private higher-education institutions. Besides governing all universities, the MUA is in charge of the administration of all demonstration schools affiliated with the universities.

In contrast, the responsibilities of the MOE span all levels and types of education. In addition to pre-primary, primary and secondary education, the MOE is responsible for the administration of colleges and institutes, at the tertiary level, providing undergraduate education in teacher education, and vocational and technical education. Specialized departments/offices in the MOE deal with the various types and levels of education for which it is responsible. These include:

- Office of the National Primary Education Commission;
- Department of General Education: responsible for the provision of secondary, general education;
- Department of the Private Education Commission: overseeing quality control and financing of private education, at both basic and tertiary education levels;
- Department of Vocational Education: responsible for the provision of vocational education at secondary and tertiary certificate/diploma levels;
- Office of Rajabhat Institute Council: responsible for the provision of teacher education and undergraduate programmes at Rajabhat institutes (formerly known as teacher institutes);
- Department of Rajamangala Institute of Technology: responsible mainly for the provision of tertiary programmes in vocational education;

- Department of non-formal education: responsible for the provision of informal and non-formal education, at both basic and tertiary education levels;
- Department of Fine Arts: responsible for the Colleges of Fine Arts;
- Department of Religious Affairs: provision of education for monks.

A second group of ministries/agencies is responsible for the provision of education in specialized fields. These include: the Ministry of Defence, Ministry of Public Health, Ministry of Transport and Communications, Ministry of Agriculture and Cooperatives, Ministry of Justice, Ministry of Labour and Social Welfare, Bangkok Metropolitan Administration (a public independent agency), and the National Police Office under the Prime Minister's Office. All these ministries/agencies operate institutions or are responsible for the management of education in specialized fields or for specific purposes.

#### *Upper secondary and higher education*

Since the student loans scheme covers upper and tertiary education, details relating to these two education levels are included in this section.

*Table 1.3* provides information on the number of educational institutions at the upper secondary and tertiary levels.<sup>1</sup> It should be noted that the sum of the school/institution numbers from all levels and types of education shown in the table exceeds the total number of schools/institutions for the whole country (not shown in the table) because some schools/institutions provide education at more than one level or type of education. Thus, for example, the Rajamangala institutes of technology in the past have provided two-year vocational education programmes at the upper-secondary education level, two-year vocational education programmes at the diploma level (equivalent to the first two years at the bachelor-degree level) and four-year vocational degree programmes as well.

The data for private institutions parallel those for student enrolment in private educational institutions, presented in *Figure 1.3*.

1. *Appendix Table 8* provides detailed information on types of school/institution, classified by level/type of education and unit of control.

Table 1.3 Number of educational institutions, upper secondary to first-degree level, 1999

Educational level	Number of schools/institutions			% private
	Public	Private	Total	
<i>Upper secondary education</i>				
– Academic track	2,416	147	2,563	5.7
– Vocational track	542	312	854	36.5
<i>Tertiary education</i>				
– Below first degree	304	269	573	46.9
– First degree	145	33	178	18.5

Source: ONEC (2001).

Tertiary education in Thailand is highly fragmented. The MOE has been charged with responsibility for below-degree tertiary education as well as degree-level studies at the RIT and Rajabhat institutes; university education is in the purview of the MUA. This dichotomy of responsibility has led to differing policies, levels of budgetary support and admission policies across the tertiary education divide; it has also militated against equality of treatment for MUA and MOE tertiary students in the administration and distribution of student loans – a theme to be developed in subsequent chapters. Under the 1999 Education Act reforms, a reorganization of the administrative structure of tertiary education is planned, aimed at unifying all three major elements – the ONEC, the MOE and the MUA – within a single ministry.

The line of administration from the centre to individual educational institutions differs both between the MUA and the MOE and within the MOE. The MUA deals directly with individual universities, both public and private. This is very different from the administration of basic (including upper secondary) education, of which there are two variants.

Particularly at the level of upper-secondary schooling, the various MOE central departments concerned (such as for General Education, the Office of the Private Education Commission) delegate authority to the 12 Educational Region Offices, the 75 Provincial Education Offices (excluding Bangkok) and the District Education Offices, in the supervision and control of all secondary schools. This decentralized framework was adapted by the MOE for administering the student loans scheme, though not without negative outcomes. In parallel, the Bangkok Metropolitan Administration and the other municipalities, with financial support from, and under the supervision of, the Ministry of the Interior, are responsible for providing education at all levels (apart from universities) within their administrative area.

## Chapter 2

# Objectives and expectations

### Alternative loans scheme objectives and policies

While student loans schemes are in place in some 50 countries, the central objective and type of policies pursued differ from case to case. We may identify five different sets of objectives for student loans schemes which, in turn, will influence the design and operation of the scheme as a whole, as well as its financial sustainability. These are: pure cost recovery; facilitating the expansion of the higher education system; meeting specific manpower needs; easing student financial burdens; and social objectives – improving equity and access for the poor (a fuller discussion is given in Ziderman, 2002a). In practice, any given scheme may incorporate more than one objective.

#### *Cost recovery*

Universities throughout the world, and particularly in developing countries, are under-financed. Governments have responded to the growing social demand for higher education through policies leading to expanded student enrolments; yet, due to national budgetary constraints, the growth in student numbers is largely unmatched by commensurate additional government funding. Many university systems have turned to greater cost recovery in an effort to tap additional sources of funding. The main thrust of these policies is to be seen in the introduction, or increase, of student payments for services received. These may take the form of higher, more realistic tuition fees or increased payments for subsidized lodgings and meals. Incidentally, the introduction of a regime of sizeable student fees will have additional effects on the education system. It leads to a changed relationship between institution and students, in the direction of a provider-client relationship and a greater student voice in the affairs of the institution.

The raising of student fees, whether for tuition or living expenses, may be both politically and socially unacceptable; vested interests from

all strata of society will actively oppose the imposition of student expenditures that may represent a multiple of current salary levels. Recourse to the banking system for loans to ease this payment burden may be unsuccessful; banks are notoriously loath to lend for education courses, a clear case of market failure. Hence the role for a government-backed student loans scheme, offered at commercial rates, to fill this gap. Students are able to finance their education and living expenses through resort to borrowing; the repayment burden is eased by the expected enhancement of earnings that the additional education makes possible.

It should be noted that loans schemes primarily concerned with cost recovery are also frequently subsidized and targeted to the poor. But these elements are not an integral part of a cost recovery loans scheme that, in principle, should be offered at market interest rates and be available to all, not only the poor. The availability of additional revenues from student fees, facilitated by the introduction of a loans scheme, may not lead to increases in net funding to the educational institutions. Whether it does so will depend on whether or not additional revenues from fees are offset by commensurate reductions in public funding of the institutions.

#### *Facilitating higher education expansion*

Responding to the pressures of growing social demand for education expansion will require sizeable increases in public expenditures; these increases, we have argued, could be contained by offsetting additional revenues from increases in student fees, by reduced public institutional support. A complementary measure is to encourage the growth of private educational institutions. Students pay full costs, with a minimal burden on the public purse. However, full-cost fees are likely to be sizeable and beyond the reach of large segments of the population. A student loans scheme may have a central role to play in easing the burden of private fees, particularly so if private education is to be widely available and not to remain the prerogative of the rich. In Colombia and Brazil, loans to students attending private institutions have permitted these institutions to expand, thus increasing the overall access to higher education while lowering budgetary demands on the government. The SOFES loans scheme in Mexico is directly targeted on academically able but financially needy students attending or wishing to enrol in private higher education institutions. This scheme receives considerable public subsidies; however,

a student loans scheme introduced for this purpose does not, in principle, need to be a subsidized one.

*Manpower needs*

Loans schemes may aim specifically at providing support for students who are willing to study in fields of national manpower priority (e.g. engineering) or to work in areas of social importance (doctors or teachers servicing remote rural areas).

*Easing student financial burdens*

Even when tuition fees are minimal, students (including the non-poor) may face considerable financial burdens. University-level students are of an age of legal and financial independence; yet, potential earnings are forgone while studying, and living expenses may be sizeable, especially when the student does not attend a local university. In many countries students are able to combine work with study. This may take the form of part-time, usually casual, student employment (on or off the campus), as evidenced in the USA concept of ‘working your way through college’. In other cases, timetabling and university regulations facilitate regular employment with study. However, in some systems, these possibilities may not be readily available or it may not be the norm for students to work. In these cases, financial pressures, which may have negative effects on student motivation and performance, can be mitigated by the broad availability of student loans. While such burdens may fall relatively heavily on the poor, in principle loans for this purpose could be made available for all students, including the non-poor, but not subsidized.

*Social objectives – increasing access for the poor*

None of the four above reasons for introducing a student loans scheme make out a case for highly subsidized loans. Increasing the educational participation of the poor does. In many countries the relatively low enrolment of poor and disadvantaged youth in non-compulsory education is a cause of social concern; increasing the access to schooling among these segments of the population has become a major element in educational and social policy. There is a broad consensus that clear financial incentives need to be offered, not only to overcome the burden of fee payments and living expenses but also to offset parental resistance

to reductions in family income and the risk that the benefits of the educational process may not be sizeable.

The traditional, and most effective, method of enhancing access to education 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. This remains the dominant approach still in place for secondary education. The availability of grants and scholarships for upper-secondary and tertiary-level education in Thailand is limited.<sup>2</sup> However, a widespread grants scheme is likely to be overly expensive; the use of loans rather than grants offers a method that both increases access of the poor and contains public expenditure over the longer term as loan repayments build up. To be effective in increasing the education access of the poor, loans need to be offered at attractive rates. Hence the justification for subsidized loans, in terms of grace periods for repayment, below-market rates of interest and repayments in current rather than real terms. But these subsidies will result in only a partial recouping of loans, overall. That 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 degree of subsidy built into the scheme. In this sense, loans offered at commercial rates, on the one hand, and outright grants, on the other, might be seen as two extreme points on a continuum, with a subsidized loan lying somewhere in between. The larger the loan subsidy, the greater is the hidden grant element. From this arises a central policy issue: given the higher administrative costs of loans compared with grants and the probabilities of repayment default, at what level of subsidy does a grant become a more cost-effective instrument than a subsidized loan?

## Objectives of the Thai loans scheme

How far are these objectives reflected in the Thai loans scheme? The broad configuration of the Student Loans Scheme (SLS) was set out in a Cabinet document prepared by the Ministry of Finance in March 1995 (Ministry of Finance, 1995); the Cabinet adopted the document, both the general concept and the details of the Student Loans Scheme. The Scheme was to be put in place in the 1996 academic year, under the responsibility of the Ministry of Finance. The Scheme had been operated

2. Details of the availability of grants and scholarship aid in Thailand are provided in *Appendix 3*.

under the Cabinet regulation until the promulgation of the Student Loans Fund Act in March 1998. A note to the Act 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 Loans 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 exclusive concentration on social objectives is surprising given that most student loans schemes are multi-objective, with due emphasis placed on economic outcomes – particularly enhanced cost recovery through higher tuition fees and lower public expenditures.

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 favourable repayment conditions – has been complemented, *de facto*, by other objectives.

The SLS has served as a means of easing the financial burdens of the non-poor. The upper limit on parental income of 300,000 baht set by the scheme until 2000 (in practice, the MOE has reduced this to 150,000 baht, still a sizeable income, for loans administered by that ministry) has meant that many non-poor university students are in receipt of loans. In *Chapter 5*, we present a table showing the percentage of loan recipients by parental income group for 10 universities in a recent year;

on average, over a fifth of loan recipients were from families with annual parental income in excess of 150,000 baht (at two of the universities the proportion exceeded a third). In 1998, the percentage exceeded 26 per cent at Khon Kaen University. The issue here is how large is the hidden grant element in these loans to non-poor students and whether this level of subsidy is justified. We return to this issue later.

While the SLS is not seen 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 70 per cent, placing them on a par with fees at public vocational schools. Tuition fees at Rajabhat institutions were also raised sharply; fees at RIT institutions and public universities have shown a more steady upward trend over recent years. While tuition fees at public universities are now three times higher than some eight years ago, they still represent only a small proportion of unit costs.

It appears to be government policy to encourage the growth of private education institutions (particularly universities) as a means of increasing the number of student places, at low public cost.<sup>3</sup> The average amount of loan given to students at private institutions exceeds by a considerable margin those for students enrolled at public institutions, because of sizeable differences in tuition fee levels. Since all student loans are highly subsidized, the availability of loans to students enrolled at private education institutions results in the subsidization of the costs of private education. In 2000, some 38 per cent of all private university students were in receipt of loans. Encouraging the expansion of private education implies a growing commitment to provide highly subsidized loans; how far this represents a cost-effective method of increasing university enrolments will depend in part on the average size of loans subsidization, an issue discussed in *Chapter 5*.

3. In this connection, a Revolving Fund for Developing Private Higher Education Institutions was initiated by the Cabinet in 1999. The purpose is to provide loans to private institutions for building construction and the purchase of educational materials, in order to ease the expansion of private higher education. By 2002, total allocations were in the order of 900 million baht. In addition, a Revolving Fund for Staff Development in Private Higher Education Institutions was set up in 1997, aiming at the promotion of staff development programmes for private higher education institutions, especially small, local institutions. Some 300 million baht had been allocated by 2002.

## Particular characteristics of the Thai loans scheme

It seems likely that the strong emphasis on social objectives in the Thai loans scheme may explain four of its particular characteristics.

Unusually, the scheme covers upper-secondary schooling, as well as tertiary education. Student loans schemes almost exclusively relate to tertiary education; a notable exception is the Swedish scheme, but even here the loans element in the total aid package available to students is very small. Yet while loans schemes for upper-secondary schooling are unusual, it is at this level of non-compulsory schooling that enrolment rates fall off drastically and the risk of drop-out increases. Poor students are particularly at risk, because of the effects of opportunity costs of studying rather than working. For this reason, government subsidy of the private costs of upper-secondary education, particularly of the poor, is seen as an important element of social policy; the question is whether subsidized loans targeted at the poor (rather than grants) constitute the best instrument for achieving the desired outcome.

Second, the loan repayment conditions are extremely generous, implying an extensive loan subsidy. Repayments are spread over 15 years following a two-year grace period, with the repayment percentage fixed at very low rates initially and rising progressively over time; repayments are in nominal terms and the rate of interest charged is only 1 per cent. The introduction of these soft repayment terms may have resulted from the conception of the loans scheme as one that has essentially social objectives, with considerably less weight given to the financial aspects of the scheme. The open issue however is the resulting size of the loan subsidy; an over-large subsidy not only brings the financial viability of the whole scheme into question; it may indicate that a regime of grants offers a more cost-effective alternative.

Third, there are all the signs that the scheme was introduced with haste and minimal planning. There is always a dilemma to be faced in introducing a socially-needed change. Effective implementation requires careful preparation and planning spread over a period of time; but this will mean delaying the supply of the needed service, during what might be a lengthy preparation period. If there was such a trade-off between more effective implementation and swifter implementation in the setting up of the loans scheme, the path taken veered towards the latter course.

Thus the scheme functioned in its initial years of operation on an *ad hoc* basis, without a formal Act, without full-time management or senior staff and without premises. Even today, no monitoring system is in place, so that it is not known how far the scheme is achieving its objectives of adequately reaching the poor.

Finally, the decision in favour of quick implementation may account for another characteristic of the scheme: the decision to use existing administrative and organizational structures rather than design new ones aimed directly to achieve the purposes of the scheme. Thus while the guidelines for the operation of the scheme are set by the new Central Loans Committee, its actual operation, and particularly loans budget allocation, is in the hands of the Ministries of Education and University Affairs. The system works to ensure that, as it were, a 'fair share' of the loans budget is received at each level of the ministry's organizational hierarchy, down to the level of the educational institution itself, which actually distributes the loans to students. But, with the partial exception of MOE loans budget allocation to the provincial offices, this loans budget allocation system essentially ignores the scheme's central objective of targeting the poor. To what extent, in practice, the system achieves the scheme's combined objectives of targeting the poor and horizontal equity is the subject of *Chapter 6*.

## Chapter 3

# Organizational structure and administration

The central institutions operating the student loans scheme in Thailand are: the Student Loans Scheme Committee (SLSC) and its administrative office, the Krung Thai Bank (KTB); the Ministries of Education and University Affairs, and the individual educational institutions themselves. Central control of the SLS lies with the SLSC; the KTB is responsible for banking arrangements. The SLSC apportions the annual student loans budget between the Ministries of Education and University Affairs. Using rather different allocation procedures, the two education ministries allocate loans budgets to institutions within their purview (the MOE, mainly via its provincial offices) and have overall responsibility for loans distribution to students enrolled in their institutions. The MOE also allocates loans budgets to educational institutions falling under the control of other ministries. The actual allocation of loans to students is in the hands of the educational institutions themselves – secondary schools, the colleges and the universities.

### Student Loans Scheme Committee

The SLSC, is the central body exercising overall control of the scheme; it is responsible for policy and the general working of the scheme, as well as for overall supervision and monitoring. The scheme started operations in 1996 under a cabinet regulation; the Student Loans Scheme Act was passed only in March 1998 (Student Loans Scheme Act, 1998) formally establishing the Student Loans Scheme as a legal body under the jurisdiction of the Ministry of Finance (MOF).

#### *Membership*

Under the Act, the SLSC consists of the following members:

- Permanent Secretary, MOF (Chairman)
- Permanent Secretary, MOE (Deputy Chairman)
- Permanent Secretary, MUA (Deputy Chairman)
- Director, Budget Bureau
- Secretary-General, NESDB
- Secretary-General, National Education Commission
- Director-General, Internal Revenue Department
- Director, Fiscal Policy Office
- President, Private Higher Education Association
- President, Private Education Association
- Director-General, Comptroller-General's Department (Secretary)
- Manager, SLO (Assistant Secretary).

In addition, up to five additional committee members who are experts in one of the fields of information technology, finance, accounting and law, may be appointed by the Minister of Finance.

### *Duties*

The duties of the Student Loans Scheme Committee include: setting general policy and controlling the overall operation of the Student Loans Fund; assessing the annual budgetary needs of the fund and preparing the annual budget proposal; setting the regulations, criteria and conditions for granting student loans and for loan repayment. It is also responsible for two appointments: that of the Loan Fund Manager, in charge of the Student Loans Office and the day-to-day running of the scheme, and of the Loan Managing Director, responsible for maintaining individual loan accounts. At the outset, the Krung Thai Bank (KTB) was appointed to undertake the latter function.

### *Functioning of the SLSC*

Given its responsibility for setting general policy and controlling the overall operation of the SLS, the central student loans committee should constitute the linchpin of the system. But for the SLSC to operate in accordance with its defined role, two conditions need to be satisfied. First, the appointed members of the committee should meet regularly and, as a team, assume full control of the steering of the scheme through proactive decision-making. Second, the SLSC needs to be served by an office and full-time professional staff, both in order for it to receive the

necessary information on which to base decisions and to ensure that its decisions are fully implemented.

Most of the loans committee members are appointed through the key national positions that they hold. To these may be added up to five individuals, drawn from fields of expertise relevant to the work of the SLSC. In addition, some 20 representatives from organizations and ministries are in attendance, but are not members. No doubt the intention of the Act in appointing senior officials as members is to ensure that, in reaching major decisions, the SLSC takes account of diverse viewpoints and various interests. But the very seniority of the membership has been a stumbling block to the effective working of the SLSC. A review of the minutes of SLSC meetings shows that a number of *ex officio* committee members have not attended SLSC committee meetings with any degree of regularity; instead, either they have been absent or represented by their junior staff.

This means that the appointed committee members as a group, in whom national responsibility for the running of the loans scheme resides, in practice have not assumed their defined active role in running the scheme. Many individuals, particularly those not attached to the education sector, attend the meetings and make their contributions to the deliberations and decisions, but they are not formally responsible for the management of the scheme.

The problem of effective central control of the scheme is compounded by the very slow progress in appointing the loans fund manager and other full-time officials to run the scheme. Only in September 1998 was the deputy manager appointed (not a statutory post), followed by that of the manager in December. Eighteen months later the manager resigned and was replaced six months later. Thus there has been a conspicuous lack of continuity in the overall management of the scheme. Initially, it operated for nearly three years without the input of a full-time manager to run it on a day-to-day basis; subsequently it was run by an acting manager for half a year. During the crucial start-up period, an acting manager carried out these duties on a part-time basis in conjunction with other duties, with the result that many of the manager's functions, such as steering the scheme and monitoring its development and targeting, were largely neglected. With so many institutional arrangements and procedures already in place, there is a risk that the freedom of manoeuvre

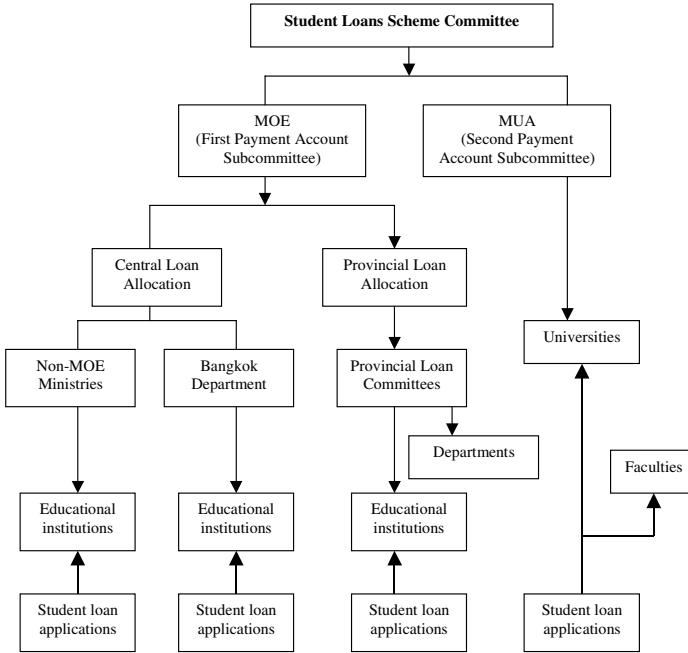
of the managerial team to introduce structural change in the working of the scheme is limited, with the manager pressed to accept an adaptive rather than innovative role.

*First and Second Payment Account Subcommittees*

Under the Act, two additional committees play a central role in administering the loans scheme: the First and the Second Payment Account Subcommittees. The First Payment Account Subcommittee, located at and internal to the MOE, is responsible for the allocation of loan budgets to educational institutions under the jurisdiction of the MOE as well as to educational institutions attached to other ministries. The Second Payment Account Subcommittee is responsible for the allocation of loan budgets to universities. There is a similar lack of attendance by appointed members at meetings of the First and Second Payment Account Subcommittees, particularly for the MUA loans committee.

At present, the main brunt of the administrative effort of running the loans scheme falls on the MOE and the MUA; the small loans scheme sections at these two ministries are understaffed, particularly at the MOE. A lack of suitable staff with data computing skills has seriously delayed the development of a monitoring system; much available data, highly relevant for managerial purposes, remain unanalyzed.

Figure 3.1 Student loans budget allocation



*Banking functions*

All of the banking functions of the loans scheme are undertaken on behalf of the SLSC by the Krung Thai Bank (KTB), a commercial bank under the supervision of the Thai Government. The KTB receives a fee from the scheme for services provided. These include: managing the loan fund for the SLSC under various specified accounts, screening of individual applications (received via the educational institutions) and relevant document and contract processing, the transfer of loans to students (via local KTB branches) and direct payments to educational institutions (for tuition and other school-related fees), responsibility for the loan collection process.

While the KTB has been charged with the development and maintenance of a database, a necessary tool for monitoring and planning, most of the available statistical information relating to the working of

the loans scheme is derived as a by-product of the banking functions performed by the KTB on behalf of the SLSC.

## Allocating the national loans budget

Formally, the level of government commitment to the SLS is defined by that part of the national budget that is approved by parliament for allocation in each fiscal year to the Student Loans Fund, the revolving fund concerned with the SLS.

