



THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE



PERFORMANCE AUDIT REPORT ON
MANAGEMENT OF REPAYMENT AND RECOVERY OF HIGHER
EDUCATION STUDENTS' LOANS

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY
AND
THE HIGHER EDUCATION STUDENTS LOANS BOARD



A REPORT OF THE CONTROLLER AND AUDITOR GENERAL

MARCH 2018

THE UNITED REPUBLIC OF TANZANIA



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PREFACE

Section 28 of the Public Audit Act No. 11 of 2008, authorizes the Controller and Auditor General to carry out Progress Audit (Value-for-Money Audit) for the purposes of establishing the economy, efficiency and effectiveness of any public expenditure or use of public resources in the MDAs, LGAs and Public Authorities and other Bodies which involves enquiring, examining, investigating and reporting, as deemed necessary under the circumstances.

I have the honour to submit to His Excellency, the President of the United Republic of Tanzania, Dr. John J.P. Magufuli and through him to the Parliament of Tanzania a progress Audit Report on the Management of Higher Education Students' Loans Repayment and Recovery.

The report contains conclusions and recommendations that directly concern the Ministry of Education, Science and Technology and the Higher Education Students Loans Board.

The Ministry of Education, Science and Technology (MOEST) and the Higher Education Students Loans Board (HESLB) were given the opportunity to scrutinize the factual contents and comment on the draft report. I wish to acknowledge that the discussions with the two audited entities have been very useful and constructive.

In completion of the assignment, the office subjected the report to the critical reviews of the following experts namely Professor Willbard Shoo Abel and Professor Johnson Muchunguzi Ishengoma who came up with useful inputs in improving this report.

My office intends to carry out a follow-up at an appropriate time regarding actions taken by the MoEST and HESLB in relation to the recommendations in this report.

This report has been prepared by Mr. Deusdedit Sise Muhono (Team Leader), and Ms. Ndimwaga Shitindi under the supervision and guidance of Mr. Godfrey Ngowi (Supervisor), Eng. James Pilly - Assistant Auditor General and Ms. Wendy Massoy - Deputy Auditor General. I would like to thank my staff for their inputs in the preparation of this report. My thanks should also be extended to the audited entities for their fruitful interactions with my office.



Prof. Mussa Juma Assad,
Controller and Auditor General,
Dar es Salaam.
28th March, 2018

LIST OF ABBREVIATIONS

BoDs	Board of Directors
HESLB	Higher Education Students Loan Board
LGAs	Local Government Authorities
LRRM	Loan Repayment and Recovery Manual
MoEST	Ministry of Education, Science and Technology
MoFP	Ministry of Financing and Planning
SP(s)	Strategic Plan(s)
TZS	Tanzanian Shillings

EXECUTIVE SUMMARY

In 2004 the Parliament of United Republic of Tanzania enacted the Higher Education Students Loan Board Act No.9 of 2004, which established Higher Education Students Loan Board (HESLB) to manage higher learning students' loan scheme. According to the Act, eligible and needy Tanzania students who secure admission to higher education institutions to pursue academic programmes may seek loans and grants from HESLB to meet part of or all costs of their education.

This audit was motivated by public outcry on the number of issues. Among others, the main public outcry was on the students not getting loans on time or not getting a loan while they were qualified for the loans. For instance, in the academic year, 2016/2017 Tanzania Commission for Universities had admitted 61,590 students while HESLB was able to accommodate only 25,000 applicants. This means that around 41 percent of students were serviced with loans. Majority missed out loans despite the fact that they were qualified.¹Based on HESLB information, in 2016/17 48,502 students were eligible, out of these 28,383 (58.5%) were allocated loans based on the neediness level, starting with those with high to those with low neediness.

The auditees were MoEST and HESLB. MoEST was covered because it was a parent ministry at the time of this report and HESLB as an agency mandated to manage higher education students' loans repayment and recovery.

The audit focused on three main areas namely: designs, implementation and monitoring of strategies of loan repayment and recovery strategies. It also looked at the roles of MoEST in monitoring and supervising HESLB to ensure it discharges its roles of loan collection as expected. Moreover, the audit covered a period of five (5) financial years, from 2012/2013 to 2016/17. This period of time involves the implementation of two strategic plans, which enable the audit team to obtain a comprehensive picture about performance trend of HESLB including the corrective actions taken by MoEST in monitoring and supporting HESLB. The audit employed interviews and document reviews as data collection methods.

¹ The Citizen, Monday, December 26, 2016
(<http://www.thecitizen.co.tz/News/Anxiety-as-student-loan-terms-reviewed/1840340-3498124-u98jo7z/index.html>)

The audit revealed as follows:

Loan Repayment and Recovery

HESLB was not able to meet its target of loan collection. The performance assessment showed that HESLB's annual loans collection against due loans calculated from cumulative figures of the collection ranged between 32 and 48 percent for the period of five years starting from financial year 2012/2013 to 2016/2017. This was below the collection targets which were set in the two strategic plans whereby the target of collection was supposed to be at least 70 and 80 percent of due loans respectively.

Based on annual collection data, the loan collection reached 53 percent of amount of loans due in financial year 2016/2017. However, from financial year 2015/2016 to 2016/2017 the annual collection increased from TZS 28 to 116 billion compared to the period between financial year 2012/2013 and 2014/2015 whereby annual collection ranged between TZS 15 to 22 billion. Among the factors which explain the increment in loan collection compared to previous years was efforts made by HESLB management in loan collection in this period.

There were various factors which contributed to non-achieving the overall loan collection targets set. These factors mainly originated from designing, implementing and monitoring of loans repayment and recovery activities carried out by HESLB. Apart from the efforts made by HESLB in tracing loan beneficiaries, planning of these activities was not done adequately. For instance, there was no evidence which showed the use of database in planning for execution of tracing activities. Factors such as risk and cost-benefit analysis were not done before deciding the tracing methods to be applied. This was because the database had limited information and was semi-automated.

Furthermore, there were no risk profiling for loan beneficiaries in the database and the existing Loan Repayment and Recovery Manual did not provide adequate guidance on how to choose and plan for various approaches in tracing loan beneficiaries with supporting analysis from information available in the database. The audit noted that the initiatives taken by HESLB management of addressing database challenges by starting Grand Automation and Systems Integration (GASi) which focusing on transforming business process and systems including for loan repayments and recovery activities.

Billing of loan beneficiaries was another issue which was noted. Not all due loans were fully billed. The review of HESLB database showed that few loan beneficiaries were billed especially for the financial year

2012/2013 to 2014/2015. The audit noted the improvement in billing in last two financial years i.e. 2015/2016 and 2016/2017.

For instance, an analysis of 180 employees sampled from total number of 15,885 loan beneficiaries from government payroll with zero loan balance indicated that 135 employees were not billed fully with HESLB. This is because the loans balances in government payroll showed a status of zero balance which means the loans were fully deducted while in HESLB the balances of 135 loanees out of 180 tested had a balance of TZS 362 million. This indicated that these loanees were not fully billed regardless of being traced.

On other hand, the recovery of loans activities was not given adequate attention because HESLB did not keep records and analysis of loan defaulters despite huge amount of loans balances outstanding in the database. For instance; there was no ageing analysis of the outstanding loans in the database so as to assess their extent of recoverability. HESLB through its loan repayment and recovery directorate did not prepare or submit regularly a list of all loan defaulters to the legal unit for further legal actions. There were few actions taken relate to recovery activities in the period under review.

For instance, based on the data provided to audit team for 2015/2016 and FY 2016/2017, the analysis shows HESLB had a total of 163,394 and 291,672 of loan defaulters in two years respectively. This means that there was an increase of 128,278 loans defaulters as per audit analysis. However, records provided by HESLB indicated that there were only 18 individual defaulters. Only two individual defaulters have been sanctioned in the court for the past two years. Furthermore, there were 70 employers who were charged with late payment / non-deduction penalties. Total penalties for all 70 employers amounted to TZS 267.5 million, however, HESLB managed to collect 21 percent of the penalties from employers which amounted to TZS 57 million.

Design of Loan Collection Strategies

HESLB did not adequately design its strategies and activities for loan repayment and recovery. The available activities in both strategic plans were not measurable. The targets were too broad and not realistic.

