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Total Approach to Financing Higher Education Students Loans

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Abstract

Worldwide, there is now a significant increase in demand for higher education. This is challenged by the limitations of public resources for financing the same; Woodhall (2004), Cheboi (2008), Ishengoma (2006), Johnstone (2004) in various researches works. Financing of students in higher learning institutions in Tanzania, has over time largely being dependent on Government resources, which have been extended through various forms. The current main arrangement of financing students' loans is through Higher Education Students' Loans. However many challenges are surrounding its undertakings, including general reluctance of the public on cost sharing policy, High rates of expansion in higher education and consequently large increase in the number of students anticipating a student loan as the core means of support, Insufficient funds for loans to cover the growing demands and Low rate of repayment emanating from difficulties in tracing the loan beneficiaries. In such environment a need to have a total approach towards financing students is of paramount importance.

This paper intends to unveil a total approach financing framework for efficient higher education students financing by analyzing the social economic factors influencing demand and mapping of higher education financiers to suite the demand.

The study has adopted Frequency Distribution Analysis by using pivot tables for all data to run the pattern of applicants' in each independent variable. Secondary data for **2,923** students from three higher learning institutions have been used.

The trend in all the three institutions indicates that a larger percentage of the students require a larger loan amount and are coming from the most needy families, On the contrary 25.4% of the students who are not given loans, as they are categorized not to be needy, have their parents with education level Masters or PhD**.** The results suggests that with the conceptual framework proposed in the study the 70% of all applicants could be accommodated by other financiers with more stringent terms compared to those of HESLB using public resources.

In conclusion, in search for a total approach to financing of loans for higher education students, by HESLB could consider bborrowing from Financial Institutions and Banks at a concessional rate and relend to various categories of students, Engagement of non-Governmental Institutions in provision of higher education financing by mapping the financiers and the demanders and hence adopt a total approach framework in financing.

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CHAPTER ONE

1.1 Introduction

Worldwide, there is now a significant increase in demand for higher education. This is challenged by the limitations of public resources for financing the same; Woodhall (2004)[i], , Ishengoma (2006)[ii], Cheboi (2008), Johnstone (2004) in various researches works. Higher Education is widely accepted as a leading instrument for promoting economic growth in that it plays a key role in training qualified individuals who will be capable of implementing new technologies and using innovative methods to establish more efficient enterprises and institutions and thus allocate resources more effectively, for this case Tanzania not in isolation.

Financing of students in higher learning institutions in Tanzania, has over time largely being dependent on Government resources, which have been extended through various forms. Prior to its independence in 1956, the colonial government established the Tanganyika Education Trust Fund which focused on building and maintaining higher education institutions in place by then and provided scholarships and bursaries as well to inhabitants of Tanganyika (Ishengoma, 2004)[iii].

Implementation of the cost-sharing policy in the higher education subsector ushered in the Higher Education Students' Loans Scheme whose implementation was staggered in three phases. The First Phase of the Scheme was introduced in 1992/1993 in which higher education students were required to meet the cost of travelling to and from their institutions, application fees, students union subscription, pocket money, to name but a few.

The second phase followed in1994/1995 through which, in addition to paying for the items listed in the first phase, students were required to pay for meals and accommodation. Since the cost for the items was high, thus rendering it difficult for many students to afford, the Loan Scheme was put in place to assist the students to pay for the two items.

Following the successful implementation of the Second Phase of the Loans Scheme, the Third Phase was embarked upon with the establishment of the Higher Education Students Loans Board by Act No. 9 of 2004. In this phase, students were required to meet the costs enumerated in Phase One and Two as well as tuition fees. In the course of implementing its obligations as mandated by the Act, the Board has been successful in creating enabling environment for increased enrolment in higher education institutions

Despite such measures that have been undertaken, a major challenge faced by governments throughout the world, in both industrialized and developing countries, is the response to the twin pressures of rising demand for admission to higher education on one hand and a heavy constrained public budget to support the same on the other (**Woodhall, 2007)**[iv]**.** Therefore, for many countries both rich and poor, a large cost of higher education has been borne by the Government.