Student loan recipients who apply for an additional loan to finance study in the current academic year ('old recipients') are regarded as constituting a fixed charge on the fund; loans tend to be renewed at the same monetary level as of the previous year. The Budget Bureau estimates the budget allocation required for old recipients on the basis of the previous year's allocations. These allocations have risen each year, with the increasing number of students entering the scheme. In contrast, there is budgetary discretion with regard to new borrowers. With growing numbers of new loan recipients annually, unmatched by increases in budgetary allocations to the SLS, a sharp decline in the value of individual loans has resulted, both in real and in nominal terms. The figures will be presented in the next chapter. This might seem to imply that the loans scheme is under-financed; however, in a real sense, the opposite is the case. A dramatic expansion of the number of student loans, largely uncontrolled from the centre, has resulted from insufficiently tight criteria for loan eligibility and weak targeting; the scheme has now grown considerably beyond original plans.<sup>4</sup>

It was noted that the annual budgetary allocation for current borrowers ('old recipients') is taken largely as given; these loans are automatically renewed, as long as the old recipient remains eligible. Thus our attention will focus on the annual allocation of the loan budget for new borrowers. This is allocated by the SLSC to the MOE and the MUA, which in turn allocate loan budgets down through their ministries. The line of loan budget allocation for new borrowers is illustrated in *Figure 3.1*.

4. In 2001, in an attempt to hold down the budgetary cost of the scheme, the Ministry of Finance introduced the rule that, for any educational institution, total loans distribution (the value of total loans for old and new borrowers) must not exceed 10 per cent of the value of loan disbursements in the preceding year (information provided by Professor Nonglak Wiratchai, 8 May 2002).

The SLSC is assigned an annual budget for new borrowers by the Budget Bureau. It decides on the eligibility criteria and maximum loan ceilings and on the allocation of the budget between the First Payment Account Subcommittee (at the MOE) and the Second Payment Account Subcommittee (at the MUA). Within the MOE, there are two allocation subcommittees; the Central Loan Allocation Committee is responsible for the allocation of loans budgets to each department in the Bangkok Metropolitan Area and to other ministries; the Provincial Loan Allocation Committee allocates a loans budget to each of the 75 Provincial Offices of the MOE. In turn, these organizations allocate loans budgets to the educational institutions under their control. In some provinces, the provincial loans budget is allocated to the provincial specialist departments, which in turn allocate the institutional loans budgets. Loans Committees at each educational institution/school distribute the loans budget amongst eligible applicants; these committees work closely with local KTB branch offices in processing the loan applications.

The MUA allocates a loans budget to universities within its purview – public, private and open. Loans committees at the universities are responsible for the administration and distribution of loans to students enrolled at their institution. At some universities, an additional budget allocation stage is in place at the level of the faculty; at this level loans are distributed in practice, though the institution's loans committee must formally approve these loans decisions.

### *Financial planning*

The budgetary allocation suffers from ineffective financial planning of the programme as a whole. The government fixes a largely arbitrary annual budget for new borrowers in nominal terms, without any attempt to measure loans need in terms of the objectives of the scheme. Allocated budgets are thus insufficient, not only because of the increasing demand for loans but also because allocated loans budgets are falling in real terms. This in turn leads to changing criteria for granting loans and lower real average value of loans disbursed.

Since budget allocations are not based on student need this results, in turn, in loans officers at the provincial, departmental and institutional levels having little incentive to engage in attempts at forward budgetary planning based on the number of potential needy students, an activity

that would improve the scheme's ability to reach target groups. At the institutional level, many loan officers are unaware of the basis used for loans budget allocation, and are sceptical about the use of a formula, believing that political and other pressures were present. More transparency about loans allocation criteria and practice would improve the understanding of the loans scheme at the institutional level.

In terms of financial planning, there is a need for a tentative long-range plan for loan budget size and allocation. This would be based on estimates of the number of needy students likely to require loans, by ministry, provinces and institution. Unfortunately, no such forward planning is attempted.

The central purpose of the SLS, as outlined in the Act, is to offer financial assistance to poor students and to enlarge the educational opportunities of youngsters from low-income families to continue their education, up to the level of the bachelor degree. These objectives can be realized only through a well-designed loans distribution system that targets loans to reach the client population. Thus the question arises: how far is the top-down loans budget allocation mechanism, described in the chart, consistent with the targeting objectives of the loans scheme? Indeed, the whole concept of allocating a *loans budget*, down through successive administrative layers in the ministry, to the level of the educational institution, may not be appropriate for a loans system at all. In allocating an *education budget*, a major consideration is to ensure that a fair and appropriate budget is received at each administrative level, including the educational institution itself. These considerations are not relevant for a loans scheme whose task is both to reach the needy student and also to ensure that every poor student has the same opportunity to receive a loan commensurate with need. This will only happen if the loans allocation system is based on targeting the needy student; this would require that the loans budget received by the educational institution be proportional to the number of needy students enrolled. The sections that follow examine the extent to which targeting the needy student is incorporated into the loans budget allocation mechanism.

#### *Loans budget allocation: the MOE-MUA split*

The first stage of the process of loans budget allocation is the initial division of the annual loans budget for new recipients between the MUA

and the MOE; the latter, in addition to its own institutions, is responsible for loans to students enrolled in educational institutions outside the two education ministries. The MOE funds tertiary education institutions – teacher training colleges and technical institutions as well as upper-level secondary schools. The annual budgetary allocation to the MOE was set at 60 per cent in 1966 rising to two-thirds in 1998 where it has remained. Since this split is the first step in the budgetary allocation process, an understanding of the basis of the division is of more than passing interest.

The justification for the original 3:2 split is to be found in a recommendation from the National Education Commission to the MOF (ONEC, 1996). The recommendation was based on the ratio of total education costs, in each ministry, of educating all new students enrolled in courses covered by the loans scheme (i.e. the number of new students at each level multiplied by the average educational cost at that level). But this allocation method, weighted by both the number of students and average educational costs in the two ministries, fails to take into account the poverty level of students and their families, and their ability to meet educational expenses. Thus the initial allocation of the loans budget between the MOE and the MUA is arbitrary, in terms of the targeting objectives of the loans scheme; subsequent adjustments of the allocation ratio have been *ad hoc*.

Yet while the MOE receives two-thirds of the budget for new loans, it accounts for over 80 per cent of the total number of borrowers; this is because MOE loans, at the secondary level particularly, are of smaller average size because of lower loans maxima and shorter duration of study. Detailed statistics on these issues are presented in *Chapter 4*. We now move forward to analyze the subsequent loans budget allocation within each of the two ministries.

#### *Loans budget allocation: the MOE*

The MOE is responsible for the allocation of loans budgets to all educational institutions both within the MOE and in other ministries (with the exception of the MUA). An initial budget division is made between the central allocation for educational institutions in the Bangkok area and the Provincial Offices of Education, Religion and Culture (*Figure 3.1*). This division seems to be based on administrative criteria, unrelated to the targeting objectives of the loans scheme.

Table 3.1 MOE loans budget allocation, 2000

Recipients	Allocated to	Number of institutions	Share of total budget allocation
MOE institutions, Bangkok	8 MOE departments	278	8.9 %
Non-MOE institutions in Bangkok	7 ministries	11	0.5 %
Institutions outside Bangkok	75 provincial offices	3,747	90.6%
All educational institutions (excluding MUA)		4,036	100.0 %

In 2000, over 90 per cent of the MOE budget allocation was assigned to the provincial offices (*Table 3.1*) for subsequent division amongst the actual educational institutions (upper-secondary schools and tertiary-level colleges) that assign loans to their students. Since the bulk of the MOE loans budget allocation goes to the 75 provincial offices, it is again instructive to examine the criteria on which this inter-provincial budget allocation is based.

This information is provided in *Table 3.2*, for each year of the working of the scheme. While the allocation criteria used have varied from year to year, what is notable from the table is the very low weight given to levels of provincial poverty or other criteria related to the objectives of the SLS. In 2001, the number of students in the province at the upper-secondary level through to undergraduate level (excluding those at MUA institutions) was given a weight of 80 per cent. The poverty level in the province, as measured by the average per capita income level in the province, was accorded a weight of only 20 per cent. Thus not only is 80 per cent of the allocation weighting unrelated to targeting the poor, even the 20 per cent weighting given for provincial average income levels is problematic, given that this measure constitutes only a blunt indicator of poverty incidence. Better measures can be developed: in *Chapter 6*, we outline a method of measuring the relative incidence of poverty in the province, based on the number of poor children of upper-secondary-school age or on the number of poor upper-secondary students. While the poverty-

related weighting was higher in the initial years of the scheme (1996-98), it was still less than a third.

The provincial offices allocate budgets directly to MOE educational institutions within the province. Although there are general directives, in practice, provincial offices have considerable freedom in deciding on the method of loan budget allocation to the institutions. The poverty criterion is largely ignored in the absence of relevant data and most provincial offices seem to rely on enrolment numbers. Some provincial offices (e.g. Khon Kaen) have added an additional tier to the allocation process and allocate loans budgets to provincial specialist departments rather than directly to the institutions.

Table 3.2 Criteria used to allocate MOE loan budgets to the provincial offices

Criterion	Year			
	1996-1998	1999	2000	2001
Provincial student enrolment	60%			80%
Poverty level in the province	30%*			20%**
Provincial poverty and special MOE policies	10%	20%	20%	
<i>Number of poor villages in the province</i>			5%	
<i>Special MOE policies – disabled etc.</i>			5%	
<i>Number of vocational students</i>			5%	
<i>Number of undergraduates</i>			5%	
Estimated number of loan applicants		80%	80%	

\* Provincial economic status (average household income).

\*\* Provincial average per capita income.

The MOE allocates a loans budget to each of the seven specialist departments serving the Bangkok area (in turn they allocate loans budgets to their institutions); educational institutions attached to other ministries receive a budget direct from the MOE. In practice these allocations are based largely on student numbers, but departments and other ministries can present supportive arguments to justify additional budget allocations.

### *Loans budget allocations: the MUA*

Unlike the hierarchical MOE loans allocation system, the MUA allocates its loans budget directly to the universities. The current allocation formula employs two criteria, with equal weighting. A university's share of the total MUA loans budget depends on the institution's share of total new loan recipients in the previous year and on its share of total current new student enrolments. Modified criteria apply to the two open universities (Ramkhamhaeng and Sukhothai Thammathirat). The central point of interest, once again, is that MUA allocation criteria are in no way related to student poverty within the university or to need.

## Loan distribution

### *Criteria and conditions*

Eligibility for a loan is defined by the SLSC in terms of household income. The ceiling defining a low family income was set at 120,000 baht in 1996; since unallocated funds remained at the end of the first year of the scheme, the ceiling was raised to 300,000 baht in 1997. While the SLSC 300,000-baht threshold income remained in place until 1999, when it was reduced to 150,000 baht, in practice the two education ministries have adopted different policies with regard to eligibility. The MUA used the SLSC ceiling but asked universities to give priority to students with family income falling below 150,000 baht. The MOE formally set a maximum income ceiling of 150,000 baht (though for the year 1999, the MOE requested institutions to give priority to students from families with an income ceiling of 120,000 baht).

These income ceilings were not defined objectively in terms of poverty incidence, as is necessary for the effective targeting of the poor. For example, in raising the income ceiling to 300,000 baht in 1997, the SLSC seemed to be aiming at the typical, rather than the poor, family. The justification for the 300,000-baht threshold was made out in terms of an average income level per head in 1997 of 77,501 baht, times four; this was because four is the typical family size (Minutes of the 5/1997 meeting of the SLSC, 18 November 1997). Moreover, the use of different income ceilings has resulted in an inequitable reach amongst tertiary-level students enrolled in the institutions of the two ministries.

The use of family income as the sole criterion for eligibility based on household income is questionable. No weight is given to other factors related to poverty or need, such as the number of family dependents (children and the aged), number of family members currently studying, whether head of household is female, private property owned and levels of debt. Over time, more sophisticated measures of defining needy students will need to be developed.

The SLSC also defines the maximum-sized loan for different courses of study and, within this, the ceilings for various expense categories. While the MUA uses the SLSC maxima, the MOE introduced lower loans ceilings in 1997.

At the educational institution level, each institution sets its own rules with regard to the actual level and composition of loans made available to its students. Some institutions provide loans only for the tuition fee, some give smaller loans to new recipients as compared to the older. This lack of consistency in practice across institutions leads to unjustified variability in the size of loan available to students with similar need, a theme we develop further in later chapter. It also leads to abuse: since loans for tuition are paid directly to the educational institution, local loans committees (particularly at private institutions) have a clear incentive to distribute loans budgets as tuition loans only, to a larger number of applicants.

### *Loans application process*

The administrative issue that seems to have attracted most attention, and criticism, is the rather lengthy process of applying for a loan. This is perhaps inevitable; the process not only screens for eligibility, but also secures guarantors for the loan.

All applicants submit an application form together with: a statement of family income (certified by a government official, at least level 5, or the village head); a statement of guaranty, countersigned by the guarantor (the student's parent or guardian); a copy of the household record; the student, the parents' and the guarantor's identification cards; and the school grades transcript. Subsequently, loan recipients must sign a loan contract with their educational institutions and deliver a copy to the Krung Thai Bank (KTB), for vetting and approval. Approximately 60 days after delivery of the contract to the KTB, the student should receive the first

payment (credited to a KTB bank account) for the monthly allowance and accommodation expenses; tuition-fee loans are paid directly to the educational institution.

The loan application process has been the source of many problems, including time-consuming activities on the part of parents and students, delays both in obtaining loan approval and in the receipt of allowances. The Committees of the First Payment Account (MOE) and the Second Payment Account (MUA) have made efforts to solve these problems. The MOE and MUA organize meetings of key institutional loan officers and visit schools/institutions to help clarify the administrative process. But overall, these efforts have been largely *ad hoc* and reactive, rather than sufficiently proactive and planned ahead of time.

Many of these problems of process are in the nature of teething problems and are being solved over time. Some unresolved issues remain. Inadequate checking of declared family income results in loans being granted to students from families with declared incomes within the legal limits but in practice in excess of the loans criteria. Low administrative budgets have slowed down the process of home visits and general spot-checking of the information provided on application forms, particularly that related to need. A lack of computer facilities at many educational institutions, particularly upper-secondary schools, leads to a slow throughput in dealing with applications, documentation and reporting, much of which is done manually.

The overall impression is of a loan application process that has been designed and implemented without sufficient preparation and planning. As problems arise, the process is adapted to achieve more satisfactory outcomes. For example, at first parents were required to travel from their hometown to the institution where the student studied in order to sign the contract; in order to reduce travel time and cost, since 1998 they are able to sign in their hometown in the presence of the local officer.

#### *Loans distribution: the role of educational institutions*

In the Thai loans scheme, the distribution of student loans is highly decentralized. It is at the level of the individual educational institution, be it school, institute or university, that loan applications are received, screened and processed. Each institution receives a loans budget

allocation. The institution selects those applicants who will receive a loan and, within the limits set by the ministry, decides on the individual loan size and its composition, in terms of expenditure categories. Formally, institutional loans committees distribute the loans; these committees consist of senior officers of the institution together with independent, outside members. However, it is the institutional loans officers who run the scheme in practice. In some of the larger institutions, particularly the large universities (such as Thammasart University or the Ramkhamhaeng open university), there are full-time loans administrators responsible for running the loans scheme at the institution. But for the vast majority of institutions, particularly the MOE schools and institutes, loans officers are part time, combining these duties with other administrative, counselling, or teaching activities. No budgetary allocations are made for these staff costs, which are absorbed by the institution. With the increasing workload, seasonal pressures may be very heavy, though small administrative budgets provide for clerical assistance.

Individual institutions are granted an extensive degree of autonomy in the distribution of loans budgets, with the result that distribution policies differ widely from institution to institution. Some institutions focus on the very poor, while others distribute smaller loans to a larger number of recipients, including the less poor. Abuse is not uncommon at private institutions which have a vested interest in spreading loans widely, to cover tuition costs only, for a larger number of students with the aim of augmenting enrolments. The result is that, in many cases, poorer students do not receive the loans to cover living expenses that it is the intention of the SLS to provide. Such decentralized decision-making, leading to differing outcomes for students of similar background and need across institutions, appears to be inappropriate for the distribution of loans; issues of horizontal equity and fair treatment are grossly neglected.

Against this, it is recognized that a major strength of the present system lies in the ability to target the poor student at the institutional level, particularly when the institution is of small size, as at upper-secondary schools. Indeed, at the secondary-school level school counsellors, doubling as loans officers, have a close knowledge of the social and financial backgrounds of their students. This familiarity facilitates the vetting and ranking of applicants (and the rejection of ineligible applications). But it also allows loans officers to take a more

proactive stance in encouraging poor students to apply, thus extending the reach of the scheme. However, the problem of horizontal equity across secondary-level institutions (and the lack of equality of opportunity to receive a loan) remains.

## Loan repayment

Following a two-year grace period after completion of studies, borrowers are required to begin repayments. The KTB is the central organ for debt collection. Due borrowers are required to report job and salary status to the KTB within 30 days after starting employment. The KTB informs borrowers of amounts to be paid a month before the due date. Follow-up by mail and phone is made of borrowers who fail to repay.

The first round of repayments began in July 1999, following the two-year grace period: currently a third cohort of borrowers has begun repayment. As discussed in the following chapter, non-repayment is high; about a third of due repayments was not received from the first two repayment cohorts. Thus far, the SLSC has been reluctant to turn to the guarantor for repayment; the guarantors are usually the student's parents – by definition, low earners. Consideration is now being given to the possible use of credit rating as a device for discouraging default by recalcitrant borrowers. Also, assignment of responsibility for repayment collection to the Department of Inland Revenue is being urged in many quarters; the Inland Revenue may well be better placed than the KTB to track the location of non-paying borrowers.

## Concluding remarks

The central purpose of the SLS, as outlined in the Act, is to offer financial assistance to poor students and to enlarge the educational opportunities of youngsters from low-income families to continue their education, up to the level of the bachelor degree. These objectives can be realized only through a well-designed loans distribution system that targets loans to reach the client population. Unfortunately, the loans allocation mechanism adopted by the scheme is not designed to achieve this purpose.

Rather than using a centralized loans clearing-house to service individual loans applications from potential borrowers, loans are distributed to students at the level of the educational institution. Each

institution receives a loans budget, through a top-down allocation mechanism that has been superimposed on the organizational and administrative structure of the education system. This allocation mechanism poorly serves the twin objectives of targeting needy students and horizontal equity.

The allocation of the loans budget by the SLSC to the MUA and the MOE, and the subsequent allocation of loans budgets down the line, is largely arbitrary in terms of targeting needy students. This is true also of the MOE allocation of loans budgets to provincial offices, even though the criteria for allocation to the provinces formally include a poverty-related element.

The MOE is considerably stricter than the MUA in setting criteria for loans distribution in terms of the maximum size of loan and the purposes for which loans may be made (particularly in relation to accommodation). This leads to considerable inequalities in treatment of first-degree students across the two ministries. Even within the same ministry the system lacks horizontal equity because of the lack of objective criteria (in terms of targeting) in the allocation of loans budgets to institutions and the widely differing institutional loan distribution policies. Individual youngsters, with similar need, receive dissimilar treatment, even when enrolled in the same type of institution. These themes will be taken up further in *Chapter 6*.

Finally, it is not known how far targeting is successful overall, nor the extent of horizontal inequity; such vital information will not be available until an appropriate database is built and a monitoring system put in place.



## Chapter 4

# Main lines of development: a statistical account

Against the background provided by the preceding institutional account of how the SLS operates, this chapter traces the main lines of development of the scheme over its first five years of operation. It will be argued that this development has not been uniform; an initial period of ‘unbridled growth’ until 1999, with weak control from the centre and poor financial planning, has now given way to one of ‘realistic contraction’. The underlying causes of these developments and their consequences will be explored in this chapter.

### Plans versus outcomes

*Table 4.1* presents data on the outcomes of the scheme, in terms of number of borrowers and total loans expenditure, in relation to original plans. Information on the planned number of borrowers (column 1) is drawn from the MOF planning document (Ministry of Finance, 1995) on which the scheme was based. The plan envisaged a build-up of loan recipients in the early years, reaching a steady state of 300,000 borrowers in the fourth year of the scheme. These plans, which were revised upwards over time, have been overtaken by events. The 300,000 borrowers target was exceeded in the second year of the scheme; currently the target number of borrowers is outstripped by a factor of 3.

**Table 4.1** Number of borrowers and total loans expenditure: planned and actual

Year	Number of borrowers			Loans expenditure (baht billion)		
	(1) Planned*	(2) Actual**	(3) = (2/1)	(4) Planned*	(5) Actual***	(6) = (5/4)
1	132,000	149,311	1.13	4,000	3,653	0.91
2	214,000	435,425	2.03	10,726	12,151	1.13
3	278,000	748,190	2.69	14,592	19,443	1.33
4	300,000	883,704	2.94	16,750	23,746	1.42
5	300,000	903,228	3.00	17,588	24,449	1.39
6	300,000			18,468		
7	300,000			19,391		
8	300,000			20,360		

\* As set out in MOF Loans Scheme Planning Document (MOF, 1995).

\*\* As reported in *Appendix Table 1*.

\*\*\* Allocated budget.

The scheme was planned originally to cover some 9 per cent of enrolments at each education level; the coverage of the scheme is far in excess of this. By 1998, overall coverage exceeded 23 per cent of all enrolments and is currently in excess of 26 per cent; for some educational programmes, such as Rajabhat institutes, coverage exceeds 50 per cent. Coverage of the scheme is discussed more fully below.

In contrast to the growth in the number of borrowers, actual loans expenditures have risen at a far slower pace. *Table 4.1* shows planned loans expenditures (with an assumed 5 per cent increase in the rate of individual student loans, in line with expected inflation) and actual loans expenditures. While planned and actual loans expenditures were broadly in line for the first two years of the scheme, actual loans expenditures have since forged ahead and by the fourth year of the scheme (1999) were over 40 per cent in excess of planned levels.

A number of conclusions may be drawn from *Table 4.1*. The present scope of the scheme is very considerably in excess of that planned, particularly in terms of the number of borrowers. The slower growth of

total loans expenditures is indicative of a much lower level of individual student support than originally envisaged, and this has been declining over time. A major theme of this paper, which will be developed more fully in this chapter, is that there has been an insufficient commitment of funds to the scheme in relation to the uncontrolled growth in demand for loans. The brunt has been borne each year by new loans applicants, in terms of a reduced, and declining, average loan size.

## National loans scheme budget

The main budgetary developments are displayed in *Table 4.2*. While the main pattern of spending seems to be quite clear – an increase in the level of expenditure at a declining rate over time, as the scheme builds up – we shall argue that in reality the details contained in *Table 4.2* reflect, on the contrary, a decreasing level of government commitment to the loans scheme, particularly after 1998. Confusion concerning the financial commitment to the loans scheme often arises because the information reported may be based on varying definitions. The figures may relate to the fiscal year (October to September) or the academic year (May to April); they may be presented on the basis of a semester or for the whole academic year; most important, they may comprise all loan recipients or only new borrowers. *Table 4.2* presents details of expenditure under the loans scheme, employing alternative definitions.

Formally, the level of government commitment to the SLS is defined by that part of the national budget that is approved by parliament for allocation to the revolving fund concerned with the loans scheme. This annual allocation, which covers the fiscal year, is shown in the top block of *Table 4.2*. These fiscal year allocations may be redistributed according to the academic year, the actual calendar period covered by individual loans; this is shown in the second block (budget allocation in academic year). In block 3, data on actual loans disbursement to students (by academic year) are provided. In all three cases, a sharp upward trend is shown for the initial years 1996-98 as the scheme builds, subsequently levelling off; this closely parallels the growth pattern in the total number of student borrowers (block 4).

However, this increase in total loans funding, and in the total number of borrowers, does not indicate a healthy expansion of the scheme. To explain why this is so, a brief comment is necessary on how the annual

budgetary allotments are made, and in particular on the different treatment accorded to applications from current student borrowers for loan renewal to continue their studies ('old recipients') and to first-time borrowers. The former are automatically approved (subject to satisfactory academic performance), at the same monetary level as the previous year; the total budgetary provision for old loan recipients is based on previous-year total loan disbursements. Thus loans allocation for established borrowers constitutes a fixed budgetary commitment.

Table 4.2 Total annual budget allocations and loans disbursement: 1996-2002 (million baht)

Fiscal year	1996	1997	1998	1999	2000	2001	2002
<b>1</b>							
<b>Budget allocation</b>	3,000	8,450	18,300	20,000	25,600	28,000	28,000
Academic year	1996	1997	1998	1999	2000	2001*	
<b>2</b>							
<b>Budget allocation</b>							
<i>Old recipients</i>	-	3,500	15,300	17,000	24,000	24,500	
<i>New recipients</i>	6,000	9,900	6,000	6,000	3,200	7,000	
Total			+2,500**	+100***	+900**		
	6,000	13,400	23,800	23,100	28,100	31,500	
<b>3</b>							
<b>Loan disbursement</b>							
<i>Old recipients</i>	-	3,925	11,499	17,929	20,552		
<i>New recipients</i>	3,653	8,226	7,943	5,817	3,898		
Total	3,653	12,151	19,442	23,746	24,450	28,252	
<b>4</b>							
<b>Loan recipients</b>							
(Number)							
<i>Old recipients</i>	-	113,797	341,460	593,712	660,392		
<i>New recipients</i>	149,311	321,628	406,730	289,992	242,836		
Total	149,311	435,425	748,190	883,704	903,228	918,147	

Source: SLSC report submitted to the Cabinet (30 April, 2001).

