European Centre for the Development
of Vocational Training

BRIEFING NOTE

Loans for learning

A look at education and training loan schemes in 33 countries identifies some good practice principles for their design and implementation

A good loan scheme must balance costs with coverage. If loans are too expensive then people will not borrow. Governments are not banks, but they provide or support loans for many things, including education and training. Governments too need to get the balance right.

Cedefop surveyed ([1]) 35 education and training loan schemes in Europe ([2]), examining their design and performance. Although there is no ideal scheme, interesting features emerge that provide guidelines as to what makes a good education and training loan scheme.

Learning about loans

A look at education and training loan schemes shows that countries make different choices about coverage (Table 1). Some 32 out of the 35 schemes in the survey provide loans for higher education. However, in most countries the schemes that provide loans for higher education also support other types and levels of learning. Other countries, such as Germany, Poland, the Netherlands and the UK have two or three schemes. There are no loan schemes exclusively for upper secondary education or vocational education and training (VET), but 11 out of the 35 schemes provide loans for this level and type of learning, while 10 of the 35 schemes provide support for continuing VET.

This pattern of coverage is explained to some extent by what people have to pay for and what they are learning. The wider availability of loans for higher education reflects the fact that in many European countries people have to pay university tuition fees. In contrast, tuition fees for individuals for upper-secondary general education and VET are much less common. Costs at this level are usually met by governments and enterprises leaving no need for loans. There are fewer public loan schemes for continuing VET, which is often job specific and suggests that governments see specialised training as the responsibility of enterprises or individuals.

Most schemes (27 out of the 35) offer administratively simple (mortgage type) repayment terms, of a fixed sum paid at regular intervals over a period of time. The remaining eight are administratively more complex and link repayments to income. Of the 35 loan schemes examined, 22 are defined as public. The other 13 are managed by a private or independent institution that undertakes the main financial risk and more than 50% of the funds come from private sources. Financial institutions also have a role in most public loan schemes.

Most loan schemes aim to encourage participation in education and training generally. Some schemes, as for example in Sweden, also try to make learning more equitable by attracting into education and training those who do not normally participate, such as unskilled people, or people who most need support but are afraid to go into debt.

Maximum amounts learners can borrow vary according to standards and costs of living across the 33 European countries. Amounts range from EUR 39 per month in the Former Yugoslav Republic of Macedonia (FYROM) to EUR 1875 per month in Cyprus. Average interest rates also vary from 1% in Iceland to 10.5% in Greece. About half of the loans have variable interest rates and the others have a fixed interest rate for the duration of the loan.

Although 28 out of 35 schemes provide loans for foreign students, almost all of them impose stricter lending conditions for them. For example, foreign students may

([1]) Survey of loan scheme managers, VET financing experts and other key national stakeholders; carried out between March and October 2010
([2]) The 27 European Union Member States, Croatia, the former Yugoslav Republic of Macedonia, Iceland, Lichtenstein, Norway and Turkey

need a residence permit, which may require them to have lived in the country for a minimum period, or to be a family member of a citizen of the host country, or to provide some other additional security for the loan.

Table 1. **Coverage of education and training loan schemes**

Country	Level of education
Bulgaria, *Cyprus, Italy, Latvia, Lithuania, Luxembourg, Portugal, Slovakia, Slovenia, Spain (Catalonia), Iceland, FYROM, France	Higher education
Germany, Hungary, Poland	Higher education Continuing vocational education and training
Austria, Estonia, Turkey	Post-secondary education and training (non-tertiary) Higher education
UK	Upper-secondary education and training Higher education Continuing vocational education and training
Belgium (Wallonia), Denmark, Finland, Netherlands, Greece	Upper-secondary education and training Post-secondary education and training (non-tertiary) Higher education
Croatia, Liechtenstein, Malta, Norway, Sweden	Upper-secondary education and training Post-secondary education and training (non-tertiary) Higher education Continuing vocational education and training
Czech Republic, Ireland, Romania	No education and training loan schemes

* No government involvement in loan schemes

Some 29 out of 35 schemes provide loans for learning abroad. However, all but seven schemes have stricter lending conditions for learning in another country. For example, the course may have to be accredited or taken as a part of a national education and training programme.

In five countries the size of the loan is different for learning at home than abroad. In Latvia, Lithuania, the Netherlands and Finland loans for their students wanting to study abroad are fixed amounts. Sweden provides loans that vary according to the costs of living in the country that the student wishes to study. However, in practice, loans seldom facilitate mobility for learning.

Extensive and marginal schemes

To find out more about the different types of education and training loans, 12 schemes were analysed in greater detail selected (Table 2), defined as either:

- Extensive: operating on a large scale attracting many borrowers, having a high take-up rate and likely to have significant national impact on individuals and/or companies; or
- Marginal: not having significant nationwide effects because, for example, they are designed to target niche groups.

From the analysis, some key issues that influence the performance of education and training loans emerged.

Loan repayment conditions

Education and training loan schemes with flexible repayment rules are more attractive to all types of learners. They can also be especially helpful to people with low incomes and others who may be reluctant to go into debt.

There are many different types of flexible repayments. They can be linked to income, have built-in safeguards for life events, options to repay over a shorter or longer time and grace periods.

The downside of loans offering flexible repayment is that they are more expensive for governments. Repayment periods are usually longer than for loans with fixed, usually monthly, repayment schedules. For some loans schemes, for example in Sweden and the UK, repayments do not start until the borrower reaches a certain level of income. Flexible repayment schemes are also more expensive to administer, requiring capacity and know-how to be implemented effectively.

