INTERNATIONAL JOURNAL OF
INNOVATIVE RESEARCH AND KNOWLEDGE
ISSN-2213-1356 www.ijirk.com

The Student Loan Scheme in Uganda: A Critical Analysis of Current Trends and Future Prospects

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Abstract

Uganda introduced the student loan scheme in the year 2014 as a measure to enable academically strong but financially disadvantaged students access higher education. The understanding was that such students would borrow money for their university education and pay back on completion upon getting gainful employment. This was expected to reduce the gap between the rich; who can pay for the education of their children and the poor who could not afford such fees; and therefore in the long run reduce the socio-economic gap between the two categories. The scheme was intended to act as a revolving fund where students borrow and finance their education, payback with interest and the money would be lent to another client. The authors have argued in this article that the economic conditions in the country may not be favorable for the scheme, given the high unemployment rates, lack of trustworthy borrowers and the small size of the fund resulting from the competing needs of the government coffers. This article is a result of interviews conducted with the beneficiaries; the body administering the fund; and the university authorities where the education service is rendered to the beneficiaries. The study findings revealed that the scheme has yielded benefits to the beneficiaries who would otherwise not have accessed university education; but at the same time it has a number of challenges. The findings led to the conclusion that there are a number of interventions that are necessary to ensure that the fund performs better and for the good of the targeted beneficiaries.

***Key Words**: Economics of Education; Education Financing; Equity in Society*

Introduction

Several Economists, both pure and Educational Economists have argued that education plays a vital role in the development of nations. It is seen as an essential investment as it reduces poverty, boosts economic growth, increases a country's Gross National Product (GNP), creates employment and improves health (Okuni, 2003; Oliniyan D.A & Okemakinda T. 2008; Todaro 1977). The Late Nelson Mandela put it this way: *Education is the single most powerful weapon which you can use to change the world*. Furthermore, education is one of the basic human rights: *the right to education is legally guaranteed for all without any discrimination. States have the obligation to protect, respect, and fulfill the right to education.*

Claude (2005), has argued that education is a human right since it is integral to and enhances human dignity; it is a social right because it promotes full development of the human personality; it is an economic right because it facilitates self-sufficiency and a cultural right because it can be used to build a universal culture. In brief, education is a pre-requisite for the individual to function fully as a human being in a modern society (Claude 2005).

It is for such reasons that individuals, households, and national governments all over the world spend heavily on education. Investment in education is further supported by the fact that in the production of goods and services, the human resource aspect is a key player as it organizes all the other factors of production, over and above providing labour and capital to make use of the natural endowments (land) in order to produce the much needed goods and services. Hanushek (2013) has argued that the role of improved schooling has been central in the development strategies of most countries the world over; and that available data shows great improvements in school attainments. Similarly, Pscharopolous & Woodhall (1985) have argued that developing countries lag behind, mainly due to inadequate supply of skilled manpower. The human aspect plays a key role not only in the production; but as well in the consumption of goods and services. Over and above this is the fact that no natural resources can on their own produce useful goods and services for human consumption without involvement of the human being. This as well emphasizes the importance of education since it is through education that individuals acquire human capital to utilize in the exploitation of natural resources.

In particular, higher education plays a pivotal role in human resource development of a country. According to Trinh (2023), higher education is a production chain whose output is qualified human resources, serving as a foundation for forming and developing the innovative capacity to serve the country's development and contribute to human knowledge. Zhu et.al (2018) view university education as an essential force for technological innovation and long-term economic growth in society while the World Bank (2010) opines that through research and increased knowledge, higher education can also help to address the challenges arising from population growth, limited arable land, endemic diseases, urbanization, energy costs, and climate change. However, these benefits can only be realized if there is equitable access to quality higher education especially in the developing world.

Across the globe, the rising demand for higher education without a corresponding increase in country's GDP levels has over the decades compelled governments, especially in the developing world to come up with innovative means of financing higher education, including the student loan schemes. According to World Bank (2010) Africa has maintained its public investment in higher education over the last 15 years, allocating approximately 0.78 percent of its gross domestic product (GDP) and around 20 percent of its current public expenditure on education to this sector. However, during this period, the total number of students pursuing higher education tripled, climbing from 2.7 million in 1991 to 9.3 million in 2006 (an annual average rate of 16 percent), while public resources allocated to current expenditure in that sector only doubled (an annual average rate of 6 percent).

A study by World Bank (2010) notes that the first developing country to establish a student loan program was Colombia in 1953, and it was later followed by many other student loan programs in the Asian, Pacific and Caribbean region. Woodhall (1991) observed that by 1991, student loans schemes had been established in six sub-Saharan African countries of Ghana, Kenya, Lesotho, Malawi, Nigeria, and Zimbabwe. Since then, more countries, including Uganda have taken up this financing mechanism as a measure to achieve their human capital development needs.