\* For academic year 2001, as of 30 November 2001.

\*\* Supplementary allocation.

\*\*\* Special ADB payment for MOE loans.

In contrast, considerable budgetary discretion is available for total allocations for new borrowers. For the early years (except for a temporary increase in 1997) the initial allocation has been fixed arbitrarily at 6,000 million baht in current terms, though in practice supplementary allocations have been made in 1998 and 2000.<sup>5</sup> More telling than budgetary allocations are the figures on the amount of actual loan disbursements (block 3). While disbursements for old borrowers and total disbursements rose annually, disbursements for new borrowers reached a peak in the second year of the scheme and have declined annually since. This decline in total loans disbursement for new recipients is paralleled in an initial rise and subsequent fall after 1998 in the number of new borrowers and the average size of loans received; data are presented in following sections.

Table 4.3 Annual budget surplus (budgeted allocation less loans distribution) (million baht)

	Fiscal year					
	1996	1997	1998	1999	2000	2001
<b>Surplus</b>	1,174	584	2,503	-1,595	1,717	30

Source: Budget Bureau.

Annual total budgetary allocations have exceeded total disbursements in most years (1999 was a notable exception) giving rise to sizeable annual budget surpluses; until now, these have been accumulating at the KTB as unused reserves (*Table 4.3*). For the fiscal year 2002, where total loans expenditure needs have been estimated in excess of 30,000 million baht, budgetary allocations have been set at 28,000 million baht, the difference to be made up from the loans fund's reserves. The annual excess of budgeted loans allocation over disbursements stems from a continuing overestimation of the collective budgetary needs of old recipients.

5. This fixed nominal allocation of 6,000 million baht was not based on any realistic examination of the expected student demand for new loans. The original budgetary justification, prepared by the MOF (responsibility for budget preparation passed to the loans office when it was established), is made out in terms of supplying loans to 100,000 new borrowers, at an average loan value of 60,000 baht. These figures, which appear to have been drawn from early planning documents, have no relation to actuality; for example, in 1997 there were already well over 300,000 new loan recipients, with an average loan size of only some 30,000 baht.

## Number of borrowers and loans disbursement

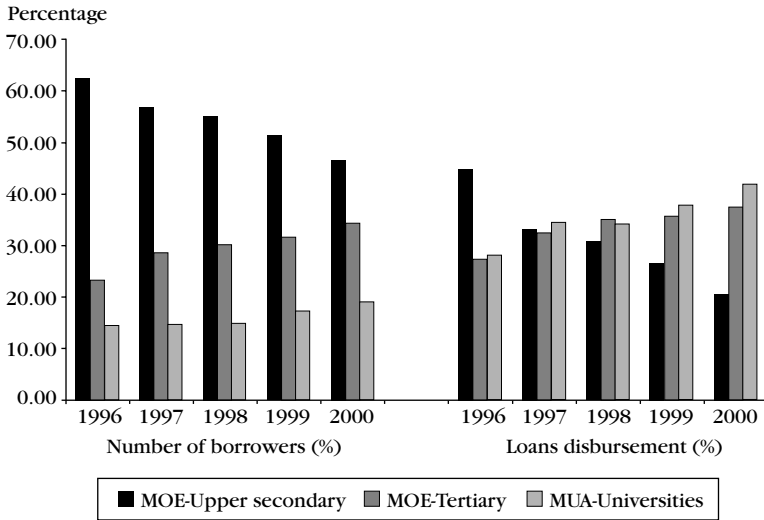
Given the size and trends in annual budgetary allocations and disbursements, we now examine the working of the SLS through a more detailed statistical review of the scheme.

### *MOE and MUA compared*

Following the initial allocation of the student loans budget to the MOE and MUA, subsequent loans budget allocation to the educational institutions and detailed loans disbursement is the responsibility of the two ministries. Details of the inter-ministerial split, in terms of the percentage distribution of actual loans disbursements (rather than loans budget allocations) and the number of borrowers are shown in *Figure 4.1*; detailed statistics are presented in the Statistical Appendix (*Appendix Table 6*).

The figure shows a declining share of upper-secondary education over the period 1996 to 2000, in terms of number of borrowers and total size of loan disbursements (from 63 to 47 per cent and 46 to 21 per cent, respectively). In contrast tertiary education, whether at MOE or MUA institutions, has captured a growing share of borrower numbers and loan disbursements. While the share of the upper-secondary-school sector in total number of borrowers is about double its share in total loans disbursement, the very opposite is shown for MUA (university) institutions; the shares are approximately matched for MOE tertiary institutions, at about a third. This implies a relatively small-sized loan for secondary-school borrowers and a large one for university students; this, in turn, means proportionally higher administrative costs per MOE loan, particularly at the upper-secondary level.

Figure 4.1 Number of borrowers and total loan disbursements: MOE and MUA, percentage distribution, 1996-2000



### Coverage

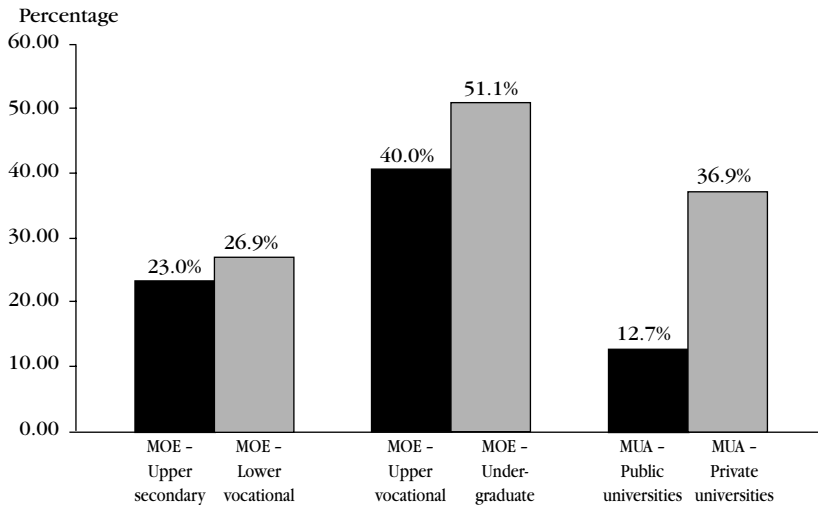
With the growth of the loans scheme over time, it has reached an increasing proportion of students enrolled in the programmes covered by the scheme. *Appendix Table 2* provides details of the coverage of the scheme, according to different types and levels of educational provision. Percentage coverage is defined as follows:

$$\text{Coverage} = (\text{Number of loan recipients}/\text{Student enrolment}) (100).$$

*Figure 4.2* shows the situation in 2000 for the six major education programmes for which student loans are available. About a quarter of students at the upper-secondary level of schooling (general and vocational education) receive loans. For MOE tertiary education, coverage is much higher; it exceeds 40 and 50 per cent for upper-vocational education and for undergraduate studies, respectively. While somewhat over a quarter of all university students are in receipt of loans, this average figure masks considerable differences in coverage between the public and private universities and between open and closed public universities.

Nearly 37 per cent of students enrolled at private universities receive a loan compared with less than 13 per cent of students at public universities, as a whole. Yet while over a third of all loans to public university students accrue to students enrolled at the two public open universities, coverage is low (*Table 4.4*). Some 9 per cent of Ramkhamhaeng Open University students, and only a handful of Sukhothai students receive a loan, compared with some 30 per cent of students enrolled at closed public universities. The minimal coverage at Sukhothai Open University is to be expected, given that it is based on distance learning for part-time students. The reasons for low coverage at Ramkhamhaeng are less clear, given that most students are full-time and teaching is based on formal lectures at the Bangkok campus; low coverage seems to be the result of an inadequate loans budget allocation from the MUA.

Figure 4.2 Student Loans Scheme coverage, 2000 (%)



In 2002, for the first time, the absolute number of loans to private university students, and the percentage loans coverage, exceeded those at public closed tertiary education; the Thai scheme is unusual in terms of its sizeable impact on the private education sector. At the tertiary level, loan coverage at MOE (public) institutions and at MUA private universities is high, somewhat greater than coverage at the closed public

universities, which are the usual focus of loans schemes. This pattern reflects, in part, the elite status of the public universities. Competitive entry to public universities militates against the chances of youngsters from less advantaged backgrounds – with poorer schooling preparation – securing a university place within the public sector (apart from at the open university). Rather, many veer towards (lower quality) non-university, MOE tertiary institutions or to the expensive private sector. The inequity of the system is apparent.

Table 4.4 Number of loan recipients and loans coverage, open and closed public universities and private universities, 2000

University type	Number of loan recipients	Loan coverage (%)
<b><i>Open public universities</i></b>		
Ramkhabhaeng Open University	36,757	9.1
Sukhothai Open University	51	< 0.1
<b><i>Closed public universities</i></b>		
	65,771	30.5
<b><i>Private universities</i></b>		
	70,306	36.9

At the upper-secondary level, too, loans coverage amongst students enrolled in private institutions is high. While only a very small percentage of students enrolled in upper-secondary schooling attend private schools, a third of vocational students do so, under the jurisdiction of the Private Education Commission. Over 40 per cent of students enrolled in private lower-vocational education receive loans.

#### *New versus old loan recipients*

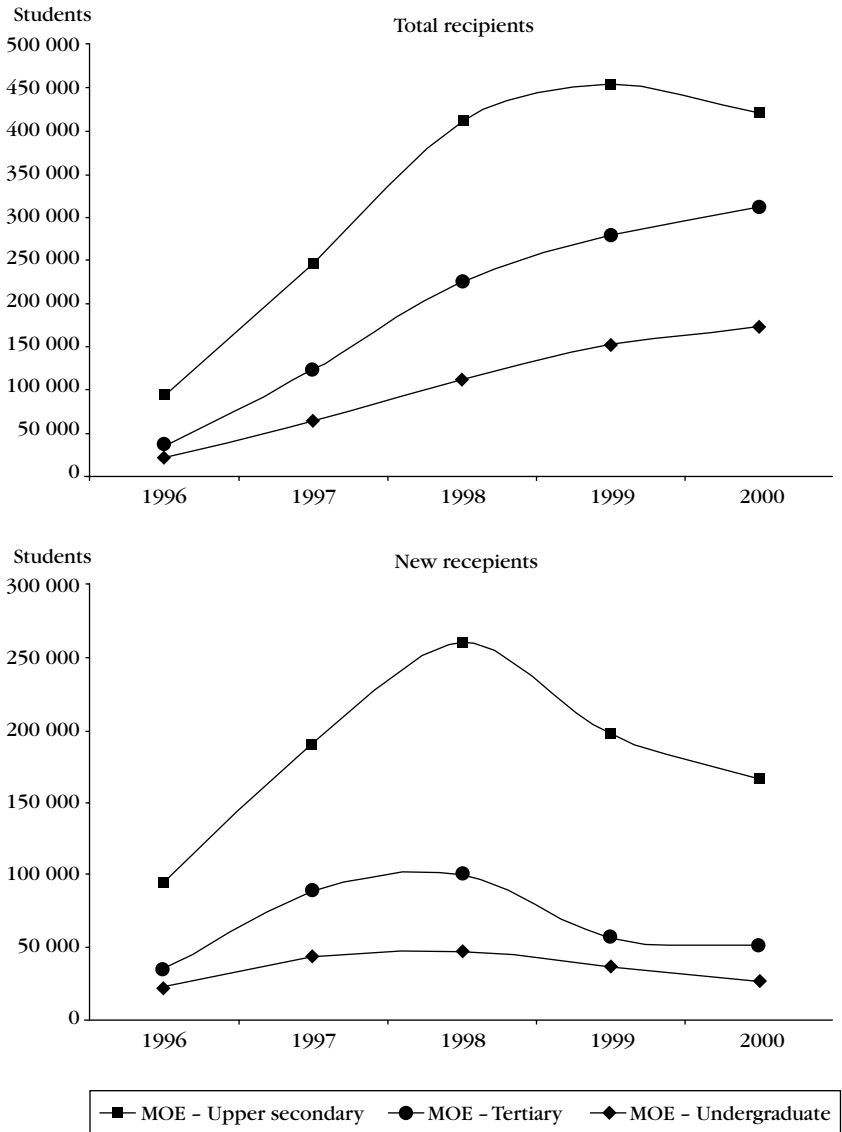
The growth in the total number of loan recipients hides some of the more important underlying trends, and particularly the inequitable treatment accorded to new borrowers. This is illustrated in *Figure 4.3*; a more detailed breakdown is given in *Appendix Tables 1 and 4*. The upper panel shows the total number of borrowers year-by-year, for the three main recipient groups – MOE upper secondary and tertiary and universities. For all three groups, the number of recipients grew rapidly in the initial years as the scheme built up, subsequently levelling off towards a steady state (though a small percentage decline was registered for upper-secondary schooling in 2000); a similar picture emerges for finer educational categories (*Appendix Table 1*).

A very different picture emerges from the lower panel, relating to new loan recipients only. For all three education groups the number of new borrowers grew each year over the three-year period 1996-1998, but then declined: this trend is evidenced also in the finer breakdown contained in *Appendix Table 4*. This initial sharp rise in the number of new borrowers, followed by falling numbers of new recipients is paralleled in the data presented above in *Table 4.2* for annual budget disbursements for new borrowers. Rising total loans allocations and numbers of new borrowers mask a declining government commitment to the scheme, reflected in lower budgetary allocations for new loans and falling numbers of new borrowers. This is the case for all the major educational programmes (*Table 4.5*). For each education category, loan disbursements rise initially (shown in bold), reach a peak and thereafter decline (italics); the peak is reached in 1998 for lower-level qualification and in 1997 for higher ones.

Table 4.5 Total loan disbursement by education category ('000 baht)

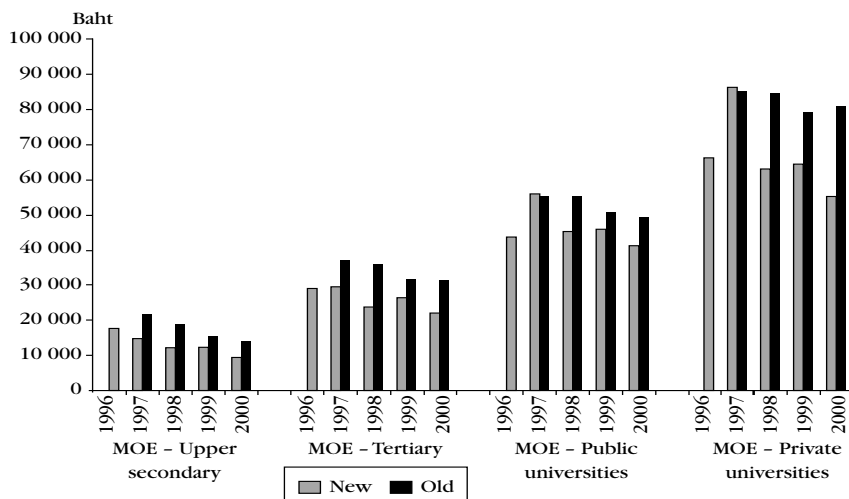
Education category	Academic year				
	1996	1997	1998	1999	2000
Upper-secondary general	<b>858</b>	<b>1,249</b>	<b>1,360</b>	<i>1,110</i>	<i>683</i>
Lower vocational	<b>771</b>	<b>1,547</b>	<b>1,790</b>	<i>1,288</i>	<i>864</i>
Upper vocational	<b>570</b>	<b>1,456</b>	<b>1,493</b>	<i>969</i>	<i>696</i>
Diploma	<b>48</b>	<b>133</b>	<i>96</i>	<i>58</i>	<i>37</i>
MOE undergraduate	<b>382</b>	<b>1,018</b>	<i>718</i>	<i>423</i>	<i>369</i>
Public university	<b>652</b>	<b>1,558</b>	<i>1,222</i>	<i>957</i>	<i>567</i>
Private university	<b>475</b>	<b>1,264</b>	<i>1,255</i>	<i>1,005</i>	<i>678</i>

Figure 4.3 Number of loan recipients: total and new, 1996-2000



Parallel developments may be seen in an examination of the trends in average loan size displayed in *Figure 4.4* (more details are furnished in *Appendix Table 5*). The figure compares the average size of loan received by new and old borrowers, by major education categories, for the period 1996-2000. There are two main features displayed in the figure. The first is the general tendency for loan size to decline over time; this is true for both new and old loan recipients (except for new recipients at tertiary-level education in 1997). The second is that, with the exception of university courses in 1997, the average size of loan for new borrowers consistently falls short of loan amounts received for the same courses by old borrowers. Total loan disbursements for 1996-2000 are given in *Appendix Table 3*.

Figure 4.4 Average loan size, new and old recipients, 1996-2000



*Two periods – ‘heady expansion’ followed by ‘steady contraction’*

The underlying theme of this section is that an examination of the statistics relating to the development of the SLS during its first five years indicates that there have been two very contrasting periods of operation.

The first period, from 1996 to 1997/1998, was one of ‘heady expansion’. A combination of minimal planning and weak control from the centre, combined with over-generous loan eligibility and repayment conditions, led to a substantial and unplanned growth in loan recipient numbers and unexpected, and unsustainable, funding obligations by the state. Since the SLS was committed to maintain its support for current borrowers, the main burden of contraction, when the brakes were applied, was borne by new borrowers in terms of lower loan budget allocations, fewer available loans and loans of smaller size. This second period of ‘steadying contraction’ has been one in which the efficacy of the loans scheme has been diminished, with the erosion in the real, and nominal, value of individual loans and increasing horizontal inequities across student cohorts (issues of equity will be developed further in *Chapter 6*).

## Loan repayment

Given that the loans scheme was introduced as recently as 1996 and, in addition, borrowers are granted a two-year grace period before beginning repayment, it is only recently that data on loan repayment have begun to be generated. Repayments are due in July of each year. Currently, three cohorts are required to make repayments to the fund – those who were due to start in 1999, 2000 and 2001 (respectively, 23,000, 77,000 and 154,000 borrowers). Since collection for 2001 relating to the three cohorts began in July and is still in progress, the data for 2001 are incomplete. Hence, we present information for the first two years of collection only (relating to borrowers who started repayment in either 1999 or 2000).

*Table 4.6* presents loan repayment statistics as of end of June 2001, relating to some 100,000 borrowers; they will have taken out loans for either one or two years only and, in the case of those completing upper secondary, will not have gone on to tertiary education with additional loans. The table provides a mixed picture. During the two-year period, 74 per cent of borrowers made payments to the SLF. While 5 per cent underpaid (though repaying on average about 70 per cent of the sum due at that time), about a quarter of borrowers made payments considerably in excess of the amounts due, some even paying off the total loan and closing the account. Over a quarter of all borrowers failed to make a single repayment.

Looking at the amounts involved, of 69.48 million baht due to be repaid, 48 million baht were received in payment; this represents a

payment default of about 31 per cent of the sum due. However, 158 million baht were received in practice, most of which was due to payment in excess of repayment obligations at that point of time. These excess payments of nearly 111 million baht considerably exceed repayment default. So while, formally, a 30 per cent default rate was in evidence, the scheme was not in deficit on receipts, because of excess repayments made by a proportion of borrowers. However, loan repayments reported in *Table 4.6* relate to relatively small-sized loans, for one or two years only; the low repayment burden may have encouraged prepayment. Over time, excess repayments may be expected to diminish, in line with the increasing size of loans (extending up to six years) and consequent higher required annual repayments.

Table 4.6 Loan repayments, cohorts with repayments due to commence in 1999 and 2000

<b>Borrowers obliged to make repayments</b>	<b>Number</b>	<b>%</b>
A: Borrowers repaying required amount only	43,030	43.15
B: Borrowers paying in excess of amount due	25,294	25.36
C: Borrowers repaying less than amount due	5,246	5.26
D: Defaulters	26,160	26.23
Total borrowers	99,730	100.0
<b>Repayment</b>	<b>million baht</b>	<b>Percentage of payments due</b>
Payments received from Group A	28.32	40.76
Due payments received from Group B	15.31	22.04
Payments received from Group C	4.41	6.35
Total due repayments received	48.04	69.14
Non-payment (amount in default)	21.44	30.86
Total payments due	69.48	100.00
Excess payments by Group B	110.62	-

Nevertheless, despite a contractual obligation, over a quarter of borrows failed to make any repayment; this issue needs to be addressed seriously. Virtually all borrowers who made no payments were individuals with whom the KTB had failed to make contact; in addition, a few had

died or had applied for repayment deferral because of low earnings – below 4,700 baht a month. The key issue here is whether non-payment is due to recalcitrant behaviour of former students or to low income; or is the issue one of identifying the whereabouts of former students who are lost to the information system and making appropriate requests for payment? To probe these issues, the KTB organized a ‘homes visit’ survey, in the summer of 2001 (see *Table 4.7*), of all 5,000 non-payers in the 1999 repayment cohort; a survey questionnaire was administered by local KTB branch officials. The purpose of the home visit follow-up was twofold: firstly, to explore the reasons for non-payment and to encourage compliance; secondly, to signal to debtors that the SLO and the KTB intend to keep a close watch on, and contact with, non-payers.

First results of the survey have recently become available. Although the non-response was minimal, for the most part KTB representatives met with parents or relatives rather than with the loan recipients themselves – only some 850 loan recipients were reached, suggesting that the information received was not always accurate. However, taken at their face value, some of the results are highly suggestive. Details of monthly income received are given in *Table 4.7*. The responses received indicate that the bulk of non-paying loan recipients was not obliged to make repayments at the present time; over a third had no income and nearly a further 30 per cent were in receipt of monthly income below 4,700 baht. Lack of income does not necessarily indicate unemployment; the number reporting ‘no income’ is closely matched by the numbers presently studying (but presumably not currently in receipt of a loan).

Table 4.7 Income of non-payers, 1999 repayment cohort

Income range (monthly)	Number	Percentage of responses
No income	1,168	34.95
4,700 baht or less	964	28.85
4,701 baht or above	1,210	36.20
Total responses to income question	3,342	100.00
Non-response	1,624	-
Total homes visited	4,966	-

Source: KTB Home Visit Survey, 2001.

Thus, on the basis of the limited evidence available from the first years of repayment under the scheme, it appears that the way forward does not lie in the direction of the introduction, and use, of legal or other sanctions against defaulters. Genuine default is significantly lower than is suggested in the official figures presented in *Table 4.6*. Much of the formal repayment default is in fact allowable under the loan agreement; this may lead to delays in the receipt of loan repayment rather than to outright losses to the SLS. However, delayed repayments also imply a reduction in the financial efficacy of the SLS as it now stands – we turn to financial issues in the next chapter.

## Chapter 5

# Financial analysis

The preceding sections have argued that the SLS, as now constituted, is found to be seriously lacking in a number of respects, in particular in relation to current administrative arrangements; the next chapter points to additional problems in terms of targeting and horizontal equity. Some of these problems are to be seen as inevitable ‘teething troubles’ that face all new organizations and administrative structures; other problems are more fundamental and stem from deficiencies in the design of the scheme, in turn largely a result of the haste with which the scheme was set up. The first group of shortcomings may be solved with relative ease by minor changes in the working of the scheme and over time many of the problems have been addressed, albeit on an *ad hoc* basis. Others (particularly in relation to targeting and equity) are more basic and will require a more radical reform of the scheme as a whole.

Assuming that these issues are suitably dealt with, there will still remain a more fundamental issue, which constitutes the central concern of the present chapter: this is the financial viability of the SLS. Surprisingly, little attention seems to have been paid to this issue. Yet we have noted that sums involved are very large; annual loan allocations now exceed 30 billion baht (a sum equivalent to some 14 per cent of the national education budget). This chapter has four parts. The first part presents background information on formal conditions for receiving a loan. The second part is concerned with the individual borrower’s loan account. The question posed is: how much of a loan does a typical student repay to the fund? The third section asks the question: what proportion of a typical loan is likely to be recovered by the loans fund after taking account of the probability of repayment default and administration costs? Building on these findings, a final part draws conclusions concerning the overall financial viability of the SLS.

