

The more generous policies, the more burdens: A Thai Student Loans Case

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Undoubtedly, education benefits all. Many countries—including Thailand has set the education expansion policy as a core national policy accompanying with the student loans scheme. As a financial assistance for students, the student loans scheme usually offers a target borrower the generous repayment obligations—i.e., low interest rates, grace period and long length of repayment. However, the more generous policies mean the more subsidies. Evidences of government failures—the inefficiency of budget allocation—exist in Thailand. Under the current Thai student loans, the low-income family student—the target borrower, receives loans less than the non-target borrower. In addition, without sufficient monitoring and strong enforcement for loans default, the number of defaulting students increases dramatically and lowers the student loans recovery rates. The cost burden of student loans borne on the Thai government, therefore, is extremely high. The appropriate designs for the targeted borrowers, repayment obligations, monitoring and administration are required for the success and efficiency improvement of generous student loans schemes implemented not only in Thailand but also in any country.

Thai Student Loans: Over view

Under the current Thai student loans schemes, two subsidized student loans—the Student Loan Fund (SLF) and The Thai Income Contingent Allowance and Loan system (TICAL) are offered for the targeted borrowers—Thai students whose household income is less than 200,000 baht (approximately US\$ 6,250) per year. Both student loans are different in objectives. The SLF was introduced and operated in 1996 aiming to increase higher education opportunity for students who attend in the upper-secondary schooling and tertiary education. The TICAL was introduced later to enhance the nation's human capital meeting specific manpower needs. Only the poor students attending in the tertiary institutions are eligible for the TICAL. Coverage and repayment obligations under both student loans are the same. An eligible student is able to borrow for tuition fees, education-related expenses and other living expenses. Both high subsidized loans offer eligible students with favorable repayment obligations, in particular, low interest rates charged at 1 per cent of the outstanding loans and 17 years of the total repayment period after graduation (Office of Student Loans Fund, 2013).

According to repayment, Krung Thai Bank (KTB)—a government-owned bank is responsible for the loan collection. Once the two-year repayment grace period ends, due borrowers are required to contact the KTB to arrange the loan repayment by the 5th of July in that year. A borrower will be in default when he or she fails to make on-time repayment of his or her loans for six consecutive months and arrangements with the KTB have not been made.

What is wrong with the generous student loans scheme in Thailand?

According to the research findings under the Slyff Research Abroad (SRA) program indicate the poor performances of Thai student loans in terms of inequity and inefficiency of budget allocation—the evidences of government failures exist.

- **Thai Student loans benefit the non-target students**

Responding to the main objectives of student loans—to ease financial burden and increase educational opportunity for the poor students, only students from low-income families are eligible. However, through a system of top-down budget allocation, academic institutions receive loan budgets from the government and have lending autonomy deciding on the eligible borrowers and the loan sizes for each borrower. As a result, loans are distributed differently in each institution. Based on research results, more than 80% of loans are allocated to borrowers attending in the tertiary institution. Average loan sizes are different among academic institutions—the borrowers attending in the private institution receive the largest loans in average. Loans distributions for borrowers attending in the institutions located in the urban and in the ruler area are similar in the number of borrowers and the amount of loans. Comparing with the borrowers studying in the urban-area institutions, the borrowers studying in the rural-area institutions receive smaller average loan sizes. This implies the inequity of budget allocation. The student loans schemes may also benefit the non-target students.

- ***Inefficiency of loan disbursement***

Student loans scheme is a very long-term investment and is not costless. Based on the current Thai student loans, the repayment obligations are generously designed to help the poor students. The self-sustainability of the student loan fund is set as the policy goal in the long run. In principle, level of total disbursements should decrease when the first cohorts of borrowers complete their studies and exit the education system. The student loan fund, then, becomes self-sustaining as loan repayments increasingly finance the loans to new borrowers. However, in practice, the student loan fund receives back less than expect because some students cannot meet their repayment obligations. Some students may still be unemployed until the grace period of payment ends or may continue a postgraduate course. According to the loan repayment data in the past few years, the number of student loan defaults in Thailand has increased dramatically. More than 50 per cent of outstanding loans are in default. As a result, the loan recovery rates are low implying that the government is unable to receive fully recovery loans. The government extremely subsidizes not only for the interest rates, but also for the default losses and administration costs (including costs of monitoring and loan collection). The cost burdens borne on the government, therefore, are extremely high when defaults exist and the policy goal for the self-sustainability of the student loan fund is more difficult to achieve.

- ***Different views on problems and solutions***

Policy objectives, disbursement and repayment obligations are vary depending on government decisions. Views on problems and solutions are different. In particular, to increase the loans repayment rates and to improve the efficiency of student loans, in 2007, the loan repayment program linked to the borrower future income was introduced. Under this program, graduates are required to pay a fixed proportion of their income each year until the loan is repaid. This repayment program, however, was not supported from the latter government. It was replaced with the traditional loan repayment program after one year of operation.

To sum up, the benevolent student loans may not help the poor students. Instead, the student loan costs borne on the government increase when defaults keep growing. To improve the efficiency of budget allocation for the student loan schemes, a strong control for loan defaults and appropriate design for loan repayment are required.
