

POLICY BRIEF

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POTENTIALITY OF EDUCATION LOAN TO ACHIEVE EQUALITY



INTRODUCTION:

It is an undeniable fact that participation in tertiary higher education among the poor students is limited in Bangladesh. Some of them drop out due to financial inability to bear Out-of-Pocket Expenditure (OOPE) associated with education. At the household level, a student's cost for education is also known as Out-of-Pocket Expenditure (OOPE). As the rich students have ability to bear OOPE, the odds are in favour of them to make transition from lower to the higher level of education successfully.

According to the Asian Development Bank College Education Survey 2010, only 20% students of the public universities in Bangladesh were poor (based on parental income of an average monthly income of less than Tk. 20,000 per month) (World Bank, 2014). In private universities the share of poor students were nil. Furthermore, according to UNESCO global monitoring report 2017, by household income quintile, attendance rate in higher

education was 2% from the poorest income quintile and 8% from the riches income quintile.

Bangladesh Bureau of Statistics (BBS) Education Survey 2014 (BBS, 2015) showed that, yearly per capita household expenditure for education was on average Tk. 25,000 per year per student who was attending tertiary colleges for higher education. And Tk. 42,000 per year per student who was attending university for higher education. Apparently, in order to undertake higher education in a university, a student bears relatively more OOPE. Consequently, for many poor students tertiary colleges turn out to be a suitable option for higher education. But due to OOPE, many households abstain from sending their child to colleges or universities for higher education. In the given circumstances, student loan (SL) may be a worthy policy option to support parents of poor students, so that they (poor students' parents) can cushion the burden of cost of higher education for their offspring.

Table 1: Per capita household investment for education (in taka)

Level	Admission / Session	Tuition coaching	Stationery	Uniform	Exam fee	Conveyance	Tiffin/ Other	Total
Govt. college	3573	8056	4173	1363	1134	3611	2213	24122
Non-Govt college	5176	8990	4380	1135	1219	3111	2377	26388
Non-Govt MPO college	2667	6627	3863	1407	823	2182	1818	19387
Average (for college)	3805	7891	4139	1302	1059	2968	2136	23299
Public university	6763	9518	4937	1197	2659	3511	3028	31614
Private university	15210	19348	6057	1404	2721	3744	3123	51608
Average (for university)	10987	14433	5497	1301	2690	3628	3076	41611

Source: BBS, 2015.

CURRENT PRACTICE OF STUDENT LOAN

Some private commercial banks in Bangladesh sale Education Loan (EL) (i.e. the loan available to students to finance higher education) alongside Personal Loan, Consumer Loan, Home Loan, SME Loan, Investment Loan and so on. But unlike other loan products, SL is very unpopular among parents in Bangladesh. Presumably, the cause of unpopularity is attributed to the salient features of SL which are as follows: (i) a potential borrower's (or his/her parent's) satisfactory level of income is mandatory to be qualified for SL; (ii) interest rate of SL is above 11%; (iii) loan payback period is maximum 05 years; (iv) loan payback commences the very next month of the loan disbursement; (v) last but not the least, some collateral is required against the loan amount. Although, the given features of SL are not same in all banks, they are prepared based on the central bank's (i.e. Bangladesh Bank's) regulations that recognize SL as consumer loan. The Banks' terms and conditions for SL consider education as a commodity like a car or a refrigeration, as if demanded by potential

borrowers (students or their parents) for consumption only. A misconception regarding is very pervasive here in Bangladesh.

RATIONALITY FOR INVESTEMENT

Education, irrespective of its level, cannot be conceived of merely as a consumable commodity, education is an investment. Scholars are of the view that, undertaking education is equivalent to building (or purchasing) a production unit today, in order to generate income from the unit in the future. Thus, an investment in education is close similar to an investment in a business firm (for instance, a garment factory or a garment production unit); where current investment in physical capital (i.e. any factory building and its machinery here) will generate income in the future which is regarded as return to education. Because of the given close similarity between the investment in education and investment in physical capital, investment in education is regarded as investment in human capital

A student parent's educational choice about the investment depend upon likely future potential return to education. A parent takes into account his/her current income flow and

better future income prospects alongside current OÖPE. Because of intangible simple reality, it is noticed that some but not all attend school.

According to a recent World Bank study (2019) “while the returns to additional years in primary and secondary levels are decreasing over time, the rate of returns to tertiary-level education has been consistent over time” (p.67). From Table 2, it is found that, return to tertiary level higher education is consistently as high as 23%. So, there is an adequate support to investment in higher education.

Table 2: Rate of returns to additional year of education in Bangladesh (%)

Level	2005	2010	2016
Primary	7.5	5.5	4.0
Secondary	6.8	5.4	4.6
Tertiary [bachelors and above]	20.5	22.8	20.5

Source: World Bank, 2019, p.67.