A self-financing student loans scheme requires initially large and growing disbursements, as the scheme builds up. In principle, total

disbursements should then level off as the first cohorts of borrowers complete their studies and exit the education system; subsequently the loans fund becomes self-sustaining as loan repayments increasingly finance the loans to new borrowers.

In practice, such a positive outcome is highly unlikely. An extremely low (1 per cent) interest rate, repayments in nominal (rather than real) terms; a lengthy repayment horizon of 17 years (including a two-year grace period); administrative costs and inevitable default: all these factors combine to produce a highly subsidized loans scheme. It was found, on the basis of computer simulations, that current repayment conditions imply that the typical borrower will return only about 20 per cent of the loan received, in real terms (implying the receipt of a hidden grant equivalent to some 80 per cent of the value of the loan). Moreover, the expected burden of repayment is extremely light for the typical student. Annual repayments out of annual income will be in the range of 2-3.5 per cent only. These calculations point to an overly generous loans scheme, providing borrowers with unnecessarily highly subsidized loans, which may be repaid effortlessly out of higher income received on completing courses of education.

The overall recovery ratio to the loans fund on typical loans will be even less favourable. Some students will not meet their repayment obligations and the administration of the loans fund is not without cost. Taking account of the probability of repayment default and adopting a level of administration costs in line with that from international experience, results in recovery ratios in the range of 6 to 10 per cent – indicating that loans would be only marginally preferable to scholarships, on purely financial grounds. The broad coverage of the Thai scheme may result in economies of scale and lower administration costs; yet even so, recovery ratios exceeding 15 per cent are unlikely to be forthcoming.

## Formal loan conditions

To be eligible for a loan, a student must be a Thai national, be studying at a Thai institution or school, have a satisfactory academic performance and be poor. Poverty is defined by the SLSC in terms of household income; the ceiling defining a low family income is currently set at 150,000 baht a year.

### *Loan size*

The SLSC also defines the maximum-sized loan for different courses of study and, within this, the ceilings for various expense categories. While the MUA uses the SLSC maxima, the MOE introduced lower ceilings in 1997. Current various loan ceiling levels are set out in *Table 5.1*. It is seen, for example, that while the SLSC set a maximum loan for upper-secondary students at 55,440 baht, the MOE has lowered this ceiling to 20,000; again, while undergraduates enrolled at universities may receive a loan of up to 48,000 baht for living expenses (including accommodation) the maximum for undergraduates at Rajabhat Institutes is only 36,000 baht.

Table 5.1 Loans maxima, # 1998 (baht)

		Tuition*	Other educational expenditures*	Accommodation+	Living expenses+	Total loan ceiling
Upper secondary	SLSC	10,440	3,000	18,000	24,000	55,440
	MOE	8,000	0	0	12,000	20,000
Vocational level 1	SLSC	16,500	4,000	18,000	24,000	62,500
	MOE	12,000	4,000	12,000	12,000	40,000
Vocational level 2	SLSC	20,240	4,000	18,000	28,000	70,240
	MOE	18,000	4,000	12,000	24,000	58,000
Undergraduate	SLSC	46,000	6,000	18,000	30,000	100,000
	MUA	46,000	6,000	18,000	30,000	100,000
	MOE	18,000	6,000	12,000	24,000	60,000

# As defined by the Student Loans Committee, the Ministry of Education and the Ministry of University Affairs.

\* Paid direct to educational institution.

+ Credited to recipient's bank account.

### *Repayment conditions*

Loan repayments commence after a two-year grace period, following completion of schooling. Repayment, spread over 15 years, is in nominal terms and covers principal and interest charged at 1 per cent annually. Annual repayments of principal, as a percentage of nominal loan size, are graduated, as follows:

Table 5.2 Student loans: annual repayment schedules

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Repayment (percentage of principal)	1.5	2.5	3.0	3.5	4.0	4.5	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0

## The individual loan account

### *The repayment ratio and hidden grants*

The financial efficacy of any loan programme depends centrally on the extent to which loans are repaid. From the viewpoint of the individual borrower, the size of the subsidy received on the loan (the hidden grant) depends on the extent to which repayment conditions (interest rates, repayment linkage to inflation, grace periods) depart from those on commercial loans. The lower is the *repayment ratio* on an individual loan (the ratio of total cash repayments to the original loan), the larger is the hidden grant element, and the more likely is the loan to be successful in encouraging educational enrolment of needy youngsters. But higher hidden grants imply greater public subsidy.

From the perspective of the government, the overall *recovery ratio* depends not only on cash repayments (reflected in the size of the hidden grant received by students) but also on administrative costs (which are usually not passed on to the student) and the probability of repayment default. In this section we compute the repayment ratio and hidden grant on typical loan programmes from the borrower's perspective; in the following section we add in the effects of default and administration costs to measure the overall level of recovery of the loan: the recovery ratio.

### *Computing the repayment ratio*

Based on the formal repayment conditions of the loan, we compute the repayment ratio on typical loan programmes (total loan repayments as a ratio of the initial loan). For this initial calculation, equal annual loan disbursements are assumed; a stream of annual repayments of the total outstanding loan are made according to the schedule shown in *Table 5.2*, starting from 1.5 per cent of the loan size and rising to 13 per cent, plus 1 per cent interest a year on outstanding debt.

Since repayments are not linked to inflation, the value of annual sums repaid must be lowered to reflect the falling purchasing power of the baht. Actual rates of inflation for recent years were supplemented by estimates of future rates of inflation.<sup>6</sup> Over the past decade, prior to the economic crisis, prices rose on average by 5.5 per cent annually. In 1998 the inflation rate exceeded 8 per cent; it was assumed that this rate would decline gradually over subsequent years as the economy attained normalcy, towards the long-term inflation trend.

Discounted cash-flow techniques are used to compare the total of annual loan disbursements with the stream of loan repayments (corrected for inflation). This requires the ‘discounting’ of payments received in the future, to reflect their lower value in terms of the present. We make three alternative assumptions about the appropriate discount rate (reflecting the loss from not using these funds in alternative uses), and test the sensitivity of the results to these alternative discount rates. We employ alternative fixed discount rates of 8, 6 and 4 per cent, respectively. Details of the methodology used for the financial appraisals that follow are provided in Ziderman and Albrecht, 1995.

Results for three typical loan programmes are provided in *Table 5.3*: three-year programmes such as upper-secondary and RIT courses; four-year undergraduate programmes, including those at universities and Rajabhat institutes; and combined programmes, such as upper-secondary courses followed by study for a first degree. Reading across the table it is noted, as would be expected, that the longer the course of study, the lower are the total repayments received in relation to loan size. Reading down the table, we may see the effect of alternative discount rate assumptions on loan repayment. All the repayment ratios shown in the table are relatively low, within a range of only 14 to 28 per cent. In all the results presented subsequently, we use 6 per cent discount for our central results, with the harsher 8 per cent discount giving an upper limit to feasible results.

The very low repayment ratios shown in *Table 5.3* may seem surprising for a loan programme, but they reflect four ingredients of the present loans scheme, that inescapably lead to low levels of repayment.

6. These estimates were provided by Dr Kitti Limskul of Chulalongkorn University.

These are: that interest is levied at the token rate of 1 per cent only; that no interest is charged on outstanding loans during periods of study or grace periods; that repayments are spread over a 17-year period on completing study, initially at very low rates of repayment; and, most important, that repayments are made in nominal terms, not being raised to reflect future inflation and the lower purchasing power of the baht.

Table 5.3 Hidden grant and repayment ratio on selected student loans programmes: alternative discount rates (%)

Discount rate	Programme		
	Upper secondary (3 years)	Undergraduate (4 years)	Upper secondary plus undergraduate (7 years)
4%			
Repayment ratio	28	26	22
Hidden grant	72	74	78
6%			
Repayment ratio	23	21	17
Hidden grant	77	79	83
8%			
Repayment ratio	19	17	14
Hidden grant	81	83	86

### *The repayment burden*

One justification for soft loan repayment conditions in many national student loans schemes, leading in turn to low levels of repayment, is to avoid imposing unduly harsh repayment burdens on borrowers, especially needy students. To minimize this disincentive to taking up loans, most governments subsidize loans. But over-large subsidies, as in the Thai case (see *Table 5.3*), may undermine the very purpose of the loan, as opposed to a scholarship, scheme. To probe how far such considerations apply to the Thai scheme, we estimate very roughly the annual repayment burden falling on borrowers (annual repayments in relation to expected income). We do so for three programmes: upper-secondary schooling, undergraduate courses at university and a combined course of study comprising upper secondary followed by university study.

For the repayment calculations, we measure annual repayment obligations from data on average annual loan disbursements. Expected future annual incomes are derived from age-earnings data by education level, drawn from the 1996 Socio-Economic Survey of the NESDB, with an assumption of real income growth of 3 per cent annually. Since labour-market earnings of females are lower than those of males, separate repayment burden calculations are made for males and females. Two sets of calculations are made. The first expresses annual repayments as a percentage of annual income and provides an indication of the weight of the burden of repayment falling on the borrower each year. The second calculates the ratio of annual repayments to incremental income (the additional income received as a result of completing the stage of education in question) and measures how much of the annual increment in earnings resulting from extra education remains, after loan repayment.

Results are given in *Table 5.4* for loans for university programmes of study; for upper-secondary courses and for upper secondary followed by university study, the results are of a similar general order of magnitude (full, detailed results are available in Ziderman, 1999). The annual repayment burden in terms of annual income (column 1) is very light, in the region of only about 2-4 per cent. Interesting differences in the repayment burden by gender are shown in the table: the annual repayment burden of females exceeds that of males by some 50 per cent, because of higher male wages. Annual repayments, as a percentage of incremental income (column 2), are obviously much higher. While the effect is to reduce the private rate of return on investment university education, repayments are not onerous. They range from 6 to 8 per cent for female graduates, about double the rate for males.

Summary results are provided in the table in terms of present values; this measures the ratio of the present value of total repayments to the present value of total income over the 17-year time horizon of outstanding debt. Total loan repayments in present-value terms comprise only 2.2 and 3.5 per cent of total income over the period of debt for males and females, respectively; for incremental income the burden is about 50 per cent higher.

The general conclusion emerging from this analysis is that the Thai Student Loans Scheme is overly generous, providing borrowers with unnecessarily highly subsidized loans (effectively, hidden grants), which may be effortlessly repaid out of higher income received on completing courses of schooling.

**Table 5.4 Annual loan repayment burden: undergraduate courses, by gender (%)**

Age	(1) Repayment as a percentage of annual income		(2) Repayment as a percentage of incremental income	
	Males	Females	Males	Females
25	1.6	2.5	2.8	5.2
26	2.0	3.2	3.6	6.5
27	2.1	3.3	3.7	6.7
28	2.1	3.3	3.8	6.8
29	2.1	3.3	3.8	6.8
30	2.1	3.3	3.8	6.8
31	2.1	3.3	3.8	6.8
32	2.2	3.5	4.1	7.2
33	2.4	3.7	4.1	7.6
34	2.4	3.8	4.3	7.8
35	2.5	3.9	4.4	7.9
36	2.5	3.9	4.5	8.0
37	2.5	3.9	4.5	8.0
38	2.5	3.9	4.5	7.9
39	2.4	3.8	4.2	7.8
Present value (6%)*	2.2*	3.5*	3.5*	6.1*

\* Excluding years of grace.

### Loan recovery with default and administration costs (the loan recovery ratio)

Thus far we have looked at the repayments paid by the typical borrower and the hidden grant received if the loan is repaid in conformity with the established repayment conditions of the loans scheme. However, the repayment ratio (hidden grant) fails to show the overall recovery (loss) to the loans fund, from a national point of view. Overall, the fund will receive back less than is indicated in the repayment ratio, because some students will not meet their repayment obligations and the administration of the loans scheme is not without cost. In the following sections we take account of the probability of repayment default and the incidence of administration costs.

### *Repayment default*

Obligatory loan repayment under the scheme has only recently commenced at the time of writing. So far, full repayment information is available only for the first two cohorts of borrowers obliged to make repayments under the scheme. Official figures put repayment default in these initial years of the scheme at about 30 per cent, both in terms of number of borrowers and repayment amounts due. We have argued (in *Chapter 4*) that default is far less serious than these figures suggest. Moreover, there is every reason to suppose that repayments will improve rapidly as the scheme develops. We have already noted the *ad hoc* approach to administration in the scheme. Special steps are now being undertaken by the KTB to improve repayment rates and, we have noted, sharper sanctions are being developed by the SLO. In the absence of any hard information on expected levels of loan default for the Thai scheme, we turn to guidance from international experience. While there is considerable variation in default rates amongst developing countries, many schemes display a default ratio in the range of 5-10 per cent. We simulate the effect of default on loan recovery, using alternative assumptions about the extent of default. The probability of annual default is expressed as a percentage of annual repayment obligations (repayment of principal plus interest). Simulations using rates of default ranging from 0-10 per cent (reported in Ziderman, 1999) rendered rather similar results. Given the lack of sensitivity to alternative default rates in the 0-10 per cent range, we adopt the optimistic assumption of a low 5 per cent default probability.

### *Administrative costs*

To establish the net recovery ratio, administration costs, too, must be taken into account. For our present purpose, these would be expressed in terms of the average (per borrower) annual administrative cost of running the loans scheme. No reliable data are available. Official SLSC allocations for administrating the loans scheme are only partial, because a significant proportion of costs are absorbed by the institutions running the scheme, including the KTB central office and all the educational institutions that distribute the loans. Moreover, existing administration cost allocations are thus far concerned only with initial processing of the loans; subsequent overall maintenance costs and collection costs are largely unknowns.

While there is no detailed comparative study of administrative costs of loans, a finance study of loans schemes in Latin America found many countries with administrative costs of some 2 per cent of outstanding debt, representing an overall cost of approximately 10 per cent of the total value of the loan (Carlsen, 1992); similar cost estimates were found in many other schemes in developing countries (Ziderman and Albrecht, 1995).

*Table 5.5* presents alternative estimates of the net average recovery ratio on loans programmes, with an assumed default probability of 5 per cent and differing administration cost assumptions. With an assumed 2 per cent rate for administration costs (as a percentage of outstanding debt) the recovery ratio falls to the low range of 6 to 10 per cent recovery - indicating that loans would be only marginally preferable to scholarships on purely financial grounds.

However, it is possible that administrative costs of the Thai scheme will fall significantly below 2 per cent. The small size of loans, particularly at the upper-secondary level, does make them relatively costly. Against this, the Thai scheme is very large in terms of annual number of borrowers; loans schemes in developing countries typically number in the tens of thousands only; this should yield sizeable economies of scale in managing the loans scheme, as the scheme develops. This view is buttressed by the findings of a special exercise we conducted, to estimate total current administration costs of the loans scheme (including hidden costs absorbed by participating institutions and organizations). Results, reported in Ziderman (1999), estimate administrative costs to be at a level of some 600 million baht in 1998 (or some 3 per cent of the annual loan disbursements). Some rough calculations, including augmented cost estimates to include future debt maintenance and collection costs and estimates of probable levels of total loan debt, suggest that administration costs (as a percentage of outstanding debt) could fall to 0.5 to 1 per cent. At these administration cost levels, the loan recovery rate increases to about double that shown for the 2 per cent administration cost case.

Table 5.5 Net recovery ratio on loans\* (with 5 per cent default and alternative administration costs)

	0%	Administration costs**				
		0%	0.25%	0.5%	1%	2%
No default		Default rate: 5%				
Upper secondary	23	22	20	19	16	10
Undergraduate	21	20	18	17	14	8
Upper secondary plus Undergraduate	17	16	15	13	11	6

\* At 6% discount rate.

\*\* Percentage of outstanding debt.

### *Some caveats*

The results presented in *Tables 5.3* (loan repayment) and *5.5* (loan recovery) are based on information available at the time at which the calculations were carried out (early 1999). Thus they should be regarded as tentative, subject to revision as up-to-date data are generated over time. This applies particularly to assumptions made concerning ongoing rates of inflation and default.

Because loan repayments are in nominal rather than real terms, high rates of future inflation will be reflected in lower repayment (and recovery) ratios. Lower inflation would result in higher repayment ratios, as the gap between nominal and real repayments narrows.<sup>7</sup> In the event, actual rates of inflation have fallen more quickly and sharply than assumed in the financial analysis reported above. Rather than maintaining high inflation rates as assumed, inflation fell to only 1.6 per cent in 1999 and 2000 (the lowest rate in 15 years), though inflation is registering a rate of 2.3 per cent in 2001. This could indicate that the results presented in *Tables 5.3* and *5.5* are more pessimistic than warranted. Against this, our assumptions about default may have been over-optimistic, in the light of recent information on default rates from the first borrower cohorts. On

7. Indeed, with zero inflation the repayment and recovery ratios would rise dramatically. In the case of undergraduate programmes, the repayment ratio would rise from 21 to 52 per cent (at 6 per cent discount rate) and the recovery ratio from 8 to 30 per cent (at 6 per cent discount rate, 2 per cent administration costs and 5 per cent default).

balance, the general order of magnitude of our financial analysis, and the policy lessons to be derived from them, still stand.

### Loans scheme viability: revolving fund or open-ended commitment

A self-financing student loans scheme requires initially large and growing disbursements, as the scheme builds up. In principle, total disbursements should then level off as the first cohorts of borrowers complete their studies and exit the education system; subsequently the loans fund becomes self-sustaining as loan repayments increasingly finance the loans to new borrowers.

The expectation that the Thai SLS will operate in this way seems to be widespread both in central government circles and at the educational institution level. We have argued that, in practice, such a positive outcome represents little more than wishful thinking. An extremely low interest rate, repayments in nominal (rather than real) terms; a lengthy repayment horizon, administrative costs and inevitable repayment default: all these factors combine to produce a highly subsidized loans scheme. Using a set of realistic assumptions concerning administration costs, default and the appropriate method of investment appraisal, our calculations show that it is unlikely that more than 10 per cent of the average loan, in real terms, will be returned to the fund. More optimistic assumptions may raise the recovery ratio somewhat, but still to well below 20 per cent.

Thus, as it operates at present, the loans scheme will not be self-financing, even over the long term; indeed, present arrangements imply a large and continuing call on the public purse. Given the clear social objectives of the SLS, some continuing level of commitment of public funds to the scheme may be acceptable; but it seems clear that a subsidy level of up to 90 per cent is excessive. Moreover, if student numbers were to continue to grow and the demand for loans continued apace, this commitment would be increasingly onerous, particularly if the current level of support were maintained (in terms of the ratio of the number of borrowers to total student enrolments).

It is government policy to encourage the growth of private universities as a means of increasing the number of university places, at low public cost. Loan levels to students at private institutions (particularly

universities) exceed those for students enrolled at public institutions, because of considerable differences in tuition-fee levels. The low level of expected repayments in real terms (in relation to the size of a loan) implies something like an 85 per cent subsidy of the costs of private education. Thus the expansion of private education, with a growing commitment to provide highly subsidized loans, may not represent a cost-effective method of increasing university enrolments.

Clearly, the loans scheme, as it now stands, with its excessive level of subsidy, is not viable. Change can go in one of two directions. With such a high hidden grant element, a strong case could be made for replacing the present loans scheme by a regime of grants.<sup>8</sup> In order to maintain the present level of net costs, the scholarship scheme would operate at a somewhat lower level of total budgetary support; there would be considerable savings in administration costs and, of course, the issue of repayment and default does not arise. Alternatively, steps could be taken to enhance the financial viability of the scheme by reducing the hidden grant element, through replacing the over-generous repayment conditions with more realistic ones that are somewhat closer to those of the market. This would imply a combination of higher interest rates, a shorter repayment horizon and an annual repayments correction for inflation.

Our central conclusion is a dual one. At the upper-secondary level, the loans scheme would be replaced by a system of targeted scholarships. In parallel, the loans scheme would be retained for students at tertiary-level institutions, but it would be radically reformed in the direction of improved targeting, the unification of loan conditions across all tertiary-level institutions and improving the financial viability of the scheme through a hardening of repayment conditions. These issues will be discussed more fully in *Chapter 7*.

8. We use the terms 'grants' and 'scholarships' interchangeably in the text, though a more exact usage is to refer to student aid to the poor as 'grants' and awards for academic achievement as 'scholarships'.



## Chapter 6

# Targeting for equity and access

The central objective of the student loans scheme is to provide loans to students from poor families, to enable them to continue study at the upper-secondary and tertiary levels of education. How far the scheme succeeds in this objective depends on three main issues: reach, efficacy and equity.

First, we consider the *reach of the scheme*: does the scheme indeed reach the target group? Which groups are not reached? Are some ineligible students in receipt of loans?

Second, we deal with the *efficacy of the scheme*: of those who are reached by the scheme and in receipt of a loan, does the loan indeed lead to continuation of study, thus preventing drop-out? What would happen in the absence of a loan?

And third, we turn to *equity issues*: are loan recipients treated equitably? Do all potential recipients have equal chances of receiving a loan?

### Reach of the scheme

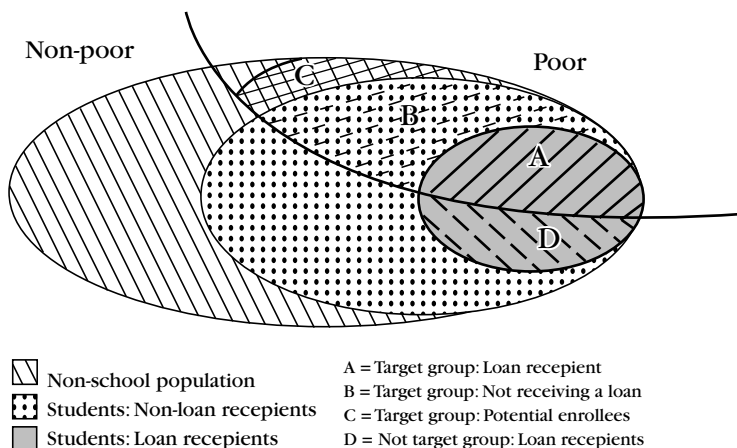
In many projects, insufficient attention is given to the need to define as clearly as possible the target group to which the programme is directed. Instead *ad hoc* criteria are used to define individual eligibility with the result that the population of individuals screened for inclusion in the programme (the 'recipients') may only very loosely match the intended target population. The outcome is doubly unfortunate. In the case of a project directed to the poor, needy individuals may be excluded from the project, while others, who are not in poverty, receive unneeded benefits. This is both wasteful and inequitable. We now apply these principles to the targeting for the student loans scheme.

*Identifying target groups: the egg diagram*

The concept of targeting and reach may be clarified by reference to *Figure 6.1*. The outside (largest) ‘egg’ relates to the total population of school age and includes both youngsters who have left the school system and those currently attending (the middle egg). Within the schooling population, some students are in receipt of loans (the smallest egg). On the basis of the poverty measure adopted, only part of this total youth population is defined as poor – located in the north-east area of the chart. Total loan recipients are shown in Areas A and D of the chart. Those in Area A are poor and thus entitled to a loan, while D are not poor but are in receipt of loans either because the eligibility criteria used do not coincide well with poverty definitions or the loans scheme is being abused.

The targeted school population consists of all poor youngsters enrolled in school (Areas A and B); of these only A receive loans and B are not reached. The total target population consists of A and B plus C (a proportion of poor youngsters that have left school but could be drawn back through the availability of loans). Monitoring, on a continuing basis, will show how successfully the targeted population is being reached.

Figure 6.1 Reach of the loans scheme



### *Estimating the reach of the scheme*

In this section, we provide some estimates of parameters relating to the loans scheme's reach to the target population (Areas A, B and C in *Figure 6.1*) based on data from the 1999 socio-economic survey (NESDB). For this exercise, we confine our estimates to the upper-secondary level of education, where the data are more robust, though in principle it is possible to estimate these parameters for tertiary-level education as well.

Using the socio-economic survey (SES) data set, a special programme was run to identify the total number of youngsters aged 15-17 (the approximate age of upper-secondary enrolment) in poor households, defining a poor household as one with household income below 150,000 baht, corresponding to loan eligibility ceilings used by the MOE. Some 2 million poor youth (aged 15-17) were recorded. We estimated separately the non-school population size and the numbers attending school; we then deducted from the latter estimate, the number of upper-secondary students currently receiving loans (from *Table 6.2*). Results, which provide rough estimates only, are given in *Table 6.1*.