The same has been a case for Tanzania; the Higher Education Loans Board has been encountering challenges which militate against its operations. The challenges include, but are not limited to:

i. General reluctance of the public on cost sharing policy that extends into reluctance by loan recipients to recognize and accept that the funds provided by the Loans Board are loans and not grants thus fully repayable,

ii. High rates of expansion in higher education and consequently large increase in the number of students anticipating a student loan as the core means of support,

iii. Insufficient funds for loans to cover the growing demands of loans by all the needy and eligible students,

iv. Inadequate system of identification and verification of financial ability of loan applicants and their parents/guardians,

v. Low rate of repayment emanating from difficulties in tracing the loan beneficiaries, and general apathy towards loan repayment and submission of wrong information by students.

In view of the challenges mentioned above, it is apparent that the current modalities for mobilization of funds and issuance of loans to higher education students need to be critically examined with the view to suggesting sustainable modalities of funding and sustaining the Higher Education Students Loans Scheme.

This paper intends to unveil a conceptual framework for efficient higher education students financing by analyzing the social economic factors influencing demand and supply higher education financing. It will therefore analyze the demand side which will focus at the principle of channeling education resources through students and their parents contribution towards financing the same and supply sides of the higher education students' financing through analyzing the economic factors affecting suppliers to funding in the form of formal public financing, formal private financing and informal private financing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Social economic factors affecting demand for higher education financing

Responding to the pressure of growing social demand for education, expansion which requires sizeable increase in public expenditures could be contained by offsetting additional revenues from increases in student fees, by reduced public institutional support. A complementary measure is to encourage the growth of private educational institutions **(Ziderman, 2000)**[v]. Ideally in private institutions students pay full costs, with a minimal burden on the public purse. However, full-cost fees are likely to be sizeable and beyond the reach of large segments of the population. Therefore, a student loans scheme has a central role to play in easing the burden of private fees, particularly in the existing endeavor to make private education widely available.

Loan schemes may also aim specifically at providing support to students who are willing to study in fields of national manpower priority (e.g. medicine and engineering) or to work in areas of social importance (teachers serving remote rural areas). The areas of national manpower priority have been identified and actually form part of the decision processes in students loan mobilization and disbursement.

However, in many countries the relative low enrolment of students from poor economic backgrounds in higher education is a cause of social concern. Therefore, increasing the access to higher education among these segments of the population has become a major element in educational and social policies. There is a broad consensus that clear financial incentives need to be offered to overcome the burden of fee payments and living expenses on the part of poor sections of the Tanzanian population.

In Tanzanian, unlike other countries with similar loan schemes, the existence of Higher Education Students' Loans Board which extends loans to both students attending public and private institutions has permitted the Higher Education institutions to expand, thus increasing the overall access to higher education and therefore implying increasing the participation rate of the age cohort that ought to be in higher education; table 1 below reveals the amount of money issued as loans

Table 2.1: Trends of financing higher education students through (from July 1994/95 to 2004/2005)

Year	Students loaned	Increase(%)	Amount loaned (Tshs Billion)	Increase(%)
1994/1995	**6,061**		**1,651,070,000**	
1995/1996	**6,780**	**11.8 %**	**1,768,059,900**	**0.0%**
1996/1997	**7,951**	**17.0 %**	**2, 030, 801,500**	**14.8%**
1997/1998	**7,701**	**-3.0%**	**2, 790, 580,629**	**37.4%**
1998/1999	**8,227**	**6.8%**	**3, 609, 982,950**	**29.3%**
1999/2000	**9,101**	**10.6 %**	**3, 830, 471,000**	**6.1%**
2000/2001	**10,008**	**9.9%**	**4, 091,464,441**	**6.8%**
2001/2002	**12,376**	**23.6 %**	**5,362,583,000**	**31.0%**
2002/2003	**13,223**	**6.8%**	**7,308,809,350**	**36.2%**
2003/2004	**15,467**	**16.9 %**	**8,776,638,644**	**20.0%**
2004/2005	**16,345**	**5.6%**	**9,883,224,500**	**12.6%**
Average increase	**-**	**10.6 %**	**-**	**19.42%**

During the 2000s, Tanzania has witnessed significant transformation in the access to primary, secondary and higher education. The statistics indicates that a Net Enrollment Ratios of 94% for primary school age cohorts, 52% of standard seven leavers enrolled to secondary schools and 49.2% of the form six leavers are enrolled into Higher learning institutions (BEST, 2011) .

