

An Empirical Analysis of Financial Performance of Higher Education Students' Loan Scheme (HESLS) In Tanzania:

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Abstract

Higher education in Tanzania has become increasingly important on national agendas and has undergone profound mutations and reforms over the past decades. There has been growing diversity of higher education institutions and increasing the student's demand that exceed the budget allocated by the government. This trend called for one organ to coordinate and supervise all issues related to students' financing in higher education. In a view of that, the government established higher education students' loans board (HESLB) to manage that activities, which started to operate in 2005. This study uses the regression model to examine financial indicators drawn from the CAMEL model to analyze the financial performance of HESLB operating in Tanzania. Findings show that the financial performance correlate significantly with all set of indicator variables (Government subvention, Current ratio, Cost ratio, Repayment rate, and Operating self-sufficiency). In addition, it was found in this research that ROE model approach is a better model for assessing financial performance of HESLB operating in the country than ROA. In the end, the study suggests that the HESLB should improve loan collections, control costs of operations, and reduce handling of non-earning current assets. Finally, the present results will be a useful tool for policymakers and education stakeholders in improving students' financing environment.

Keywords: Higher Education Students' Loans scheme (HESLS), financial performance, financial drivers, nonprofit organization, HESLB Tanzania

1. Introduction

The aim of Higher Education Students Loans Scheme (HESLS) in Tanzania is to facilitate eligible and poor needy students to acquire loans for financing their higher education. Although HESLS has funded thousands of students since its inception 1994, there are still thousands of eligible and poor needy students remain unserved due to high demand that exceeds the capability of the government allocated budget. In the country like Tanzania where there is no special basket for financing students in higher education, HESLS competes with another sub-sector within the education sector such as primary and secondary sub-sector. It also competes with health and infrastructures sector to receive budget from government. In addition, the yearly disbursed loans of above Tshs 306 billion exceed the amount approximated by government officials and policy makers. For that reasons, government, donors, and education stakeholders have been struggling to find excellent approach for financing unserved students. Although financial drivers have proven to measure financial performance in a profit organization efficiently, there is limited studies that have applied this approach in measuring the financial performance of the nonprofit organization like HESLS. This study aimed to bridge that gap.

Worldwide, many countries established HESLSs to encourage cost sharing in higher education. Most of

these schemes promote equitable access and containment of government expenditure on higher education (Devesa and Bloom, 2007). Today, more than 70 countries globally have introduced higher education student loans schemes (Shen and Ziderman, 2008; Albrecht and Ziderman, 1992; Woodhall, 2004). For example, countries like Hong Kong and India both located in Asia established HESLS in 1998 and 2001 respectively while Slovenia, Poland, and Hungary from Europe introduced the scheme in 1999, 1998 and 2001 respectively. Indeed, Egypt (2002), Kenya (1991) South Africa (1994) as well as Tanzania (1994) both located in Africa continent implemented the scheme. These schemes aimed to facilitate students to obtain loans for financing their education and allow them to repay their loans after graduation and expiration of the grace period. In some countries, the policy has outperformed, but others have failed and abandoned them (Johnstone and Teferra 2004; Mohadeb 2006; Johnstone and Marcucci 2010). There are three reasons underlying the disappointment of the schemes; first, poorly designed of loan scheme coupled with excessive default, low-interest rate or free interest rate and lower repayment rate. Second, inadequate and unsustainable financing mobilization, and third, inefficiency administration and management resulting in higher operating cost, poor targeting of eligible and poor needy student (Johnstone, 2010).

These reasons and many others have raised a debate and drawn considerable attention of the researcher to investigate the financial performance of the HESLS in financing students in higher education. The debate for evaluating the implementation of the budget have been intensified recently following the financial scandals surrounding non-profit organization such as embezzlements and corruptions. Also, due to the recurring in inadequate performance of non-profit organization and inapplicability of the financial drivers in evaluating the financial performance of non-profit organization. In addition, there has been a need to put in place the structure for assessing the financial performance of non-profit organization like HESLS. For decades, researchers and international organization such as IMF, WB, UNESCO, and OECD have been working closely to ensure that HESLSs fulfill their missions.

Like any other countries, HESLS in Tanzania plays two bottom line objectives to accomplish its mission. First, to facilitate eligible and poor-needy students to acquire loans that assist them to finance their higher education. Second, to collect all due loans one year after graduation with an intention of creating revolving fund. Currently, the scheme in the country is managed by higher education students loans board (HESLB). HESLB has been managing the activities tied up with HESLS for ten years since its inception in 2004. However, the HESLS started its operation in 1994 and was led by the Ministry of Higher Education, Science and Technology (MHEST) until 2005 when HESLB inaugurated. In terms of activities, HESLS in Tanzania has been operating like other financial institution with the exception that it does not hold the characteristics governing profitable organizations. Apart from maintaining non-profit nature, also it does not accept savings and it does not provide another form of credits rather than students loans. Since its establishment in 1994, thousands of students have managed to receive a loan for financing their higher education. The number had been growing tremendously since 2004/2005 academic year when HESLB started its operations. Report shows that the loan beneficiaries increased from 6,061 to 16,345 with total loan amount of Tshs 1,651,070,000 and 9,883,224,500 billion between 1994/1995 and 2004/2005