Regarding performance measuring of HESLB in loan collection, there were unclear methodologies for compiling data and computation methodologies for measuring performance. Issues such as loans refunds which were deducted by errors, collection in arrears and separation between charges and principal amount were not clearly stated in their treatment. This is because method for measuring the performance of

loans collection was not documented. This resulted in inconsistency reporting of HESLB performance in loan collection.

Monitoring and Evaluation of Loan Repayment and Recovery

Moreover, HESLB did not prepare monitoring plans for the past five years for monitoring collection activities and there was no regular preparation of reports for these activities. The available Quarterly reports were not comprehensive to cover the details of the loan repayment and recovery activities. The Loan Repayment and Recovery Manual did not provide guidance on the layout and format of various reports requirements. Furthermore, there were no independent reviews or evaluations which were planned or conducted about the performance of HESLB, especially in loan collection.

The review of Board of Directors Minutes and Correspondents the audit noted that the Board provided more attention to loan disbursement activities rather than the collection. There were no adequate directives which were provided by Board relating to improvement of collection strategies despite HESLB not meeting its target. Likewise, the Ministry of Education, Science and Technology did not adequately monitor and support HESLB performance in loan collection. MoEST is more active in supporting HESLB during budget preparation and disbursement of HESLB funds for loan provision. Ministry did not prepare any mechanism or framework to hold the Board of directors accountable for the performance of HESLB through reporting, follow-up and feedback.

Audit Conclusion

The general conclusion of this audit is that there is limited assurance that HESLB will sustain itself in financing higher education without depending on subsidies from central government. This is because the trend of HESLB's performance in loans collection for the past five financial years ranging from 2012/2013 to 2016/2017 is below 50 percent of the amount of loan due. This was because of inadequate design, implementation and monitoring of loan collection strategies and limited oversight role played by MoEST.

The audit recommends as follows:

The Ministry for Education, Science and Technology should:

1. Conduct HESLB's capacity needs assessment in terms systems in place, technology, equipment and human resources for managing effectively loans repayment and recovery activities and support it accordingly.

2. Develop a monitoring framework which will enable to monitor HESLB's performance through its Board of Directors especially in managing Loans Repayment and Recovery activities.
3. Conduct a self-assessment with the purpose of determining its relevance in providing direct oversight role and being accountable for HESLB's performance in managing student loan fund or transfer such role to other Ministry such Ministry of Finance and Planning.

The Higher Education Students Loan Board should:

1. Update the Repayment and Recovery Manual so as to provide further guidance in planning and reporting the results of various interventions for managing efficiently loan repayment and recovery activities.
2. Conduct need assessment in order to develop the robust Monitoring and Evaluation framework which will enable HESLB to come up with realistic targets and Key Performance Indicators for managing performance of Loan Repayment and Recovery Directorate.
3. Upgrade and customize the Loan Repayment and Recovery Database to include all relevant fields of information which will facilitate efficient planning and consistent reporting on the implementation of loan collection activities.
4. Develop risk profile of loan beneficiaries and integrate it with loan repayment and recovery strategies so as to increase efficiency in allocation and utilisation of resources especially in tracing loan beneficiaries.
5. Identify and enforce regularly appropriate sanctions to loan defaulters including involving their guarantors and employers so as to increase loan collections.
6. Institute plans for engaging independent experts in conducting reviews or evaluations of HESLB's performance in reasonable intervals especially in the implementation of loan collection strategies.
7. Use the appropriate technology such as mobile technology to simplify loan repayment process and ease access information such as loan balances and other charges such as penalties.

CHAPTER ONE

INTRODUCTION

1.1 Background

Education in Tanzania was free before the late 1980's. Due to the increase in population and number of students who completed advanced secondary education, it became a burden for the Government to provide free quality education. Hence with the adoption of Economic Adjustment Recovery policy in 1985 which emphasised on cost sharing in all social services, introduction of cost-sharing system in higher education was introduced as well.

To streamline the cost sharing policy in higher education, in 2004 the Parliament of United Republic of Tanzania enacted the Higher Education Students Loan Board Act No.9 of 2004, which established Higher Education Students Loan Board (HESLB) to manage higher learning students' loan scheme. The core function of HESLB among others was primarily to facilitate access to higher education by students whose parents cannot afford to pay for the higher learning education through provision of loans.

According to the Act, eligible and needy Tanzania students who secured admission in higher education institutions to pursue academic programmes were eligible to apply loans and grants from HESLB to meet part of or all costs of their higher education. Loan beneficiaries were however required to repay the loans within a period of 10 years so as to make HESLB sustainable. Since its inception, HESLB had encountered a number of challenges such as increased number of students applying for loans, inadequate allocation of loan funds by the Government, delays in loans disbursement, poor and non-repayment of loans.

1.2 Motivation for the Audit

This audit was a response to the public outcry on the number of issues. Among others the main outcry was on the students not getting loans on time or not getting a loan while they were qualified for the loans. For instance, in the academic year 2016/2017 Tanzania Commission for Universities admitted 61,590 students, but HESLB was able to issue loans to only 25,000 (equivalent to 41 percent) applicants. This means that the majority of the applicants missed out the loans despite the fact that they were qualified.²

On 17th February 2016, the Citizen Newspaper published an article which among other things highlighted huge losses of the loan board

² The Citizen, Monday, December 26, 2016 (<http://www.thecitizen.co.tz/News/Anxiety-as-student-loan-terms-reviewed/1840340-3498124-u98jo7z/index.html>)

funds³. The article also revealed that there were some Tanzanian students who were pursuing studies in Algeria who continued to receive loans three years after their graduation from universities.

Quoting the Minister for education, science and technology also the Newspaper indicated that loans to students had always been delaying without any justification to the extent that the students had an impression that they could not receive loans they without protesting or striking and boycotting classes⁴.

According to a report by Canadian Centre for Science and Technology, it was reported that throughout the ten-year period studied, i.e. from 2005 to 2015, the loans board operated below its capacity. One of the reasons for the Board to operate under capacity was that the Board had been largely underfunded by the Government throughout the observed period⁵. The study also revealed that there was poor performance of the Board in loans recovery, hence casting huge doubt on HESLB's sustainability.

The Controller and Auditor General financial audit report of HESLB accounts for the year ending 30th June 2015, reported that there had been inadequate collection of loans repayment since the establishment of Higher Education Students Loans Board (HESLB). According to the report, HESLB managed to collect only TZS 22.27 billion out of TZS 51.1 billion by June 2014.

1.3 Design of the Audit

1.3.1 Overall Audit Objective

The objective of the audit was to assess whether Higher Education Students' Loans Board (HESLB) manages effectively repayment and recovery of higher education students' loans so the fund is sustainable. The audit also assessed whether Ministry for Education, Science and Technology (MoEST) monitors effectively the performance of HESLB in repayment and recovery of Higher Education Students' Loans in Tanzania.

³<http://www.thecitizen.co.tz/News/Billions-stolen-from-students--loans-board/1840340-3080654-view-printVersion-dpli0j/index.html>

⁴<http://www.thecitizen.co.tz/News/Billions-stolen-from-students--loans-board/1840340-3080654-view-printVersion-dpli0j/index.html>

⁵ Higher Education Studies; Vol. 6, No. 3; 2016 ISSN 1925-4741 E-ISSN 1925-475X Published by Canadian Centre of Science and Education: Performance of the Higher Education Students Loans Board in Human Capital Investment from 2005-2015

1.3.2 Specific Audit Objectives

Specifically the audit aims at determining whether:

- (i) *HESLB design the loan collection strategies that ensure sustainable source of financing higher education students' loans;*
- (ii) *HESLB effectively ensure optimal Loan collection from loan beneficiaries; and*
- (iii) *MoEST effectively assess the performance of HESLB in implementing loan repayment and recovery activities and take appropriate action timely.*

Details of the audit questions and sub question are provided for in **Appendix 4**.

1.3.3 Audit Criteria

The audit was guided by audit criteria clustered into three main groups. These clusters were: design of loan collection strategies; implementation of strategies to ensure optimal loans collections; and monitoring done by MoEST in ensuring that HESLB performs its loans collections effectively (**Table 1.1**).