In 1999, while less than a third of poor upper-secondary school students were in receipt of loans, the vast majority of needy students (over two-thirds) were not. The proportion of poor students receiving a loan has grown each year with the increased take-up of the scheme (10 per cent in 1996, 27 per cent in 1997 and 35 per cent in 1998). Looking at the number of loan recipients in relation to the total target population of poor youngsters, we see that loans are received by less than a quarter of the ultimate target population (compared with 6 per cent, 18 per cent and 24 per cent in 1996, 1997 and 1998 respectively).

**Table 6.1** Reach of the loans scheme:  
upper-secondary level of schooling,\* 1999

Target sub-group (150,000 baht - parental income ceiling)	Number	Percentage of poor students	Percentage of poor youth
<b>(A)</b> Poor students: receiving a loan	452,810**	32.6	22.6
<b>(B)</b> Poor students: not receiving a loan	936,800	67.4	46.8
<b>(A+B)</b> Total poor students in school	1,389,610	100.0	-
<b>(C)</b> Poor youth: out of school	612,740	-	30.6
<b>(A+B+C)</b> Total poor population, aged 15-17	2,002,350	-	100.0

\* General order of magnitude only.

\*\* From *Table 6.2*.

Source: SES, 1999 (NESDB).

**Table 6.2** Upper-secondary school loan recipients

Number of loan recipients	1996	1997	1998	1999	2000
	110,040	307,712	410,891	452,808	419,241

In *Table 6.1*, we used for illustrative purposes the poverty definition employed by the loans scheme to define loan eligibility. We noted that less than a quarter of poor youngsters were in receipt of a loan. However, there are differing intensities of poverty, related to the size of household income. From the SES data set, it was possible to break down the information shown in *Table 6.1* by household income level; these results are presented in *Table 6.3*.

There are three features of the table that merit attention. First, it is seen that there are 512,000 very poor (with household income of up to 50,000 baht), with nearly a third of a million at school and a further 200,000 outside of the education system. This group of poor coincides

most closely with the official NESDB poverty measure of 4,440 baht a month for a family of five (53,280 baht a year). Second, the proportion of youngsters not enrolled at school is highest for this group (over a third) thus compounding the difficulties of reaching this population. Third, and most important, the total number of loans given in 1999 (*Table 6.2*), not only covered a small proportion of the target population, but was in fact insufficient even to cover the half a million very poor youth. The question arises: did these loans reach the very poor or were the loans taken up by students who were less in need? Unfortunately there are no data available on this issue.

Table 6.3 Number of youth aged 15-17 in poor households, by school attendance, 1999

Household income (baht)	Number of poor youth			Ratio II/III
	At school (I)	Not at school (II)	Total (III)	
0-50,000	313,620	198,570	512,190	0.38
50,001-100,000	647,370	274,210	921,580	0.30
101,000-150,000	428,620	139,960	568,580	0.25
Total, income up to 150,000	1,389,610	612,740	2,002,350	0.31

Source: SES, 1999 (NESDB).

It is true that the formal loans scheme rules require that priority be given to the poorer students. However, loans are distributed by educational institutions, whose loans budgets are not fixed in proportion to the number of poor students; thus in practice there is considerable difference in the cut-off point for household incomes, across institutions.

Information drawn from the Loans Interview Surveys, conducted as background to this review (see *Appendix I*), is relevant to the issue of the differential reach of the loans scheme (*Table 6.4*). For the two high-poverty provinces included in the survey, nearly 90 per cent of borrowers had a household income of up to 50,000 baht; for the low-poverty provinces this figure was only 31 per cent. Again, for the open university included in the survey, borrowers are concentrated in the lower income ranges

whereas for closed universities the bulk of borrowers had higher household income, with over 32 per cent in excess of 150,000 baht.

### *Targeting versus screening*

From the foregoing discussion, it appears that the SLS is less a targeting scheme than one of screening. The distinction between targeting and screening is subtle, but important. A loans scheme based on screening focuses on the vetting of applications for eligibility and inclusion, on the basis of defined entry criteria. It is less concerned with the actual composition of those included (and whether they constitute the group most in need of the loan), nor with those self-excluded, but eligible, individuals that do not apply for a loan. It is essentially passive in approach, emphasizing legal entitlement rather than satisfying need. A targeted scheme, on the other hand, 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 easily reached target populations as student drop-outs and the rural poor. The challenge facing the Thai Student Loans Scheme is to reorient its approach, based on improved information bases and monitoring, in the direction of a more highly targeted, focused, proactive scheme.

Table 6.4 Annual household income of loan recipients, selected provinces and institutions (%)

Annual household income (baht)	Students at MOE institutions		Students at Universities	
	High poverty: Mahasarakham Mae Hong Son	Low poverty: Suratthani Ayuthaya	Open university	Public and Private university
Less than 50,000	89	31	50	12
50,001-100,000	11	53	45.5	22
100,001-150,000	0	15	4.5	34
Over 150,000	0	1	0	32
Total	100	100	100	100
Number in sample	54	92	22	42

*Source:* Loans Interview Surveys: loan recipients.

## Effect on access and drop-out prevention

In this section we consider the effect of receiving a loan. For those who are reached by the scheme and in receipt of a loan, does the loan indeed lead to continuation of study, thus preventing drop-out? What would happen in the absence of a loan? These issues were probed in the Loans Interview Surveys. Loan recipients were asked: “If there were no loan, how would you manage to continue your studies? Would you quit?”

The central results are given in *Table 6.5*.

Table 6.5 Possible consequences of lack of loan for recipients (%)

Consequences	Students at MOE institutions			Total sample
	High poverty: Mahasarakham Mae Hong Son	Low poverty: Suratthani Ayutthaya	Students at universities	
Drop out from school	33.3	32.2	25.8	30.5
Have to find a job	41.2	16.7	37.1	29.1
Have to be economical; Receive money from family	13.8	27.8	11.3	19.2
Borrow money from relatives/bank/others	7.8	13.3	4.8	9.4
Request school for a grace period of tuition fee payment or move to public schools which are less expensive	4.0	7.8	12.8	8.4
Stop studying temporarily	0	2.2	8.1	3.4
Total	100.0	100.0	100.0	100.0
Number in sample	51	90	62	203

Source: Loans Interview Surveys: loan recipients.

The vast majority of loan recipients would not drop out in the absence of a loan; in all, only 30 per cent said that they would do so. University students are even less likely to drop out (only 25.8 per cent), though 8

per cent would stop studying temporarily; the rest would manage, mainly by supplementing their income by finding a job (37 per cent). For students at MOE institutions, the potential drop-out is higher, but even for those students in high-poverty provinces, only a third claimed that they would drop out (also about a third for low-poverty provinces). Only 36 per cent of students from poor homes, with household income of less than 50,000 baht (not shown in the table), claimed that they would drop out.

Being based on small sample numbers, these findings cannot be regarded as conclusive. However they are very suggestive. On the positive side, it does appear that loans are effective in preventing discontinuation of studies amongst a significant proportion of current borrowers, but they represent a minority. For the most part students claim that they would be able to manage by working, being more economical or by resorting to family for help.

Respondents were also asked how their parents would react to financial difficulties: would a child be taken out of school and, if so, which gender? The responses are in conformity with the results shown in *Table 6.5*: for 66 per cent of the cases, parents did not expect to withdraw their children from school. Of the remainder, there was no difference in the tendency to take a boy or a girl out of school.

We have noted that the majority of eligible students are not in receipt of a loan (*Table 6.1*). Why do so many eligible students fail to apply for a loan? In the Loans Interview Survey, eligible students who have not borrowed were asked why they had not applied for a loan. Evidently, this was not because of a lack of awareness of the scheme: over 90 per cent were informed about the loans scheme, the vast majority receiving information from their educational institution.

Table 6.6 Reasons for not taking a student loan, non-borrowing students

Reason for not taking a loan	Up to 50,000 (%)	Total family annual income (baht)			Total (%)
		50,001-100,000 (%)	100,001-150,000 (%)	Over 150,000 (%)	
Adequate financial resources	39.2	38.7	56.8	62.9	46.9
Receiving a scholarship	5.9	0.0	0.0	0.0	1.5
Parental opposition or fear of getting into debt	25.5	29.9	16.6	9.4	21.7
Technical reasons for not receiving a loan	23.5	26.9	19.9	16.3	22.7
Other	5.9	4.5	6.7	11.4	7.2
Total	100.0	100.0	100.0	100.0	100.0
Number in sample	54	70	32	45	201

Source: Loans Interview Surveys: non-borrowing students.

In response to a question on why they had not applied for a loan, overall, nearly a half confirmed that they did not need a loan (*Table 6.6*); as expected, the higher is family income, the less is the need for a loan. A further 22 per cent did not apply, either because of parental opposition or because they feared entering into debt; the more impoverished families are less inclined to take up loans. But some 23 per cent were interested in receiving a loan but did not do so for technical reasons (details not included in *Table 6.6*): 10.3 per cent lacked the necessary documentation to apply, 5.7 per cent had applied but had not been accepted, 3.1 per cent found the application form to be too complicated. Clearly, there remains some considerable scope for extending the reach of the scheme amongst eligible students; but appropriate steps must be taken to ease application procedures and explain more thoroughly the benefits and obligations of borrowing.

**Table 6.7** Reasons for discontinuing studies (drop-out), non-student youth aged 15-17

Reasons for drop-out	Total family annual income (baht)		
	Up to 50,000 (%)	50,001-100,000 (%)	Total (%)
Financial reasons	91.2	57.1	77.5
Academic reasons	4.4	17.9	11.3
Other	4.4	25.0	11.2
Total	100.0	100.0	100.0
Number in sample	48	32	80

*Source:* Loans Interview Surveys: non-student youth.

But what of working youngsters? A survey of poor, drop-out youth (aged 15-17), carried out as part of the background research, probed the reasons for discontinuation of studies (*Table 6.7*). Financial reasons were the main cause of drop-out (77.5 per cent); for students in families with an annual income of less than 50,000 baht, over 90 per cent had dropped out for financial reasons. This suggests that there may be an important role for student loans in increasing educational access for youngsters in poor families. However, some caution is in order, prior to accepting this conclusion.

The central objective underlying the establishment of a targeted loans system is to aid needy students and to encourage continuity of education and, thus, a larger enrolment of youngsters from poor families. With the subsequent onset of the economic downturn there was a new emphasis on student loans as a means of preventing drop-out from the education system. But these objectives are not the same. Under economically stable conditions, the availability of loans can encourage poor parents to allow their children to continue with their education, certainly if tuition is covered and the loan for living expenses can be set off against children's earnings forgone. Similarly, college-level students will be willing to take on loan obligations because they see, in future enhanced earnings, the realistic possibility of making the required loan repayments.

However, times of economic crisis are different. There are two opposite tendencies at work. On the one hand, conditions of higher

unemployment and lower earnings possibilities, result in reduced opportunity costs of study and training. There is evidence in advanced economies of higher enrolment, especially at the college level, and for greater willingness of workers to take off-the-job training in periods of economic downturn. On the other hand, with lowered household income, there is increased pressure on all family members to contribute to family income and to be available to take up earnings opportunities that arise. Parents of out-of-school youngsters and potential college students may be loath to assume loan burdens in such conditions. A period of economic downturn may not be the most favourable for making long-term education investments (unlike short training courses) nor taking on additional, future loan repayment commitments. Trust in a better future may not be manifest amongst the poor, who may be influenced more by the clear evidence of diminished employment opportunities and lowered earnings than economic forecasts. Time horizons of the poor tend to be short and there is evidence that they have a tendency to discount the future more than higher socio-economic groups.

These considerations may be more strongly applicable to upper-secondary schooling than to education at the tertiary level. This is particularly so for general secondary education, whose main benefit stems from it serving as a bridge to higher education rather than earnings enhancement. These arguments also add support to our view that loans for secondary-school children should be replaced by a regime of targeted grants. Certainly, in terms of attacking the problem of drop-out, grants are likely to be the more powerful instrument.

## Horizontal equity

At the outset, we distinguish between inequality and inequity. *Inequalities* in the system of loan distribution are to be expected, and are justified, if students have differing needs; some students do, and should, receive a more substantial loan than others. Tuition fees at vocational school are higher than those at general public schools, as are undergraduate studies at universities in relation to Rajabhat institutes. Some university courses are very much more expensive than others. Again, students studying away from home may be in need of a loan element for accommodation, while those living at home are not. These are examples of *inequalities*, but they are acceptable. *Inequities* arise when loan recipients, of the same economic status and level of need, receive loans

of differing size. Again, equity would require that, regardless of province of residence or educational institution, students of similar socio-economic background should have equal opportunities for receiving a loan. These tenets of horizontal equity do not hold in practice in loans distribution in the Thai scheme.

Inequities across individuals may arise in two ways. First, they may stem from inequalities that are formally sanctioned by institutional arrangements for loan allocation and distribution. We give two examples. The system of loan budget allocation, from the SLSC down through the ministries to the individual educational institution, is unrelated to objective criteria in terms of poverty or need (the MOE allocation of loan budgets to the provincial offices constitutes a partial exception). For a number of years, the MOE and MUA operated on different criteria in relation to eligibility (household income level) and to size of loan maxima. Second, inequities may be unintended, and arise because of a lack of sufficient information generation, monitoring and feedback. For example, the individual educational institutions that distribute loans are free to fashion their own policies with regard to the size and purpose of individual loans, within the maxima set by the ministry. Falling budgets for new loans (in real terms) combined with a policy of renewal of loans for current borrowers at existing rates, have resulted in differences in treatment between students of similar need, even when enrolled at the same institution.

In the Thai loans scheme these kinds of inequities are rife. We provide concrete examples of such horizontal inequity at three levels: there are inequities of treatment between similar institutions in different education ministries; inequities amongst institutions within the same ministry; and inequities in treatment of students enrolled at the same educational institution.

#### *Inequity between ministries*

The most known, and much quoted, case is that of undergraduate studies at Rajabhat institutes and universities. While the MUA uses the high loan size maxima set by the central SLSC, the MOE has established a lower loans maxima (see *Table 5.1*). This has resulted in inequity of treatment of students of similar status enrolled in the two ministries. Putting aside differences in the tuition element of the loan, the maximal size loan for living expenses (including accommodation) is 48,000 baht for university undergraduates but only 36,000 baht for degree students at

Rajabhat institutes. There are a number of cases of RIT and Rajabhat institutes in close proximity to universities, which only serves to highlight the inequity here.

However, one source of inequity has now been eliminated, with the alignment of the eligibility criteria; this is now set at a household income of up to 150,000 baht; formerly, the MUA employed a 300,000 baht ceiling.

But these inequities are not confined to tertiary-level education. Loans for students at the prestigious demonstration schools attached to some universities are administered by the MUA, not the MOE. The MUA uses the central SLSC high loans size maximum. Average loan size at a few demonstration schools attached to universities in Bangkok, are shown in *Table 6.8*. Tuition aside, loans were provided for other educational expenses (not allowed under MOE regulations) and living expenses loans were twice the MOE maximum. While it is the case that the number of students and total loan amounts involved are quite small (some 200-250 students a year), the point remains that these generous loans are being received by privileged non-poor students.

Table 6.8 Average loan size, recipients in MUA demonstration schools, 1998

	Tuition	Other education expenditures	Living expenses	Total
Ramkamhaeng University (25 recipients)	4,000	3,000	24,000	31,000
Prasarnmitrs University (1 recipient)	5,850	3,000	24,000	32,850
Kasetsart University (11 recipients)				
Grade 11	12,820	3,000	24,000	39,820
Grade 12	14,300	3,000	24,000	41,300
MOE maximum	8,000	-	12,000	20,000

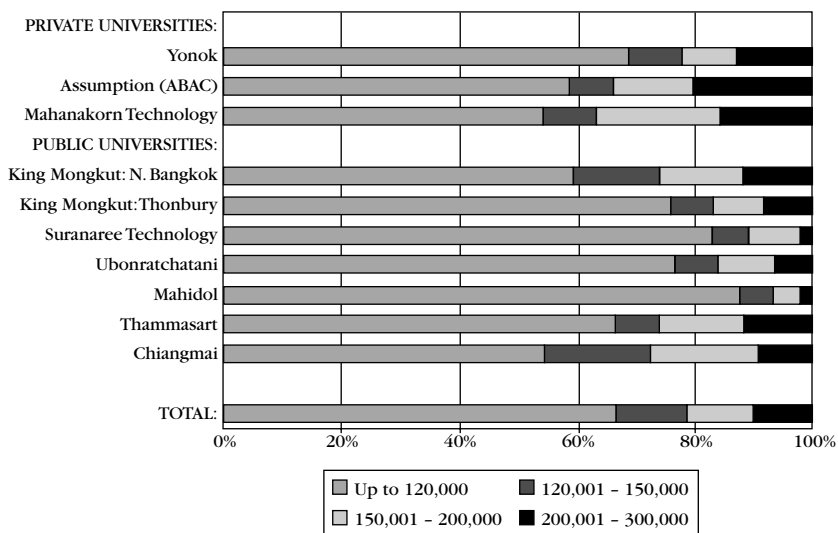
*Inequities amongst institutions of a similar type*

Institutions receive loans budgets unrelated to the poverty levels of the student body. Thus even if institutions distribute loans in strict order

on the basis of ascending household income, the income cut-off will differ from institution to institution. This is illustrated in *Figure 6.2* for a selection of universities for 1997 (data are provided in *Appendix Table 7*); at this time the MUA still operated on an income eligibility ceiling of 300,000 baht. At the private universities Assumption and Mahanakorn, over a third of all loan recipients had household income in excess of 150,000 baht; in contrast, at Mahidol and Suranaree technical universities less than 10 per cent of borrowers came from this parental income group.

Another source of inequities arises from the incentive system built into the method of loan budget allocation to institutions and its distribution. Evidence from the field visits confirms that some private institutions, with an eye to increasing their student enrolments, spread the loans budget over a larger number of students by restricting loans to tuition fees only (that part of the loan that is paid directly to the institution). This means that the budget can reach up to less needy, but eligible, students, but at the expense of poorer students who are denied the loan for living expenses that they are entitled to under the scheme and which they would no doubt receive if enrolled at a public institution.

**Figure 6.2** Percentage of loan recipients, by income group: selected universities, 1997



*Inequities amongst students within a given institution*

Even within a given institution, loan size may vary for students in similar circumstances but in different groups, years of study or cohorts. This stems from the loans scheme policy of maintaining the (nominal) value of renewed loans for current borrowers who continue study within the institution. In contrast budgetary pressures, buttressed by increasing loans demand from new borrowers, have led to a falling average size of loan for new loan recipients. This point is illustrated for the RIT at Khon Kaen.

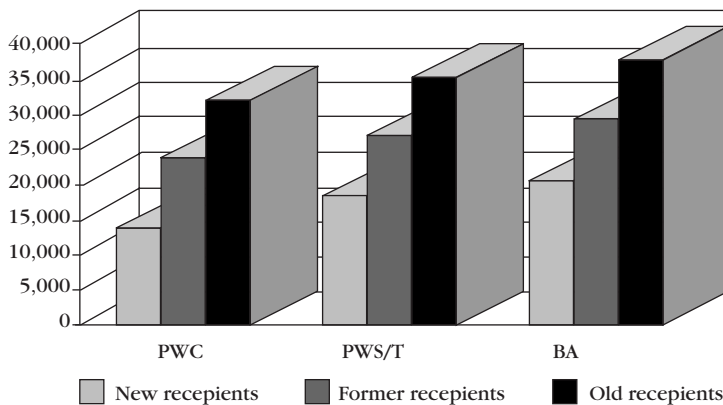
Table 6.9 Maximum loan ceilings, RIT (Khon Kaen), 1998 (baht)

Recipient	Course level	Tuition fee	Other expenditure	Accommodation	Living expenses	Total
New students - New recipients	Lower vocational (PWC)	5,000	1,000	-	7,200	13,200
	Upper vocational (PWS/T)	8,000	1,000	-	9,600	18,600
	Undergraduate (BA)	10,000	1,000	-	9,600	20,600
New students - Former recipients	Lower vocational (PWC)	5,000	1,200	-	18,000	24,200
	Upper vocational (PWS/T)	8,000	1,200	-	18,000	27,200
	Undergraduate (BA)	10,000	1,200	-	18,000	29,200
Old recipients	Lower vocational (PWC)	5,000	1,200	5,000	21,400	32,600
	Upper vocational (PWS/T)	8,000	1,200	5,000	21,400	35,600
	Undergraduate (BA)	10,000	1,200	5,000	21,400	37,600

*Table 6.9* and *Figure 6.3* show maximum loan ceilings for three categories of students: new students at the RIT who are first-time borrowers (new recipients), new students who have borrowed previously at lower-level educational institutions (former recipients), and established students at the RIT who are renewing their loan for an additional year (old recipients). As expected, the tuition loans maxima remain intact. However for new students, the maximum living expenses loan is only about a half of that for previous borrowers; these, in turn, are entitled to a maximum loan that falls short of that for old recipients. Additionally,

old recipients may receive an accommodation loan, which is unavailable to new students.

Figure 6.3 Loan ceilings, RIT, Khon Kaen, 1998 (baht)



There is one area in which we did not find any evidence of inequity in treatment, neither in the Loans Interview Survey nor in the field visits: this is the area of gender. Indeed, in some institutions, because of a larger female enrolment, the percentage of total loans received by female students was in excess of that of males. At Thammasart University, female students constitute some 60 per cent of all borrowers.

### Case study: MOE provincial loans budget allocation

The purpose of the presentation in this section is fourfold. First, the allocation of loans budgets to the provinces is the only part of the total loans budget allocation system which formally employs a poverty-based element in the allocation criteria; it is thus instructive to see how far this part of the allocation system leads to acceptable targeting outcomes. Secondly, the MOE loans budget allocation through the provincial offices down to the schools is, quantitatively, the largest part of the system. Thus an examination of the provincial loans allocations tells us much about the system as a whole. Third, if the allocation to the provincial offices is inequitable, the whole basis of the next stage of the allocation system to the schools is in question. Finally, the available data are richest for this

part of the allocation system, facilitating a more in-depth analysis than is possible for other sections.

### *Method of allocation*

In 1998, over 85 per cent of the total MOE budget for new recipients was allocated to the 75 Provincial Offices. As noted in Chapter 3, the provincial allocation employed three criteria, as follows:

- number of students in the province at the upper-secondary level through to undergraduate level (excluding those at MUA institutions) – 60 per cent weight;
- poverty level in the province, as measured by the average income level in the province – 30 per cent weight;
- achievement of special objectives of the MOE, including policies relating to the handicapped, increasing the enrolment rate of females in Northern provinces and the reduction of prostitution – 10 per cent weight.

The provincial offices then allocate loan budgets directly to MOE educational institutions within the province.

We note that only 30 per cent of the weighting in the formula used relates to the level of poverty in the province, and only indirectly: average provincial income levels may constitute only a rough approximation for the incidence of poverty. The question arises: how closely does the measure used in the allocation formula relate to alternative, more direct measures of the target population? As indicated in the egg diagram (*Figure 6.1*), a preferable target measure is one that measures the population more directly, i.e. the incidence of poor upper-secondary school students by province. We examine this issue in the following section.

### *Alternative target measures*

We used five sets of provincial-level data, representing alternative targeting measures, as follows:

- average household income by province, 1997: INCOME;

- gross provincial product per capita: GPPPC;
- percentage of poor families in the population, by province (150,000 baht income ceiling): POOR;
- percentage of poor students aged 15-19 in the population, by province (150,000 baht income ceiling): POORST;
- percentage of poor youth aged 15-17 in the population, by province (150,000 baht income ceiling): POORYO.

Information on the poor (the last three listed measures) was derived from the 1999 Socio-Economic Survey of the NESDB, normalized by size of population in the province. Special analyses of the data set were completed to derive the measures POORST and POORYO, which are the closest proxy measures for the target population thus far available. Following MOE definitions, we employed a (generous) upper household income level of 150,000 baht, to define poor families. *Table 6.10* provides a correlation matrix for these five target measures.

Average household income (INCOME) corresponds to the measure used in the MOE allocation formula. Reading down column A, we note that INCOME is positively correlated with GPPPC and negatively correlated with the overall incidence of poverty, by province; these results are expected. However, the significant correlation shown between INCOME and POORST is of the ‘wrong’ sign (the expected correlation is negative): the higher are average incomes in a province, the greater is the incidence of poor students enrolled at the upper-secondary level. The correlation between INCOME and POORYO is negative and significant as expected. Two points arise from these results. First, it illustrates the danger of allocating budgets on the basis of proxy target measures that are not sufficiently tested and may, in fact, be inappropriate. Second, given that INCOME was used in the allocation formula, rather than POORST, the question arises: how satisfactory, or otherwise, was the resulting loans budget allocation by province?