respectively (HESLB, 2013). This trend is equivalent to an increase of 169.7% for loan beneficiaries and 498.6% with respect to total loan amount. In 2005, one year later when HESLB started its operation the number of loan beneficiaries reached 42,729 with the total loan amount of Tshs 56,111,371,483 billion. Since then there has been a tremendous increase in number of loan beneficiaries as well as the total loan amount. For example, in 2012/2013 academic year the number of loan beneficiaries reached 96,615 with the total amount of Tshs 318,127,765,718 billion (HESLB, 2013). These increases have been threatening the stability of scheme and ability of the government to finance eligible and poor needy students. Although, policymakers, researchers, and international organization acknowledge the importance of HESLS in facilitating students to obtain loan funding their higher education, and they are tired of working closely to ensure that HESLSs fulfill their missions. It is upset that up to now the operations of the scheme depend heavily on subsidies from the government and donors and not self-sufficient organ. In addition, since the establishment of HSLs in the country, there is no assessment concerning financial performance carried out to evaluate the factors affecting the financial performance in Tanzania. As mentioned previously, the financial drivers have been applied in measuring financial performance of a profit organization; therefore, the same approach can be used to measure non-profit organization. The present study sought to investigate the Financial Performance of HESLS in Tanzania. The study uses regression model as a statistical method and applies financial indicators drawn from the CAMEL model to assess the financial performance of the HESLB for a period of seven years. The study presents several aspects that are necessary for evaluating financial performance and its drivers.

The remained part of this paper is structured as follows. Section 2 gives the statement of the problem; Section 3 presents the literature review; Section 4 discusses the Research Methodology and Data; Section 5 provides model formulation; Section 6 offers the results and discussion; Finally, Section 7 outline the conclusion and recommendations followed by appendices

2. Statement of the Problem

The increasing demand in higher education and budget constraints to fund all students in higher education forced many governments worldwide to establish a systematic approach to coordinate the process of financing students in higher education. In Tanzania, the government created HESLB and entrusted it to manage and improve the performance of HESLS to reduce dependence on the government. However, the government has been increasing the amount of pay-out loan to the student beyond the expectation of policy makers, and the number of unserved students has been increasing beyond the control. For that reasons, governments, scholars and policy makers started to question whether the financial performance of the HESLS is reliable in terms of how appropriately HESLB is utilizing the funds allocated to finance students in higher education. Besides, researcher interest another attractive area includes: the way the scheme designed; the extent and degree of autonomy granted to HESLB as the corporate body entrusted to manage the system. The capability of the government to support the scheme bearing in mind that the scheme depends on the government and donors. The role of the scheme in facilitating higher learning students in accessing loans and the ability of the system to collect loans from graduates. From the areas mentioned above, this study has drawn various convincing reasons that portray a considerable need to conduct a study that evaluate the financial performance of HESLS in Tanzania via HESLB as a unit of analysis. In addition, inspiration has led this study to use regression analysis with financial driver's derived from CAMEL model to evaluate the financial performance of the HESLB in Tanzania.

The following research questions used to obtain relevant information for this study

- I. What the level of financial performance of HESLS in Tanzania as analyzed via HESLB?
- II. How and to what extend the financial drivers proposed in CAMEL model contribute to the current level of financial performance

3. Literature review

In recent years, performance measurement attracts many researchers worldwide; it is one of the crucial concept explaining the growth of an organization. It has defined and explained by different scholars including (Almajali et al. (2012); Iswatia and Anshoria (2007); Neely et al., (2002); Moullin (2007); Bounds et al., (2005); Mouzas, (2006); Zheng (2010); Meyer and Herscovitch (2001); Robins, (2000)). Based on the importance and motivation for evaluating financial performance of a non-profit organization such as HESLSs many researchers dedicated time to carry out some study regarding financial performance around the globe. For example, an assessment performance measurements has been illustrated by various researchers, see Helman and Kennedy-Phillips (2011), Thomas et al., (1995) and Robert (1995) for details. Consequently, academician and practitioners have offered a variety of performance measurements framework and models for analyzing financial performance (Ostroff and Schmidt, 1993). Barres et al., (2005) used SEEP to gauge the organizational performance in evaluating financial performance. In addition, Keegan et al. (1989) proposed the performance measurement matrix (PMM) while Neely et al., (2002) developed the performance prism and Kaplan and Norton (1992) introduced the balanced scorecard.

