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Enlarging the social basis of higher education: Lessons learned from extending a social support system with a risk-sharing loan scheme in Portugal

Manuel Heitor [a,*], Hugo Horta [a,b], Miguel Leocádio [c]

[a] Center for Innovation, Technology and Policy Research, IN+, Instituto Superior Tecnico, University of Lisbon, Lisbon, Portugal
[b] Division of Policy, Administration & Social Sciences Education, Faculty of Education, The University of Hong Kong, Hong Kong Special Administrative Region, China
[c] Novabase Business Solutions, Lisbon, Portugal

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ABSTRACT

The challenge of enlarging the social basis of higher education during a period of recession and economic and budgetary problems is discussed with particular reference to Portugal in terms of extending a social support system for low-income students through a risk-sharing loan scheme introduced in 2007. The social support system in Portugal, which was significantly enlarged until 2010 to cover more than 20% of the total higher education population (i.e., about 70 thousand students), has been considered a rather successful and relevant policy tool for opening up access to higher education. On the other hand, in its initial years of operation, the new system of student loans was characterized by a low penetration rate, with a total of about 21 thousand student loans being issued in the period 2007–2014. However, it has been very relevant because it has facilitated the introduction of a "new culture" of investment in higher education. The new system involves a risk-sharing scheme with a mutual guarantee underwritten by the State involving the banking industry. It follows the practice of mortgage-type student loans in other countries but includes an innovative element of mutuality, which was key to making use of private finance at a time when a further extension of public funds was impossible. It complements existing social support grants, rather than replacing them, and hence improves equity in access to higher education by extending students' options. Its low take-up rate can be attributed to: i) the relatively large penetration and number of advantages of the public social support system; ii) student and family concerns over defaults; and iii) restrictions by the lending institutions in association with the financial crisis, which have had particularly large implications for the banking industry.

1. Introduction

The underlying assumptions of this article are that students matter and that the foremost purpose of government increases in funding for tertiary education is to increase participation rates and extend its recruitment base (Barr, 2004, Heitor, 2008; Phelps, 2013). Consequently, student support mechanisms aimed at the diversification of student income sources are critical in fostering student participation in tertiary education and contributing to the qualification of the labor force (Kallison and Cohen, 2010). The question to be addressed is, how can different incentives and funding mechanisms developed in modern financial markets during the last decade be adapted and used to attract more people to tertiary education?

There are two key interrelated issues. The first relates to the diversification of income sources for students. It also refers to efforts to increase and balance the offer of loans and grants and their use by students. The second is associated with the development of innovative loan systems and their combination with flexible legislation to foster student income. This article addresses both issues and is motivated by the need to expand the social basis of tertiary education students in times of increasing uncertainty. It examines the introduction of student loans in Portugal aimed at complementing the relatively large existing support program of social grants and in a context of severe public budget constraints.

Nicholas Barr (2008), among other scholars, argues that it is important to guarantee that graduates (not students) share the costs of education. Although this argument merits praise for promoting access to tertiary education, the long-term benefits – or constraints – of such a policy are contingent on the developmental stages of higher education systems, the social and economic backgrounds of graduates, and post-graduation employment and earning prospects (Chapman and Liu, 2013; Chapman et al., 2010). Still, the main issue is that the correct cost-balance to be shared between taxpayers, graduates, and other private sources, has still to be determined, with well-known consequences for the most economically disadvantaged (Barr and Crawford, 2005). Additionally, the current trend in mass and universal higher education systems is one of the

* Corresponding author.
E-mail address: mheitor@ist.utl.pt (M. Heitor).

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decreasing investments by the state – unable to cope with the costs – vis a vis the investment of families and students (Sanyal and Johnstone, 2011). In this context, students in many economic contexts are being asked to raise financial resources to respond better to all the challenges and costs of their academic life (including indirect costs), namely through loan systems, preferably without being over-burdened by loan repayment after graduation (Rothstein and Rouse, 2011).

Taking this into account, the OECD, in its Review of Portugal's Higher Education Policy carried out in 2007, underlined the need to foster student participation in tertiary education, and to introduce a student loan system that took into account national fiscal circumstances. It also called attention to an overall situation of constrained public finances incompatible with solely publicly funded loans which involve large sums of public financing, both for loan funding, management and institutional support (Johnstone, 2004).

These circumstances led to an alternative approach followed by the Portuguese government in the fall of 2007, consisting of two complementary actions: first, enlarging the social support system in order to cover at least 20% of the total tertiary education population (i.e., about 70 thousand students); and second, introducing a mortgage-type student loan scheme with mutual guarantees underwritten by the State, aimed at complementing rather than substituting the system of student social grants. By the end of the 2013–14 academic year, a total of 20,922 loans had been contracted through the banking system, complementing the on-going grant programs. Although this may be considered an extraordinarily low take-up of the system, this article argues that it represents an important achievement in a country with no tradition of student loans and with middle-class families under severe financial restrictions. In addition, the default ratio is low: only 5% (yearly average) of the total loaned value was not repaid within five years (with a highest value of 9.33% relating loans contracted in 2007–08).