We examine this issue by looking at the bivariate correlation between all five target measures (but with a special focus on POORST) and two measures of loans allocation. The first, more important, measure of provincial loans allocation is the total provincial loans allocation divided by size of student enrolment, thus normalizing to take account of differing provincial size (ALS = average loan size). We also examine the relative number of loan recipients (in relation to the number of secondary-school

students = RS). Since 1996 was very much a start-up year and data for 1998 were not complete at the time of analysis, we use loan allocation data for 1997.

Table 6.10 Correlation matrix of five target measures

Target measure	A INCOME	B GPPPC	C POOR	D POORST	E POORYO
1. Average household income (INCOME)	<b>1.00</b>				
2. Gross domestic product per capita (GPPPC)	<b>0.255*</b> 0.026	<b>1.00</b>			
3. Percentage of poor families in population with household income ≤ 150,000 (POOR)	<b>-0.538**</b> 0.000	<b>-0.278</b> 0.015	<b>1.00</b>		
4. Percentage of poor students in population with household income ≤ 150,000 (POORST)	<b>0.273*</b> 0.017	<b>0.273*</b> 0.017	<b>-0.351**</b> 0.002	<b>1.00</b>	
5. Percentage of poor youth 15-17 in population with household income ≤ 150,000 (POORYO)	<b>-0.481**</b> 0.000	<b>-0.306**</b> 0.007	<b>-0.344**</b> 0.002	<b>-0.062</b> 0.597	<b>1.00</b>
Mean	9,736.34	70.39	10.24	1,549.97	22,277.34
Standard deviation	4,242.99	129.78	10.54	2,175.08	15,556.08

Note: Boldface in upper row = correlation coefficient.

Regular typeface in lower row = p.

\* Correlation coefficient is significant at the 0.01 level (2 tailed).

\*\* Correlation coefficient is significant at the 0.05 level (2 tailed).

The correlation between ALS and RS per province, respectively, and each of the five provincial targeting measures are shown in *Table 6.11*. The highest correlation coefficients are shown for INCOME; this is not surprising given that average household income is used in the MOE allocation formula. The coefficients for INCOME, GPPPC and POOR are all of the expected sign (though the correlation between ALS and GPPPC is not statistically significant). The noteworthy result, however, relates to row 4, the main targeting measure (POORST); provincial loans allocation is seen to be negatively related to the provincial incidence of poor upper-secondary students (though the ALS coefficient is not significant), the *opposite* of the desired targeting outcome. The reported

correlation coefficients in row 5 (POORYO) are of the desired sign, but again the ALS coefficient is not significant.

The foregoing analysis suggests that there has been a mal-allocation of provincial loans budgets (in terms of targeting the poor student), due to the use of an insufficiently appropriate loans allocation formula by the MOE.

**Table 6.11** Bivariate correlations between loan allocation and target measures

Target measure	Loan allocation			
	A		B	
	Value of loans allocated per upper-secondary school student (ALS)		Number of borrowers related to number of upper-secondary school students (RS)	
	Coefficient	p	Coefficient	p
1. Average household income (INCOME)	<b>-0.331**</b>	0.004	<b>-0.516**</b>	0.000
2. Gross provincial product per capita (GPPPC)	<b>-0.173</b>	0.136	<b>-0.286*</b>	0.012
3. Percentage of poor families in population with household income ≤ 150,000 (POOR)	<b>0.263*</b>	0.002	<b>0.489**</b>	0.000
4. Percentage of poor students in population with household income ≤ 150,000 (POORST)	<b>-0.146</b>	0.208	<b>-0.288*</b>	0.012
5. Percentage of poor youth 15-17 in population with household income ≤ 150,000 (POORYO)	<b>0.147</b>	0.206	<b>0.323**</b>	0.004

Note: Bivariate correlation coefficient between ALS and RS -0.853, p .000

ALS: Mean= 2,799.28 Standard deviation = 1,328.11

RS: Mean = 0.15 Standard deviation = 0.07

\* Correlation coefficient is significant at the 0.01 level (2 tailed)

\*\* Correlation coefficient is significant at the 0.05 level (2 tailed)

## Chapter 7

# Policy conclusions and implications for reform

### Two major areas for reform

Overall, within its short period of operation, the Thai Student Loans Scheme has recorded a number of achievements: designing a nationwide loans scheme, setting the scheme in motion within a short time-frame and reaching well over a million and a half student-borrowers. A major failing of the scheme which, if uncorrected, will act as a constraint on the reform programme that is outlined in this chapter, is its weak central direction and lack of forward planning, monitoring and evaluation. Problems of process, as they arose, have been dealt with mainly on an *ad hoc* basis. The scheme has tended to drift; it has not been steered effectively.

The following issues, concerned with providing the scheme with greater focus and a stronger central direction, should be given urgent priority. Attention will need to be given to the appointment of technical experts. These will establish frameworks for forward planning of the scheme (including financial planning), the setting up of a central database and monitoring system (no doubt in conjunction with the KTB) and for carrying out evaluation and feedback on a continuing basis. Some of the analytical work that has been undertaken as background to this paper may be seen as a preliminary start in this direction and as a base on which future efforts may be built.

However, the most pressing issues to be faced in loans scheme reform are not those of improvements in process but rather in two more fundamental areas: the organizational restructuring of the scheme to achieve better targeting and horizontal equity and its financial efficacy. These are the main concerns of the present chapter.

## Organizational reform: improving targeting and horizontal equity

The present system of an arbitrary top-down allocation of loan budgets, which is combined with inequitable institution-based (decentralized) loans distribution, has not served the loans scheme well. The direction for reform advocated here is its replacement by a bottom-up system of loans applications to a central loans distribution body, which would both facilitate targeting and avoid horizontal inequity. Since the needs of secondary education differ dramatically from those at the tertiary level, reform will be considered separately for the two levels.

### *Tertiary-level education*

The central element of reform is the establishment of a stronger, more independent and more committed central organization, which we term the Students Loans and Scholarships Bureau (SLSB).<sup>9</sup> The SLSB should be comparable in status and method of operation to that of the board of directors of a major company or national concern. Membership of the SLSB should be of individuals of national status, with background or interests relevant to the working of the scheme. Membership would be on a personal basis, rather than representative as at present. Representatives of relevant government bodies and other interested parties would attend as non-voting participants.

The present system of top-down allocation of loan budgets to institutions and the institutional distribution of loans would be replaced by the direct distribution of all loans by the SLSB, to which all applicants for loans would apply. All applications received would be placed in a central computer database. The distribution system across the whole tertiary education sector (universities, RITs and Rajababts) would be unified to provide parallel treatment for all students, whether enrolled in MUA or MOE tertiary institutions.

Loans would be distributed in ascending order of parental income size, until the total available loans budget had been allocated; thus the present uniform cut-off level of parental income would ensure focused loans targeting and horizontal equity. The actual cut-off level of parental income would vary somewhat from year to year, depending on the size of

9. The reason for extending the remit of the new Bureau to cover scholarships will become apparent from our discussion for arrangements at the upper-secondary level below.

the loans budget and the number of loan applicants. It is recommended, however, that eligibility criteria be revised, on the basis of additional research, to include additional elements such as family size and composition and number of children studying.

Apart from family income and background, it would be possible to use supplementary eligibility criteria, aimed at meeting societal objectives, such as encouraging students to enter shortage fields. However, it is arguable that these objectives are best dealt with through more favourable repayment conditions for the students concerned, rather than weakening the principle of needs-based loans; in the next section we advocate a strengthening of general repayment conditions, in order to improve the financial standing of the scheme.

There would be fixed schedules for the maximum size of loan available and its coverage of particular expenditure categories; all applicants would be eligible for a maximum loan. Existing loan recipients and new borrowers would be treated on a more equal footing than at present.

There are many advantages in the suggested new arrangements for direct student applications to a central loans bureau. Apart from easing the task of operating a more horizontally-equitable scheme, a direct relationship between student-borrowers and the SLSB might lead to greater efficiency through quickness of loan turn-round and possibly lower administration costs. However there are some advantages to be derived from giving loan officers at individual institutions a continued role in the process. Thus an alternative arrangement would be for loan officers to continue with some of their present functions: advice to students on loan procedures and eligibility and vetting the application forms. They would act as an intermediary between the applicant and the SLSB, but would not distribute loans, as at present. To streamline the system and to reduce the administrative burden at the centre, it is suggested that loan officers would submit all loan applications in bulk to the Bureau.

One disadvantage of the new arrangements outlined in the preceding paragraph is that institutional loan officers may now have little incentive to ensure that the loans fund is properly used. No longer authorizing the distribution of loans, they may now become partisan advocates of potential borrowers enrolled at their institution, leading to possibilities of abuse and inequities. These dangers could be avoided by the adoption of an alternative arrangement (along the lines of current practice at the MUA);



*Figure 7.1* presents these reform alternatives in schematic form. Path A is the favoured method adopted in many countries: a direct line between the student applicant and the central loans organization. Once the application has been vetted and approved, it is passed on to the KTB, the banking organization that administers the loan. It is noted that the education ministries or educational institutions are assigned no role in these purely banking arrangements. In path B, the educational institution acts as intermediary between the applicant and the SLSB: it offers counsel on procedures and eligibility, receives loan applications, vets them for general eligibility and submits them in bulk to the SLSB.

Path C is broadly parallel to current arrangements: each educational institution is allocated a loans budget by the SLSB, which is distributed amongst eligible applicants. The system departs from existing arrangements in three major ways. First, all tertiary educational institutions are brought within a common allocative framework. Second, the loans budget is distributed to educational institutions on the basis of objective criteria related to student need and thus designed to ensure that loans are targeted on poor students. Third, the actual loan size and eligibility criteria (including the cut-off ceiling for parental income) are standardized across all tertiary educational institutions, to ensure horizontal equity.

A final word is in order about the functions of the SLSB in relation to support of students at the tertiary level. We have noted that the student loans scheme in Thailand (as in most other countries) offers subsidized loans that fall between the continuum of commercial loans and outright grants. Given the hidden grant element, student loans share many of the social objectives of student scholarships aimed at the needy and require similar procedures for their administration. For this reason, it would be advantageous to unify the provision of student loans and national scholarships within the organizational framework of a single body, such as the SLSB; however, a detailed treatment of these issues lies outside the purview of the present paper.

### *Secondary schools*

Reform at the secondary-school level envisages dismantling the system of loans for upper-secondary school students and its replacement by scholarships (grants) to needy students. A number of considerations underlie this radical recommendation.

First, few countries have loans for school students. Technically there is little difference if the student-borrower is at college or high school: in the latter case, however, there may be an ethical issue involved with parents entering under-age youngsters into debt repayment obligations that extend up to a 20-year time horizon.

Second, at present levels of subsidy, the loans scheme (at all education levels) is not sustainable. The hidden grant element is so large that in practice the loans scheme almost amounts to a grants scheme. But overt grants would be far sharper in effect in influencing poor families to continue with their children's education and administrative costs would be lower. Ongoing plans to introduce free upper-level secondary schooling for all, considerably strengthens the case for transmuting student loans for secondary students into a regime of scholarships to meet living expenses only. Over 70 per cent of the sample interviewed in the Loans Interview Survey stated that for them the tuition loan was the most important element of the loan package. At the present time, a student loan may be divided into two elements: a loan for educational expenses that is paid directly to the institution, and a loan for living expenses that is received by the student. Educational expenditures represent investments in human capital for which loans are clearly appropriate; living expenses are consumption items for which subsidized loans are less clearly justified. Currently, the loan is provided as a package covering both elements. Once living expenses alone remain, the justification of a loans programme is less clear, though it is true that very many countries do have loans programmes to cover living costs only, but at the tertiary educational level.

Third, the small average size of upper-secondary school loans (somewhat above 9,000 baht for new borrowers in 2000) implies far higher average administrative costs in relation to amounts lent, than at the tertiary level. Once the tuition-fee element in loans has been removed, average administrative costs, in relation to amounts borrowed, may be untenable. Moreover, because there is no element of loan servicing, the administration costs of a grant scheme are, by definition, considerably lower than those of running a loans scheme.

And fourth, moving to a straight scholarship scheme for living expenses, targeted to the poor, brings the upper-secondary level segment into line with lower levels, where the practice of grants for needy students

is established, as for example in the emergency scholarship scheme for primary and lower-secondary school drop-outs introduced in 1998.

It is clear that the process of operating a scholarship scheme is parallel to the lending stage of a loans scheme (except for the issue of guarantors). Thus the scheme could operate along paths A or B, shown in *Figure 7.1*; needy students would apply for living-expense grants, either direct to the SLSB or via their schools.

However, the sheer size of the administrative burden falling on the SLSB if it were required to deal with some 420,000 secondary school applications (2000 figures), in addition to the half million or so at the tertiary level, may argue against a direct administrative arrangement between secondary-school student applicants and the SLSB. It is true that the central loans body in the UK, the Student Loans Company, administered effectively and efficiently similarly high numbers of loan applications. But it remains the case that the coverage of the Thai loans scheme is very large in comparison with loans schemes in other developing countries, which usually cover only tens of thousands of students. For this reason, we also lay out the workings of a possible, more decentralized, scholarship scheme working through the Ministry of Education provincial offices.

The SLSB would allocate scholarship budgets to the 75 provincial loans offices. Needy students would apply for grants, via their schools (MOE and other ministry schools including university demonstration schools). Schools would vet the applications and submit them in bulk to the provincial offices. Each provincial office would distribute its grants budget to student applicants using an identical mechanism employed by the SLSB for tertiary-level student loans. All applications within a given province are placed in a central provincial computer base and grants would be distributed in ascending order of parental income size, until the total available provincial budget has been distributed.

Inevitably, the actual cut-off point of parental income for grants recipients will differ from province to province. Non-distributed grants budgets in provinces that had reached the maximum parental income limit would be returned to the SLSB. Remaining undistributed provincial grants budgets, together with a central unallocated reserve, would be allocated to those provinces where there remained qualified scholarship applications.

The objective would be to equalize the cut-off point of parental income across provinces.

In the first year of the scheme, it may be necessary to withhold a fairly sizeable reserve and unallocated first-round loans may be large in some provinces. But once the general parameters of the scheme have been identified in the first year, only marginal second-round budget allocations should be necessary in subsequent years.

The decentralized alternative is shown in path D of *Figure 7.1*. It has some similarities with present MOE loan arrangements, but there are two major differences. Unlike at present, the provincial budget allocation would be based on objective criteria related to the incidence of need in each province. Such criteria include average income levels, the poverty ratio and the number of poor teenagers in each province (both students and drop-outs). Some of these data sets have been developed as part of the research underscoring the present paper (*Chapter 6*). Secondly, scholarship distribution to students would take place at the provincial office level, unlike the present cumbersome arrangements where some 2,500 institutions distribute loans to their students.

## Finance reform

*Chapter 5* argued that the loans scheme is not financially viable in its present form. We have recommended, though not only for financial reasons, that the upper-secondary element of the loans scheme be converted to one of grants. For tertiary education, there appears to be no alternative other than to raise recovery ratios to more acceptable levels.

The repayment and recovery ratios can be raised by tightening the present liberal repayment conditions. We ran simulations employing three instruments, separately and in combination, to examine how these might improve recovery. These were: raising the rate of interest on the loan from its present 1 per cent level, shortening the repayment period from 15 to 8 years and fixing annual repayments in real (rather than nominal) terms. We also simulated the effect of these measures on the repayment burden falling on the individual borrower. The simulations, and detailed results, are described in *Appendix 2*.

The simulations may provide a general framework that can aid the decision-maker in developing new repayment conditions. Raising the rate of interest payable on loans or shortening the loan repayment period would leave the borrower still with a relatively light repayment burden; but the recovery ratio would rise to only some 30 per cent. Linking repayments to the inflation rate will raise the recovery ratio (the return to the loans fund) to some 40-47 per cent, depending on the level of administration costs. This outcome is in line with comparative international standards. If, in addition, the rate of interest were raised to 3 per cent, then recovery ratios of up to 56 per cent would be possible; this would be a very acceptable outcome in comparison with those for loans schemes in other countries.

Reform on these lines seems to be feasible in terms of the annual repayment burden. While we have no hard information on what is an acceptable annual repayment burden level for Thai graduates, we may follow the practice in other studies of assuming a maximum feasible repayment burden of around 10 per cent. For males, the annual repayment burden is acceptable under these options; it never reaches 10 per cent. The burden is heavier for women (because of gender differences in anticipated earnings), but except for the years towards the end of the payment horizon, it is generally below 10 per cent.

Keeping the repayment burden relatively low decreases the probability of repayment default. However, to the extent that evidence was forthcoming that the repayment burden could be raised further without deleterious effects on student incentives (say to about 12-13 per cent of income), then repayment conditions could be further hardened, with commensurate improvements in the recovery ratio.

## The loans scheme and educational reform

In this section, we consider how far ongoing plans for educational reform in Thailand are consistent with the present working of the loans scheme and the changes proposed in this paper.

### *MOE decentralization*

The Thai Government is committed to a programme of decentralization of the administration of the national education system. It seems that a central element of this reform will be a downward movement of administrative

responsibility from the central ministry in Bangkok to new Local Education Authorities (LEAs) relating to local education districts that may be below the level of the present provincial education offices. The new LEAs would be given considerably enhanced responsibilities and greater autonomy than the present provincial offices. However, no final decision has been made, at the time of writing, on the administrative level at which autonomy would reside. In contrast, our recommendations for the reform of the system of aid for upper-secondary-level students, with a replacement of loans by scholarships, entail *recentralization*.

In advocating the replacement of loans by grants, we recommend a cessation of current arrangements for upper-secondary schools to distribute loans (now replaced by scholarships) to their students. Instead, one scenario for reform of the loans scheme entails the administration and granting of scholarships for upper-secondary-school students by the 75 provincial education offices, thus leading to a greater centralization of aid administration.

Such reform is consistent with current education decentralization plans, to the extent that the new LEAs will be located at the level of the province. Even if this were not the case, scholarship administration should remain at the provincial level; we would not recommend scholarships administration at a lower level, for a number of reasons, relating to targeting, equity and efficiency. First, the availability of provincial-level data (some of which were developed as part of the background work for this paper) will make it possible to achieve an equitable allocation of scholarship budgets in the future. Parallel data sets, relating to smaller geographical areas, are not available. Second, it is thought that it will be difficult to maintain an efficient and horizontally equitable system of scholarship budget allocation and distribution, based on a large number of administrative units (numbering in the hundreds). Alternatively, the co-ordination and monitoring of 75 provincial loans administration units seems quite feasible.

As a final point, we emphasize the differences in objectives sought by reform of the student loans system and from educational management decentralization. The latter emphasizes local autonomy, local differences and diversity of education services. But loans and scholarship schemes are essentially concerned with finance, not with the provision of education services. An underlying theme of this paper is the importance of maintaining

horizontal equity and an acceptable degree of uniformity of treatment in relation to need. To achieve these objectives, a loans/scholarship scheme does not have to be tied to the formal system of educational management and administration. Thus while it may be advantageous if the local administrative unit of a loans/scholarship programme and of educational management were to coincide, this is by no means necessary.

### *Vouchers*

Under the new Education Act a system of educational vouchers is to be put into place. A central objective of voucher schemes is to introduce a greater degree of consumer (student and parental) choice, leading to inter-school competition and a more effective school system. This would be achieved through making the education system more responsive to consumer demand, i.e. it would become more demand-driven than at present. In most countries, student loans are seen as a mechanism for making the education system (at the tertiary level) more demand driven. The loans system is often an element of a policy of greater cost recovery and diversification of funding sources for universities. The introduction of higher university tuition fees, facilitated by the availability of student loans, results in a diminished relative dependency on government funding and a greater role for tuition fees. This leads to competition amongst universities. Universities will reach out to attract new students (and the tuition income they bring); course offerings move more in line with the needs of the labour market, teaching quality will be enhanced and administrative procedures will be improved.

The Thai Student Loans Scheme is unusual in not being supportive of a demand-driven approach; indeed, it tends to *strengthen* the present, dominantly supply-driven direction of the schooling system. The key element here is the current arrangement for the distribution of student loans by educational institutions, from individual institutional loan budgets. Schools, colleges and universities, particularly in the private sector, use student loans as a means of competing for students. Less weight is given to the quality and type of educational services offered to attract new students; more attention is given to the availability of highly subsidized student loans. The reforms in the loans system of distribution recommended in this chapter are designed to be more supportive of a demand-driven system, by removing the task of loans distribution from the educational institutions.

## Recommendations from the 1999 Policy Review and their implementation

We have noted that the present paper represents an updated and revamped version of the policy review, prepared in 1999, as part of the Asian Development Bank Social Sector Programme Loan (Ziderman, 1999). This review was based on the workings of the Thai loans scheme during its early years (1996-1999), the period we have referred to as one of ‘heady expansion’. We summarize in *Table 7.1* the main findings of that review (which are no less applicable today) and the recommendations put forward for policy reform; we also register the minimal extent to which these recommended reforms have been implemented, thus far.

**Table 7.1** Student Loans Scheme review (1999):  
summary matrix of findings and recommendations

Policy issue	Review findings	Policy actions recommended	Implemented reforms
1. Targeting poor students	<p>The loans scheme in practice does not realize its central objective of targeting the poor because:</p> <ul style="list-style-type: none"> <li>• existing system of top-down loan budgets allocation to educational institutions is inappropriate for this purpose</li> <li>• targeting criteria are too general; eligibility ceilings too high</li> <li>• loans distribution is based more on screening for eligibility than on proactive targeting</li> <li>• many non-poor students are in receipt of loans while considerable numbers of poor students do not receive loans</li> </ul>	<p>1.1 Empower national Students Loans and Scholarships Bureau (SLSB) to run an integrated scheme</p> <p>1.2 Abolish MOE and MUA loans allocation committees</p> <p>1.3 SLSB to distribute loans to all eligible applicants on equal basis</p> <p>1.4 SLSB to adopt more realistic, stricter, definition of target group</p> <p>1.5 Adopt more proactive policies to reach target group</p>	

Table 7.1 (continued)

Policy issue	Review findings	Policy actions recommended	Implemented reforms
2. Equitable distribution of loans	<p>A considerable degree of horizontal inequity results from:</p> <ul style="list-style-type: none"> <li>• lack of conformity in eligibility criteria and loans maxima across the MUA and MOE</li> <li>• autonomy of educational institutions, to fix loans size (up to designated maximum)</li> </ul>	<p>2.1 SLSB to operate on common eligibility criteria and loan composition/size across the system</p> <p>2.2 MOE and MUA no longer to allocate loan budgets</p> <p>2.3 Educational institutions no longer to distribute loans: to have a facilitating role only</p>	2.1 Common income eligibility ceiling for the MOE and MUA introduced
3. Prevention of drop-outs	<p>Evidence suggests that the loans scheme does not prevent drop-outs:</p> <ul style="list-style-type: none"> <li>• the interview survey showed that only 30% of borrowers would drop out in the absence of a loan</li> <li>• in the present period of unemployment and falling incomes, the poor are loath to enter into long-term repayment commitments</li> </ul>	3.1 Replace loans for upper-secondary-level students with carefully targeted grants	
4. Financial sustainability	<p>The scheme is over-subsidized and financially non-viable:</p> <ul style="list-style-type: none"> <li>• it is not a revolving fund</li> <li>• loan recovery to the Fund does not exceed 15% on an average loan</li> <li>• the hidden grant (subsidy) element to the student is typically about 80% of loan</li> <li>• the annual individual repayment constitutes a minimal burden out of expected income (3-4%)</li> <li>• financial performance is below comparative international standards</li> </ul>	<p>4.1 Tighten repayment conditions by linkage to inflation, together with option of <i>either</i> higher 3% interest rate <i>or</i> shorter payback horizon (8 years)</p> <p>4.2 Aim at achieving 50% recovery (with an acceptable 10-12% annual repayment burden for females and lower for males)</p>	

*Student loans in Thailand: are they effective, equitable, sustainable?*

Policy issue	Review findings	Policy actions recommended	Implemented reforms
5. Adequate financing of the scheme	There is no systematic budgeting of the scheme in relation to defined need. Growing numbers of applicants and fixed nominal budgetary allocations for new borrowers have led to falling average loan size, in both nominal and real terms	5.1 Develop a systematic financial plan. 5.2 Plan <i>simultaneously</i> annual number of borrowers and the level of individual support	
6. Effective administration of the scheme	There is a lack of strong central control. The scheme suffers from: <ul style="list-style-type: none"> <li>• a weak central loans committee</li> <li>• no appointment of full-time manager</li> <li>• no central professional/technical staff</li> <li>• no active forward planning</li> <li>• no central information or monitoring system in place</li> </ul>	6.1 Introduce a strong central committee to direct the loans scheme, through personal (rather than representative) appointment 6.2 Immediate appointment of full-time Manager and technical/professional staff 6.3 Design a central planning and monitoring system. Build integrated information database	6.1 Relatively greater personal (expertise-based) representation on student loans committee 6.2 Full-time manager appointed
7. Expansion and efficiency of the higher education system	The scheme neglects policy objectives that are central to loans schemes in other countries. Many use a loans scheme to facilitate the imposition of realistic tuition fees in public higher education (and to also enhance the demand for private higher education), which in turn leads to: <ul style="list-style-type: none"> <li>• generation of additional funding for the university system</li> <li>• reduction of the burden of government from expansion of the university system</li> <li>• more competition and greater efficiency amongst university institutions</li> </ul>	7.1 Introduce, in stages, a streamlined, less-subsidized loans scheme focusing on the tertiary sector, with the aim of achieving the complementary roles of greater efficiency and expansion, together with revenue generation and reduced public financing burdens	

However, it was never envisaged that the reform process would proceed at a swift pace. Institutional inertia and, perhaps, vested interests mitigate against the acceptance and adoption of any new, far-reaching programme of reform. More recently, however, discussion of plans for the reform of the student loans scheme has entered the public discourse.