Financial Performance in non-profit organizations have proven to be a hottest topic in academic and research forum. It has received remarkable considerations in non-profit organization around the globe. Researchers have reported that non-profit institutions such as HESLS are poorly performing and does not meet the objects with respect to its establishments. Albrecht and Ziderman (1992) evaluated students' loans and their alternative in improving the performance of deferred payments program. This study found that many students' loans schemes are not performing well, and they suggested that, in order to improve financial effectiveness, students' loans programs should target needy students. In addition, the hidden subsidies can be limited by charging positive real interest rates. The organization that manages the scheme also must have enough manpower and the financial incentive to collect loans, in this case they focused on banks, private collection agencies, and/or tax departments.

Shen and Ziderman (2008) examined the student loans repayment and recovery of different countries around the world. This study found that most students' loans schemes benefit from sizeable built-in government subsidies are subject to repayment default and administrative cost that are not passed to student borrowers. Based on their findings, they concluded that the student loans scheme should have a revolving funds and finance themselves unless government will continue injecting funds annually to cover the costs of subsidies and losses from non-repayment. Further, noted that to improve performance it is important to reduce the level of grants and administrative cost. In fact, subsidies affect the loans performance compared to default and administrative cost.

Similarly, Otieno (2004) investigated student loans in Kenya by analyzing the experiences, current hurdles, and opportunities for the future. This study indicates three factors that contribute to poor performance of students' loan program in Kenya including poor administration, high costs and lower recovery. The author suggested that in order to improve the performance of the scheme there is a need to improve recovery by charging borrowers with interest rates, employee aggressive enforcement of loan recoveries and use banks and other private capital sources to achieve the goal.

The study by Johnstone and Marcucci (2010) assessed how the students' loans scheme works in low – and middle – income countries focusing on enhancing asset values and tapping private capital. The study revealed that, students loan scheme are faced with three major problems, the supply of capital for new and renew students lending depend on a combination of prior year repayments and the current year's government operating budget. While repayments are woefully low due to excessive and needless subsidization and very high default rates, the current year's operating budget compete with other social and politically compelling claim such as basic education, public health, social safety net and infrastructure. The other problem is the way these schemes treat these loans as expenditure instead of the asset. They concluded that this problem can be handled by improving the design of students' loan scheme ordinarily via charging interest, improving recovery through reducing

default rate and covering risk.

Devesa and Bloom (2007) conducted a survey to analyze the key indicators of student's loan performance by comparing student's programs in Latin America and Caribbean. The study presents four key indicators including penetration rate, administration costs, delinquency rates, and default rates. They concluded that apart from the above mentioned key indicators other factor that explain the difference between the performance of loan scheme including credit bureaus, economy, political, labour market condition such as level of employment, quality and relevance of education. Also, sophistication of the repayment mechanism example through deferring payment of borrowers in temporary hardship and outsourcing to professional collection companies, and institution capacity and leadership.

Woodhall (2004) analyzed the potential, problems, and lesson from international experience in relation to the performance of HESLS. The study point out five main factors that contribute to poor performance of some of the scheme. These factors include the ability to secure and maintain adequate capitalization as substantial initial capital. Since student loans is a long term investment, it may take several years for repayments to generate a significant stream of income for financing higher education. More scheme involve a substantial amount of subsidies, and they also involve some inevitable losses due to illness, unemployment, default and death of borrowers. Loan repayment will not be sufficiency to finance the new generation of student in full. Another problem is the best way of administering the loan scheme to secure repayment and minimize default.

Analytical research concerning students loans scheme in Thailand conducted by Chapman et al. (2010), Tangkitvanich and Manasboonphempool (2010), and Ziderman (2010). Results from these references revealed that government students loans scheme have implicit interest rates subsidies that have a tendency of increases the cost to the taxpayers and at the same time minimizes repayment burdens to the graduates. The study recommends that income contingent loan is better compared to the mortgage type loan scheme. In addition, the study noted that the system stayed for

about ten years without being evaluated and had serious weaknesses in terms of loan screening, delay in loan disbursement and low collection rate. Furthermore the study found that the scheme failed to promote enrolment except for students from poor family and the average repayment was about 20%, and the overall recovery, taking into account repayment default and administrative costs is 10% or less. The study recommends that there is a need to increase average repayment and recovery ratio close in line with international experience.

Nuwagaba (2013) looked at the other funding approaches that are suitable for financing higher education in Rwanda. Findings conclude that costs sharing approach adopted in the country is a good model, despite the challenges noticed during the implementation. Finally, suggested the use of PPP, tuition fees, banks loans and internationally generating funds will stabilize and increase the financial performance of higher learning schemes. Similarly, Hayman (2011) noted that adequate higher education funding is crucial for a county's economic growth because inadequate funding in higher education has significant effects on potentials of economic growth due to shortage of educated manpower.

