

## **THAI STUDENT LOAN FUND AND ITS CURRENT STATUS**

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### **Abstract**

***Abstract:** A developed and well organized education system is an important component of a nation's development journey. Thailand has a long tradition of adjusting its educational policies to match the requirement of the contemporary labor market of the country. Primary and lower secondary education is mandatory and free of cost here. But higher secondary and tertiary level education is not free and at this level of education students drop out rate is very high. Both cost of education and opportunity cost of going to school are responsible for such drop outs. To facilitate the students at risk, the government provides student loan beginning from the higher secondary level. The aim of this article is to discuss current Thai education system, available loan fund and current status of that fund. Through related literature and document analysis, this article shows the generous nature of Thai Student Loan Fund and poor but continuously improving loan recovery process. This article provides a glimpse of the current status of the Student Loan Scheme in Thailand and might be used for the base of further study in loan distribution/repayment policy and implication. This study may also help in regional comparison of the student loan status.*

**Keywords:** *Thai education system, student loan fund, loan recovery*

## **1. Introduction**

Thai higher education system has come a long way since the commencement of its first university about a hundred years ago. Many developments observed during this long journey to meet the contemporary needs of the country. At the very beginning, Thai higher education institutes were built as an elitist organization to train the government officials which later turned into a method to educate mass people to develop the nation (Krongkaew, 2004). The Royal Decree of National Education, 1999 and The Royal Thai Constitution, 2007 clearly mention that all Thai citizens have the right to access the education provided by the Thai government. Moreover, every National Education and Social Development Plans emphasize on the development of education facility and quality all over the nation (Hallinger, 2014). Increasing government spending on education is one of the steps governments take to implement education development plan. Addition of student loan fund is one such development; the purpose of student loan fund is to give the access to higher education to the students from underprivileged families.

Besides, the world is aware of developing human capital along with other renewable capital/resources. Some researcher in late seventies studied the impact of developing human capital through education and training and found that investing in human capital increases the GDP significantly (Rosen, 1972; Mincer, 1974). This is also called the New Growth Theory of economics. Some other also believe that spending in education increases the income of the person and the society and increase in the income of the society is more than that of person (Dutta, Sefton, & Weale, 2003). In 2015 there was about 4 million labor force shortage estimated by the Office of National Economic and Social Development Board, Thailand and it is forecasted to grow 5.4 million by next 10 years. The current model of employing low-wage migrant workers from neighboring countries is becoming obsolete as the demand for and cost of such labor force is increasing everywhere. So, Thailand has to eye on more sustainable labor force by investing in the

technology based production process and improving human capital (Huguet, 2014).

Considering all these, governments all over the world provide different types of subsidy in education. A subsidized student loan is one of such effort.

Although student loan fund helps the students as well as the economy to flourish, it also has some drawbacks. If the loan fund is not efficiently managed it can only increase government spending and system loss of the loan sometimes exceeds its benefit. Deferred debt is one of the major issues faced by a subsidized loan which significantly impact on the efficiency of the loan fund. Therefore, the purpose of this paper is to discuss the Thai Student Loan Fund and its current status. This paper also focuses on the Thai education system and step by step development of financing options and its different characteristics.

## **2. Overview of Thai Higher Education System**

There are three types of educational system in Thailand; formal, non-formal and informal education (Ziderman, 2003). Non-formal and informal education provides basic skills and other forms of lifelong learning. This types of education targets disadvantage students (both children and adults) especially in the remote area of the country. A separate department under Ministry of Education (MOE) named Office of Non-Formal and Informal Education (ONIE) looks after such education activities at the national level. Besides, some other public authorities, private organizations and personal efforts, provide such education along with ONIE. According to the statistics over 2.6 million students currently enrolled in the non-formal education (office of permanent secretary, 2014).

Non-formal and informal education is beyond the scope of this paper; this article focuses on the higher studies of formal education. Since 1999 Thai formal education system has three layers; primary, secondary, and tertiary (UNESCO and IBE, 2011). The policy of compulsory years of

schooling has been changed several times to meet the criteria of the labor force in different era. Thai Compulsory Education Act requires 9 years of mandatory education since 2002 which was 6 years before then. Later Thai Constitution of 2007 emphasizes on 12 years of free mandatory education for all Thai citizens (Thai Government, 2007). Before entering into a university a student has to go through 12 years formal education; six years in primary (grades P1-6) and six years in secondary (Grades M1-6). Addition of pre-primary is comparatively a new one; it became a part of basic education since 2004 and provided free of charge since 2009. Pre-primary (for 1-5 years old children), primary (grades P1-6) and lower secondary (grades M1-3) is considered as basic education here and provided free of cost. Pre-primary education is recommended but not mandatory and later two are considered as mandatory.