Table 1.1: Focus Areas and Assessment Criteria

Focus area	Requirement as per audit criteria
Design of collection strategies	HESLB was required to have appropriate plans and mechanisms for tracking down loan beneficiaries. Beneficiaries include those who received loans since 1994 to the time of this report and were either employed in formal and informal sector or employed outside the United Republic of Tanzania. This was as per HESLB Act No.9 of 2004 (Section 2.3.3 of loan repayment manual).
Effectiveness of HESLB in ensuring optimal collection through implementing and monitoring repayment and recovery activities	<p>HESLB is required to set mechanisms for implementing its plans in order to allow the loan beneficiaries repay their loans easily as per Section 2.3 of the Loan Repayment and Recovery Manual.</p> <p>HESLB was required to supervise and monitor the repayment and recovery of loaned funds as per section 20(2) of the HESLB Act. By doing so, it should ensure that the employers report to the Board all newly recruited employees, make deductions and submit to the Board all deductions within fifteen days after the end of each month.</p> <p>HESLB was also required to ensure that every loan was monitored to ensure that it was repaid and procedures are followed in full and on time (Section 3.1 of HESLB</p>

Focus area	Requirement as per audit criteria
	loan repayment manual). The HESLB Act required that legal actions were taken to loan defaulters so that the whole loan was recovered including penalties and interests in case of delays in loan repayment.
The Ministry's Role in assessing the Performance of HESLB in loan repayment and recovery	As a parent Ministry, MoEST was responsible in ensuring quality education was provided including securing funds for higher education. Likewise, the Ministry was required to monitor HESLB operations to ensure that loans were repaid on time and defaulters dealt with according to the law. The Ministry was also expected to receive reports from HESLB indicating its performance quarterly and annually ⁶ .

For detailed audit questions, sub-questions and respective criteria please refer to **Appendix 4**.

1.3.4 Audit Scope

The audit covered the MoEST and HESLB. MoEST was selected as it was the parent Ministry responsible for HESLB. HESLB was selected because it was the agency mandated to manage higher education students' loans repayment and recovery.

The audit focused on three main areas namely: repayment and recovery of higher education students' loans; designing and monitoring of loan repayment and recovery strategies; and role played by MoEST in monitoring HESLB's loans repayment and recovery performance.

To supplement data for the audit, the audit team also visited the HESLB's zonal offices of Dar es Salaam, Dodoma, Arusha and Mwanza. Also it sought information on loans repayment and recovery status from the President's Office Public Sector Management and Good Governance.

Moreover, the audit covered a period of five (5) financial years i.e. 2012/13 to 2016/17. The purpose of regarding this scope was to assess HESLB performance for the past two strategic business plans which started to be implemented in 2011-2014 and 2014 - 2017 respectively. Thus assessing performance in loan repayment and recovery in this period was imperative.

1.3.5 Methods Used to Collect and Analyse Data

The audit employed two methods to collect as follows:

⁶Chapter 6 of the Higher Education Policy, 1999: Paragraph 6.3.2

i. Interviews

Interviews were conducted for the purpose of obtaining an overview of how management of the higher education student's loans in Tanzania functions. It was also used for getting clarification and explanations for information obtained from documents reviewed. The list of interviewed officials is shown in **Appendix 2**.

ii. Document Review

The audit team also reviewed documents which relate to the functions of HESLB and MoEST in order to understand comprehensive performance regarding the management of higher education student's loans repayment and recovery activities. The list of documents that were reviewed during the audit is as shown in **Appendix 3**.

Data Analysis Methods

The data were analysed, compiled and compared using tables and figures. The information from different types of data sources were combined to get an understanding of HESLB performance.

1.4 Standards Used for the Audit

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI). These standards guided the audit team to obtain sufficient and appropriate evidence to provide reasonable basis for the findings, conclusion and recommendations based on the audit objectives.

1.5 Data Validation Process

The Ministry of Education, Science and Technology and Higher Education Students' Loans Boards were given the opportunity to go through the draft report and comment on the figures and information presented in the audit report. They confirmed on the accuracy of the figures used and information being presented in the audit report. Furthermore, the information was cross-checked and discussed with subject matter experts in the field of higher education financing and financial management to ensure validity of the information obtained and presented.

1.6 Structure of the Report

The Structure of the report is as indicated in the chart below:

- ❖ **Chapter Two:** provides a detailed account of the system and processes for the management of Loans Repayment and Recovery by Higher Education Students' Loans Board, whereby the responsibilities of different key players are described;
- ❖ **Chapter Three:** presents findings in relation to status of loan collection from both Repayment and Recovery activities measured in different dimensions.
- ❖ **Chapter Four:** presents findings in relation to design, implementation and monitoring of loan recovery and repayment activities. It also covers the oversight role played by MoEST in monitoring HESLB's performance
- ❖ **Chapter Five:** Presents audit conclusions based on audit findings and conclusions in relation to design of strategies, implementation of collection strategies as well as monitoring of HESLB performance as conducted by MoEST; and
- ❖ **Chapter Six:** Presents audit recommendations based on audit findings and conclusions.

CHAPTER TWO

HIGHER EDUCATION STUDENTS' LOANS REPAYMENT AND RECOVERY SYSTEM

2.1 Introduction

This chapter presents in-depth background of the audit area. It provides for understanding of the instruments governing the whole management cycle of higher education students' loans as well as the functions or activities taking place in each management process. This part also describes roles and responsibilities of key players and stakeholders in the whole cycle of management of higher students' loans in Tanzania.

2.2 Policy, Legal and Institutional Framework

Policies provide for the overall guidance on how higher education students' loans repayment and recovery should be governed; legislations specify the way it should be managed; while institutional systems lay down the functions, roles and responsibilities of specific players in the whole cycle of higher education loans' loan repayment and recovery. Based on this, the following sections detail the policy, legal and institutional framework for managing higher education students' loans repayment and recovery in Tanzania.

2.2.1 The Higher Education Policy of 1999

The Higher Education system in Tanzania is governed by the National Higher Education Policy of 1999. The Policy sets out the objectives for having a streamlined higher education system in Tanzania. The policy was meant to set out systems so as to address, among other issues, the serious problem of low enrolment in the higher learning institutions in the country; gross imbalances in student's intakes in respect of gender imbalances in enrolment between science and liberal arts subjects; poor financing of higher education; unregulated, uncontrolled proliferation of tertiary training institutions in Tanzania.

The objective of the Policy, among others, was to enact legislations on higher education, non-university tertiary institutions so as to increase students' enrolment and eliminate imbalances in students' intakes; to broaden sources of financing of higher education and develop a financially sustainable model of funding. The Policy also directed that the Higher Education Students' Loans Board Act that was to be established should aim at providing grants or loans to qualifying needy students only and ensure substantially sustainable source of funding.

2.2.2 Higher Education Students Loan Board Act, 2004 (As amended in 2015)

Following the need to improve access and quality as specified in the policy, the Government enacted the HESLB Act in 2004 which established the Higher Education Students Loan Board. The Act was supported by the HESLB Regulations of 2005. The Act provide for roles, responsibilities and procedural requirement in management of higher education students' loans. They, as well, provide for minimum requirements for loans allocation, disbursement, repayment and recovery of higher education students loans.

2.3 Key Stakeholders in Loans Repayment and Recovery

In discharging various functions in the higher education loans repayment and recovery cycle, different actors and stakeholders play different roles. The sections below describe each actor and stakeholder and its role in higher education students loans management cycle. The aim is to underline key roles in connection with the management of higher education students' loans repayment and recovery as well as to understand how they are monitored and coordinated.

2.3.1 The Higher Education Students' Loan Board (HESLB)

HESLB is a Public Organization, under the Ministry of Education, Science and Technology (MoEST) as a parent ministry. The main functions of the Board, as per the Act, is to assist, on a loan basis, needy students who secure admission in accredited higher learning institutions, but who have no economic power to pay for the costs of higher education. The Board is also entrusted with the task of collecting due loans from previous loan beneficiaries in order to have a revolving fund in place so as to make the Board sustainable⁷.

The vision of the Board: The vision is “To put in place a well-managed and sustained revolving students’ loan fund to enhance access to higher education for needy and eligible Tanzanian students”.

The mission of the Board: The mission is “to be a Centre of excellence for the provision of loans to the needy and eligible Tanzanian students of higher learning institutions”.