Table 2. **Selected education and training loan schemes**

Country	Loan scheme	Repayments	Public	Private
Finland	Student loan	Conventional (mortgage-type)	X	
Hungary	Student loan	Income-contingent/hybrid		X
Netherlands	Public student financial support	Income- contingent /hybrid	X	
Sweden	Study loans	Income- contingent /hybrid	X	
UK	Student loan	Income- contingent /hybrid	X	
Austria	Building savings loan for financing of education	Conventional (mortgage-type)		X
France	Loans guaranteed by the state	Conventional (mortgage-type)	X	
Netherlands	Private banks loans	Conventional(mortgage-type)		X
Poland	Student loan and credit scheme	Conventional (mortgage-type)	X	
Poland	Labour fund training loan	Conventional (mortgage-type)	X	
UK	Professional and career development loan	Conventional (mortgage-type)		X
UK	Kent Community Learning Fund Loan	Conventional (mortgage-type)		X

However, conventional (mortgage-type) schemes can also be modified in ways that do not add greatly to the administrative burden while reducing defaults, increasing take-up and improving impact. Repayment amounts could rise gradually to reduce burdens in the early years of someone's career. Repayments could also be deferred to help solve temporary problems.

Government subsidies make loans more attractive to borrowers. Subsidies can be direct, for example loans charging below market or even zero interest rates. Direct subsidies can also include grace periods for repayments or even writing off the loan. Indirect subsidies are also provided usually through a government guarantee that reduces the lender's risk.

However, general subsidies, namely those available to all borrowers, for public loan schemes can also be costly for governments. General subsidies that are too high or too easily available could lead to a lot of 'dead weight' by subsidising people who would have participated in education and training even if the loan had not been available. There is also a risk that the money will be used also for purposes other than that intended by policy makers. Government guarantees also have drawbacks as they shift the problem of default onto the public purse rather than the borrower.

High costs, failure to reach the target group and possibilities of abuse or dead-weight jeopardise a loan scheme's future. Consequently, when deciding the level of subsidy, there is an argument that governments should be fiscally prudent to minimise deadweight and the possibility of abuse. High subsidies for loan schemes should be carefully targeted specifically on, for example, disadvantaged learners with a need for financial assistance.

Role of financial institutions

Involving financial institutions has some advantages. The survey showed that default rates were lower in schemes operated by private institutions. Administrative costs were also lower in small, private schemes with short repayment periods and high interest rates.

Financial institutions have a largely operational role in most public schemes, managing the money, paying out loans, collecting repayments and helping customers having short-term difficulties in meeting repayments. Involvement of profit-making financial institutions in government loan schemes, however, must be clearly defined.

Links with other schemes and policies

Education and training loans, especially extensive ones, are more likely to perform better if linked with other financing schemes. However, the objectives of different financing mechanisms and their respective roles should be well defined.

Sweden and Finland, for example, link education and training loans with grants aiming to make them more attractive and effective and to provide better support to the disadvantaged. In Austria, education and training loans are linked with saving schemes

Implementation of loans should be coordinated with other wider policies, for example the tax system. In Finland education and training loans are linked with tax incentives, while in the UK, tax authorities help with the collection of repayments.

Charities should be encouraged to support marginal schemes targeting specific groups unable to access public or commercial sources of finance. One scheme in the survey, the *Kent Community Learning Fund* in the UK is an example of this approach.

As discussed, the rules of national loan schemes often do not cater for the needs of foreign students or home students wishing to study abroad. A well-targeted pan-European loan scheme for education and training could be a viable way to support mobility for learners. Such a scheme could involve international donors such as the European Investment Bank, which has already played a role in pilot projects in a few countries.

Flexible and simple, attractive and well targeted

It appears that a successful education and training loan scheme needs to be flexible and simple, as well as attractive and well targeted. A scheme's success will be influenced by national contexts including administrative capacities and the sophistication and willingness of financial institutions. They need to be supported by good communication and guidance policies for potential borrowers and should be closely monitored and evaluated.

Analysis of the survey shows that countries have tried several approaches to balance costs and coverage. While there is no single ideal model for education and training loans, it is possible to identify some core 'good practice' principles for designing and implementing them (Box 1).

Box 1. **Some core principles for education and training loan schemes**

- Extended eligibility (including part-time learners etc.)
- Flexible repayments with built-in income safeguard
- Operated by a specialised institution with expertise, know-how
- Level of subsidy aligned with loan schemes objectives;
- Involving private capital
- Involvement of financial institutions and tax authorities in administering loans, e.g. repayment collection
- Synergies with other financing instruments and other public policies
- Use of non-financial measures (monitoring and evaluation; communication and guidance strategies)

Of the education and training loan schemes examined, those seen as successful were attractive to learners, cost-effective to run and helped improve participants' employment prospects. Mostly, these schemes offered favourable repayment conditions, were run by institutions with financial expertise and were linked to other financing and cost-sharing arrangements. Extensive schemes with low government subsidies are likely to have political support and be financially sustainable. However, for schemes promoting equal opportunities there is a stronger argument for higher subsidies and favourable access conditions.

It may be that policy objectives to encourage participation in learning and to promote equal opportunities cannot be achieved by one education and training loan scheme. A mix of general and well-targeted schemes may be a better way to strike the right balance between cost and coverage.

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