The government of Uganda introduced the student loan scheme as a mechanism of funding education to cater for the academically strong; but financially weak students who therefore could not afford tuition fees at higher institutions of learning, particularly University level. This was as a result of Government's failure to meet the ever-increasing demand for higher education at university level given its resource envelope amidst several priorities. According to the Higher Education Students' Financing Board (2019) newsletter, statistics show that basic education initiatives had increased the students' enrollment at elementary level to over 1.7 million per year; and secondary school level to 1.3 million per year; but only 180,000 manage to make it to Higher Education Institutions. This skewed enrollment pattern is mainly attributed to poverty kicking students out of the school system.

The student loan scheme was introduced by an Act of Parliament (Act No. 2 of 2014) in the year 2014 which culminated in the creation of the Higher Education Students' Financing Board (HESFB) to manage the scheme in the same year. The Board was mandated to provide loans and scholarships to needy Ugandan students to pursue higher education. The Government of Uganda provides the funds while the Board administers the loan. Given limited funds, the HESFB extends loans to only university students; admitted to pursue Sciences and or related programs; which is discriminatory to say the least. Under the scheme, students borrow money for their education and pay back when they complete university.

Problem Statement

Uganda introduced the student loan scheme in the year 2014 with the aim of helping academically strong but financially constrained students to attend university education. The Higher Education Students' Financing Board was consequently created with the sole aim of managing the fund. Would be beneficiaries were expected to borrow and pay back at a modest interest rate and at the end of the day, this would be a revolving fund. Ten years down the road, the fund is still fulfilling its mandate however, given the prevailing economic and social conditions in the country, it is not known whether the revolving fund that it was designed to be has a future. As of the year 2020, unemployment stood at 3.80% and 2.83% in 2023; this is the percentage of people looking for work but can't find any job to do. It is this that triggered the study to find out how the student loan scheme was performing and probe into its prospects in view of the country's social and economic conditions.

The study was guided by the following objective:

To probe into the operations of the student loan scheme in Uganda and its future prospects.

Literature concerning the loan scheme

A student loan is normally money a student borrows to finance his or her education mainly at University, and pay back to the lender with or without interest depending on the arrangement agreed upon between the two parties. According to Wikipedia, *A **student loan** is a type of loan designed to help students pay for post-secondary education and the associated fees, such as tuition, books and supplies, and living expenses. It may differ from other types of loans in the fact that the interest rate may be substantially lower and the repayment schedule may be deferred while the student is still in school*. Loan repayment is expected when loan beneficiaries complete their education and acquire gainful employment. In Uganda, according to the HESFB newsletter 2019, a modest interest rate is charged to loan beneficiaries to cater for inflation and ensure continuity of the revolving fund. The loan provider has to carefully determine the interest rate since a high interest will render the facility very expensive and therefore potential borrowers will shun it; while a very low interest rate will mean the fund dwindling with time due to inflation.

Education planners and policy makers advise that it should be students in higher institutions of learning that can have access to loans since defaulting can result into prosecution yet learners at lower levels of schooling like primary and secondary cannot be prosecuted since they are minors (Hanushek & Welch (2006); Mutula (2001); Kasozi (2003).

Several organizations can avail loans including government, commercial banks, insurance companies, education institutions; and even private individuals. Dynamics may vary between loan providers but in principle, money is specifically for education purposes, at university, with interest and repayment is after the beneficiary has acquired gainful employment.

The scheme has the advantage of flexibility in the sense that it can be manipulated to achieve several objectives such as gender equity where ladies may borrow at low or no interest at all; catering for people with disabilities who can borrow at favorable terms; and students from rural and disadvantaged areas. Such categories can be charged a lower interest rates or given a longer grace period, which is expected to ensure equity in society. However, in an interview with an official from the HESFB who preferred anonymity, he indicated that the fund is affected by inadequate funds in the sense that NOT all those who deserve to benefit from the loan scheme actually get funded. To him, it is only a minor fraction that get the funding hence equity is compromised by inadequate funding from the Government. It was revealed by the HESFB that loans are being extended ONLY to students who are taking science-based Programmes at the universities due to inadequate funds for the facility.

The way the loan scheme operates is that a student borrows and pays back with interest after completing university education and getting gainful employment. It implicitly operates like a revolving fund which must not break. If borrowers do not pay back due to lack of employment or migration to another country then the revolving fund will collapse; alternatively, the loan provider must be able to keep adding money into the fund regularly to cater for defaulters and inflation. This is a key consideration for success of the loan scheme in any country.