Jonathan and Peter (2011) proposed the use of public-private partnerships as suitable mechanisms for improving higher learning education outperformed in some sub-Saharan Africa countries. In addition, Adeniyi and Taiwo (2011) analyzed the capability of cost sharing approach in higher education in Nigeria, and their results provided a positive response to the adopted method. Moreover, Culkui and Mallick (2011) conducted a similar study in UK, which concluded that producing employable graduate government must invest. Results noted that higher education funding in United Kingdom keeps going down and expected to reach pound 4.2 billion at the end of 2015. Teferra and Alfbach (2004) argued that cost sharing operating in Tanzania is the best approach to increase the educated manpower. Based on the Tanzania policy of cost sharing in higher learning education it was suggested other states to adopt. With the reasons that the government should be involved in financing direct costs of higher learning education leaving other responsibility like

allowance to families of students.

Nitume (2011) addressed the challenges and success of HESLB in facilitating higher learning education students using a qualitative approach. The study revealed that the services offered to stakeholders are not satisfactory due to poor customer services, and there is inadequate ICT infrastructure. The study also identified a mismatch between demand and available fund, resistance to cost sharing, inability to verify the information, and low pace of recovery as challenge facing HESLB operating in the country. Contrary to Nyahende (2013) this study, which revealed that the criteria for identifying and granting loans to students are not satisfactory. These references showed that HESLB perform relatively well in increasing enrollment and expanding higher education in the country, despite, inadequate collection of due loan.

Ssempebwa (2011) reported that Uganda has succeeded in implementing cost sharing approach at its public higher learning institutions and has ability to generate funds through fees charges. While Bar (2011) marked that quality education is not cheap, so responsibilities related to higher learning education should not be left government alone. Therefore, owing the importance of education in economic development states worldwide must reform education systems targeting to boost higher education institution through cost sharing

Nyahende, (2013a) examined the influence of students' loans borrowers' characteristic on the default rate in Tanzania. The study used the students' loan repayment to analyze its impact to age, gender and altitude on the students' loans default rate. The study found that all three identified factors influence students' loan default rate significantly. Since older borrowers have more financial obligations than younger borrowers, the rate of payments for this group is very low. As regards to gender the study argued that male are more like to default relative to female because male are more materialist, competitive, and they find no need to repay loans while the need to improve their life. Finally, the study argued that an individual with an adverse attitude toward repayments is more likely to default relatively to those with a positive attitude. In addition, Nyahende (2013b) conducted a research to evaluate the success of students' loans in

Financing Higher Education in Tanzania. The study revealed that, students' loans in Financing Higher Education in Tanzania is advantageous as it increases enrollment of students in higher education institutions. It also revealed that HESLB is employing enough efforts to recover loans granted to loan beneficiaries since 1994. As regard to the guideline and criteria, the study found that they are satisfactory. The study recommends that, enrollment decision-making has been affected by other factors other than a successful students' loan financing these includes political factors, economic factors, family influences and school impact.

Despite the reaserchers to acknowledge the importance of HESLSs in facilitating the operation of higher education sector, there is limited studies addressing financial performance of HESLS globally including Tanzania. Inspired by reasons mentioned above, this study attempts to use regression model as statically approach and apply financial drivers drawn from CAMEL model to evaluate the financial performance of HESLB operating in Tanzania. The evidence provided by this study will be useful to policymakers and education stakeholders for policy formulation and interventions that aim to boost higher learning scheme.

Therefore, from the above analysis, we propose the following three hypotheses:

4. Research Methodology and Data

5. Model Formulation

After reviewing the literature on organization performance mainly financial performance incorporated in measurements frameworks. The study noticed that up to now there is no agreement concerning a complete set of drivers that evaluate financial performance of a non-profit organization. However, there are common understanding about the type of drivers necessary for evaluating financial performances such as DuPont model and the CAMEL model. This study uses linear regression model to analyze financial performance, which include the CAMEL model drivers. Following the work of Keating et al. (2001) and that of Saltzman and Salinger (1998), the regression model used for analysis is expressed as follows:

$$PF = f(C, A, M, E, L) \dots \dots \dots (1)$$

Where;

PF = Financial Performance, C = Capital Adequacy, A = Assets Quality, M = Management Efficiency, and L = liquidity

The explicit form of the model is

$$FP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \mu \dots \dots \dots (2)$$

Where;

This study seeks to explore the Financial Performance of HESLS operating in Tanzania. The HESLB was selected as a unit of analysis. The study employs both quantitative and qualitative research approach, both secondary and primary data for analysis. Secondary data were extracted from HESLB Audited financial reports whereas financial ratios and indexes for seven years from 2006 to 2012 were constructed, studied and empirically tested and analyzed. In the other hand, Questionnaires, interviews, observation and discussion group, were used to collect primary data. Thereafter, the study used regression model to analyze financial indicators drawn from the CAMEL model and the statistical tool used to assess and measure the financial performance is the STATA. The STATA software is flexible and simple for understanding and processing the collected data.