The well-received report of Richupan and Visaruthvont (2001), emanating from the Office of Education Reform (which is concerned with the implementation of the new National Education Act), recommends a range of reforms of the SLS, aimed at enhancing the financial sustainability, equity and targeting of the scheme. Many of the recommendations of the report parallel those made in the earlier policy paper (Ziderman, 1999) and summarized in the matrix constituting *Table 7.1*. These include restricting student loans to tertiary-level enrolment, raising interest rates towards market levels and upgrading the professional/technical expertise of the student loans office, which would give greater emphasis to co-ordination, planning and the financial sustainability of the fund.

Some of the suggested reforms in the report are more radical. It recommends that the responsibilities for repayments collection be transferred from the Krung Thai Bank to the Revenue Department, MOF; repayments could be deducted automatically from the wages of those borrowers who are subject to personal income tax.

Of broader interest is the strong recommendation that the burden on the government of tertiary education funding should be lightened, through a reduction in direct budgetary allocations to institutions, in parallel with the raising of tuition fees. This shift from supply-side (government) financing to demand-side finance (with more cost sharing being assumed by students and their families) would be facilitated by the broad availability of student loans. Thus, with the aim of covering *more* students, the report recommends raising the official entitlement ceiling for loans – from the present family income maximum of 150,000 baht to a family income not exceeding five times annual tuition fees or 300,000 baht, depending on which amount is higher. If adopted, these recommendations would imply a dramatic reorientation in the objectives of the student loans scheme in Thailand; the aim of facilitating cost recovery would become a central concern, with less weight given to the more directly social objectives of greater equity and broader access to higher education for the poor.



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# Appendix 1

## Loans Interview Surveys

### Purpose

In the last quarter of 1998, three field surveys were carried out to provide background information for the loans scheme policy review (reported in Ziderman, 1999). The central purpose of the surveys was to collect information, from loans scheme clients and potential clients, on the efficacy of the scheme in meeting its central objectives. Key questions in the surveys were: How important was the scheme in discouraging drop-out? How would loan recipients manage to finance education in the absence of the loans scheme? Why did many eligible students not take up a loan? What was the potential for the loans scheme in encouraging youth to enrol in secondary education?

The survey populations for the three studies were: students in receipt of loans; poor, non-borrowing students; and non-student youth, aged 15-17, from poor families.

### Sample design

The samples were identified via present and past student listings at local educational institutions. Using quota sample techniques, the student samples were representative in terms of gender and type of schooling (upper-general secondary and vocational-secondary schooling, Rajabhat institutes and open and closed universities).

The sample size in the three surveys was as follows:

SLS borrowers:	210
Non-borrowing students:	210
Non-student youth aged 15-17 (family income < 100,000 baht):	80

The sample was drawn from five provinces. NESDB ranks the 76 Thai provinces in order of per capita income. From this ranking it is possible to identify provinces with a high incidence of poverty ('poor' provinces) and those with low poverty ('rich' provinces). In addition to the inclusion of Bangkok, Mae Hong Son (Northern region) and Mahasarakham (North-eastern region) were selected as examples of poor provinces and Ayutthaya (Central region) and Suratthani (Southern region) as rich provinces.

## Fieldwork

Data collection for the surveys was subcontracted to ABAC-KSC Internet Poll Research Center, Assumption University.

## Major findings

While the detailed survey results have not been published, selected findings of the three surveys are provided in Chantavanich (1999). Some of the central results from the surveys are presented in Chapter 6: *Tables 6.4 and 6.5* are derived from the survey of loan recipients, *Table 6.6* from the survey of non-borrowing (but eligible) students, and *Table 6.8* is from the survey of non-student youth, aged 15-17.

## Appendix 2

# Improving financial performance: a simulation approach

In this Appendix, we discuss alternative policies that may be adopted to raise the rate of loan recovery. We then probe the efficacy of these alternative measures in improving the net recovery ratio and follow this by an examination of the feasibility of such reforms. This we do by looking at the burden on borrowers of the resulting higher loan repayments, in relation to expected incomes. We confine the results presented to the case of undergraduate study at university (simulations for other programmes of study are available on request). There are two reasons for this. First, the intention is to provide general broad areas of magnitude only and the results for different levels and types of courses do not differ greatly. Second, since we have recommended that the loans scheme be abrogated at the upper-secondary level, it did not seem appropriate to present detailed simulations for the upper-secondary-level case here.

### Lowering student subsidies: three instruments

The recovery ratio may be enhanced by increasing the level of repayments in relation to loans (reducing the hidden grant) or by economies in administration costs. Assuming the latter are forthcoming, we concentrate on the effects of a policy change to decrease the subsidy by raising the repayment level per loan. Basically, this requires a tightening in the present liberal repayment conditions. We consider three instruments, which may be applied individually or in concert. Rates of interest on the principal can be raised closer to market levels; annual repayments can be made in real rather than nominal terms (i.e. payments are linked to inflation); the 15-year repayment period can be shortened to provide a more rapid payback. We assume the following repayment schedule spread over eight years (derived from merging repayment percentages for adjacent years), as follows (*Table A2.1*).

Table A2.1 Student loans: possible 8-year annual repayment schedule\*

Year	1	2	3	4	5	6	7	8
Repayment (percentage of principal)	1.5	5.5	7.5	9.5	13.0	17.0	21.0	25.0

\* Derived by merging current repayment percentages for adjacent years.

In *Table A2.2* referring to first-degree courses at universities, we simulate the effects on the repayment ratio of implementing these policies. Our point of reference is Box A I (the intersection of Column A and Row I), which shows the repayment ratio under present repayment conditions. Moving down Column A, we may see the effects of successively more stringent repayment conditions. Shortening the repayment period from 15 to 8 years (Box A II) raises the repayment ratio from 21 to 30 per cent (for the 6 per cent discount rate case); alternatively, instituting full linkage of repayments to inflation would increase the repayment ratio from 21 to 52 per cent (Box A III). A combination of both policies, results in a 62 per cent repayment ratio (A IV). Moving across the table, we see the effect of higher interest rates: raising the interest rate from the present 1 per cent to 7 per cent (D I) enhances the repayment ratio from 21 to 38 per cent. With a combination of all three instruments, very high repayment ratios in the 80 per cent range are indicated, reducing the hidden grant to borrowers to under 20 per cent.

Table A2.2 Repayment ratio: the effect of alternative changes on loan repayment conditions, undergraduate programmes (%)\*

Loan repayment conditions	Interest payment on loans			
	A 1% (present rate)	B 3 %	C 5%	D 7% (market rate)
I. Present conditions:				
• Non-linked to inflation				
• Long repayment horizon (15 years)	21	27	33	38
II. Non-linked to inflation + Short repayment horizon (8 years)	30	34	38	42
III. Linked to inflation + Long repayment horizon	52	64	75	87
IV. Linked to inflation + Short repayment horizon (8 years)	62	70	78	85

\* Assumption: 6 % discount rate.

## Improving the recovery ratio

The results given in *Table A2.2* refer to the direct loan repayments from the typical borrower; to examine the effect of these policy instruments in reducing losses to the fund (the overall recovery ratio), we must take account of default and administration costs. These results are given in *Table A2.3*, for alternative levels of administration costs and an assumed 5 per cent rate of repayment default. The recovery ratio under present policies is shown in Box A I, for alternative administration costs and 5 per cent default. Moving across the table shows the effect of higher interest rates in raising the recovery ratio; moving down the table we see the effects of other policies (shorter repayment horizon and inflation linkage). With full inflation linkage, the shorter payment horizon and a 5 per cent interest rate, the overall recovery ratio reaches 70 per cent; on the basis of comparative international experience, this would be an extremely favourable outcome for a student loan programme of this type. But it is unlikely to prove feasible. Not all of the policy options presented in *Table A2.3* are viable, because of their deleterious effect in raising the repayment burden falling on borrowers.

## The repayment burden

In the remaining part of this appendix, we examine the efficacy of introducing stricter repayment conditions by simulating their effect on the repayment burden. Separate simulations were run measuring the repayment burden for each of the options shown in *Table A2.3* in terms of the ratio of payment on the loan, to the probable level of annual income (for each year of repayment). Since it is cumbersome to present the full detailed simulations, we provide summary results only in *Table A2.4*. The figures in the table show the ratio of the present value of repayments to the present value of annual incomes, over the total repayment period. We have noted (in *Table 5.4*) that under present repayment conditions, first-degree graduates incur a very light repayment burden of only 2.2 per cent and 3.5 per cent, for males and females respectively, in present value terms (block I A of *Table A2.4*). From *Table A2.4*, we may note how the repayment burden rises with increasingly stringent repayment conditions.

Table A2.3 Recovery ratios on loans: the effect of changes in repayment conditions at alternative levels of administration costs, undergraduate programmes\* (%)

Loan repayment conditions	Interest payment on loans											
	A				B				C			
	Interest rate: 1%				Interest rate: 3%				Interest rate: 5%			
	Administration costs				Administration costs				Administration costs			
	2%	1%	0.5%	0.25%	2%	1%	0.5%	0.25%	2%	1%	0.5%	0.25%
I. Present conditions: • Non-linked to inflation • Long repayment horizon (15 years)	8	14	17	18	13	19	22	24	19	25	28	29
II. Non-linked to inflation + short repayment horizon (8 years)	18	23	26	27	22	25	30	31	26	31	34	35
III. Linked to inflation + long repayment horizon (15 years)	30	40	44	47	41	51	56	58	53	62	67	69
IV. Linked to inflation + short repayment horizon (8 years)	44	52	55	57	52	59	63	64	59	66	70	72

\* Assumptions: 5% default; 6% discount rate.

Table A2.4 Present values of repayment burden\*: loan repayment as a percentage of annual income, alternative repayment conditions (%)

Loan repayment conditions	Interest payment on loans					
	A		B		C	
	1%		3%		5%	
	Males	Females	Males	Females	Males	Females
I. Present conditions: • Non-linked to inflation • Long repayment horizon (15 years)	2.2	3.5	2.8	4.4	3.3	5.3
II. Non-linked to inflation + short repayment horizon (8 years)	5.3	8.3	6.0	9.4	6.6	10.4
III. Linked to inflation + long repayment horizon (15 years)	5.7	8.5	7.0	10.3	8.2	12.1
IV. Linked to inflation + short repayment horizon (8 years)	11.7	8.7	13.0	9.6	14.0	10.6

\* Excluding years of grace, 6 % discount rate.

The simulations in *Table A2.4* provide a general framework that can aid the decision-maker in developing new repayment conditions. The table suggests that just raising the rate of interest payable on loans or a shortening of the loan repayment period would, each, leave the borrower with a relatively light repayment burden; but the recovery ratio would rise to only some 30 per cent (*Table A2.3*).

Linking repayments to the rate of inflation, but with the repayment horizon and the rate of interest unchanged (block III A) or with 3 per cent interest rate (block III B), constitutes a possible framework for reforming the repayment regime. It would secure recovery ratios in the order of 50 per cent. Reform on these lines seems to be feasible in terms of the annual repayment burden. While we have no hard information on what is an acceptable annual repayment burden level for Thai graduates, we may follow the practice in other studies of assuming a maximum feasible repayment burden of around 10 per cent (see Carlson, 1992).

Table A2.5 shows the annual repayment burden (annual repayment as a percentage of annual income) for these two options; this will differ somewhat from year to year. For males, the annual repayment burden is acceptable; it never reaches 10 per cent. The burden is heavier for women in the 1 per cent interest case. At a 3 per cent interest rate, the annual repayment burden is more substantial, but except for the years towards the end of the payment horizon, is generally below 10 per cent also. Moreover, even with these higher loan repayments, the bulk of the additional earnings from completing an undergraduate course – over 85 per cent of incremental earnings for males and somewhat less for females – would still accrue to the graduates (Table A2.6). Thus the return from educational investment is unlikely to be eroded unduly by the higher level of loan repayments.

Table A2.5 Annual loan repayment burden, undergraduate courses, by gender: alternative repayment conditions (%)

Age	III A Linked to inflation, 1% interest rate		III B Linked to inflation, 3% interest rate	
	Males	Females	Males	Females
25	2.6	3.9	4.7	7.0
26	3.6	5.3	5.6	8.2
27	3.9	5.8	5.8	8.6
28	4.3	6.3	6.0	8.9
29	4.6	6.8	6.2	9.2
30	4.9	7.2	6.4	9.4
31	5.1	7.6	6.5	9.6
32	5.8	8.6	7.0	10.4
33	6.4	9.5	7.5	11.0
34	7.0	10.3	7.9	11.6
35	7.5	11.0	8.2	12.2
36	8.0	11.8	8.5	12.6
37	8.4	12.4	8.8	13.0
38	8.8	13.0	9.0	13.3
39	9.1	13.5	9.0	13.5
Present value (6%)	5.7*	8.5*	7.0*	10.3*

\* Excluding years of grace.

Keeping the repayment burden relatively low decreases the probability of repayment default. However, to the extent that evidence was forthcoming that the repayment burden could be raised further without deleterious effects on student incentives (say to about 12-13 per cent of income), then repayment conditions could be further hardened, with commensurate improvements in the recovery ratio.

Table A2.6 Present values of repayment burden: loan repayment as a percentage of incremental income, alternative repayment conditions (%)

Loan repayment conditions	Interest payment on loans					
	A		B		C	
	1%		3%		5%	
	Males	Females	Males	Females	Males	Females
I. Present conditions:						
• Non-linked to inflation						
• Long repayment horizon (15 years)	3.5	6.1	4.4	7.7	5.3	9.2
II. Non-linked to inflation + Short repayment horizon (8 years)						
	7.5	13.3	8.4	15.0	9.3	16.6
III. Linked to inflation + Long repayment horizon (15 years)						
	8.9	15.0	10.8	18.2	12.7	21.3
IV. Linked to inflation + Short repayment horizon (8 years)						
	16.5	17.9	18.3	20.0	20.0	21.8

Assumptions: excluding years of grace; 6% discount rate.



## Appendix 3

### Student aid: grants and scholarships<sup>10</sup>

Student aid is available not only through loans but also from grants (aimed at the poor) and scholarships (for academic achievement). A main thrust of the argument of this paper is that student loans in Thailand are more akin to grants than to commercial loans because of the heavy government subsidy of the student loans scheme, leading to a large hidden grant element in each loan. This Appendix pulls together information from diverse sources on the extent to which grant and scholarship aid is available to students in upper secondary and tertiary education.

#### Upper-secondary education

Most of the grant and scholarship funds under the aegis of the MOE are aimed at offering assistance to teachers and educational personnel or directed towards primary and lower-secondary schooling. There are only two aid funds focussing directly on secondary-school students:

*'SEMA' Life Development Fund.* This fund was initiated by the Cabinet in 2000, with an initial amount of 350 million baht (the full size of the fund is set at 600 million baht). Its objective is to provide support for poor students who have graduated from lower or upper-secondary school, to enable them to continue studies within vocational education. The fund is operated by a committee, chaired by the Permanent Secretary, MOE.

*'SEMA' Life Development Fund to Assist Girl Students.* Initiated in 1994 to support and expand education, to continue schooling. At 2000, the amount of money is approximately 1.3 million baht. The fund is operated by a committee chaired by the Deputy Permanent Secretary, MOE.

10. This Appendix is based on a report prepared by Professor Nonglak Wiratchai.

Table A3.1 shows the total number of grant recipients under the SEMA Life Development Fund, grant size and size of total grant funds. Grants are provided by the MOE to secondary-level students studying in schools/institutions under various ministries, including the MOE. Since the number and size of grants are relatively small, entailing high administration costs, the possibility of merging these two funds within the student loans scheme is under consideration.

Table A3.1 SEMA Life Development Fund, classified by ministry

Area of study	Number of grants	Grant amount (baht)	Total amount (baht)	Period
<b>Ministry of Public Health</b>				
B. Nursing degree, in memory of the King's Mother	100	30,000	3,000,000	Only for 2000
Last 2 years of B.Nursing degree	100	20,000	2,000,000	Only for 2000
Two-year Certificate (not in nursing)	50	10,000 per year	500,000 per year	2001-02
B. Nursing degree	87	30,000 per year	2,610,000 per year	2001-04
Co-operation with Toyota and MOE	43	10,000 per year	430,000 per year	2001-04
<b>Ministry of Labour and Social Welfare</b>	280	5,000	1,400,000	2001
<b>MOE</b>				
Department of Vocational Education	812	5,000	4,060,000	2001
Rachmonkol Institute of Technology	40	5,000	200,000	2001
Receipts from the Lottery Commission			44,016	
<b>Total</b>	1,512		14,244,016	

These grants are the major source of student aid in upper-secondary schools (apart from loans). Although each of the schools/institutions under MOE has its own aid funds which have been raised by the alumni and parent association or direct donation, the sums involved are quite small in terms of those available from the SEMA funds.

In 1999, the ONEC conducted a survey of some of the major private non-profit foundations, concerning the number and amount of student grants they give to secondary schools. The following *Table A3.2* provides details from that survey (with information on higher education, where appropriate).

Table A3.2 Grants from various large private non-profit foundations

Foundation	Year	Provinces	Number of grants	Amount of grant
<b>Child development</b> Upper secondary	1999	7 in the North-East	42	126,000
<b>Dr Saem Pringpuangkaew</b> Upper secondary Higher education	2000	6 in the North	10 3	58,680 51,000
<b>Sahathai</b> Secondary and vocational education	2000	Bangkok and other provinces	217	654,022
<b>Mitr Mual Deak</b> Secondary education Higher education	1999	Bangkok and other provinces	343 145	56,595 23,925
<b>Muslim Women Help for orphans</b> Primary-higher education	2000	Bangkok and other provinces	50	80,000
Total			810	1,050,222

## Higher education

There are two types of aid funds for university-level students: those donated by private foundations, but managed by the MUA, and those run by individual educational institutions.

*Funds donated directly to the MUA*

The Education Service Division of the MUA is responsible for the allocation of donated grants and scholarships to the 24 public universities; grants may be made on an annual basis or continue for the full term of study. Details are shown in *Table A3.3*.

The process of allocating grants to the 24 public universities is as follows:

- the Education Service Division, MUA, announces the grants that are available each year and distributes the announcement, including application forms, to every university/institution;
- universities/institutions process the grant applications, check the application forms and other evidence for accuracy, interview and screen eligible students and send the list of the eligible students to the MUA;
- the ‘Elected Subcommittee’ at the MUA selects recommended students from the pool of eligible applicants from all the universities and submits a list to the Fund Committee for approval;
- students sign a contract, under which they are required to submit an educational progress report, as determined by the MUA.

Table A3.3 Grants administered by the MUA, 2000

Types of grants	Number of grants	Size of grant	Total funding
<b>Continuing grants</b>			
Charoen Pokapan Company	113	10,000	1,130,000
Petroleum Oil Company	50	6,000	300,000
Takahachi Foundation	30	22,000	660,000
David Kiang	12	15,000	180,000
JCC Education for 21st Century	20	30,000	600,000
'Chai Cheewin Likit' Foundation	50	10,000	500,000
<b>Annual grants</b>			
Esso's Bangkok 200-year celebration	34	10,000	340,000
Cao Industrial Thailand, Co.	14	8,000	112,000
Phra Sangaratch Foundation	25	15,000	375,000
MALI Milk Fund	4	4,000	16,000
Diethhalm Co.	2	5,000	10,000
Noi Paorohit Foundation	40	10,000	400,000
Bank of America Fund's Bangkok 200- year celebration	Temporarily ceased for this year		
John F. Kennedy Foundation	Temporarily ceased for this year		
Children's Education Fund	Temporarily ceased for this year		

Source: MUA.

In the past 10 years, the MUA has offered scholarships to enhance the number of mathematics teachers. Scholarships, of 50,000 baht, are provided for approximately 60 students in each Faculty of Education. Students are required to teach in schools for two years after graduation. However, due to the economic crisis, this project has been suspended, possibly temporarily.

#### *University aid funds*

These aid funds are derived from donations to the university itself. The funds emanate from various categories of donors, including banks,

alumni associations, professors emeritus, private non-profit organizations, etc. The grant fund usually bears the name of the donor and the occasion of donation. Forms of funding include grants providing full or partial support for poor but able students, and scholarships focused on very able students. *Table A3.4* provides information on grants/scholarships provided at selected universities – mainly from Silapakorn University (formerly known as University of Fine Arts), and Sukhothai Thammathirat Open University.

Table A3.4 Grants at the university level, selected examples

University / Title of the grant	Year initiated	Purpose	Total initial funds
<i>Silapakorn University</i>			
Professor Sill Peerasri	1997	Poor students	165,846
International Artist	1999	Students	48,813
SURA THIP Group	1998	Students	250,000
Phraya Wisugam Silprasit	1994	Students	3,200,000
Wang Ta Pra Welfare	2000	Students	10,000
The King's 60th Birthday	1987	Arts students	80,000
Petcharatana	1997	Female students	n/a
Songsri-Ouy	1981	Students	n/a
Sla Tagdist	1990	Students	20,000
Sasithornn-Chuan Ratanarak	1997	Poor and able students	100,000
Field Marshall Thanom Kittikajorn	1997	Poor students	n/a
<i>Sukhothai Open University</i>			
SRA THI Group	1997	Students	300,000
Phra Sangkharach	1987	Monk students	10,000 per year
University staff and student affairs	1991	Staff and students	n/a
Raphi Patanasak	1987	Staff and students	1,000,000
100-year Ratanagosin	1983	Research	10,000,000
700-year Lai Sue Thai	1983	Teaching Thai	60,000,000
Professor Thamnong Singkalwanich	1984	Agriculture students	250,000

<i>Suranaree Technological University</i>			
Staff development	1997	Staff members	50,000,000
Research and development	1997	Staff and students	50,000,000
<i>NIDA</i>			
Staff development	1989	Staff members	n/a
Research grant	1963	Research grant	50,000,000

Source: Lertpaitoon (1999).

In 1999, the ONEC conducted a survey of tertiary-level institutions, on the amount of student aid available at public and private universities and Rajabhat institutes, respectively. In all, 42 institutions responded: 12 public universities, 11 private universities and 19 Rajabhat institutes. Survey data, derived from the original questionnaires, are presented in *Appendix Table 9* and, in summary form, in *Table A3.5*.

In the 42 institutions for which information is available, there were 1,352 separate grant/scholarship funds; aid was available for 8,404 students to a total value of 179,661,444 baht. The average amount of grant/scholarship per recipient, at the surveyed institutions, was 7,779, 87,825 and 4,573 baht at the public universities, private universities and Rajabhat institutes respectively. These differences no doubt reflect differing levels of tuition fees at the three types of institution. The averages hide a wide range of support, from 1,000 baht up to 50,000 baht, depending on the objective of the support offered.