Methodology

The study adopted a qualitative approach where student loan beneficiaries, university officials, and officials from the Higher Education Students' Financing Board (HESFB) were interviewed. Secondary data was obtained from literature regarding the loan scheme and from the HESFB website and communication between the Board and the Universities particularly regarding disbursement of funds. This enabled the authors to get first-hand information regarding the future of the loan scheme in Uganda since these identified participants were deemed knowledgeable enough to speak about the scheme from their lived experiences. Data collection was conducted by use of an interview guide which had sections for each category of respondents. Analysis was done thematically through coding and identifying crosscutting views about the phenomenon under investigation.

Study Findings

According to the students interviewed, the loan scheme has encouraged beneficiaries to take up education programs which will assure them of securing jobs soon after graduation so that they can start paying back the loans to avoid defaulting and accumulating interest. One of the students, in her words explained as follows:

> *I had wanted to take up bachelor of Laws but my father could not raise the tuition. I was advised to change to Bachelor of Science with Education so that I could qualify for a student loan. I was lucky that when I applied for the loan I was granted and this is what has enabled me to acquire university education; much as I had to give up on the dream of becoming a lawyer.* (source: Interview with one of the beneficiaries of the loan scheme).

In the same vein, the scheme was sighted as having propelled the principle of fairness/natural justice. Participants argued that the scheme makes beneficiaries pay for their education instead of shifting such a burden to the rest of society through avenues like government financing of education. This was advantageous in the sense that it was a means of achieving equity in society. The participants further concurred that when students pay for their education, they take studies seriously hence minimizing cases of retakes and dropping out. One of the participants put it this way:

> *Since students are the ultimate beneficiaries of higher education, let them pay for such benefits. It would not be fair to make a parent whose child dropped out in Primary five pay for the education of another parent who can afford to educate their children upto Senior six.*
> *Compared to government funding, this scheme has kept students on their toes such that they avoid retakes, complete in time and start paying the loans acquired. With government funding, some students spend as many as five years on a three year programme*. (Interview with one of the university officials).

From the interviews with the University officials, it was revealed that universities have had to embark on programme review to meet the demands of the loan beneficiaries. Education institutions on the other hand will be encouraged to review their programs and introduce innovations or improvements to respond to labour market demands. This has the advantage and beauty of addressing efficiency in education programs and products. One of the officials in the University explained the above as follows:

> *We had to revise the Bachelor of Commerce Degree Programme and developed other three related programmes for learners to take and meet their needs. These included: Accounting, Finance, and Marketing. This innovation has brought in several students, more than we had even anticipated.* (source: Interview with one of the University Officials)

He also indicated other programmes that were developed to meet the peculiar needs of the learners in view of the demands of the labour market.

The study findings revealed that beneficiaries have tended to take their studies seriously as a way of avoiding staying in school longer which could lead to accumulated interest payments. This has in effect led to improved completion and graduation rates which has improved internal efficiency of university education. The university officials interviewed hailed the loan scheme for the reduced cases of examination malpractices, retakes, low graduation rates particularly among loan beneficiaries. In their own words, they had this to say:

> *Students on the loan scheme focus on their studies and want to complete in record time. This has led to improved completion rates. Statistics available indicate that none of the loan beneficiaries has a retake; instead retakers are mainly government sponsored students. I think this is due to increased concentration hence better performance*. (Interview with one of the university officials).

Study participants also revealed that the scheme was expected to reduce on the bandwagon effect of going for higher education. Students will first weigh the pros and cons of going to university before they take such a decision. At the end of the day, excess and unnecessary demand for higher education will be reduced and graduate unemployment likely to drastically reduce.

The facility as well has the beauty of catering for identified groups in society such as the poor, rural dwellers, women, people with disabilities who can be given longer grace periods and/or charged no interest at all as a way of achieving equity in society. One of the officials from the HESFB explained as follows:

> *The scheme can be used to cater for identified group interests and needs. For example, we can use it to cater for the needs of female students, students from rural and disadvantaged areas, the disabled and others. We have not yet applied this but we are negotiating with the government to allow us charge lower interest rates for such categories of loan beneficiaries. This is expected to enhance equity in distribution of opportunities.* (Interview with one of the officials from the HESFB).

Challenges Associated with the Student Loan Scheme

On the other hand, participants were requested to share their views about the shortcomings of the loan scheme in Uganda. Their responses are as detailed in the following paragraphs.