Year	Students loaned	Increase (%)	Amount loaned (Tshs Billion)	Increase (%)
2004/05(By the Ministry)	16,345	-	9.9	-
2005/06	42,729	161.4	56.1	466.7
2006/07	47,554	11.3	76.1	35.7
2007/08	55,687	17.1	110.8	45.6
2008/09	58,798	5.6	139.0	25.5
2009/10	72,035	22.5	184.7	32.9
2010/11	92,791	28.8	230.04	24.5
2011/12	94,773	2.14	317.78	38.14
Average increase	-	12.49	-	33.7

In average, 65.7% constituted male students whereas 34.3% constituted female students among those who received loans (HESLB, 2010)[vi]. The transformation in the higher education enrollment has been enabled by the success of Secondary Education Development Programme (SEDP) and Primary Education Development Programme (PEDP), (Sumra&Rajani, 2006)[vii] . These changes have inevitably increased the pressure on public funds required for financing the same and hence need for critically analyzing the market for higher education students financing.

In modern times, however, higher education is considered as a means of developing human capital resources in a society. As argued by Muhammad (2002), Barnet (1993)[viii] and Blaug (1973) higher education is recognized today as a capital investment and is of paramount importance for economic and social development of the country.

A loan scheme need to be equally accessible to all bona-fide students, implying the students who are poor and needy (Cheboi 2008),

2.2 Snapshot of the existing Higher Education Financing in Tanzania through HESLB

The Board provides loans to students admitted to pursue Advanced/Higher Diplomas and degrees at accredited higher education institutions in and outside the country. Loans are also given to Higher Learning Staff undertaking Masters and PhD degrees within the country. Loans are provided to students of both public and private higher learning institutions. The loans were interest free up to 2011/2012. Interest at 6% p.a. is being charged, beginning 2011/2012. The loans issued by the Board are meant for Tanzanians who are needy and have not secured any other funding for the same. In the absence of Smart Card based National IDs, the Board has been forced to use Proxies in Means Testing, beginning 2011/2012. Proxies for Means Testing and Weights are based on Educational Background of the Applicant by analyzing the cost borne at lower levels of education including ordinary and advanced levels adjusted by Orphanage, Disability of the applicant and of the parents as well as Single Parency. The trend of issuance of loans is indicated in table 1, below;

Table 1: Issuance of loans from 1994/95 to 2005/06

Year	**Students loaned**	**Increase(%)**	**Amount loaned (Tshs Billion)**	**Increase (%)**
1994/1995	**6,061**		**1,651,070,000**	
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2004/2005	**16,345**	**5.6%**	**9,883,224,500**	**12.6%**
Average increase	**-**	**10.6 %**	**-**	**19.42 %**

Source: HESLB reports, 2012

As revealed in afore tables provided, HESLB inherited loans amounting to **Tzs.51,103,685,914.00** issued by the Government between 1994 and 2005.After its establishment in July 2005, HESLB issued loans valued at **Tzs. 1,087,858,123,119.80** (up to 30.06.2012)Total loans disbursed to Higher Education students between July 1994 and June, 2012 is **Tzs. 1,138,961,809,033.80** (see Tables 1(a) and 1(b) below)The Board has been allocated a budget of **Tzs 326.0 billion** as Loanable funds for 2012/2013, for lending to **98772** students.

2.3 Analyzing the Higher Education Students' Loans Financing Mapping

The study analyses the mapping of financing higher education students, through four main key players, including;

- Formal Public Financing: f' (tax revenues) (Government subvention)
- Loan repayment: f' (interest) and f' (rate of recovery= amount collected/matured loans)
- Formal private financing: f' (interest rate; commercial or concessional) (Including CRDB Bank, NBC Bank, NMB Bank, and prospective banks)
- Informal Private Financing: f' (cost of accessing the finances)

The main focus of the analysis here is establish the market share for which each financier is accommodating out of the total demand for loans existing in the market. This is from the basic fact that the pattern of economic abilities of students varies significantly, hence a need to establish the distribution of students by category of their background, and map with appropriate financier, through which the load of financing is distributed accordingly.