The indicators used to analyze the level of financial performance include. Return on asset (ROA) and Return on Equity (ROE) as depended on variable. ROA provides information about the efficient of the management in generating its income by using its assets. On the other hand, Return on Equity (ROE), measures the extent to which an organization has an ability of generating substantial profit to cover the risks of involving in the business. The capital adequacy, Asset (portfolio) quality, Management Efficiency and Liquidity are regarded as an independent variables

PF = Financial performance measured by ROA and ROE

β = is a regression coefficient,

Table 1: Description of Variable Used in Regression Model

Description			Variables	Measurement
Dependent variable	Return on Asset (ROA)		ROA	Total income to its total asset
	Return on Equity (ROE)		ROE	Total income to total Equity
Independent /Explanatory Variables	Capital or Resource Adequacy	Resource concentration index	X1	The sum of square of each revenue source divided by total revenue
	Liquidity	Current Ratio	X2	Current asset to current liabilities
		Net Working Capital	X3	Asset less current Liabilities
		Leverage	X4	Total Assets to Total Liabilities
	Asset quality	Loan Repayment Ratio (LRR)	X5	Loan collected from borrowers to due loan
		Portfolio at Risk	X6	Non- performing loan to total asset
	management efficiency	Revenue efficiency	X7	Internal generating revenue/funds to the total portfolio
		Cost efficiency	X8	Total Cost to Total portfolio amount
		Operational efficiency	X9	Total cost to Internal Generating Fund
	Size	Total asset	X10	Natural Log of the Total Assets of HESLS
	Microeconomic factors	Inflation	X11	Consumer price index (CPI) – inflation rate

Table 2: Financial indicators for the seven years period (2006 – 2012)

Liquidity Ratios								
Years	2006	2007	2008	2009	2010	2011	2012	average
Quick Ratio	0.125	0.098	0.022	0.012	0.026	0.018	0.014	0.045
Current Ratio	9.671	2.081	10.861	0.612	1.705	0.987	1.050	3.852
Management Efficiency								
Years	2006	2007	2008	2009	2010	2011	2012	Average
Operational (OSS)	0.884	0.439	0.298	0.396	0.456	0.314	0.296	0.441
Portfolio to Asset	0.867	0.507	0.444	0.359	0.337	0.286	0.287	0.441
Cost Efficiency	0.020	0.049	0.050	0.043	0.036	0.034	0.035	0.038
Revenue efficiency	0.018	0.022	0.015	0.017	0.016	0.011	0.011	0.016
Asset Quality								
Years	2006	2007	2008	2009	2010	2011	2012	average
Repayment rate	0.002	0.025	0.030	0.034	0.050	0.102	0.114	0.051
Resources Concentrations								
Years	2006	2007	2008	2009	2010	2011	2012	Average
Capital Concentration	0.566	0.792	0.913	0.984	0.984	0.986	0.965	0.884
Earnings Ratios								
Years	2006	2007	2008	2009	2010	2011	2012	Average
ROA	0.016	-0.029	0.021	-0.022	0.000	-0.010	-0.007	-0.004
ROE	0.032	-0.048	0.027	-0.026	0.000	-0.011	-0.008	-0.005

Table 3: Results for ROA MODEL

Source	SS	df	MS		No of observation	7
					F(5, 1)	288.42
Model	0.002032305	5	0.00040646		Prob > F	0.0447
Residual	1.4093E-06	1	1.4093E-06		R-squared	0.9993
Total	0.002033714	6	0.00033895		Adj R-squared	0.9958
					Root MSE	0.00119
ROA	Coef.	Std. Err.	t	P>t	[95% Conf.Interval]	
Gov- Sub	0.1671	0.0161	10.39	0.061	-0.037	0.371
Current	0.0066	0.0003	21.61	0.029	0.003	0.011
Cost	1.8154	0.4502	4.03	0.155	-3.905	7.536
Loan	0.8218	0.1306	6.29	0.1	-0.837	2.481
OSS	0.2303	0.0373	6.17	0.102	-0.244	0.704
Constant	-0.3842	0.0534	-7.19	0.088	-1.063	0.294

Table 4: Results for ROE MODEL

Source	SS	df	MS		Number of observation	7
					F(5, 1)	4145.98
Model	0.00383981 5	5	0.00076796		Prob > F	0.0118
Residual	1.85E-07	1	1.85E-07		R-squared	1
Total	0.00384	6	0.00064		Adj R-squared	0.9997
					Root MSE	0.00043
ROE	Coef.	Std. Err.	t	P>t	[95% Conf.Interval]	
Gov-Sub	0.2117	0.0058	36.31	0.018	0.1376	0.2858
Current	0.0082	0.0001	74.11	0.009	0.0068	0.0096
Cost	0.5545	0.1632	3.4	0.182	-1.5194	2.6283
Loan	0.6325	0.0473	13.36	0.048	0.0310	1.2340
OSS	0.1790	0.0135	13.23	0.048	0.0071	0.3509
Constant	-0.3531	0.0194	-18.24	0.035	-0.5991	-0.1071