Strategic Objectives: HESLB has set specific objectives in their strategic and action plans. These are as listed below:

⁷URT: Higher Education Students Loans Board Act, 2004, Section 16(1)

- i. Strengthen HESLB Operational Capacity for Effective Issuance of Loans
- ii. Enhance HESLB's Financial Sustainability
- iii. Strengthen HESLB's Institutional Capacity for Effective Management of HE Students' Loans)

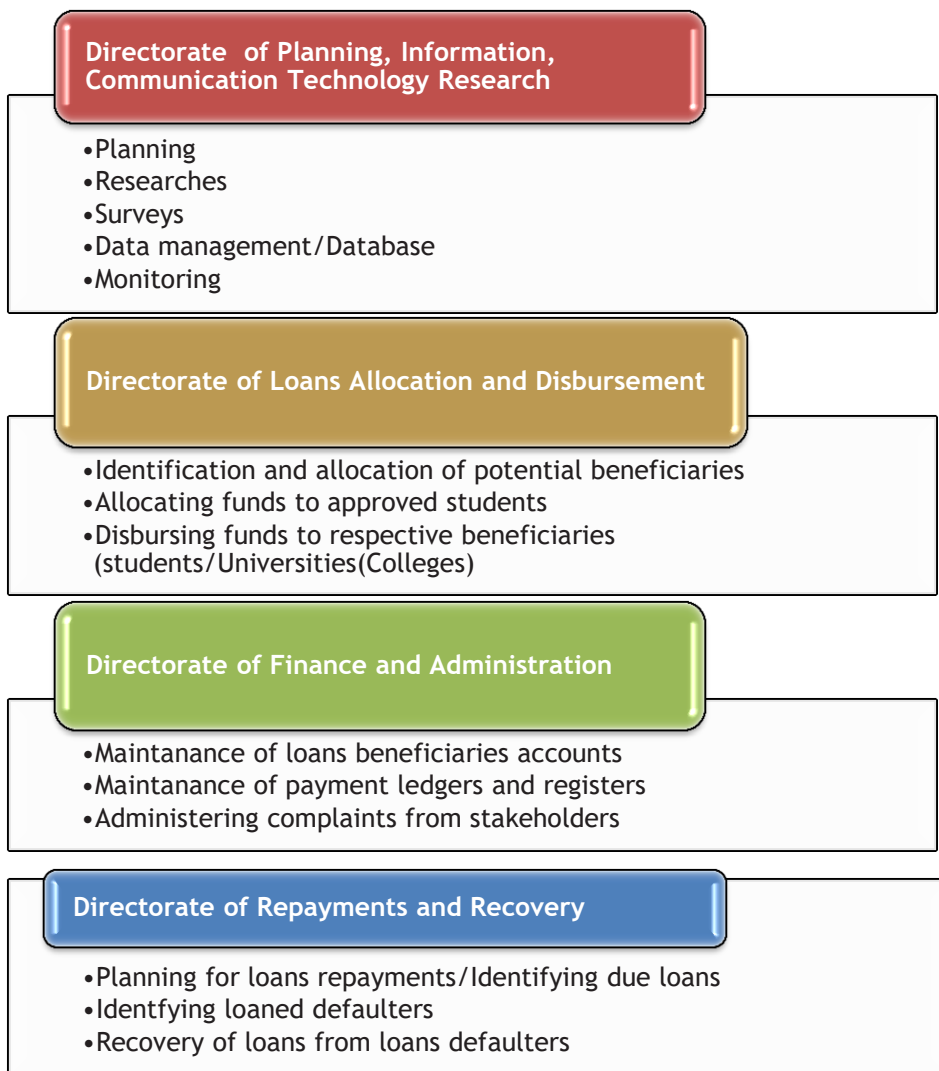
Functions of the Board: Under Section 6 of the HESLB Act, 2004 provides for overall functions of the Board, for the purpose of this audit those related to repayment and recovery are:

- i. To assume responsibility for the control and management of all loanable funds as vested in the Board;
- ii. To administer and supervise the whole process of payment and repayment of loans;
- iii. To keep the register and other records of students loan beneficiaries under the Board;
- iv. To advise the Minister on matters of policy and of the law concerning provisions and recovery of loans to students;
- v. To establish operational links with employers of loan beneficiaries for the purpose of facilitating the recovery of the loans granted; and
- vi. To establish networking and cooperation links on a mutual beneficial basis with institutions and organizations, be they governmental or non-governmental, local, foreign or international.

Basically, HESLB operated through directorates which were overseen by the Executive Director at the operations level. These were holistically overseen by the Board of Directors which was appointed by the Minister responsible for higher education.

However, four directorates more relevant to this study were: Directorate of Loans Allocations and Disbursement; Directorate of Planning, Research and Information, Communications and Technology; Directorate of Finance and Administration; and Directorate of Repayment and Recovery. Specific functions for respective directorates are as shown in **Chart 2.1**.

Chart 2.1: Functions of Key Directorates at HESLB



Source: Approved HESLB Organizational Chart, 2004 and Strategic Plan, 2014-2017

2.3.2 Loan Beneficiaries Right to Loans and Obligation to Repay

Right to Get Loans

Section 17 of the HESLB Act, 2004 as amended provides that, a student shall be eligible for consideration for a loan under this Act if he/she is a Tanzanian; (b) he/she has been admitted to an Accredited Institution; he/she has made a written application in the prescribed form in which shall be included, inter alia, the names of the applicant, the applicant's parents or guardian and or of the applicant's guarantor

and which when approved by the Board shall form the basis of the loan contract, to be known as the Student Loan Agreement, between the applicant of the one part and the Government of the other part.

Obligation to Repay

However, Section 19 provides for obligation to repay whereas, it shall be the duty of every loan beneficiary to repay his debt to the Government through the Board. The debt that a loan beneficiary shall be liable to repay to the Government through HESLB, shall be calculated on the basis of prescribed application forms issued to him/her by the Board, that a loan beneficiary shall have freely signed and submitted to the Board personally or through a third party duly authorized by him/her under a letter of authority authenticated by him/her by signature; and which shall be established as a fact by the Board as having been received by him/her personally and or through his/her bank account.

Loans Beneficiaries Studying Abroad

Any loan beneficiary who, pursues his/her studies abroad shall, upon his/her admission for studies abroad, enter into arrangements with the Board upon his/her admission for studies on the mechanism of repaying the loan.

Loan Beneficiaries who Secure Employment

Any loan beneficiary who secures employment on contract or permanent terms, upon successful or unsuccessful completion of the studies for which the loan was granted shall arrange with the employer for monthly deductions from his salary of such amount. The Minister may by regulations prescribe for remittance to the Board, for a period not exceeding ten years and ensure that payment of such monthly deductions by the employer are remitted to the Board.

