

**DETERMINANTS OF THE PENALTY WAIVE BY THE DEFAULTERS: THE CASE OF HIGHER EDUCATION LOAN BOARD (HESLB) IN TANZANIA**

**ABSTRACT**

Higher education loan repayment has been one of the major challenges facing Higher Education Loan Board (HESLB). This study therefore, focused on exploring the factors for penalty waive on Higher Education Loan repayment. **Also, the Ability to Pay Theory was the main source of inspiration for this paper.** The study employed case study research design based on qualitative research approach. The purposive sampling technique was used to select 30 participants from HESLB. The collected data were analyzed by the use of thematic analysis. The study results revealed that the amount that was provided to the loanees was given in big amounts at once but in repayment, the beneficiaries were given some long time to pay in installment. Further, it was found that factors that motivated the establishment of the penalty waive for the default borrowers were complaints of the loan beneficiaries over charges, order from the president, motivation of the loan beneficiaries for voluntary compliance and creation of economic opportunity for the loan beneficiaries. Moreover, it was found that the trend of repayment had changed and increased following the penalty waive as the borrowers were repaying their loans in bulk and in time compared to the time before the penalty waive was in place. It was concluded that the appropriate way to make the loan beneficiaries to repay the loan is not to impose penalties and fines to them but to use the friendly way such as reminding them through phones to repay their loans. It was recommended that HESLB should create positive perception of the borrowers on the affordability of the loans so that they can repay quickly their loans.

**Key Words:** *Education, Loan repayment, Waive, Defaulters' penalty*

**1.0 Introduction**

Financing higher education has been one of the interesting topics for researchers and educationalists today. Higher education is considered important for the development of any nation (Tilak 2006; Goksu & Goksu, 2015). Financing it has its ontological basis in it being a public good, merit good, social investment, and as a human right (Tilak, 2006). However, the

financing strategies and structure differ from one country to the other. For example, in countries within the Organization for Economic Co-operation and Development (OECD), public funding has failed to keep up with the rising costs of higher education (Ehrenberg, 2003).

In some cases, public finances have often been proven insufficient to fund the necessary expansion of higher education or the creation of a differentiated system of vocational and university education. As a consequence, private finance has become a vital partner in the success of higher education in many parts of the world. For example, countries such as the United Kingdom, Chile, Hungary, South Africa, and South Korea have turned to private capital markets to help expand or revitalize institutions of higher education (Hahn, 2007). Moreover, changes that have been brought about by the technological innovation and globalization, financing education has changed too.

The global increase in the demand for tertiary education, with higher education systems expanding in many countries from elite systems to universal access, has necessitated changes to the nature of higher education financing. Tuition fees, or other charges (where it was previously free) were introduced, substantial increases in tuition fees (where fees previously did exist) took place and student aid systems moved away from grants towards student loans (to replace or supplement grants) (De Villiers & Nieuwoudt, 2010).

In Africa, the expansion of higher education was emphasized since independence of the African countries. Immediately after independence, stress was put on human resource formation to develop and modernize various economic sectors/various sectors of the economy (Nyahende, 2017). Higher education (tertiary education) was viewed as a tool for development - producing a more significant number of graduates to create a critical mass of skills and experts for economic growth and development.

The rationale for considerable investments in higher education across different African countries has been that higher education would continue to contribute to output growth and economic development, besides the personal economic and non-economic benefits (Nyahende, 2013a). Given that Africa remains one of the poorest regions while at the same time posing a large youth population that aspires to join tertiary institutions, financing higher education continues to be the greatest challenge. However, Amin and Ntembe (2021) have argued that despite the fact that

there are few and limited sources, these sources are identified as i) government or public financing; ii) parents and their substitutes or family and households; iii) students themselves; iv) individual and institutional donors, and v) income-generating activities of the academic institutions. The combination of these sources tends to generate a limited amount in Sub-Saharan African (SSA) countries (Komba, 2020). The total cost of higher education is considerably higher than the available sources of financing, especially the public revenues that are the primary source of higher education financing (Amin and Ntembe, 2021).