Once students completed their mandatory education they may choose one of the two major streams of the upper secondary level; general and vocational. Students may select their track and major based on their interest and future plan (OECD-UNESCO, 2016).

In the tertiary level of education, a somewhat constant percentage distribution between vocational and general track is observed. During 2016 the percentage was 66% for general and 34% for vocational which is one percent different than the previous year (Office of Permanent Secretary, 2016). Thailand observed a rapid growing enrolment rate at the tertiary level, gross 51% in 2012, a major improvement compared to the end of last century (32% in 1999) (OECD-UNESCO, 2016). Government's education reform created this huge influx towards the universities for last two decades. Supply side is equally responsible for such increase. A very important characteristic of Thai education system is public sector plays a vital role in the higher education; every year about four-fifths of the total students are enrolled in public education institutes.

Unfortunately, inequality still exists in the Thai education system. The gap is visibly wide in the upper secondary level, 15-17 years old students

not-to-be in school from the lower income group of the society is twice than that of middle and high income groups of the same age (UNESCO, 2015). Education expense and the opportunity cost of education could be the major reason for this dropout rate. Good news is the gap is narrowing day by day but still, it is an issue to address (World Bank, 2008).

### **3. Thai Student Loan Fund**

Thai Student Loan Fund was established in 1996 by the Thai government. Although the loan fund began in the year 1996 the Thai Student Loan Act passed in 1998, two years later of its actual operation (Education Loan Fund Act, 1998). This loan fund is designed for the students from lower income group of the society to provide access towards the upper secondary and higher education as well as to reduce the existing gap between rich and poor in terms of educational right and human capital development. Student loan fund provided for upper secondary, vocational and undergraduate level of education. For the undergraduate level of education, the loan is directly forwarded to the university based on its previous record through Office of Higher Education Commission, OHEC. This loan fund covers tuition fees, other education expenses, and living expenses.

This fund is available only to the students coming from the families that earn less than 200,000 Baht per year. The student loan fund provides a loan at a lower interest rate and on very flexible condition. The total amount is repayable within the period of fifteen years after graduation or stops taking the loan in case of discontinued study. Students are allowed to take two years of “grace” period to start paying back if they do not get a job immediately after graduation. The loan ceiling varies depending on the field of study. At the undergraduate level, it ranges from 60,000 to 150,000 Baht per year for fees and other educational expenses whereas the living allowance is limited to 24,000 Baht per year.

Thai Student Loan Fund is a mortgage style loan which has to be paid back within a certain period at a certain rate. Mortgage style loan continues

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from the initiation of the loan fund since 1996. During 2006, the government started another type of loan fund along with mortgage style one called Income Contingent Loan (ICL) due to the loan recovery issues of the existing one. In ICL once the students enters into the work force and receive a salary, loan instalment would be automatically deducted. For some cases deduction is halted till students' salary reach a certain level, for Thai ICL initially it was 15,000 baht. After one year of operation, income contingent loan activity paused for a year due to the government change. It resumed operation during 2008 and ran for two years (2008 and 2009) before discontinue. There is no sign to restart ICL rather regular mortgage style loan is taking the characteristics of income contingent loan. Now the government is training corporations to deduct salary from loan receivers employed in their organization (Thai PBS, 2017).

Thai Student Loan Fund has very liberal repayment schedule and conditions. For the first six years of taking the loan (including the grace period), i.e., before starting the repayment it bears zero interest rate. Form the seventh year it has fixed one percent nominal interest rate. The repayment schedule is provided by the government is as follows:

**Table 1: Loan Repayment Schedule**

| <b>Year of repayment</b> | <b>Percent of the loan to be paid</b> | <b>Year of repayment</b> | <b>Percent of the loan to be paid</b> |
|--------------------------|---------------------------------------|--------------------------|---------------------------------------|
| 1                        | 1.5                                   | 9                        | 7.0                                   |
| 2                        | 2.5                                   | 10                       | 8.0                                   |
| 3                        | 3.0                                   | 11                       | 9.0                                   |
| 4                        | 3.5                                   | 12                       | 10.0                                  |
| 5                        | 4.0                                   | 13                       | 11.0                                  |
| 6                        | 4.5                                   | 14                       | 12.0                                  |
| 7                        | 5.0                                   | 15                       | 13.0                                  |
| 8                        | 6.0                                   | Total                    | 100                                   |

Source: Office of Permanent Secretary, 2016

In terms of repayment Thai student loan is very generous in nature. As the main purpose of this loan scheme is to provide a loan to the unprivileged

class of the society, therefore, a social venture, it cannot focus on the business side. Some also describe this very flexible condition comes from the Thai culture of generosity (Ziderman, 2002). Beside the above mentioned repayment conditions and schedule it also has a special provision in case of death or disability of the loan receiver. The loan amount is forgiven and written-off for the death or disabled persons. Furthermore, loan receiver may seek permission to extend the grace period for some other special occasions, like very low income.