Loan Beneficiaries who are Self Employed

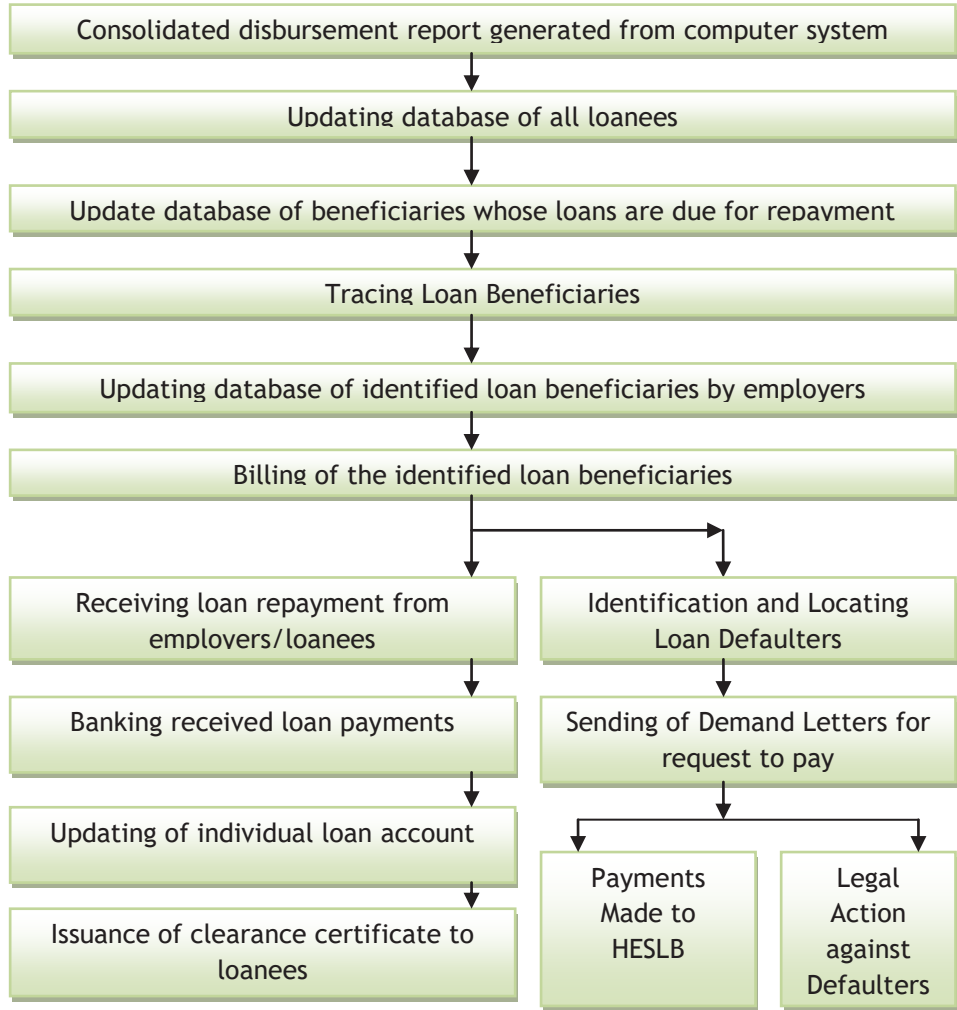
Any loan beneficiary who engages in self-employment in any trade, occupation or profession under licence as required by any written law upon completion of the studies for which the loan was granted or upon earlier termination of such studies for "any reason or cause whatsoever shall, starting not later than twelve months after such completion or earlier termination and or engaging in such gainful self-employment under licence make monthly remittance to the Board of such amounts of money as the Minister shall, ensure that the remittance of such monthly amounts is made to the Board bearing the correct name, address and the Student Loan Number; inform the Board and the

Ministry of his current postal and physical occupational and residential addresses and, if any, telephone numbers and any subsequent changes thereof; and do any other thing as may be prescribed under general regulations made by the Minister in accordance with the provisions of this Part. This shall apply also to any loan beneficiary who is in the employment of a foreign government, an international organization, company, agency or association of whatsoever description or any foreigner, as the case may be.

2.3.3 Loan Repayment and Recovery Process

According to LRRM 2008, the loan repayment and recovery activities can be described as indicated in below chart.

Chart 2.2: Loan Repayment and Recovery Process



Source: LRRM, 2008

2.3.4 Resources and Staff allocation

The Repayment and Recovery Section was responsible for loan repayment and recovery. The human resources strength required for this section as per establishment manning level⁸ of HESLB was 26 staff. The same document also indicated that HESLB at the time of the audit had a total of 29 staff.

2.3.5 Funding of Higher Education Students Loans

In order to carry out its daily activities, HESLB required funding to implement its core functions of managing higher education funds. At the time of this audit, HESLB had several sources of funding as indicated in Table 2.1.

Table 2.1: Source of funds for HESLB activities between 2012/13 and 2015/2016 (TZS in Billions)

Source of Fund	FYs					Total
	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	
Government Subvention-Loan able Fund	301.53	277.37	314.58	358.35	331.64	1,583.47
Loanable Funds from Loan Repayments	13.70	27.09	19.10	20.79	18.12	99.80
Government Subvention - Other Charges	7.33	7.00	12.02	10.98	4.65	41.98
Interest Income	3.10	2.43	1.07	0.47	0.07	7.14
Application Fees	1.75	1.80	2.22	3.09	0-	8.86
Revenue Grants (World Bank)	0.13	0	0	0	0	0.13
Revenue Grants (Medical Doctors)	3.79	4.72	5.78	4.93	6.41	25.63
Penalty on Loan Repayments	0	0.96	105.04	24.61	27.60	158.21
Value Retention Fees	0	0	465.42	141.67	55.81	662.90
Other income	0	0.01	0.01	0.01	1.87	1.90

Source: HESLB's Accounts Record, 2012/2013 to 2015/2016

⁸As presented to auditors by Human Resource Officers of the Board, March 2018

2.3.6 Ministry of Finance and Planning

The main function of Ministry of Finance and Planning in relation to financing higher education was to approve HESLB budget and disburse loan funds to HESLB. The Ministry was responsible for regularly monitoring HESLB's performance based on the funds disbursed to the Board for loans disbursement and how the money was repaid and recovered.

2.3.7 Ministry of Education, Science and Technology

The Ministry was responsible for ensuring quality education in the country. As enshrined in its Strategic Plan, it was also responsible for managing higher education in the country. Through the Division of Higher Education, MoEST was required to conduct periodic monitoring of provision of higher education. Also, it was required to conduct public awareness on issues of loans repayment and recovery.

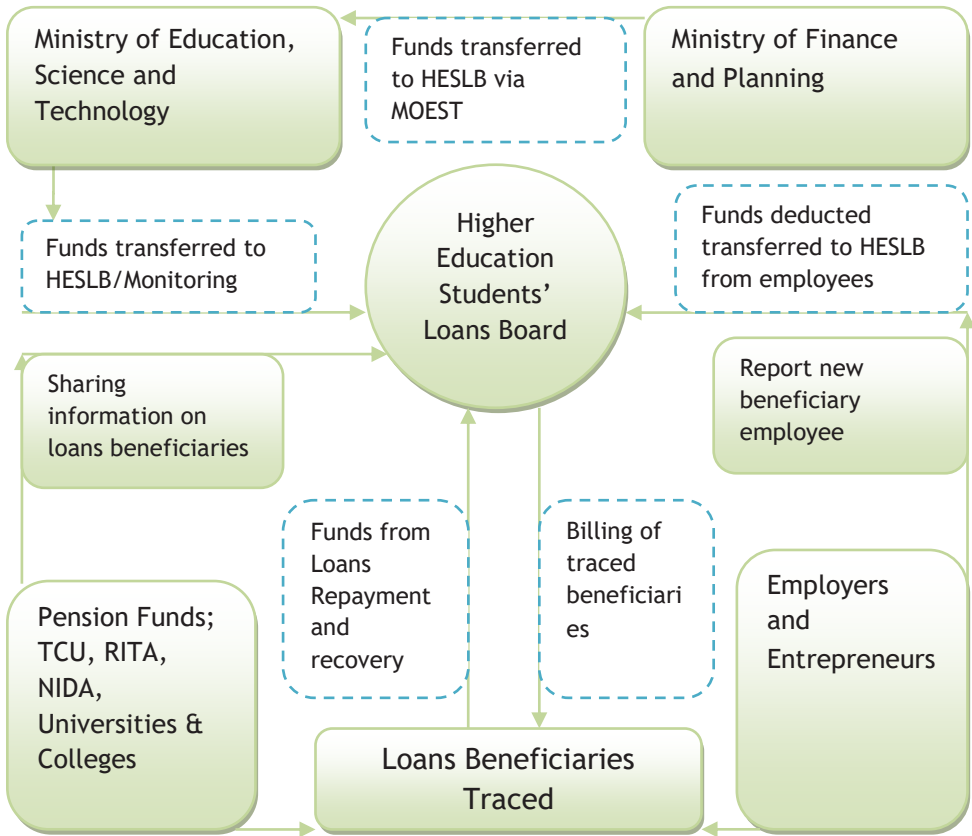
2.3.8 Employers

Employers were expected to play an important role of giving information and reporting to HESLB with respect to their employees who were beneficiaries of the loans. According to the HESLB Act No. 9 of 2004, they were required to submit to HESLB the names of higher learning loan beneficiaries and in case of failure to do so they were fined and penalties from HESLB.

2.4 Loan Management Process

The loan management system according to the HESLB lending and loan repayment manual was categorized into seven steps. The chart below illustrates key steps and related activities.

Chart 2.3: Relationship among key stakeholders in Management of Loans Repayment and Recovery



Source: Interviews and Document Reviews (MoEST, HESLB)

2.5 Complaints Management

Higher Education Students' Loans Board was required to have proper management of customer complaints, with a view of improving its efficiency and effectiveness. There has to be a complaints desk which handles all complaints as received. Once received the complaints are supposed to be entered in the complaint register. Thereafter they are supposed to be assigned to different Directorates depending on the nature of the complaints.