2.3.1 Formal Public Financing: as function of tax revenues (Government subvention)

It is worthwhile to point out that, from its establishment, the Board was vested with the duty of collecting loans issued by the Government from 1994/95. This assignment had to start with establishment of a database for all those who were given loans, particularly those who were given loans by the Government and hence effective loan repayment begun in 2008.

The cumulative loan beneficiaries traced up to 30th June, 2012 were 43,946 which were 40% of the 110,529 students whose loans are due for repayment. The cumulative outstanding loans of all traced loanees were Tzs. 86,256,187,261.79 which was 54% of the principal loan amounting to Tzs. 160,730,886,339.00 which was due for repayment as at 30th June, 2012.

Table 2, Cumulative loan repayment trends

Year	Annual Collections	Cumulative collections
2006/2007	53,616,011.00	53,616,011.00
2007/2008	858,941,262.29	912,557,273.29
2008/2009	1,176,404,180.00	2,088,961,453.29
2009/2010	2,147,075,264.78	4,236,036,718.07
2010/2011	4,409,171,729.99	8,645,208,448.28
2011/2012	11,508,714,785.96	20,153,923,234.24

The factors attributed to the above shown improved performance in tracing loanees and collection of loans is the implementation of the reviewed strategies including that of instituting the monthly loan repayment installment at the rate of 8% of the basic salary of the loan beneficiaries and the use of databases of our strategic partners in the course of tracing loan beneficiaries. Close monitoring and supervision of the performance of the appointed Debt collectors were also one of factors that attributed to the significant improvements in tracing and collection of loans during the period.

A self-financing student loans scheme requires initially large and growing disbursements, as the scheme builds up. In principle, total disbursements should then level off as the first cohorts of borrowers complete their studies and exit the education system; subsequently the loans fund becomes self-sustaining as loan repayments increasingly finance the loans to new borrowers.

2.3.2 Private formal financing of students loans

Private formal financing of students loans, calls for engagement of banks, financial institutions, microfinance institutions for the purpose of issuance of students' financing through loans at a fee for facility, known as interest. This form of financing students' loans can be well presented by analyzing the mapping of institutions responsible for financing higher education. Stuart (1976) thought that the benefits of education were also observable in economic terms and therefore a part of educational expenditures could be regarded as an investment with an economic rationale underpinning it.

In most countries of the world, higher education is heavily subsidized by the government. Apart from merit motives and the presumed presence of externalities of education, the main argument in favor of these subsidies is that the government should guarantee accessibility of higher education (Jacobs, 2006)

2.3.3 Financially Sustainable Students Loans Scheme

The concept of total approach to students Loan is aiming at bringing in other players other than the Government to finance students loans. In developing countries would actually refer to the process that a reality as it is the case in developed countries. Financial sustainable loan scheme has two dimensions as described hereunder.

2.3.3.1 Affordability of Loans Issued

This is function of the availability of public funds or rather budgetary allocation and the degree needed to subsidize the issuance of higher education students' loans. Two contexts have to be borne in mind in understanding the issue of affordability for loans. First is in the context of borrowers who meet their repayment obligations, but ultimately effective rate of interest on their loans fall short of the underlying cost of money, administrative costs and cost of servicing the loans. Secondly, in the context of borrowers who fail to fulfill their repayment contractual obligations out of inability to repay or unwillingness to repay the loans.

2.3.3.2 Ability to Tap Private Capital Markets

In theory and practice, amount lent out to students as study loans should largely come from banks and other private source rather than government budget, and at the same time obligate the government to bear part of the interest on loans during the study period as well as subsidize a portion of it during the agreed repayment period. The Government also maintains the role of paying the lender for loans in default.

In theory therefore, financial sustainability of a student loan scheme could be attained by eliminating or at least minimizing government subsidization and the inherent risks associated with students' loan scheme.