In Tanzania, financing higher education is the role of not only the government but also other education stakeholders such as parents as they become involved in cost sharing for higher education (Komba, 2020). The question of financing students for higher education is answered in the Higher Education Policy of 1999; and the Education and Training Policy of 2014 which guide the current trend in financing education in Tanzania.

The Higher Education Policy of 1999, provides recommendations regarding expansion of enrolments, institutionalization of cost sharing and improving funding of the sector (Nyahende, 2013a). The mechanism to coordinate these aspects, has been put in place to assist the financially needy students to access higher education. This mechanism is the Higher Education Students' Loans Board (HESLB) (Amin and Ntembe, 2021). The board was established under the act of parliament No. 9 of 2004, as amended by act No. 9 of 2007, CAP 178 and commenced its operation in July, 2005 (Komba, 2020). Among other things, the board which basically is a parastatal organization under the Ministry of Education, Science and Technology, has been entrusted by the government with the responsibility to disseminate loans to Tanzanian students who are eligible and needy as defined by the act No. 9 of 2004. The board serves those pursuing advanced diplomas and or degree studies at accredited higher learning institutions in and outside the country. The board in addition has the responsibility to collect repayment for all loans issued to students since 1994, so as to make the scheme successful (Amin & Ntembe, 2021).

However, some studies such as Mapunda (2019) have revealed that the efforts of the Loan Board have been constrained by the poor loan repayment performance (caused by absence of identity cards for the loanees, negative attitude of the loan beneficiaries to repay the loan, and poor cooperation between the HESLB officials and the loan beneficiaries) as the major challenge facing HESLB beside other challenges of poor record keeping, insufficient resources and poor

infrastructure. Statistics by Memba and Zeng (2016) show that HESLB had planned to collect 164.9TZS billion for the period of 2006 – 2016 but the actual collection was only 74.76TZS billion with the deficit of more than 90TZS billion that was not collected because of poor repayment of the loan by the loan beneficiaries.

As the strategy to overcome the poor repayment challenge, the board formerly used 10% penalty as a penalty fee if a beneficiary failed to repay his/her loan after expiration of grace period of 24 months after completion of studies. This penalty has been waived with the aim of convincing the beneficiaries to repay the loans on time. This current study, seeks to assess the determinants of penalty waive by the defaulters.

Higher education loan repayment has been one of the major challenges facing HESLB. Numerous studies (Memba & Feng, 2016; Nyahende, 2013a; Dunia, 2014; Mapunda, 2019; Makulilo, 2017; Nyahende, 2013b; Rashid, 2016; Ndomba, 2009; Chawe, 2018; Komba, 2020; Kossey & Ishengoma, 2017; Madeba, 2017; Nyahende, 2020) have addressed the HESLB financing to higher education in Tanzania identifying loan repayment to be the major challenges facing HESLB. In past years, HESLB used to impose a 10% penalty as a loan repayment strategy for the beneficiaries who failed to repay the loan after the grace period of 24 months following the completion studies. However, recently this penalty was waived to motivate the loan beneficiaries to willingly repay the loans on time. The effectiveness of this has received little attention since the commencement of its implementation. This study therefore, seeks to look into the determinants for penalty waive.

### **1.1 Theoretical and analytical framework**

This study was guided by Ability to Pay Theory. The Ability to Pay Theory was developed by Adam Smith, economist who considered as a father of economics in 1776. The ability-to-pay principle holds that those who have a greater ability to pay taxes **measured by income and wealth should pay more.** One idea behind ability to pay is that those who have enjoyed success should be willing to give back a little more to the society that helped make that success possible. Basically, the ability-to-pay theory provides the theoretical basis for relative comparison and it is the main model used in the literature studying manageable debts, loan delinquency and default.