According to HESLB's Strategic Plan 2013/2014 - 2016/2017, HESLB is expected to establish the complaints desk, facilitate operation of the customer care call centre, establish and implement Customer Care Complaints register, establish accessible suggestion box as well as the establishment of the client service charter. These tools are expected to help in assisting the Board to handle and respond complaints on time.

CHAPTER THREE

REPAYMENT AND RECOVERY OF LOANS

3.1 Introduction

This chapter presents findings related to performance of HESLB in ensuring that loans issued to beneficiaries are optimally repaid and recovered once they are due. The chapter provides performance of loan collection in repayment and recovery activities measured using various dimensions.

3.2 Status of Loan Repayment

The Government of Tanzania through HESLB disbursed a total of TZS 2.14 trillion from 2012/2013 to 2016/2017. This shows that lots of fund was disbursed for the purpose financing higher education students' loans. These funds needed to be collected through repayment and recovery and HESLB has been entrusted in ensuring that fund that was disbursed to students as loans was fully repaid or recovered. Thus this section describes the gaps noted in loan repayment and recovery which need to be addressed.

The audit reviewed HESLB's loan repayment status by focusing on various aspects including overall collection against targets set, tracing, billing and collection of loans due for the period of five financial years ranging from 2012/2013 to 2016/2017 whereas it was generally found to be ineffective.

3.2.1 Loans Repayment Targets in Relation to Actual Collection

According to HESLB Strategic Plans of 2011-2014 and that of 2014-2017, HESLB targeted to collect at least 70 and 80 percent⁹ respectively of due loans through repayment and recovery collections so as to sustain provision of loans. However, based on cumulative figures of loan repayment, the actual collection was ranging from 32 to 48 percent for the period of five financial years as indicated in **Table 3.1**.

⁹The target set of 80 percent combined both collection from repayment and recovery activities, however for the purpose of audit analysis this target was considered for repayment activities only since the collection from recovery activities was not material.

Table 3.1 Trend of Loan Collection as Per HESLB's Strategic Plans

FY	Cumulative Due Loans (TZS in Billion)	Cumulative Loan Repayments (TZS in Billions)	Rate in Percent
2012/2013	105	34	33
2013/2014	156	55	35
2014/2015	230	77	33
2015/2016	330	105	32
2016/2017	465	221	48

Source: HESLB's Strategic Plans, 2011-2014 and 2014-2017

Table 3.1 shows that only 35 percent was collected instead of the 70 percent that was targeted in financial year 2013/2014. In financial year 2016/2017, only 48 percent was attained instead of the target 80 percent set at end of the respective strategic plans.

3.2.2 Status of Loan Collection against Loan Due in Each Year

Further review of HESLB Loan Repayment and Recovery databases (SP) showed that HESLB's annual loans collection from the due loans each year ranged from 27 to 53 percent for the period of five financial years as indicated in **Table 3.2**

Table 3.2: Annual Collection of Due Loans, 2012/2013 - 2016/2017

FY	Annual Due Loans (TZS in Billions)	Annual Repayments (TZS in Billions)	Percentage Annual Repayment
2012/2013	34	15	43
2013/2014	55	18	33
2014/2015	77	22	29
2015/2016	105	28	27
2016/2017	221	116	53

Source: HESLB-Loan Repayment and Recovery Database, 2018

Table 3.2 shows that the trend of collection was decreasing for four consecutive years from 43 to 27 percent from financial year 2012/2013 to 2015/2016. However, in financial year 2016/2017 the collection rose to 53 percent of annual due loans. The analysis shows that the annual repayments increased from TZS 28 to 116 billion which was equivalent to 314 percent in this period.

The audit found that, among the reasons for such sharp rise in loans repayment was the increase in amount of due loans from TZS 105 to

221 billion (equivalent to 110 percent) from financial year 2015/2016 to 2016/2017. According to HESLB, another reason was the increase of loan deduction rate from 8 to 15 percent per month which started effectively in 1st February 2017. This contributed to TZS 20 billion out of 116 billion collected in the 2016/2017 financial year. The amendment of the HESLB Act made loans deductions of 15 percent statutory, which also contributed to the sharp increase in loan repayment.

The reasons for collecting the remaining balance of TZS 98 billion was a result of operational efforts of the new HESLB's management team which started to operate in 2016. These efforts were mainly focused on strengthening partnership with key stakeholders such as employers who played an agent role both in deducting and remitting loans as well as submitting a list of loans beneficiaries; naming and shaming strategy by publishing loans beneficiaries' defaulters on HESLB website; increased loan repayment awareness and number of employers inspected in financial year 2016/2017.

However, analysis from HESLB strategic Plans and loan repayment and recovery database in **Tables 3.1** and **3.2** respectively indicated that HESLB did not reach its loan repayment and recovery targets of 70 and 80 percent of due loans which were set in both Strategic Plans¹⁰.

3.2.3 Number of Traced Loans Beneficiaries with Due Loans

According Section 2.3 of LRRM 2008, HESLB was required to maintain up to date database of the loan beneficiary so as to facilitate repayment and recovery of the loan from loan beneficiary. However, based on the complexity¹¹ of measuring performance of HESLB and amount collected against loans due, the audit team considered another dimension whereby the number of loan beneficiaries with due loans was considered.

The dimension required that upon preparation of a database of loanees whose loans were due for repayment, HESLB was expected to formulate appropriate mechanism for tracking down loan beneficiaries who were either employed in formal sector, self-employed or employed/residing outside Tanzania.

However, the audit reviewed information from the loan repayment and recovery databases that were in use at the time of this report and

¹⁰ Strategic plan 2011-2014 (with target of at least 70 of loan collection) and Strategic Plan of 2014-2017 (with target of at least 80 percent of loan collection)

¹¹The measuring of performance based on amount collected was affected by the increase of deduction rate from 8 to 15 per month which has significant impact in cash collected.

noted that HESLB traced between 23 and 51 percent of due loans as indicated in **Table 3.3**.

Table 3.3: Number of Loan Beneficiaries with Due Loans Traced per Financial Year

FY	Cumulative Loan Beneficiaries with Due loans	Number of Cumulative Loan Beneficiaries Traced	Loan Beneficiaries Traced (%)
2012/2013	137,204	31,932	23
2013/2014	143,281	40,414	28
2014/2015	177,017	53,304	30
2015/2016	242,011	79,555	33
2016/2017	269,182	138,485	51

Source: HESLB's Loan Repayment and Recovery Database, 2018

Table 3.3 indicates that there was a progressive increment in terms of cumulative loan beneficiaries traced for the past five years.

Based on the analysis in Table 3.3, HESLB was able to trace an average of 33 percent of beneficiaries with due loans per year for the period of five years. Equally, it was noted that for the past three years, the rate of tracing new loan beneficiaries with due loans increased from 28 to 51 percent of the loans beneficiaries starting from financial year 2013/2014 to 2016/2017. However, the increase was not proportional to the increased number of loan beneficiaries with due loans. Nevertheless, the cumulative number of loan beneficiaries increased significantly in the year 2016/2017 to 51 percent compared to previous years.

Moreover, the audit found that, there were no formal reports which were prepared in support of the actual number of loan beneficiaries traced over the years as the data was generated direct from the database. Furthermore, HESLB did not set annual targets to measure HESLB performance in collection based on number of loan beneficiaries traced.

3.2.4 Number of Loans Beneficiaries Due and Billed

Upon tracing of loan beneficiaries, HESLB was required to prepare bills attached to payment schedules and send them to employers ready to effect loan deductions from employees who were loan beneficiaries¹².

The audit team used data of loan beneficiaries extracted from HESLB database from 2012/2013 to 2016/2017 and tested the responsiveness

¹² Section 2.3.4 of HESLB's Loan Repayment and Recovery Manual (LRRM 2008)

of the billed loans beneficiaries. Results indicated that the database had a total number of 115,819 traced loan beneficiaries with a total loan of TZS 2.4 trillion and TZS 2.33 trillion as outstanding i.e. not collected. According to HESLB reports¹³, HESLB collected a total of TZS 221 billion from 2012/2013 to 2016/2017 from 115,903 traced loan beneficiaries as indicated in Table 3.4.