2.3.4 Experiences from Well Performing Students Loan Schemes

The vast majority of countries which utilize funds from financial institutions to issue loans are developed countries, including USA, Australia, UK, and Sweden. The developing countries that utilize funds from financial institutions to issue students loans include; Malaysia and Chile

The Malaysian case have been used to demonstrate the possibility of using financial institutions, In this case, the Malaysia Government provide guarantee to the National Higher Education Fund Corporation, which in turn borrow from the financial institutions and ready for onward lending to students (who are monitored through their employers and guarantors). The money collected from loan repayment is then invested in the capital market as indicated in Figure 1below;

Furthermore, experience gathered from neighboring countries with similar loan schemes namely Kenya, Rwanda, South Africa and Ghana shows that no other country has started sourcing students' loanable funds from private capital market. They entirely rely on Government subvention and loan repayments to raise the required loanable funds.

Considering the infancy of primary and secondary private capital markets in Tanzania, coupled with low incomes of people, the concept of student loan sustainability need to be re-defined to consider continued funding of student loan scheme through Government subvention, loan repayment and internally generated funds supplemented with limited borrowing from banks and issuance of education bonds.

2.3.5 Mapping of higher education financing institutions

Higher education Students' Financing mapping refers to various forms of financing available, whereby students access financing of their studies at a cost. This may take a form of public, based on tax collection, private formal, based on prevailing commercial interest or informal based on interrelations and a revolving fund based on rate of repayment of the already Government issued loans. Understanding the mapping, specifically by targeting towards the higher education students' financing and taking into account the differences between this kind of mapping and that of products, may result in an improved situation for students access to Higher education Students' Financing and hence increased enrolment in Higher Education Institutions. As more and more students are drawn into private higher education throughout the world, it becomes imperative for governments and stakeholders to consider how privates can and do contribute to meeting

Undoubtedly this situation of relying on only one source of supply contributes to higher education students financing mapping inefficiency. In the five years of operations of the HESLB the demands for financial resources from the public purse has increased tremendously. Despite the fact that number of loaned students have been increasing at a higher rate since 2005, the gap between numbers of students enrolled in various HLIs against those who receive loan has been widening from 5% in 2006/07 to 38% in 2009/10, an indication that the rate of growth in enrollment outweighs that of loaned students. This signifies that as the gap keeps on increasing there would be more pressure for loan since loans are in more seen as right rather than an alternative financing.

4.0 Data and Methodology

4.1 Data

A sample of **2923** students enrolled in University of Dodoma, University of Dar es Salaam and St Augustine University has been randomly selected and analyzed using SPSS to obtain pattern for each independent variable in determining the extent of demand for loans, and a framework for ensuring a stable higher education students financing through mapping the financiers.

4.2 Methodology

The study has adopted Frequency Distribution Analysis by using pivot tables for all data to run the pattern of applicants' key variables and analyse the impact that each of the independent variable adopted in the analysis have implication on the amount of loans one needs.

The study on the other hand has analyzed factors affecting the demand of higher education students financing. The variables that have been adopted includes the following: Sex(S) Parents' education level (Pe), Social economic status (Ss), Family assets (Fa), Costs of lower education (Cs), An error term (ε)

The study has analyzed significance of each variable in determining the intention to seek for higher education financing as a result of not being able to afford the same using family resources, as well as mapping the characteristics of different beneficiaries of the existing supply means and hence establish a Gap which causes inefficiency in the market.

4.3 Findings

A Frequency Distribution Analysis count has been adopted to analyse the pattern of applicants for each independent variable variables to analyse the demand for loans, by students

Table 3: Summary of distribution of neediness by Institution of study

Count of MTGRADE			
INSTITUTIONCODE	MTGRADE	Total	
SAUT	100%	45	3%
	90%	296	20%
	80%	288	19%
	70%	201	14%
	60%	112	8%
	50%	107	7%
	40%	261	18%
	30%	71	5%
	20%	36	2%
	10%	20	1%
	0%	43	3%
			0%
SAUT Total		1480	
UDOM	100%	107	8%

	90%	323	24%
	80%	265	20%
	70%	167	12%
	60%	93	7%
	50%	102	8%
	40%	185	14%
	30%	55	4%
	20%	23	2%
	10%	19	1%
	0%	19	1%
UDOM Total		1358	
UDSM	100%	6	7%
	90%	18	21%
	80%	13	15%
	70%	12	14%
	60%	7	8%
	50%	5	6%
	40%	15	18%
	30%	5	6%
	20%	3	4%
	10%	1	1%
UDSM Total		85	
Grand Total		2923	

The trend in all the three institutions indicates that a larger percentage of the students require a larger loan amount and are coming from the most needy families with most of their family income low, and also with parents education none, or primary level education.