Every year Thai Student Loan Fund amount is increasing in size covering wider area and number of the receiver. Loan fund amount includes both new allocations from the government and repayment of the old loan (principal and interest). Following table (Table 2) provides the amount of loan allocated each year until the academic year 2016 (2016 does not include repayment amount). Till the date, a total of 591,664.4572 million Baht is allocated to the student loan fund out of which 431,430.4722 million Baht is cash budget allocated by the government and rest 160,233.9850 million Baht is from the repayment amount (Parliament Budget Office, 2015).

**Table 2: Distributed Loan Amount**

| <b>Academic Year</b> | <b>Loan fund Amount</b> |
|----------------------|-------------------------|
| 1996-2009            | 383,547.4979            |
| 2010                 | 20,068.8410             |
| 2011                 | 18,000.0000             |
| 2012                 | 43,395.5205             |
| 2013                 | 39,617.6920             |
| 2014                 | 28,711.5882             |
| 2015                 | 36,623.3176             |
| 2016                 | 13,000.0000             |
| <b>Total</b>         | <b>591,664.4572</b>     |

Source: Parliament Budget Office, 2015

Unlike many other countries, Thai student loan does not cover only university level of education. Rather the student loan fund starts from the

upper secondary level of education. As the upper secondary level of education is considered as non-compulsory, student dropout rate at this level is very high. To guard this drastic fall out government provide a subsidized loan from this level of education. Although it helps many students, some students are still at risk for the opportunity cost of studying instead of working.

#### **4. Status of Repayment and Recovery**

Borrowers are required to start repayment following a grace period of two years after graduation or stop taking a loan. According to the loan condition borrowers have to report to the KTB, the responsible authority for loan repayment collection, their job and salary status within a month of formal job/employment commencement. Then the bank would inform the borrower about his/her repayment amount per month. If borrowers failed to repay, the bank contacts them through mail and phone. Persons unable to payback for the period longer than five months can be sued by the office of Student Loan Fund. Some exemptions are applied if informed duly. Exemptions include death, disability, unemployed, earning less than 4,700 baht per month and so on following generous nature of Thai culture (Ziderman, 2002).

All over the world, the student loan is usually softer than the ordinary loan schemes. There are some built in features which makes it flexible for the students, such as lower interest rate than the market, longer repayment period, nominal repayment instead of inflation adjusted the real amount and so on. The loan scheme which includes more of this feature becomes more flexible for students and they need to payback less percentage of the loan. In the case of Thai Student Loan Fund, the repayment period is 15 years and the interest rate is flat one percent which is much lower than current market rate. Thai generosity culture also reflected in the student fund. During the study period and grace period (two years) interest rate is zero percent. Moreover, there are many exemptions including death, disability, low salary and so on of the borrower (Tirasriwat, 2016).



To understand the level of “softness” of a student loan scheme a ratio named repayment ratio is used. Repayment ratio shows the percentage an individual actually paying back to the authority of the amount s/he borrowed. By using market interest rate, nominal and actual instalment amount and inflation this ratio depicts the amount of subsidy government (or any other authority involved) provide to the education loan. In other words, repayment ratio compares the student loan fund with an ordinary mortgage loan in the same country. As the student loan is a welfare activity for the unprivileged group of the society, usually, repayment ratio is much smaller than hundred percent. Using Johnstone’s (1986) method Shen and Ziderman (2008) showed that repayment ratio of Thai student loan is 30.08%. This calculation implies that The SLF is heavily subsidized, which is termed as “hidden grant” is about 70% in this case. It shows that Thai government provides around 70% subsidy in the student loan fund.

Repayment ratio shows the percentage a student has to pay of the amount s/he borrowed. But it fails to demonstrate the actual picture of loan recovery. Recovery considers the overall condition of the loan instead of individual perspective, i.e., the amount actually recovered compared to the amount should be recovered. Even if the loan fund is not subsidized at all, the full amount is rarely recovered. Beside planned subsidy in the form of interest free period, minimum interest rate and nominal repayment amount, there is some administrative inefficiency which hinders the full recovery of the distributed loan. The amount/percentage of shortfall depends on several issues such as repayment evasion, administrative cost and so on (Ziderman, 2004). So, a properly managed loan fund should keep the administrative cost minimum and recover the loan maximum (minimum default). In the case of Thai Student Loan Fund, there is another element which reduces the recovery rate of the distributed loan, the “forgiveness” for the death and disabled ones.