6. Results and Discussion

The analysis for evaluating the financial performance of the HESLB operating in Tanzania has been carried out into two major segments. Starting with the analysis of Financial Performance

using financial ratios and after that it followed by the analysis using the linear regression model by applying the financial drivers drawn from CAMEL model. In the beginning, as indicated in (Table 2) the financial ratios were calculated from HELB Audited Financial Statement for seven years started

from 2006 to 2012. During the period, the results show that HESLB has recorded low level of performance as indicated by ROA and ROE. The average return on asset (ROA) was negative 0.004 meaning that on average HESLB was operating at a loss. On the other hand, the average return on equity (ROE) was negative 0.005 which demonstrating that the value of equity was deteriorating yearly. The average operating self-sufficiency (OSS) was 0.441 indicating that the internal generating funds are lower than the total operating costs meaning that HESLB was operating below breakeven point. In addition to that, there was a decreasing trend of yearly OSS that suggest the existence of inability to cover operating costs using operating revenue. Despite the fact that the average expenses are higher than the average internal generating fund, it still below the required average costs based on the best practices. The best practices in Tanzania is that, if the government could commission the private bank to manage the students' loan portfolio the government could have paid a minimum of 5% of the total loan portfolio. In view of that, when compared with the best practice in Tanzania, HESLB is a relative cost effective. It is also affordable compared to some other students loans scheme worldwide as pointed out by Talasophon (2011) that while some system operates with the cost of less than 1% of total portfolio others are operate with the cost of more than 25%

The average current ratio was 3.852 indicates that HESLB has an ability to meet its short-term obligations using its current assets. In one hand, this sound right to HESLB because HESLB as an organization has to make sure that it is capable of paying all of its financial obligations on time. Due to failure limit the future access to credit and other services. Therefore, it may affect the ability to leverage operations and growth. However, the ratio is relative high compared to recommended ratio of between 1.2 and 2.0; this is an indicative that there is excess of non-earning current assets. HESLB can invest that excess elsewhere in other profitable investments.

The average repayment rate was 5.1%; the rate is very low compared with other well-performing loan schemes in the world. However, there is yearly increasing trend from 0.2% in 2006 to 11.4% in

2012. This growing tendency signposts that there is an improvement in repayment rate,

Currently on average HELSB depends from the state more than 88% of its loanable funds

The second segment of the analysis involved econometric analysis using regression model as indicate in (Table 3 and 4). It indicates that, the model was tested to see whether there was a significant relationship between the independent variables and dependent variable. It would be considerable to note that the evaluation of the linkage is essential for determining the quality and capability of the model to predict the outcome of the dependent variable. From that ground, the initial model without independent variable, a total of five independent variables (government subvention (GSubv), current ratio (CR), cost efficiency (CEff), loan repayment (LRR), operational efficiency (OSS)). While after adding independent variables to the model to test the contribution of the variables showed some improvements in financial performance. Results indicate that there is a significant relationship between the dependent variable and a set of independent variable with F value 288.42 and 4145.98 at $p < 0.005$ for ROA and ROE respectively (See, Table 2 and 3). The result implies that the additional of the independent variable to the model improves the outcome of the dependent variable. Hence, an independent variable contribute significantly in predicting the outcome of the dependent variable of the model, which is the financial performance of the HESLB operating in Tanzania.

Apart from the overall contribution of the set of independent variables to the dependent variable with respect to proposed model, also the contribution of each independent variable was tested. The process is essential for understanding the role and the weight of each variable in influencing the changes to the dependent variable. All five independent variable stated in a given regression model were tested using the t-test. The t-test result shows that using the ROA as a dependent variable, the Current Ratio (CR) is statistically significant at 5% level of significant (Table 2) and the remaining variables such as Capital Concentration/ Resource Adequacy measured by Government subvention (GSubv), and Management

efficiency measured by Cost efficiency (CEf), Loan Repayment Rate (LRR), and Operational Self-Efficiency (OSS) are insignificant. However, the insignificant of some variables does not mean the variables are not important in explaining the financial performance, but the level of importance is not the same as the Current Ratio. Since the t-values are different from one, then the independent variables play a significant role in improving the financial performance of HESLB.

Using the ROE as dependent variable four variables (government subvention, current ratio, loan repayment and OSS) are statistically significant at 5% level of significant. The cost efficiency appeared to insignificant see (Table 2) for details. In addition, the t-values are different from one implying that the sets of independent variables have a significant contribution to the changes in the dependent variable (financial performance). Coefficient values show how additional of each unit of the independent variable will bring changes to the dependent variable.