Table 3.4: Number of Loans Traced and Amount of Loans Collected per FYs

FY	Number of Traced Loan beneficiaries	Amount of Loans Collected (TZS in Billions)
2012/2013	9,350	5.7
2013/2014	8,482	10.2
2014/2015	12,890	35.0
2016/2016	26,251	53.0
2016/2017	58,930	116.7
Total	115,903	221.6

Source: HESLB, 2017

Table 3.4 above indicates that there were notable increase in loans tracing and collection however, not all were billed as indicated in Table 3.5.

Table 3.5: Billing of Traced Beneficiaries, 2012/2013 - 2016/2017

FY	Number of traced beneficiary	Number of billed beneficiaries ¹⁴	Percentage of Billed Beneficiaries
2012/2013	9,350	0	0
2013/2014	8,482	6	0.07
2014/2015	12,890	5	0.04
2015/2016	26,251	26,251	100
2016/2017	58,930	58,930	100

Source: Tracing Database per HESLB, HESLB Billing Database Extract, Auditor Analyses

Table 3.5 shows that traced loans beneficiaries per year did not correspond to billed loan beneficiaries. From 2012/13-2014/2015 FY there was limited efforts in billing beneficiaries. During this FY, billing was done manually and not adequately documented. Yet, for the last two financial years 2015/2016 and 2016/2017, HESLB managed to create 100 percent of bills to traced loan beneficiaries. This is because billing the loan activities were captured in the Loan Repayment and Recovery Database.

¹³Although the reports were not complete, the audit used the cumulative 4th quarterly reports prepared by the Loan Disbursement and Repayment Committee of the Board.

¹⁴The numbers were extracted from billing database as provided to auditors. Analysis was done based on the given data and the results are as indicated.

3.2.5 Low Rate of Repayment from Issued Bills

The audit analysis indicated that number of traced beneficiaries (as provided by HESLB), total billed per year and billed beneficiaries who responded and started to repay their loans were not matching (Table 3.6).

Table 3.6: Traced Beneficiaries Billed and Responded

FY	Number of billed beneficiaries	Number of beneficiaries who started to repay	Percentage of Repayment Rate
2012/2013	0	0	0
2013/2014	6	1	17
2014/2015	5	1	20
2015/2016	26,251	26,008	98
2016/2017	58,930	42,416	72

Source: Auditors' Analysis of Bills Extracted from HESLB Database March 2018

Table 3.6 indicates that not all loan beneficiaries who were billed started to repay. The number of loan beneficiaries who started to repay their loans against bills made improved in the last two financial years compared to the previous years (2012/2013 -2014/2015). The reasons for the low number of repayments noted in financial years 2012/2013 -2014/2015 was due to less effort in billing including inadequate documentation and tracking of billing activities against number of billed loan beneficiaries. In addition, it was difficult to establish the amount billed against amount collected.

Furthermore, the audit team found that dropdown of number of repayment rate by 26 percent (98 to 72 percent) of the billed loan beneficiaries between financial year 2015/2016 and 2016/2017 was because more efforts were put in issuing bills than follow up of collection from issued bills.

3.3 Status of Loan Recovery

According to Sections 19, 19A, 20 and 22 of HESLB Act 2004, every loan beneficiary shall be responsible for paying the loan after one years of grace period for the period up to 2015/2016¹⁵. The Sections further provides for penalties and sanctions for beneficiaries and employers who fail to repay the loan or deduct loan instalments from employees without good cause. Whereas the loan defaulters or employers who fail

¹⁵Meanwhile, grace period has been extended to two years after graduation (Based on interviews with Loan Repayment and Recovery Management)

to do so were charged with late payment penalties or a minimum of TZS 1 million to be charged to the employer for late payments.

From HESLB's due loans database, it was noted that there were a number of due loans which were outstanding for a long time. Findings indicated that since 1994 to 2017 there was a total of TZS 801.3 billion of unpaid loans (**Table 3.7**).

Table 3.7: Trend of unpaid loans from 1994 to 2017

Calendar Year	Number of Loanees with Unpaid Loans	Total Amount Unpaid (TZS in Billions)
1994-2012	75,794	144.8
2013	20,943	40.4
2014	25,584	34.7
2015	20,398	10.1
2016	15,585	208.4
2017	28,407	362.9
Total	186,711	801.3

Source: HESLB Due Loans Database and Auditors' Analysis

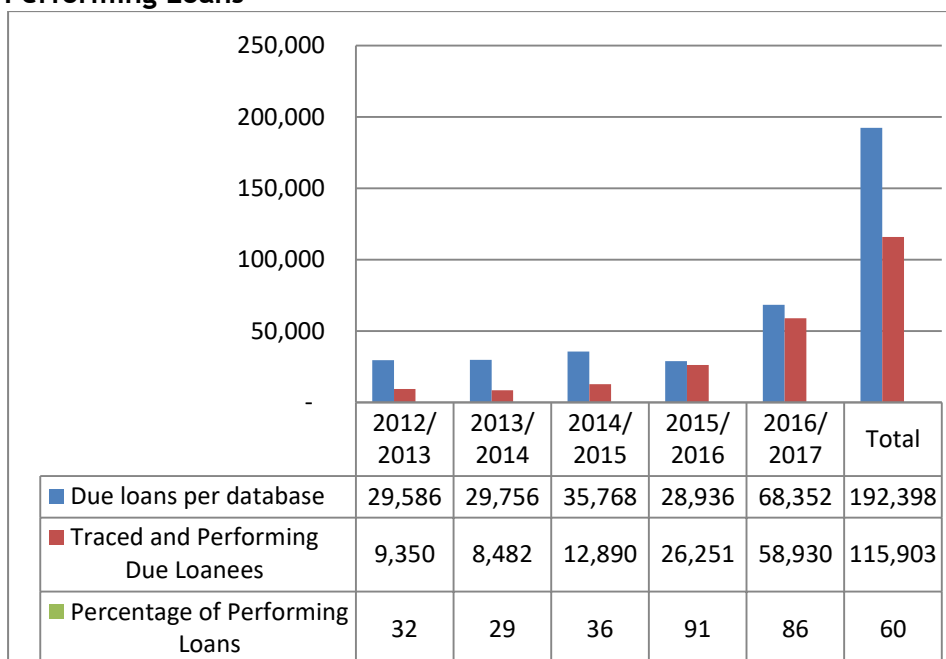
The analysis in **Table 3.7** indicates that, HESLB maintained a number of loan defaulters (those who had outstanding loans) but did not repay. At least 186,711 with an outstanding balance of TZS 801.3 billion of loan beneficiaries did not repay their loans on time. This means that HESLB was maintaining a substantial number of defaulters.

However, the audit noted that in FY 2017/2018 HESLB published a list of names of loan beneficiaries who were in default requesting them to show up and repay the loans. The publication increased the number of loan beneficiaries traced. If the outstanding due loans were not repaid on time, there was a risk that HESLB would miss a substantial amount of loans which would be used to refinance other loan applicants.

3.3.1 Low rate of Performing Loans

The audit made an analysis based on the data of due loans traced as provided by HESLB to see whether the traced loan beneficiaries were repaying their loans. Since, the information provided was not in financial year basis, the audit presented the same in a calendar year and the results indicating the trend of tracing are as indicated in **Chart 3.1**.

Chart 3.1: Due Loans¹⁶ per Calendar year Compared to Number of Performing Loans



Source: Audit Analysis March, 2018

Chart 3.1 above indicates that, HESLB maintained an increasing number of loan beneficiaries with due loans, yet the average rate of performing loans¹⁷ for the past five years was 55 percent with the highest performance standing at 91 percent in 2015/2016 and the lowest at 29 percent in 2013/2014. This means that about 44 percent were repaying their loans whilst 56 percent was outstanding as of 2017.

3.3.2 Number of Loans Due but Outstanding for Long Period of Time

The review of availed reports from HESLB indicated that HESLB did not have details of loan defaulters since when it started to collect loans. However, the audit reviewed HESLB database so as to determine number of loans which were still outstanding but not collected with a period starting 1997 to 2012 as a baseline. The audit analysed an outstanding loan balances with unpaid balances of more than five years by categorising a number of loan beneficiaries before and after the establishment of HESLB i.e. 1997 to 2004 and 2005 to 2012. The results indicated that there was huge number of loan beneficiaries whose loans were unpaid as indicated in Table 3.8.