RATIONALITY FOR STUDENT LOAN

However, there are some differences between physical capital and human capital. First, the physical capital such as machines or buildings can be resold; but the human capital is not. Because the later one is embodied in human being. Secondly, physical capital can be offered as collateral to ease the cost of borrowing from a bank in order to buy it; but in case of human capital, it is implausible to offer the human knowledge as collateral to the bank in order to buy education. Thirdly, the owner of any physical capital or production unit is in total control of the capital and is capable to employing it whenever it is required; in contrast, the owner of human capital is not in control of its employment. As a wage earner he/she relies on labour market for its employment in the labour market. It takes approximately two years to secure a job upon graduation from the university. Once get an employment, he/she works as long as thirty years unless there is no natural shock. Therefore, terms and conditions for education loan deserve to be different from the other types of loan so that the SL becomes pro-poor.

SL is very popular in many developing countries, including China, India, and

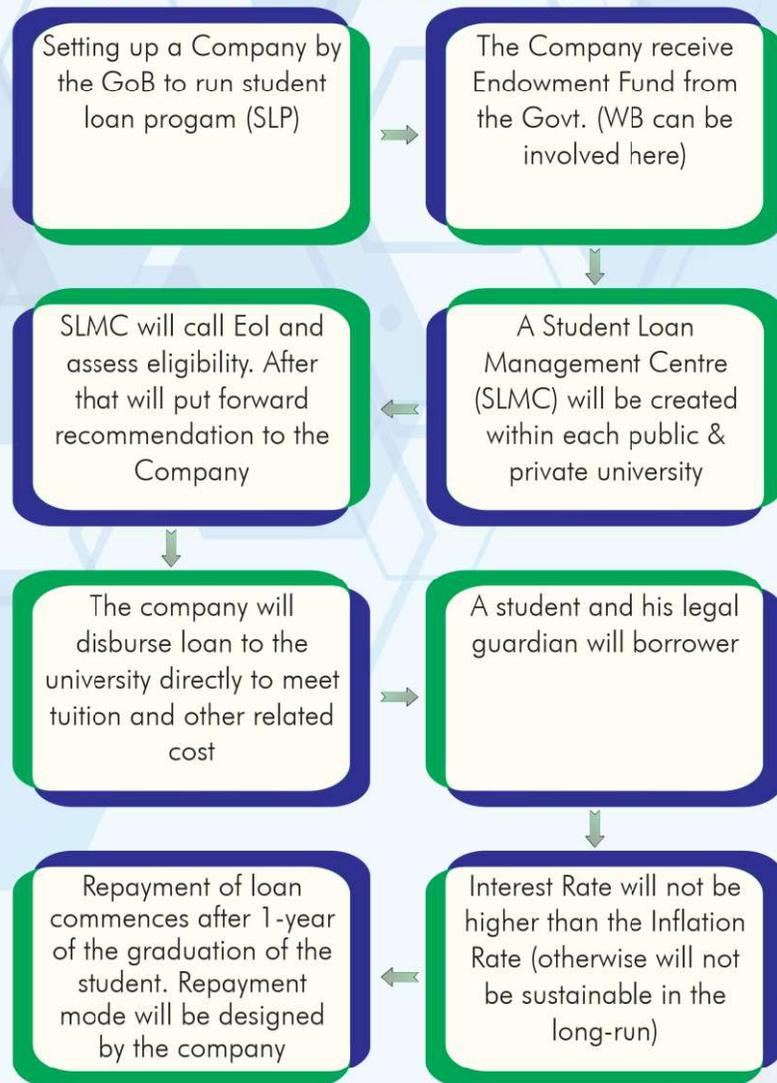
Malaysia. In some developed countries like Australia, the central government plays a pivotal role because of its (SL's) capability to assist students from low socioeconomic background to access to higher education in tertiary education institutions. The country experience shows that, academic discipline of a student is taken into account instead of a student's or his/her parent's current income. Secondly, a student's original diploma certificate is used as collateral. Thirdly, a grace period is allowed before the commencement of loan repayment so that a graduate can secure employment in the meantime. Last but not least, the loan payback period is as long as 20 years.

In Bangladesh where higher education is skewed highly to the wealthy population, tapping the potential of benefit SL, based on genuine concept, is highly warranted in order to empower the poor to emulate the rich's in terms of access to higher education in the future.

VIABLE MODEL OF STUDENT LOAN:

A potential model for successful operation of SL is given in Fig 1. The proposed model is not an exhaustive one. The given model is pro-poor and relevant to the socioeconomic condition of Bangladesh

Figure 1: A Model of Student Loan Operation



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