7. Conclusion and Recommendation

Based on the analysis presented above, the study concluded that during the period under study (2006 – 2012), HESLB recorded low-level of performance as measured by ROA and ROE. It was ineffective in generating funds internally as well as ineffective in controlling expenses. This trend indicates that HESLB is one of unsustainable loan scheme with high dependency ratio of more than 88% of its loan portfolio. It also showed that on average HESLB has an ability to accommodate its financial obligations when they come due by 385%. However, on the other side this indicate that HESLB has a significant amount of non-earning current assets.

The study concluded that, HESLB is effective in increasing access to Higher education as the number of students has risen significantly since the government established HESLS in 2005 as indicated in (Appendix1). Nevertheless, the recorded increase in access is not in an equitable manner as there is considerable number of unserved needy students due to some external factors that are beyond HESLB control. HESLB can invest then in other profitable venture so as to generate more fund

for further issuance of loans.

The finding revealed that, all the tested determinant related significantly to the selected financial drivers and are more efficient in reducing the operating costs than their counterparts. From the economic point of view the selected financial performance indicators affect the financial performance significantly.

The study recommends that, higher volumes of loan beneficiaries and loan portfolio alone do not improve financial performance. The increasing volume should be accompanied by vigorous follow-ups to ensure higher repayment rates. On the other hands, it has to strive to operate at relatively low costs, keeping the staff productivity higher, and reduce handling of non-earning current assets. Finally, the present results will be a useful tool for policymakers and education stakeholders in improving students' financing environment.

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Appendices

Appendix 1

Loan Portfolio Report from 1994/1995 to 2012/2013

YEAR	Total Number of Students loan beneficiaries	Percentage Increase : Number of Students	Loanable Funds Issued	Percentage Increase : Loanable Fund Issued
1994/1995	6,061	-	1,651,070,000.00	
1995/1996	6,780	11.9%	1,768,059,900.00	7.1%
1996/1997	7,951	17.3%	2,030,801,500.00	14.9%
1997/1998	7,701	-3.1%	2,790,580,629.00	37.4%
1998/1999	8,227	6.8%	3,609,982,950.00	29.4%
1999/2000	9,101	10.6%	3,830,471,000.00	6.1%
2000/2001	10,008	10.0%	4,091,464,441.00	6.8%
2001/2002	12,376	23.7%	5,362,583,000.00	31.1%
2002/2003	13,223	6.8%	7,308,809,350.00	36.3%
2003/2004	15,467	17.0%	8,776,638,644.00	20.1%
2004/2005	16,345	5.7%	9,883,224,500.00	12.6%
2005/2006	42,729	161.4%	56,111,371,483.00	467.7%
2006/2007	47,554	11.3%	76,071,839,629.00	35.6%
2007/2008	55,687	17.1%	110,873,883,141.00	45.7%
2008/2009	58,798	5.6%	139,093,681,094.00	25.5%
2009/2010	72,035	22.5%	197,348,958,875.00	41.9%
2010/2011	92,791	28.8%	231,855,927,151.85	17.5%
2011/2012	93,593	0.9%	322,031,207,695.73	31.6%
2012/2013	96,615	3.2%	318,127,765,781.00	3.6%
			1,502,618,320,764.58	

Appendix 2

Loans Collection Report from 2006/2007 to 2012/2013

FINANCIAL YEAR	ANNUAL COLLECTIONS (Tshs)	CUMMULATIVE (Tshs)	Percentage Increase
2006/2007	53,616,011.00	53,616,011.00	
2007/2008	858,941,262.29	912,557,273.29	93.75%
2008/2009	1,176,404,180.00	2,088,961,453.29	26.99%
2009/2010	2,147,075,264.78	4,236,036,718.07	45.21%
2010/2011	4,409,171,729.99	8,645,208,448.28	51.30.%
2011/2012	11,508,714,785.96	20,153,923,234.24	61.68.%
2012/2013	14,850,247,552.21	35,004,170,785.45	22.50.%
Total	35,004,170,786.23		