Based on this study, non-repayment of loan arises when student assumes that certain expenses, such as the essential expenditures to maintain a minimum standard of living, are of a higher priority than repaying the student loan. How much income is sufficient for one to be able to settle all the debt varies across individuals thus even though the borrower may not have complete control on the sequence of events that transpires, he or she may have some control on whether to pay the scheduled payments or to default the loan. It follows that delinquency and default can be attributed to the financial capability on the part of the borrower. With respect to student debt manageability, income-contingent repayment plans have the advantage of linking the required repayments to student borrowers' income and ability to pay.

## **2.0 Research Methods and Materials**

The study was conducted in the Higher Education Student Loan Board (HESLB) in Dar es Salaam simply because HESLB is the only government parastatal organization that deals with the students' loans collection. Also, it was the one that implements the penalty waive policy to ensure loan repayment. This study used case study research design based on qualitative research approach. The target population for the study was made up of the officials from the directorates of loans and recovery and finance and administration. Primary data were collected using interview based on structured questionnaires and focus group discussion from 30 participants who were purposively selected. In order to enrich this study, researchers in this study used documentary review to gather secondary data i.e., books, journals, newspapers, magazines, and administrative records and HESLB annual reports.

## **3.0 Results and discussion**

### **3.1 The Eligible Beneficiaries for the Waive**

The study wanted to know who were the eligible beneficiaries for the penalty waive. The HESLB officials were asked to tell the attributes and features of the beneficiaries who were to be forgiven the penalty. It was found that, the penalty waive was for all beneficiaries who had defaulted. It was revealed that, the penalty waive was to be affected to all of the beneficiaries regardless their income and backgrounds. In the interviews with the HESLB officials, it was revealed that all penalties related to the late repayment and retention fee were all cancelled for those which have not been paid even in accumulation. However, it was emphasized that the loan

cancelation was for the unpaid loans and that the paid penalty and retention fee would not be refunded. One of HESLB officials said:

*...Basically, it is the government that has waived the penalty. Before the waive, charges were set to protect the value of the money and the other was a penalty for late repayment. All have been waived from all beneficiaries. For a penalty that has been paid it will not be refunded but if it was not paid even for accumulation, it has been canceled. And so, it is with the retention fee to protect the value of money. The waive stated that as of May 2021 no penalty would be paid by the beneficiary of the loan if it has not been paid...*

The findings revealed that the waive was for all loan beneficiaries regardless their incomes, status and their home backgrounds. The implication of the findings is the cancelation of the levies and penalties had mainly of eligible feature that is being the loan beneficiary with outstanding balance. The government intended to be fair to all loan beneficiaries regardless their economic status, social backgrounds and positions.

This implies that the government stood on the side of the beneficiaries most of whom were raising their voice to condemn the government for the burden caused by the levies and penalties. This means that the government provided the opportunity to all loan beneficiaries to repay their loans on time without being burdened by the levies and penalties. In this way, the government would attract the beneficiaries to quickly and willingly to pay their loans timely and happily.

However, the findings are contrary to the findings of Dachi (2021) that noted the imbalance in providing the loans among the borrowers. Dachi revealed that the plan of the loan board was to give priority to the borrowers from low- and middle-income families but the reality was that the priority was given to the beneficiaries from high income families instead. This implies that one of the eligibilities to benefit for the loans was to come from the low- and middle-income families.