The summary of the performance of the SLF is given in table 3. Information collected from the report of Office of the Secretary of House of Representatives. The following statistics provide the information from the academic year 1996 to the academic year 2014 (data collected on 28<sup>th</sup>

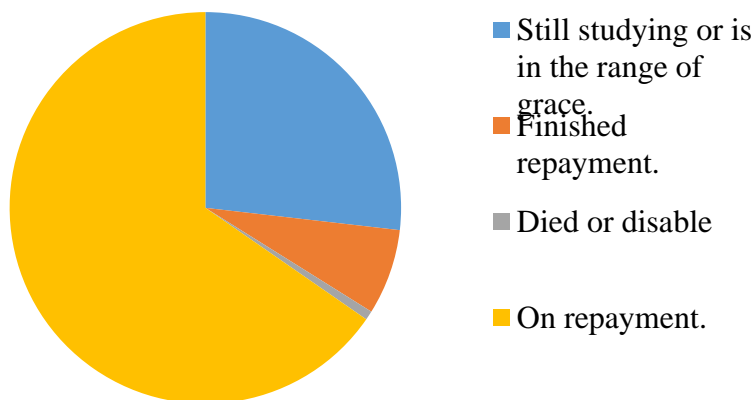
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February 2015). The report shows that there are 4,511,700 loan receivers out of them 1,209,864 persons are still studying or in the grace period (2 years), 319,334 persons completed repayment, 2,948,708 persons are on repayment and 33,794 persons are dead or disabled.

**Table: 3 Current Status of Loan Recovery**

| <b>Borrower group.</b>                         | <b>Persons</b>   | <b>Percent (%)</b> |
|--|------------------|--------------------|
| 1. Still studying or is in the range of grace. | 1,209,864        | 26.82              |
| 2. Finished repayment.                         | 319,334          | 7.08               |
| 3. Died or disable                             | 33,794           | 0.75               |
| 4. On repayment.                               | 2,948,708        | 65.35              |
| <b>A total of</b>                              | <b>4,511,700</b> | <b>100</b>         |

Source: Parliament Budget Office, 2015



**Figure 1: Current Status of Loan Receivers**

The table and figure above show that out of 4,511,700 loan receiver 2,948,708 individuals are on loan repayment. This 2,948,708 includes both

the people who are paying back regularly and the ones who are irregular or defaulter. There are 1,925,611 persons who are irregular or defaulter which is 65.3% of the total people under loan repayment. The proportion is 55.93% if the amount of money is considered for the same purpose. Table 4 shows the numbers to explain the loan recovery situation of Thai student loan fund.

**Table 4: Breaking Down the “Loan on Repayment”**

| <b>The list.</b>  | <b>Total</b> |
|---|--------------|
| 1. Borrower under debt repayment (person)   | 2,948,708    |
| 2. Overdue (person)   | 1,925,611    |
| 3. The proportion of overdue borrowers to the borrowers who are under debt repayment (%). | 65.30        |
| 4. Principal due (million Baht)   | 86,941.37    |
| 5. Overdue principal (in million Baht)  | 48,632.67    |
| 6. Proportion of overdue principal to the total principal due (%).                        | 55.93        |

Source: Parliament Budget Office, 2015

## **5. Conclusion and Recommendation**

Thai higher education system is developing continuously to fulfill the need of labor force of the country. As the higher education is not free of cost, some always remain at the risk of drop-out from the school. Thai Student Loan Fund inaugurated to help the students at risk. It offers financial assistance to the students from low income families and helps them to continue their studies. This objective can be achieved if the loan is distributed properly and looked after carefully for recovery. A good management system would be helpful to perform this better.

Since the beginning, this fund helped hundreds of thousands of students in need and contributed significantly to enrich the Thai labor force. Keeping this loan scheme alive is very much important for both social and economic environment of the country. Some authors expressed concern over the

continuation of this loan fund for its very generous, almost grant like conditions (Ziderman, 2003; Tangkijvanich & Manusbunpeampun, 2006). But after 20 years of operation, this loan fund survived and expanded its area. To continue operating and helping the unprivileged group of the society, the administrative capability of the loan fund should be strengthened. Loan distribution should occur where it is needed. Some other criteria might be taken into consideration beside family income, like dependent of the family, priority to the area of labor force shortage and so on.

For loan recovery, administrative capacity should be increased to reduce the default rate. The calculation shows that still more than 50% loan is labelled as default even after disregarding high rate of hidden grant. The government cannot inject an indefinite amount of money into the loan fund continuously, the loan should be recovered and reused at the maximum level. A current initiative by the government to get workplaces involve in loan recover could be helpful to improve the situation. Besides, tighten the repayment policy and providing incentives to the regular instalment payer could help loan recovery process.

Finally, through the help of student, administrator, corporations and other concerned authorities, this loan fund can survive and continue helping the students in need. This loan fund gives the access to higher education to the students from a low-income background, therefore helps to minimize inequalities and develops the human capital of the country.

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