This article examines the complementing nature of the two schemes used, drawing on data from national public sources, the literature, and international organizations to characterize the Portuguese situation before and after the scheme was launched. The following section summarizes the relevant information about the conditions associated with enrolment in tertiary education in Portugal to frame the discussion in the context of the need to diversify student income sources and open up access to tertiary education. Section 3 briefly describes the different options and experiences involved in the adoption of student support schemes worldwide and presents the specific characteristics of the loan system involving a mutual guarantee scheme being implemented in Portugal. Section 4 discusses the lessons learned from the Portuguese experience in adopting a loan system, with the aim to shed light on perspectives for its evolution. Section 5 concludes our analysis.

2. Building capacity and nurturing talent: why do we need student support schemes?

2.1. Striving towards skilled human capital

The number of students enrolled in tertiary education determines, in part, a country's future competitiveness in terms of its ability to create, transform, and use knowledge in innovative ways (Fagerberg et al., 2007). According to data for 2005 and 2012, an average of about 4 students per 100 population were enrolled in tertiary educational programs in European Union countries in the first decade of this century. Although the figure varies significantly between countries (in Greece, Lithuania and Finland, around 6 students per 100 inhabitants were enrolled, and in Italy and Malta, around 3), Portugal follows the average. Nevertheless, because of adjustments for the demographic situation across countries, the most important statistics are those with reference to enrolment rates in tertiary education for youth cohorts (Fig. 1). These figures are relevant because Portugal is below the average, with only about one third of youth aged 20–24 enrolled in tertiary education.

From a simple estimate of the number of young people aged 20–24 who are currently engaged in tertiary education, in addition to those who already hold an advanced academic degree, and given the current tertiary education completion rates, one can assume that by 2020, 30% of the 20–24 age group in Portugal and most European regions will be graduates. Consequently, in order to meet the European Strategy 2020 goals, which entails 40% of that population group graduating from tertiary education by 2020, many more thousands of the 20–24 age group all over Europe will need to complete their graduate studies. This applies to Portugal, where tertiary education graduates comprised only 29% of the 20–24 age group in 2013 (while 37% is the European average).

In this context, the role of tertiary education as a promoter of social mobility should be highlighted, as measured, for example, through the number of tertiary education students with parents with formal tertiary education levels (Costa et al., 2009). While in 1999, the percentage of students in tertiary education in Portugal with one parent holding a tertiary level degree was only 28%, this figure rose to 35% in 2007. On the other hand, the opportunity of access to tertiary education by students with a parent with a tertiary education degree in 1999 was 14 times that of students whose parents had only received compulsory education or less. In 2007, this ratio decreased by a factor of 10. However, it should also be noted that, as a consequence of the impact of the financial crisis of recent years, the aforementioned number decreased in 2012 to values around those of 2007, and this has been associated with the reduction in public expenditure including direct social support for students

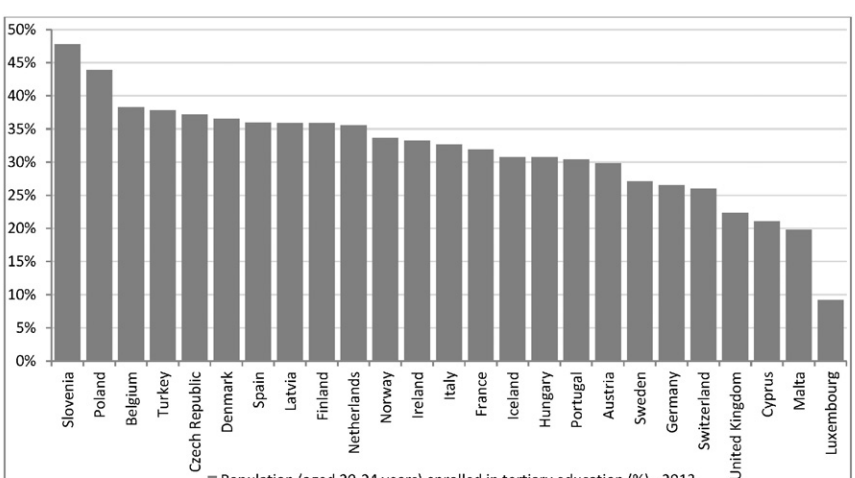

Fig. 1. Enrolment rates in tertiary education for youth cohorts (20–24 years old), 2013. Source: Eurostat.