### **3.2 Reasons for the Waive of Penalty**

The study sought to know the key reasons for the levies and penalties for defaulters to be cancelled. Data collected from the HESLB officials showed that there were a number of reasons that pushed the government to raise the penalty waive. Some of these reasons include the following:

*Complaints of the stakeholders*; it was revealed to the study that waive of penalty was the response of the government to the complaints of the loan beneficiaries. It was revealed that the loan beneficiaries were complaining that the loan levies and penalties had caused burden. The beneficiaries' and stakeholder complaints pushed the government to waive the penalty. In the interviews with HESLB officials it was revealed that the complaints were too high and the response of the government was the cancelation of the levies and the penalty. One of the HESLB officials said:

*...The penalty waive was the response of the government to the complaints of the loan beneficiaries and the stakeholders on the burden of the levies and the penalty. The government listened to their arguments and responded in that way. So, I can say that one of the reasons for waive was to respond to the complaints...*

From the findings it is realized that the cancellation of the levies and the penalty was due to the pressure from the public especially from the recipients of the loans. The complaints pressurized the government to waive the penalty. The implication here is that the public is powerful and it can determine the actions of the officials in the government. It is also important to note the readiness of the government to heed to the people's voice through their complaints. The people's complaints made the government officials meditate and act according to the will of the people.

From the findings it was learned that when the public complains over something, it becomes an opportunity for the government to search for alternative ways. In this regard, the HESLB had to search for other strategies to collect the loans from the recipients in a friendly way. This reminds the HESLB officials to understand the needs of the customers/clients and serve them accordingly. In the current changing business environment, there is a need to establish the positive relationship between the organization and the clients. No longer is force applicable in delivering service to the client. In this case, HESLB acts as the service organization and the loan beneficiaries are the clients. Before the waive, HESLB was using force by making their beneficiaries to be subjected to penalty of 10% whenever they failed to repay the loans after 24 months of grace period. This was interpreted by most of the beneficiaries to be coercive to the clients. The use of force implies the negative relationship between the two parties. So, to get rid of this, the government decided to build the positive relationship between the government on one

hand and the clients on the other hand. Positive relationship pays as it motivates the customers to act in according to the rules and regulations in place.

These findings are supported by Charana and Were (2018) who proposed that the loan beneficiaries need suitable approach to motivate them to repay the loans. The experience leaned from Kenya revealed that strategic planning, strategic formulation, strategic implementation, and strategic credit monitoring and evaluation tactics positively influence loan recovery process at HELB. This implies that the loan beneficiaries do not complain to the strategies that they perceive to be motivating but they complain against the strategies that they perceive to be unfair.

***Order from the President;*** it was found by the study that the penalty waives of the penalty effected by the HESLB was to heed to the order given by the president on 1<sup>st</sup> May 2022. On that day, the president declared publicly that she was not happy with the penalties and levies effected by the HESLB. She announced her intention to remove them and commanded the officials responsible to act on it. During the interviews with the HESLB officials, it was revealed that they were practicing the command of the head of state who had promised the Tanzanians that the penalties and levies would be removed. One of the officials said:

*...Basically, it is the government that has waived the penalty. The president commanded for it and we are acting according to that order. The president saw it was the right time to waive the penalty and we supporting her for that and we acting according to the directives given by the minster...*

The order of the president was followed by the other order from the minister of education and vocational training who emphasized on the president order. The minister ordered the HESLB Board of Directors to ensure that from 1<sup>st</sup> July 2021 the value retention fee and the ten percent penalty charges to recipients of the loan facility are scrapped off and the system must be set to that effect, so that the beneficiaries enjoy the relief. The study found that waive was put in place in order to act according to the orders from above, that is, from the president and from the minister.

***Motivation of the loan beneficiaries for voluntary compliance;*** the findings of the study that the penalty waive was one of the strategies to motivate and encourage the loan beneficiaries to repay their loans. It was revealed that the loan board needed to use the smooth ways instead of using the forceful means to motivate the loanees to repay the loans quickly and continue with their economic activities on their way. During the interviews with the HESL director, it was revealed that collection of the loans needed smooth ways that encourage the loanees to repay their loans. He said:

*...The key reason for the penalty waives was to motivate and encourage the loan beneficiaries to repay the loans as fast as they can so as to continue with other businesses. We came to realize that the smooth way was the effective way to make the loanees repay the loans instead of using penalties and other punishments...*

The findings show that the penalty waives targeted to encourage the loanees as one of the strategies that motivate them to repay the loans. The findings show that the board sought the proper means to make the loanees to repay their loans on time so as to maximize the loan collections for the other potential loanees.