Table 3: Count of Fathers Education a needy students

Count of FATHER_EDUCATION			
MTGRADE	FATHER_EDUCATION	Total	%
100%	ADVANCED DIPLOMA/DEGREE	6	3.8%
	CERTIFICATE/DIPLOMA	4	2.5%
	MASTERS/PHD	3	1.9%
	NONE	87	55.1%
	PRIMARY	46	29.1%
	SECONDARY	12	7.6%

The count of fathers' education reveals that 55.1% of all those students who are categorized to be supported at the rate of 100% of the costs of training, have their fathers without education. This implies that with little or no education of the parent, the likelihood of a parent to have little resources is greater

Table 4: Count of Fathers education (A non-needy student)

Count of FATHER_EDUCATION			
0%	ADVANCED DIPLOMA/DEGREE	13	20.6%
	CERTIFICATE/DIPLOMA	10	15.9%
	MASTERS/PHD	16	25.4%
	NONE	6	9.5%
	PRIMARY	8	12.7%
	SECONDARY	10	15.9%
K Total		63	

On the contrary 25.4% of the students who are not given loans, as they are categorized not to be needy, have their parents with education level Masters or PhD, this suggest that there is a direct correlation between parents education and the neediness of an applicant.

Table 5: Parents education level of education for those of 90% requiring assistance

90%	**CERTIFICATE/DIPLOMA**	**6**	**0.9%**
	MASTERS/PHD	**1**	**0.2%**
	NONE	**386**	**60.6%**
	PRIMARY	**225**	**35.3%**
	SECONDARY	**19**	**3.0%**
B Total		**637**	

Table 5 above reveals that, most of the applicants in this category are from families for which parents are with no and or primary schools education.

Table 6: Summary of Means test results for the total sampled students

MTGRADE	Number of students	Percentage
A	158	5%
B	637	22%
C	566	19%
D	380	13%
E	212	7%
F	214	7%
G	461	16%
H	131	4%
I	62	2%
J	39	1%
K	63	2%
	2923	**100%**

Table 6 reveals that out of the total sample size the applicants with requirement of over 80% accounts for a larger percentage of 22% compared to others this is an indication that most of the students in the higher learning institutions are needy.

However, the distribution also indicates that these students have different pattern indicating great deviance in terms of their economic capabilities, thus calling for a various financiers with different set of requirements to engage in providing financing.

5.0 Policy recommendations

With the increased enrollment trends, financing of higher education students ought to take various forms mapped as follows;