Delayed release of funds by the HESFB was singled out as a major challenge. In most cases, money is not released until the end of a given semester. University Management is forced to issue circulars to the schools requesting them to allow loan beneficiaries sit end of semester examinations pending clearing of the relevant semester tuition by the HESFB. This somehow affects the students who end up being left at the mercy of the Deans and Heads of Department to be allowed to sit examinations. One official explained as follows:

> *At the end of every semester, the Vice Chancellor issues a circular requesting Deans to allow student loan scheme beneficiaries to sit end of semester examinations before they clear their tuition obligations. This renders management of the University a challenge since funds only come in at the end of the semester.* (Source: Interview with an official from the Finance Department).

There is a challenge of unemployment in Uganda, today, such that a loan beneficiary failing to secure gainful employment is unable to pay back the loan on time. This is a major challenge to the scheme given that even sectors like Education, Health, Agriculture, Human Medicine, Veterinary Medicine, etc. where securing employment soon after graduation was a certainty, this has changed. Even when employment has been secured, in some cases, unscrupulous employers exploit graduates and pay them peanuts; rendering loan holders unable to meet their loan obligations. This was emphasized by the loan beneficiaries who had graduated and were yet to commence payment of their loan installments.

In an interview with the HESFB, it was revealed that when a loan beneficiary migrates to another country, then loan recovery becomes very expensive, almost near to impossible as following up on such a person may involve heavy expenses which may end up being higher than the amount the loan beneficiary owes the lender. Under such circumstances, this becomes a bad debt hence affecting the operation of the loan scheme. An official from the HESFB gave the following verbatim explanation:

> *We have had to write off some loans because following up borrowers proved expensive in terms of time and money. This is very common with beneficiaries who migrate soon after graduating. We need the support of government to put in place stringent measures like confiscating passports to ensure that defaulters do not migrate. It is a loss since the revolving fund might soon dwindle.* (Interview with an official from HESFB)

The beneficiaries indicated that loan repayment is a constant bother, they get worried about repayment which in some cases has affected their concentration in class. Under such circumstances, chances of getting retakes become high. To the researchers, this may affect the class of degree such students get and their chances of getting jobs thereafter. This again affects the scheme since jobless graduates cannot meet their loan obligations.

One of the members of the public raised an interesting development regarding the loan scheme. He was of the view that the scheme will render ladies expensive and therefore reducing their chances of getting marriage suitors. He explained that:

> *There is a possibility of some ladies shunning the loan scheme as it renders them expensive to their future husbands. The issue will be that you either help your wife to pay the loan – if she fails to get a job – or she is jailed on defaulting; in which case you lose out. A rational person will tend to choose a partner without a loan as opposed to one with a loan to pay. At the end of the day, well-educated*

> *ladies who finance their higher education using loans may not easily get husbands.* (Interview with a member of the public who was conveniently sampled).

From the sociological point of view, participants raised the issue of inequity associated with the scheme. The consensus was that Education has social benefits; implying that the entire society benefits from the education of its young generation. So therefore Government has an obligation to provide education to its citizens. In a nutshell, if society stands to benefit, then society should pay, instead of leaving the burden of financing education to the students through the loan scheme. One of the university officials explained the scenario as follows:

> *Education is a social service, it just differs slightly from health, security, public works. So if government is providing all these social services, then it should provide Education as well by fully sponsoring all students; the way it is in many other countries. Living education funding to private individuals is causing classes in society and actually two nations in one.* (Interview with one of the university officials).

The study revealed that the administrative costs of running the scheme are high particularly the costs of tracking down defaulters. Lack of trust among loan beneficiaries; over and above the costs of maintaining the staff at the HESFB are all costs. The challenge here is that rendering the unit self-financing implies charging high interest rates which would prohibit prospective borrowers from borrowing. The jobs created at the HESFB secretariat cannot offset the challenges of the costs of managing and running the scheme.

Discussion and Conclusion

From the perspective of the research team, it was evident from the responses and the look of things that the scheme may not actually benefit the intended beneficiaries especially if the interest rate is very high. People from humble backgrounds may fear to borrow since defaulting may result into undesired consequences including imprisonment. By implication the scheme may not benefit the poor who are supposed to be the key beneficiaries. The Biblical saying that those who have, more will be added becomes very evident since the poor will fear to borrow while government will tax them in order to provide loans to the children of the rich. The reader should bear in mind that children of the poor tend to drop out of school much earlier in primary or lower secondary. At the end of the day, education is turning into some other way of transferring money from the poor to the rich which is unfortunate from the social point of view.

In brief, the performance of the student loan scheme in Uganda will depend on the ability of government to capitalize the same, to subsequently keep replenishing the same, availability of jobs, trustworthiness of borrowers, inflation, and the sound performance of the economy. Government needs to increase the funding to the Scheme such that all those who apply and qualify can be funded; while the HESFB needs to put in place measures to minimize defaulting. Going into partnership with other local and international funding agencies can help to tap into funds that will enhance the capacity of the student loan scheme.

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