In this regard, the findings of the study show that loan collections were conducted smoothly using the strategies that encouraged the beneficiaries to repay their loans willingly. The results also imply that the loan collection practices were systematic, guided by laws, rules and regulations by which all the tax collectors were to abide. The results suggest that the loan board kept their trust to their clients that they could feel responsible to pay the loan for the prosperity of the board and the potential beneficiaries.

The findings suggest the need of the more and more the campaigns to be carried out by the loan board with the intentions to make the public awareness and encouragement for compliance. The campaigns will be meant to make the loan beneficiaries to have that feeling of responsibility by providing their contributions to higher education for the current and future generations. These findings reflect the approach proposed by the economic deterrent theory that suggests that when the punitive approaches are not used the authority can opt the persuasive approaches. This approach involves the approach of motivating and encouraging the loanees friendly to repay their loans. This meant a lot to the sustainability of repayment of the loans among the beneficiaries. It

is very important to build compliance attitude among the loanees for today and tomorrow for the sustainability of the loan repayment.

***Creation of Economic Opportunity for the Loan Beneficiaries;*** it was revealed to the study that the penalty waive was meant to create an economic opportunity for the loan beneficiaries. It was revealed that with the penalty waive, the loan beneficiaries would repay their loans as fast as they could so that they could benefit with the other loans from the financing institutions for their economic development. During the interviews with the HESLB officials it was revealed that the penalty waive was to grant the loanees to grab the opportunity to take more loans from the banks and other financial institutions. One of them said:

*...The goal of the government was to make it simpler for borrowers to repay their debts more quickly and readily while maintaining their economic activity. When a person has a loan with the loan board, he or she is less likely to borrow from financial institutions since he or she will miss out on a deduction because the loans are structured such that you keep one-third of your salary. When you remove a debt from the loan board, you have more options for borrowing and other economic activities...*

From the findings it was realized that with the penalty waive, the government aimed at improving the economic situation of the loan beneficiaries. It was found that the board wanted to motivate the borrowers to repay the loans so as to grab other economic opportunity. This was mainly meant to the employees in the formal employment where the loans are cut directly from their salaries. This implies that besides the employment, the employees were given other opportunity to get involved in other production activities. The banks and other financial institutions were available to provide the loans to them for their economic progress.

These findings are supported by Charana and Were (2018) that proposed that the loan beneficiaries need suitable approach to motivate them to repay the loans. The experience leaned from Kenya revealed that strategic planning, strategic formulation, strategic implementation, and strategic credit monitoring and evaluation tactics positively influence loan recovery process at HELB. This implies that the loan beneficiaries do not complain to the strategies that they perceive to be motivating but they complain against the strategies that they perceive to be unfair.

#### **4.0 Conclusion and recommendations for improvement**

The study was aimed at assessing the determinants of penalty waive by the defaulters in Tanzania. The study was guided by ability to pay theory. Basing on the study findings, it was found that factors that motivated the establishment of the penalty waive for the default borrowers were complaints of the loan beneficiaries over charges, order from the president, motivation of the loan beneficiaries for voluntary compliance and creation of economic opportunity for the loan beneficiaries. Moreover, it was concluded that the penalty waives changed the perception of the loan beneficiaries from negative to positive regarding the loan charges. The borrowers perceived the loan to be affordable after the cancelation of the penalty and levy charges.

Basing on the conclusions drawn, the study recommended that;

- a) HESLB should create positive perception of the borrowers on the affordability of the loans so that they can repay quickly their loans.
- b) HESLB should create awareness among the loan beneficiaries on the importance of repaying the loans in time for the continuous operations of the board.
- c) It is therefore, recommended to HESLB to find appropriate strategies to motivate the borrowers to repay their loans in time.

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