

The European Students' Union – ESU

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## Non-paper on the Erasmus Loan Guarantee Facility for Master Students

The European Students' Union takes a careful note regarding the European Commission's proposal on setting a European Loan Guarantee Facility for Master students in the frame of "Erasmus for All" programme (2014-2020). We acknowledge the efforts of the European Commission to come up with new ideas to fill the gap for funding degree mobility. However, we believe that establishing such a mechanism in times of the current economic uncertainty will bring more damage to young people instead of increase their chances for better lives. We call on the European Parliament and Council for Education Ministers to consider the arguments from the European Students' Union (ESU) on **why we oppose establishing a European loan guarantee facility**.

- The proposal comes at the time of economic hardship and financial insecurity, **barely reflecting on the future prospects for young graduates in the EU**. Even though surveys do show that a master's degree increases the chances for employment, this is true only for a number of countries. The majority face structural discrimination against young people in the labour market. The scheme acts as a guarantee to the banks, so they would not lose their profits, but not as a guarantee for students, so that they will get a well-paid job to repay their debt after getting a degree.
- ESU reaffirms that providing student support is primarily a responsibility of the member states. Since the Bergen Ministerial Communiqué (2005), governments have been repeating their commitment to full portability of grants and loans. Therefore the first and foremost concern should be putting this promise into action. In a number of EU countries students can get support to study abroad on favourable conditions (Denmark, Finland, the Netherlands). We believe that instead of setting up a new scheme on the European level, **which fails to ensure a full income-contingency model**, governments should revitalise their efforts towards implementing Bologna goals.
- ESU is concerned over the impact such a loan guarantee facility would have on **brain drain**. It has already been noticed that there are significant disparities among regions in terms of higher education attainment with rural, less developed regions lacking high-skilled individuals<sup>1</sup>. The Commission's

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<sup>1</sup> The 'Mind the Gap - education inequality across EU regions' report: [http://ec.europa.eu/education/news/20120914\\_en.htm](http://ec.europa.eu/education/news/20120914_en.htm)

proposal fails to address this issue and risks to deepen the problem further. Since the financial intermediaries will be providing mortgage-based loans without an unemployment or low-income guarantee, individuals will be incentivised to move to certain countries (mostly Western Europe or outside EU).

- We believe that the current proposal to facilitate the loans through predominantly private financial intermediaries **lacks of any risk-analysis about the impact it will have on young people's debt**. The consequences of such funding initiatives can be best seen in the case of the United States. On 30<sup>th</sup> of June 2012, total loans outstanding exceeded \$914 billion<sup>2</sup> and Americans now owe more on student loans than on credit cards. With the increase in total loans, the loan delinquency has also increased and **more and more young people are struggling to repay their student loans**.
- **The aspect of relieving PhD students from replaying the loan**, once they have finished their master's degree and decide to continue their studies, **has not been addressed in the proposal**. This will be a major disincentive and possible a barrier for outstanding students to seek further education, as they would have to take up any job to start minimising their debt.
- ESU member unions have adopted a clear stand against the loan scheme as it is currently being discussed. ESU is a democratic structure, through its network of national unions, representing over 11 million of students. We are surprised to hear that no consultation to the students, who are the potential beneficiaries of the scheme, has been launched so far. **We are sceptical that the conditions defined in the proposal will be attractive for students and will justify the 5% total budget allocation to the scheme**. ESU wants to stress that such a proposal first and foremost should take into account the interests of students, rather than of the financial intermediaries.
- ESU wants to point out that the maximum amount set for the loans per individual (10 000 EUR/ year) **does not reflect the real needs of students to pay tuition fee and/ or cover living costs in most of the attractive study destinations**. Therefore the loans would remain accessible only for students from more privileged backgrounds, who can get support from their families or otherwise finance their stay abroad, rather than widen access for participation for underrepresented groups and promote social mobility.
- ESU takes into account that facilitating loans through the financial intermediaries in the member states is a less costly option than for example centralizing it on the European level. However, it minimises the level of control for the European Commission over the whole facility and **reduces the**

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<sup>2</sup> As it is shown in the latest latest *Quarterly Report on Household Debt and Credit*, published by the Federal Reserve Bank of New York: [http://www.newyorkfed.org/research/national\\_economy/householdcredit/DistrictReport\\_Q22012.pdf](http://www.newyorkfed.org/research/national_economy/householdcredit/DistrictReport_Q22012.pdf)

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**ability to set equal conditions for the loans and for all students to apply for a loan.**

To conclude, ESU strongly calls upon the Council for Education Ministers and the European Parliament to consider the points raised by the European students. The proposal comes at an inconvenient time without a proper impact assessment or a consultation having been carried out. Too many questions remain unanswered in order to know the real effects or attractiveness of the facility.

Shall you have any further questions or considerations, please do not hesitate to get in touch with ESU's Executive Committee ([ec@esu-online.org](mailto:ec@esu-online.org)) or ESU Chairperson ([karina.ufert@esu-online.org](mailto:karina.ufert@esu-online.org)).

*ESU – The European Students' Union - is the umbrella organisation of 47 national unions of students from 38 countries, and through these members represents over 11 million students. The aim of ESU is to articulate and promote the educational, social, economic and cultural interests of students at a European level towards all relevant bodies and in particular the European Union, Bologna Follow-Up Group, Council of Europe and UNESCO.*