Appendix 3

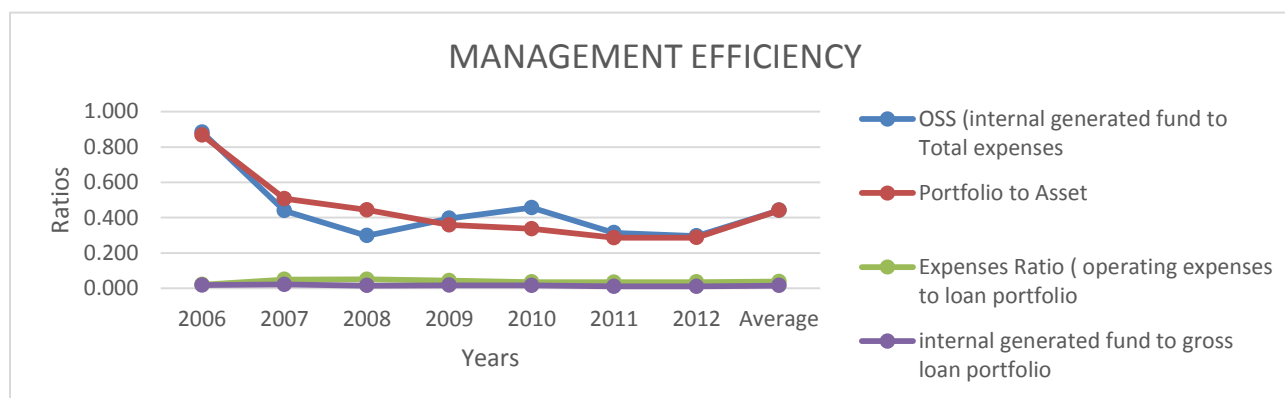
Report of Internal Generated Funds

Year	Loan Application Fees	Interest Income (FDR And On Call)	Other Incomes (Tender Documents, Appeals Processing Fees, Web Advertisement And Exchange Gains)	Total
2006	710,195,900.00	302,319,111.00		1,012,517,017.00
2007	774,743,600.00	872,270,280.00		1,647,015,887.00
2008	831,312,400.00	834,074,104.00	2,322,000.00	1,667,710,512.00
2009	1,777,177,300.00	606,362,330.00	5,631,816.00	2,389,173,455.00
2010	1,983,621,000.00	1,221,791,257.00	7,284,849.00	3,212,699,116.00
2011	1,709,752,950.00	750,173,984.00	21,739,251.00	2,481,668,196.00
2012	1,507,072,895.00	1,855,938,773.00	20,465,918.00	3,383,479,598.00
TOTAL	9,293,876,045.00	6,442,929,839.00	57,443,834.00	15,794,263,781.00

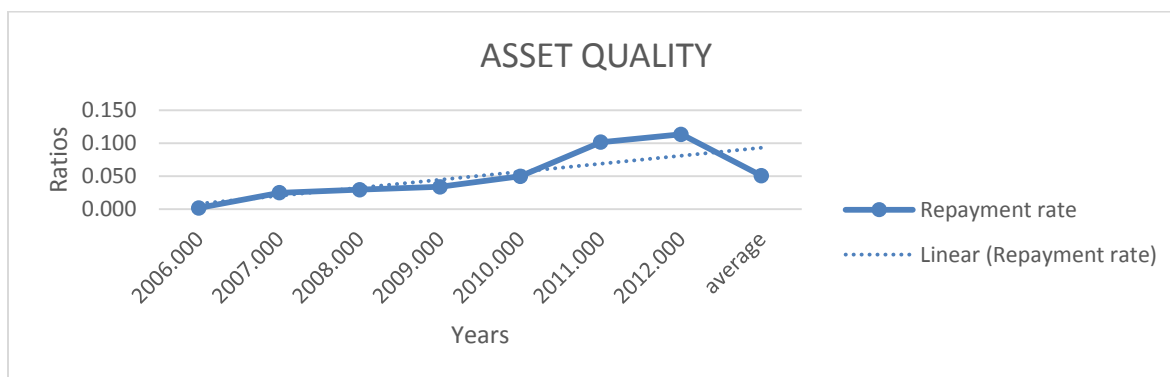
Appendix 4



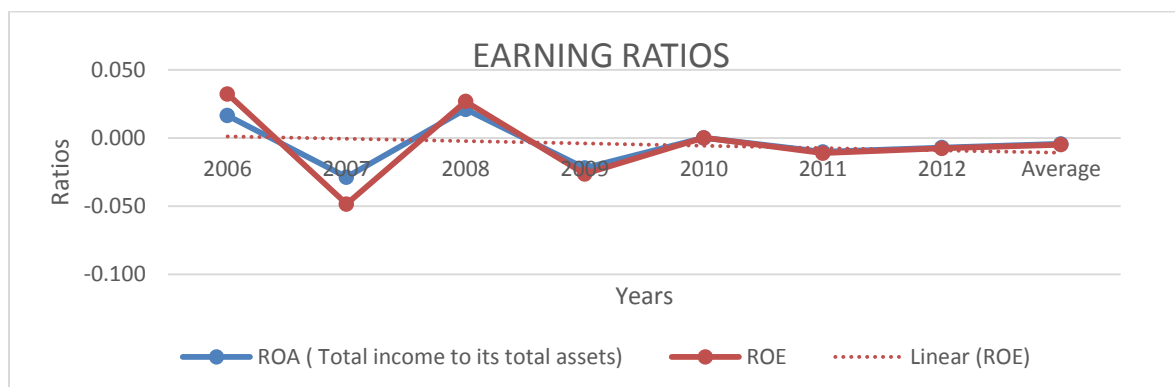
Appendix 5



Appendix 6



Appendix 7



Appendix 8