5.1 Borrowing by HESLB from Financial Institutions and Banks

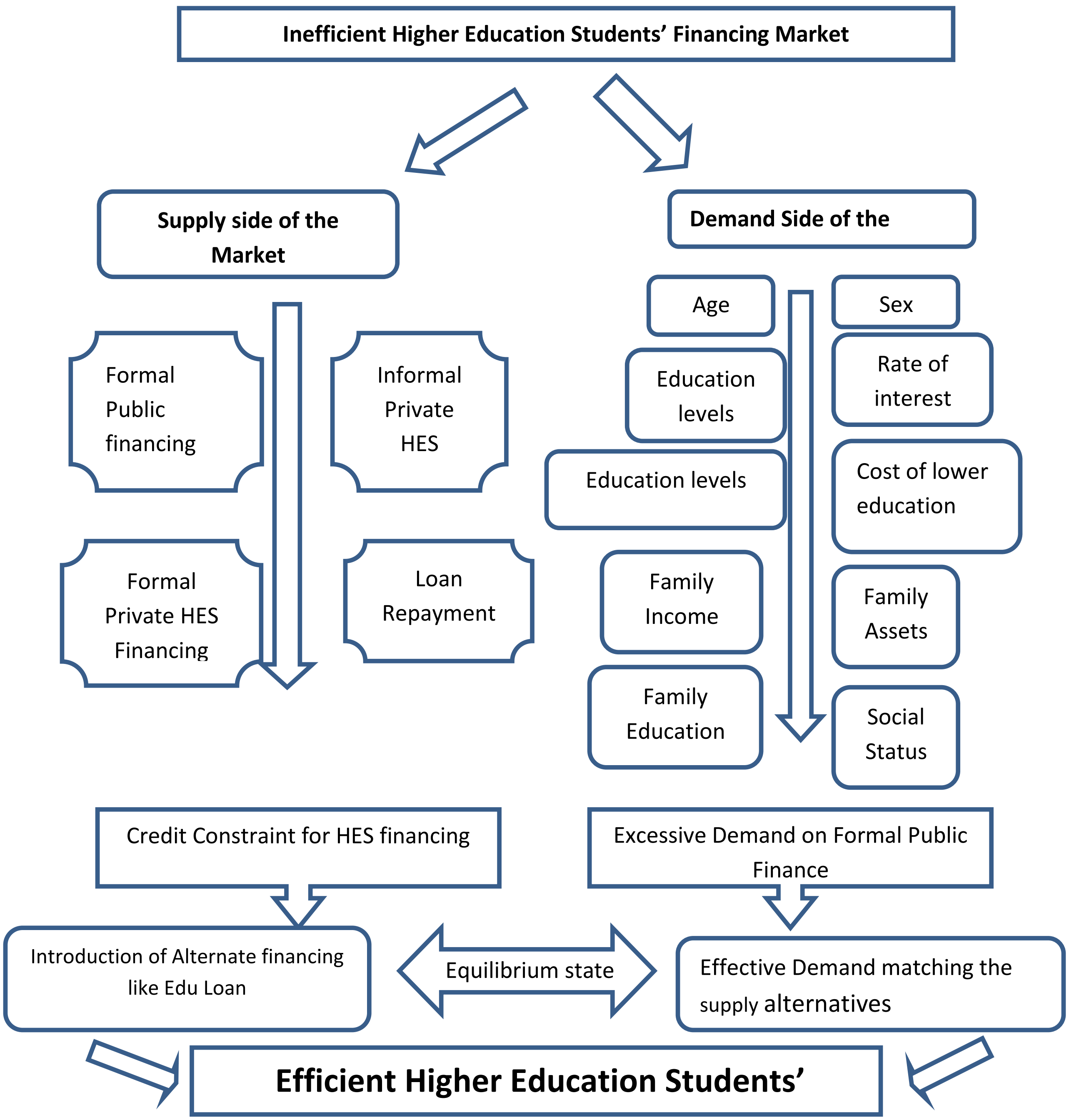
Since creditworthiness of the majority of students and their poor parents may prevent access to students' loans on commercial rates, it is imperative that the Government guarantee HESLB to take loans from commercial banks and financial institutions at a concessional interest rate (interest below the commercial rate), and the loans be repaid over a period of five (5) years, a period required by students to complete their courses as well as time needed to liquidate the issued loans.

5.2 Engagement of non-Governmental Institutions in provision of higher education financing by mapping

In Tanzania, though HESLB do exist with the main purpose of extending financing to the needy students through loans, still there are many students who are admitted to join higher education and fail to secure financing through this arrangement. In 2008/09 applicants and beneficiaries were 74,983 and 58,798 respectively, where as in 2009/10 the figures were 84,975 and 72,035 respectively and in 2010/11 the numbers were 106,848 and 92,791 respectively (HESLB,2011), thus indicating that about 17% of the applicants do not succeed to get financing through loans.

Financial institutions with such a product like NMB, CRDB, UTT and SMEs should engage themselves to issue financing to students whose family can afford the terms and conditions set by these institutions and hence reduce the reliance on HESLB loans.

3.1. **A need to adopt the following conceptual framework in financing of higher Education students loans**



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