Next, the average size of grant/scholarship per institution is calculated. This average scholarship for each type of institution, based on the sample of 42 institutions, is used to estimate total grant/scholarship support nationally. Recognizing that data for only about a third of all higher-education institutions may not be nationally representative, rough estimations of the total amount of scholarship support available are provided in row h of *Table A3.5*. Overall, total grant and scholarship funding available in all three types of institutions totalled some 500 million baht in 1999 (based on average institution amount, across all institutions) or 713 million baht (based on summing the three individual estimates, based on type of institution). This compares with total loan disbursements of some 17,500 million baht, for tertiary-level institutions in 1999.

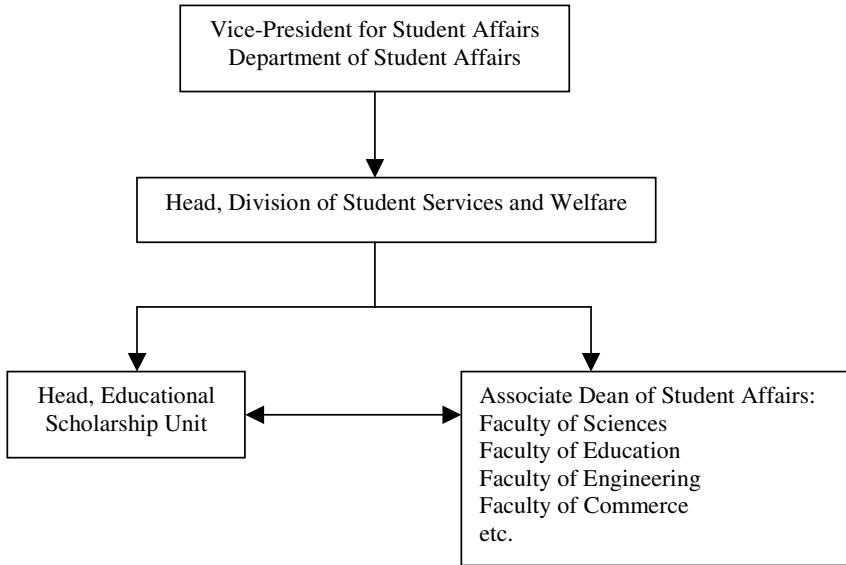
**Table A3.5** Total amount of student grant and scholarship aid, tertiary institutions, 1999

	Public universities	Private universities	Rajabhat institutes	Total
<b>Survey data</b>				
a. Number of aid funds	794	122	436	1,352
b. Number of grant recipients	5,750	1,475	1,179	8,404
c. Total value of grants ('000 baht)	44,728	129,542	5,392	179,661
d. Average grant size – c/b (baht)	7,779	87,825	4,573	21,378
e. Number of institutions surveyed	12	11	19	42
f. Value of total grants per institution – c/e ('000 baht)	3,727	11,778	284	4,278
<b>National total</b>				
g. Number of institutions	24	52	41	117
h. Estimated total grant funds – (f)(g) ('000 baht)	89,456	612,378	11,635	500,485

*Source:* ONEC: questionnaire data.

Most of the universities/institutions, regardless of type, employ a similar administration process to distribute grants and scholarships. The administrative structure (see *Figure A3.1*) usually consists of an administering office (Educational Scholarship Unit) within the Division of Student Service and Welfare, under the Department of Student Affairs, which is chaired by the Vice-President for Student Affairs. This unit coordinates with similar units in each of the faculties, under an Associate Dean of Student Affairs.

Figure A3.1 Line of administration: student grants/scholarships



## Conclusion

Grants and scholarships can constitute an important instrument for reducing inequality in educational opportunity. It is unfortunate that data pertaining to this issue are scarce. However, some general conclusions may be drawn on the relative importance of student grants and scholarships in Thailand. Scholarship aid under the MOE for upper-secondary students is quite modest, since most of the funding is aimed at primary and lower-secondary students and teachers. While grant and scholarship aid is much more generous at the tertiary level, total funding (about 500-700 million baht per year) is seen to be extremely low in comparison with student loan annual allocations.

If a national Student Loans and Scholarships Bureau was to be established, as recommended in this paper, it could provide a framework for combining the large number of small grant and scholarship funds under a single organizational framework and unifying regulations and procedures.



## Statistical appendix

Appendix Table 1 Number of loan recipients, 1996-2000

Academic year	1996	1997	1998	1999	2000
<b>MOE: Upper secondary</b>					
General	58,935	144,244	230,225	260,285	251,843
Lower vocational	34,306	102,583	180,666	192,523	167,398
Total	93,241	246,827	410,891	452,808	419,241
<b>MOE: Tertiary</b>					
Upper vocational	20,019	71,302	136,324	166,061	178,098
Diploma	1,810	6,206	9,386	9,145	8,266
Undergraduate	12,651	46,782	77,461	100,291	121,501
Other level	60	243	2,018	3,188	3,237
Total	34,540	124,533	225,189	278,685	311,102
<b>Total MOE</b>	<b>127,781</b>	<b>371,360</b>	<b>636,080</b>	<b>731,493</b>	<b>730,343</b>
<b>MUA: Universities</b>					
Public	14,352	43,158	71,877	94,795	102,579
Private	7,178	20,907	40,233	57,416	70,306
<b>Total MUA</b>	<b>21,530</b>	<b>64,065</b>	<b>112,110</b>	<b>152,211</b>	<b>172,885</b>
<b>Grand total</b>	<b>149,311</b>	<b>435,425</b>	<b>748,190</b>	<b>883,704</b>	<b>903,228</b>

Source: MOE – from SLS Office.

MUA – from Ministry of University Affairs.

Appendix Table 2 Loans scheme coverage\*, 1996-2000

Academic year	1996		1997		1998		1999		2000	
	Student enrollment	Loan coverage (%)	Student enrollment	Loan coverage (%)	Student enrollment	Loan coverage (%)	Student enrollment	Loan coverage (%)	Student enrollment	Loan coverage (%)
<b>MOE: Upper secondary</b>										
General	809,262	7.28	882,915	16.34	957,562	24.04	1,030,465	25.26	1,093,044	23.04
Lower vocational	663,968	5.17	742,422	13.82	712,483	25.36	687,129	28.02	621,491	26.93
Total	1,473,230	6.33	1,625,337	15.19	1,670,045	24.60	1,717,594	26.36	1,714,535	24.45
<b>MOE: Tertiary</b>										
Upper vocational	298,190	6.71	355,937	20.03	390,474	34.91	425,983	38.98	438,513	40.61
Diploma	16,548	10.94	20,537	30.22	20,083	46.74	18,976	45.11	17,736	46.61
Undergraduate	135,797	9.32	164,974	28.36	181,097	42.77	202,674	49.48	237,975	51.06
Total**	452,535	7.62	541,448	22.96	591,654	37.72	647,633	42.54	694,224	44.35
<b>Total MOE**</b>	<b>1,923,765</b>	<b>6.64</b>	<b>2,166,785</b>	<b>17.13</b>	<b>2,261,699</b>	<b>28.03</b>	<b>2,365,227</b>	<b>30.79</b>	<b>2,408,759</b>	<b>30.19</b>
<b>MUA: Undergraduate</b>										
Public	626,669	2.29	685,952	6.29	735,956	9.77	740,178	12.81	806,046	12.73
Private	164,613	4.36	178,583	11.71	178,127	22.59	159,124	36.08	190,650	36.88
<b>Total MUA</b>	<b>791,282</b>	<b>2.72</b>	<b>864,535</b>	<b>7.41</b>	<b>914,083</b>	<b>12.26</b>	<b>899,302</b>	<b>16.93</b>	<b>996,696</b>	<b>17.35</b>
<b>Grand total</b>	<b>2,715,047</b>	<b>5.50</b>	<b>3,031,320</b>	<b>14.36</b>	<b>3,175,782</b>	<b>23.50</b>	<b>3,264,529</b>	<b>26.97</b>	<b>3,405,455</b>	<b>26.43</b>

\* Coverage (%) = Loan recipients / Enrollment x 100. Loan recipient data are provided in Appendix Table 1.

\*\* Does not include 'Other level' in Appendix Table 1.

Appendix Table 3 Total loan disbursements, 1996-2000  
(million baht)

Academic year	1996	1997	1998	1999	2000
<b>MOE: Upper secondary</b>					
General	857.65	1,825.86	2,476.16	2,641.21	2,195.04
Lower vocational	770.60	2,199.06	3,507.14	3,685.77	2,875.71
Total	1,628.25	4,024.92	5,983.30	6,326.98	5,070.75
<b>MOE: Tertiary</b>					
Upper vocational	569.77	2,148.97	3,881.65	476.53	4,949.63
Diploma	47.48	187.01	278.65	275.44	234.92
Undergraduate	381.84	1,592.90	2,608.29	3,317.87	3,875.85
Other level	1.39	8.23	86.47	156.98	179.05
Total	1,000.48	3,937.11	6,855.06	8,512.82	9,239.45
<b>Total MOE</b>	<b>2,628.73</b>	<b>7,962.03</b>	<b>12,838.36</b>	<b>14,839.80</b>	<b>14,310.20</b>
<b>MUA: Undergraduate</b>					
Public	625.14	2,398.54	3,693.93	4,708.71	4,934.54
Private	475.17	1,796.66	2,977.78	4,320.46	5,371.11
<b>Total MUA</b>	<b>1,100.31</b>	<b>4,196.20</b>	<b>6,671.71</b>	<b>9,029.17</b>	<b>10,305.65</b>
<b>Grand total</b>	<b>3,729.04</b>	<b>12,157.23</b>	<b>19,510.07</b>	<b>23,868.97</b>	<b>24,615.85</b>

Source: MOE – from SLS Office.

MUA – from Ministry of University Affairs.

Appendix Table 4 Number of new and old loan recipients, 1996-2000

Academic year	1996		1997		1998		1999		2000	
	Recipients New	Old	Recipients New	Old	Recipients New	Old	Recipients New	Old	Recipients New	Old
<b>MOE: Upper secondary</b>										
General	58,935	33,682	110,562	81,688	148,537	123,115	137,170	102,312	149,531	
Lower vocational	34,306	22,834	79,749	69,236	111,430	73,959	118,564	63,073	104,325	
Total	93,241	56,516	190,311	150,924	259,967	197,074	255,734	165,385	253,856	
<b>MOE: Tertiary</b>										
Upper vocational	20,019	18,809	52,493	66,814	69,510	39,493	126,568	35,128	142,970	
Diploma	1,810	1,579	4,627	5,605	3,781	2,146	6,999	1,639	6,627	
Undergraduate	12,651	15,354	31,428	52,180	25,281	13,816	86,475	13,803	107,968	
Other level	60	51	192	811	1,207	948	2,240	782	2,455	
Total	34,540	35,793	88,740	125,410	99,779	56,403	222,282	51,352	259,750	
<b>Total MOE</b>	<b>127,781</b>	<b>92,309</b>	<b>279,051</b>	<b>276,334</b>	<b>359,746</b>	<b>253,477</b>	<b>478,016</b>	<b>216,737</b>	<b>513,606</b>	
<b>MUA: Undergraduate</b>										
Public	14,352	15,243	27,915	44,802	27,075	20,892	73,903	13,813	88,766	
Private	7,178	6,245	14,662	20,324	19,909	15,623	41,793	12,286	58,020	
<b>Total MUA</b>	<b>21,530</b>	<b>21,488</b>	<b>42,577</b>	<b>65,126</b>	<b>46,984</b>	<b>36,515</b>	<b>115,696</b>	<b>26,099</b>	<b>146,786</b>	
<b>Grand total</b>	<b>149,311</b>	<b>113,797</b>	<b>321,628</b>	<b>341,460</b>	<b>406,730</b>	<b>289,992</b>	<b>593,712</b>	<b>242,836</b>	<b>660,392</b>	

Source: MOE – from SLS Office.

MUA – from Ministry of University Affairs

Appendix Table 5 Average loan size\*, new and old recipients, 1996-2000 (baht)

Academic year	1996		1997		1998		1999		2000	
	Recipients New	Old	Recipients New	Old	Recipients New	Old	Recipients New	Old	Recipients New	Old
<b>MOE: Upper secondary</b>										
General	14,552	17,134	11,294	17,134	9,154	13,667	9,016	11,163	6,676	10,111
Lower vocational	22,463	28,540	19,403	28,540	16,062	24,804	17,421	20,220	13,696	19,285
Total	17,463	21,743	14,692	21,743	12,115	18,776	12,170	15,362	9,353	13,881
<b>MOE: Tertiary</b>										
Upper vocational	28,461	36,831	27,741	36,831	21,482	35,748	24,532	29,974	19,825	29,749
Diploma	26,232	34,028	28,805	34,028	25,327	32,630	26,980	31,082	22,441	29,899
Undergraduate	30,183	37,476	32,376	37,476	28,398	36,228	30,604	33,478	26,715	32,564
Other level	23,167	40,392	32,135	40,392	41,110	45,438	39,314	53,442	35,000	61,784
Total	28,966	36,989	29,447	36,989	23,617	35,871	26,361	31,608	21,992	31,223
<b>Total MOE</b>	<b>20,572</b>	<b>27,654</b>	<b>19,385</b>	<b>27,654</b>	<b>15,305</b>	<b>26,534</b>	<b>15,328</b>	<b>22,917</b>	<b>12,348</b>	<b>22,652</b>
<b>MUA: Undergraduate</b>										
Public	43,558	55,124	55,822	55,124	45,117	55,185	45,794	50,769	41,047	49,203
Private	66,198	85,230	86,237	85,230	63,029	84,774	64,351	79,322	55,152	80,895
<b>Total MUA</b>	<b>51,106</b>	<b>63,874</b>	<b>66,296</b>	<b>63,874</b>	<b>52,707</b>	<b>64,419</b>	<b>53,734</b>	<b>61,083</b>	<b>47,687</b>	<b>61,730</b>
<b>Grand total</b>	<b>24,975</b>	<b>34,494</b>	<b>25,595</b>	<b>34,494</b>	<b>19,626</b>	<b>33,760</b>	<b>20,164</b>	<b>30,354</b>	<b>16,146</b>	<b>31,338</b>

Source: MOE – from SLS Office.

MUA – from Ministry of University Affairs. \* Average loan size = Total loans disbursement /Number of loan recipients.

**Appendix Table 6** Number of borrowers and total loans allocation, MOE and MUA, 1996-2000

Academic year		Ministry of Education		MUA
		Upper-secondary school	Tertiary- level institutions	Universities
<b>1996</b>				
Borrowers	Number	93,241	34,540	21,530
	Distribution	63 %	23 %	14 %
Loans allocation	Million baht	1,628	1,000	1,024
	Distribution	45 %	27 %	28 %
<b>1997</b>				
Borrowers	Number	246,827	124,533	64,065
	Distribution	57 %	29 %	14 %
Loans allocation	Million baht	4,025	3,937	4,193
	Distribution	33 %	32 %	35 %
<b>1998</b>				
Borrowers	Number	410,891	225,189	112,110
	Distribution	55 %	30 %	15 %
Loans allocation	Million baht	5,983	6,855	6,672
	Distribution	31 %	35 %	34 %
<b>1999</b>				
Borrowers	Number	452,808	278,685	152,211
	Distribution	51 %	32 %	17 %
Loans allocation	Million baht	6,327	8,513	9,029
	Distribution	26 %	35 %	39 %
<b>2000</b>				
Borrowers	Number	419,241	311,102	172,885
	Distribution	47 %	34 %	19 %
Loans allocation	Million baht	5,071	9,239	10,306
	Distribution	21 %	37 %	42 %

Source: SLO.

Appendix Table 7 Number and percentage of loan recipients by income group and institution, selected universities, 1997

Institution	Parental income								Total	
	Up to 120,000 baht		120 - 150,000 baht		150 - 200,000 baht		250 - 300,000 baht		Number	%
	Number	%	Number	%	Number	%	Number	%		
<b>Public universities:</b>										
Chiangmai	1,955	54.6	640	17.9	489	13.6	499	13.9	3,583	100
Thammasart	450	66.5	51	7.5	97	14.3	79	11.7	677	100
Mahidol	993	87.5	63	5.5	52	4.6	27	2.4	1,135	100
Ubonratchatani	684	76.5	65	7.3	87	9.7	58	6.5	894	100
Suranaree Technology	1,319	82.9	141	8.9	98	6.1	33	2.1	1,591	100
King Mongkut: Thonburi	906	75.8	86	7.2	104	8.7	99	8.3	1,195	100
King Mongkut: N.Bangkok	1,701	59.5	418	14.6	396	13.9	344	12	2,859	100
<b>Private universities:</b>										
Mahanakorn Technology	175	54.3	29	9	68	21.1	50	15.5	322	100
Assumption (ABAC)	240	58.7	31	7.6	55	13.4	83	20.3	409	100
Yonok	239	67.3	31	9	31	9	44	12.7	345	100
<b>Total</b>	<b>8,662</b>	<b>66.6</b>	<b>1,555</b>	<b>12</b>	<b>1,477</b>	<b>11.3</b>	<b>1,316</b>	<b>10.1</b>	<b>13,010</b>	<b>100</b>

Source: Minutes, SLSC meeting, 25 March, 1998.

**Appendix Table 8** School/institution type classified by level/type of education and unit of control

Level and type of education	School/institution	Unit of control
<b>Upper-secondary education</b>		
<i>Academic track (3 years)</i>	Public secondary schools	MOE, DGE
	Demonstration schools affiliated with Rajabhat institutes	MOE, ORIC
	Schools for disabled children	MOE, DGE
	Private secondary schools	MOE, OPEC
	Short-course training programmes	MOE, DNFE
	Ecclesiastical schools for monks	MOE, DRA
	Demonstration schools affiliated with universities	MUA, Universities
<i>Vocational track (2-3 years)</i>	Vocational schools	MOE, DVE
	Rajamangala Institutes of Technology	MOE, ORITC
	Dramatic arts, fine arts colleges	MOE, DFA
	Sports schools	MOE, DPE
	Private vocational schools	MOE, OPEC
	Short-course training programmes	MOE, DNFE
<b>Higher education</b>		
<i>Diploma level (2 years)</i>	Rajabhat institutes	MOE, ORIC
	Rajamangala Institutes of Technology	MOE, ORITC
	Public vocational schools	MOE, DVE
	Private vocational schools	MOE, OPEC
	Dramatic arts, fine arts colleges	MOE, DFA
	Colleges of physical education	MOE, DPE
	Private vocational schools	MOE, OPEC
	Short-course training programmes	MOE, DNFE
	Nursing colleges	MPH, MOD
Colleges for specialized fields	Other ministries	
<i>Degree level (4-6 years)</i>	Universities/HE institutions	MUA
	Rajabhat institutes	MOE, ORIC
	Rajamangala Institutes of Technology	MOE, ORITC
	Dramatic arts, fine arts colleges	MOE, DFA
	Private colleges and universities	MOE, OPEC
	Colleges for specialized fields	Other ministries

**Key:**

DGE = Department of General Education	MOE = Ministry of Education
DFA = Department of Fine Arts	MUA = Ministry of University Affairs
DVE = Department of Vocational Education	MPH = Ministry of Public Health
DPE = Department of Physical Education	MOD = Ministry of Defence
DNFE = Department of Non-formal education	
DRA = Department of Religious Affairs	
ORIC = Office of Rajabhat Institute Council	
ORITC = Office of Rajamangala Institutes of Technology Council	
OPEC = Office of Private Education Commission	

Appendix Table 9 Grant/scholarship aid, by type: selected universities, 1999

Institution	Continuing			Scholarship/Grant			Total		
	Number of funds	Number of recipients	Total fund amount (baht)	Number of funds	Annual Number of recipients	Total fund amount (baht)	Number of funds	Number of recipients	Total fund amount (baht)
<b>Public universities</b>									
Kasetsart University	32	240	2,743,500	79	203	1,799,000	235	443	4,542,500
Khonkaen University	36	420	5,210,390	144	1,545	9,013,437	180	1,965	14,223,827
Maephaluang University	1	1	30,000	1	1	30,000	2	2	60,000
Maejo University	24	96	1,063,000	12	30	218,500	36	126	1,281,500
Mahasarakham University	20	69	726,400	29	108	797,086	49	98	1,523,486
Naresuan University	15	85	729,500	20	208	1,095,700	35	293	1,825,200
North Bangkok PTT	26	90	1,037,000	23	1,505	6,034,500	49	1,595	7,071,500
Suranaree Tech. University	13	72	3,184,660	17	78	771,000	30	150	3,955,660
Silpakorn University	13	71	776,000	16	61	460,100	29	132	1,236,100
Thaksin University	9	26	321,740	32	94	718,500	41	120	1,040,240
Thammasart University	30	141	2,101,220	60	638	4,538,500	90	779	6,639,720
Walailak University	10	39	933,600	8	42	394,500	18	47	1,328,100
<b>All public universities</b>	<b>229</b>	<b>1,350</b>	<b>18,857,010</b>	<b>441</b>	<b>4,513</b>	<b>25,870,823</b>	<b>794</b>	<b>5,750</b>	<b>44,727,833</b>

Appendix Table 9 (Continued)

Institution	Continuing			Scholarship/Grant			Total		
	Number of funds	Number of recipients	Total fund amount (baht)	Number of funds	Number of recipients	Total fund amount (baht)	Number of funds	Number of recipients	Total fund amount (baht)
<b>Private universities</b>									
Bangkok University	7	340	13,954,295	1	161	883,440	8	501	14,837,735
Christian College	3	7	28,000	12	23	93,500	15	30	121,500
Dusit Thani College	0	0	0	3	3	156,060	3	3	15,660
Hatyai College	0	0	0	4	10	181,581	4	10	181,581
Huachew Chalermph	5	23	1,081,040	11	236	971,550	16	259	2,052,590
North Eastern University	5	54	108,000	5	71	1,450,000	10	125	1,558,000
Payap University	14	111	27,442,440	33	176	2,484,540	47	287	29,926,980
Rangsit University	10	149	73,076,900	1	2	20,000	11	151	73,096,900
Tatanabandit Univ.	2	20	1,840,000	1	15	40,000	3	35	1,880,000
Saint Louis College	2	18	750,610	2	6	120,000	4	24	870,610
Webster University	1	50	5,000,000	0	0	0	1	50	5,000,000
<b>All private universities</b>	<b>49</b>	<b>772</b>	<b>123,281,285</b>	<b>73</b>	<b>703</b>	<b>6,400,671</b>	<b>122</b>	<b>1,475</b>	<b>129,541,556</b>

<b>Rajabhat institutes</b>												
Bureerum	10	16	141,500	2	11	8,000	12	27	149,500			
Chiangrai	7	54	514,000	22	57	255,500	29	111	769,500			
Jombueang	4	8	46,500	10	23	55,000	14	31	101,500			
Kammpangpetch	4	6	61,000	14	63	230,000	18	69	291,000			
Lampang	10	24	109,000	2	4	8,000	12	28	117,000			
Nakompathom	13	31	271,600	27	53	217,000	40	84	488,600			
Nakomsawan	4	73	24,500	11	17	116,500	15	90	141,000			
Piboolsongkram	10	19	166,500	5	24	64,000	15	43	230,500			
Petchaburi	5	13	185,000	11	32	170,255	16	45	355,255			
Petchaburi Withay	0	0	0	19	67	222,500	19	67	222,500			
Petchaboon	2	7	43,000	20	45	111,500	22	52	154,500			
Phranakomsriyayuth	7	20	153,000	63	113	286,500	70	133	439,500			
Phuket	8	14	131,000	13	39	143,000	21	53	274,000			
Sakolnakorn1	5	10	187,500	2	4	16,000	7	14	203,500			
Songkhla	10	27	101,000	16	83	81,000	26	110	182,000			
Suratthani	9	14	174,000	10	16	73,500	19	30	247,500			
Thepsatree	5	27	161,000	41	90	215,000	46	117	366,000			
Udomthani	7	14	259,000	10	24	117,000	17	38	376,000			
Utaradit	6	11	210,000	12	26	72,700	18	37	282,700			
<b>All Rajabhat institutes</b>	<b>126</b>	<b>388</b>	<b>2,939,100</b>	<b>310</b>	<b>791</b>	<b>2,462,955</b>	<b>436</b>	<b>1,179</b>	<b>5,392,055</b>			
<b>Grand total</b>	<b>404</b>	<b>2,510</b>	<b>145,077,395</b>	<b>824</b>	<b>6,007</b>	<b>34,734,449</b>	<b>1,352</b>	<b>8,404</b>	<b>179,661,444</b>			

Source: Survey conducted by ONEC on scholarships and grants at tertiary institutions, in 1999 (raw data from questionnaires).

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