¹⁶Data extracted from HESLB due loans database (As provided by HESLB)

¹⁷Performing loans refers to those loans which were repaid on that particular calendar year.

Table 3.8: Number of loans beneficiaries and amount of unpaid loans of more than past five FYs

FY	Number of Outstanding Loans Beneficiaries	Unpaid mount (TZS in Billions)	Ageing (Years)
1997-2004	21,697	24.34	14 - 21
2005-2012	91,225	482.36	5 - 13
Total	112,922	706.70	

Source: HESLB Database (Auditors' analysis)

Table 3.8 indicates that HESLB maintains a database of a total of 112,922 loan beneficiaries with unpaid loan balances of more than five years amounting to TZS 706.70. These according to LRRM 2008 qualified to be under default. Nevertheless, HESLB did not have a customized field of loan defaulters in the existing database despite of huge amount of loans which were unpaid. There was no analysis of the ageing of the loans so as to assess their chances of recoverability shown in database.

According to HESLB officials, the due instalment for the audit under review was TZS 585 billion from which more than TZS 216 billion had already been collected and remaining balance was TZS 369 billion. This computation was based on the assumption that there was different between due instalment loan and due loan. This means that the due loans covered a credit period of up to 10 years while instalment was portion of amount of loan which was supposed to be paid within a particular financial year. Regardless of this computation, the audit considered that, the unpaid of TZS 369 billion was significant and more efforts for loan recovery strategies were needed.

The audit noted that, in 2016/2017 and 2017/2018, HESLB had started to publish the names of loan beneficiaries with long outstanding loan balances requiring them to show themselves before HESLB for the purpose of obtaining their bills. This was a positive approach that the audit commended because this would increase chances for recoverability of unpaid loans.

3.3.3 Trend of Recovery of Due Loans from Defaulters

Collection of loans due for repayment was expected to be well managed to ensure that all loans due for repayment were fully repaid or recovered. The audit noted that, there were weaknesses in recovery of loans under default. The analysis from HESLB database for loans which were due for recovery showed that HESLB did not adequately recover outstanding due loans as indicated in **Table 3.10**.

Table 3.9: Annual Recovery Trend of Outstanding Due Loans

FY	Total Annual Outstanding Due Loans (TZS in Billion)	Annual Outstanding Due Loans Collected (TZS in Billions)	Annual Collection Rate (%)
2012/2013	95.9	25.05	26
2013/2014	82.5	19.39	24
2014/2015	81.8	20.64	25
2015/2016	42.9	13.15	31
2016/2017	15.9	2.93	18
Total	319	81.16	25

Source: HESLB's Repayment and Recovery Database, 2018

Table 3.9 indicates that HESLB had a total of TZS 319 billion of outstanding due loans for the past five FYs. According to HESLB analysis, total collection of due loans for the years 2012/2013 to 2016/2017 was TZS 198.8 billion. However, the collection from specific outstanding due loans was TZS 81.16 billion which was equivalent to 25 percent of repayments for the past five years. The graphical presentation indicating annual repayment trend of due loans is as presented in **Graph 3.2**.

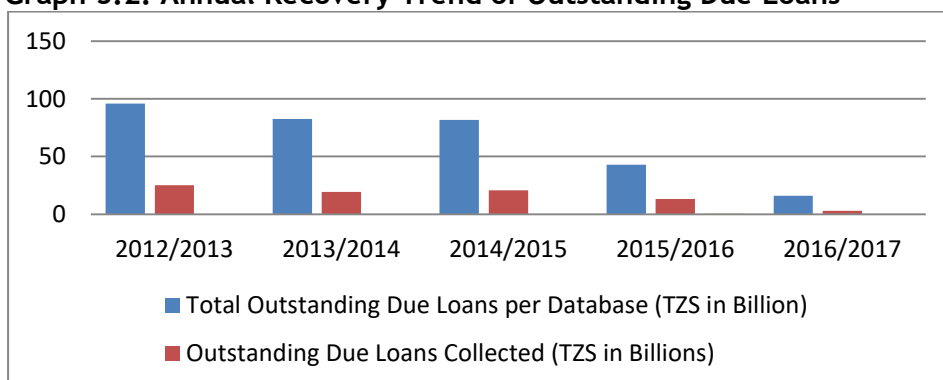
Graph 3.2: Annual Recovery Trend of Outstanding Due Loans

Chart 3.2 indicates that HESLB was in all audited FYs collecting less than due loans.

3.3.4 Refunds, Arrears in Collection and Other Charges were not Deducted when Reporting Collection Performance

In measuring of HESLB's performance in loan collection against target set, the audit noted that issues such as loan refunds which were deducted by errors, collection in arrears and separation between charges and principal amounts were not clearly stated in their treatment in their computation of collection performance.

For instance, review of due loans repayments indicated that HESLB did not report on refunds with respect to collection of the respective year. According to due loans database, HESLB had a total of annual repayments amounting to TZS 81,160million whereas TZS 1,220 million was refunds¹⁸. The annual refunds compared to repayments made are as indicated in **Table 3.10**.

Table 3.10: Refunds not Deducted when Reporting Collections

FY	Annual Outstanding Due Loans Collected (TZS in Millions)	Refunds Reported in Database (TZS in Millions)	Percent of Refunds
2012/2013	25,050	70	0
2013/2014	19,390	240	1
2014/2015	20,640	290	1
2015/2016	13,150	70	1
2016/2017	2,930	550	19
Total	81,160	1,220	2

Source: HESLB's Accounts Records and Loan Repayment and Recovery Database, 2018

Table 3.10 indicates that refunds ranged between 0 to 19 percent of due loans collected per year with the highest refund being made in FY 2016/2017. This means that there were more refunds to be made in subsequent years. However, it was revealed that HESLB did not recognize this amount as deduction in reporting performance of loans collections against targets set. Likewise, issues of collection in arrears, charges like value retention, late payment penalties and loan administration fees were not separated during computation of loans collections performance against targets.

This was due to unclear methodologies for compiling; analysing; and computation of loan collection data for measuring performance of collection targets. This resulted in inconsistency during reporting of HESLB performance in loan collection.

3.3.5 HESLB Loan Balances not matching with POPSM¹⁹ Database

The audit reviewed the loan balances maintained by HESLB and those shown in the government payroll which is managed by POPSM. Records from POPSM indicated that there were 15,885 loan beneficiaries with zero balances as per government payroll. This means that these beneficiaries had completed settling their loans through monthly deductions from their salaries.

¹⁸Refunds refer to amount reimbursed to persons who were wrongly charged or billed by HESLB.

¹⁹President's Office - Public Service Management and Good Governance

The audit sampled 180 loan beneficiaries out of 15,885 maintained by POPSM and compared these balances with those maintained in HESLB's database. The audit noted that a total of 180 loan beneficiaries maintained zero balances in their payrolls and 135 had outstanding balances with HESLB as shown in Table 3.11.

Table 3.11: Loan Balances as Reported by POPSM Payrolls and HESLB Loan Repayment and Recovery Database

Government Institution	No. of Loan Beneficiaries with Zero Balance as per Government Payroll	No. of Loan Beneficiaries with Cleared Loans as per HESLB	No. of Loan Beneficiaries with outstanding Loans as per HESLB	Percentage of loan beneficiaries with outstanding Loans
Arusha CC	20	3	17	85
Dodoma MC	20	3	17	85
Mwanza CC	20	4	16	80
Dar es Salaam CC	20	11	9	45
MoHCDGE	20	3	17	85
MoEST	20	3	17	85
PoRALG	20	11	9	45
UDOM	20	4	16	85
Kibaha Education Centre	20	3	17	85
Total	180	45	135	

Source: Payroll Data from POPSM and HESLB reported Balances, 2018

Table 3.11 shows that 135 had an outstanding loan balance with HESLB whilst balance as per government payroll was zero. This means that only 45 out of 180 beneficiaries which is equivalent to 25 percent of 180 loan beneficiaries sampled were fully billed and cleared their loans as per HESLB.

On the other hand further analysis indicated that whilst POPSM reported these loan beneficiaries as having zero balances in their payroll in respect of higher education loan instalments, HESLB reported a total amount of TZS 362 million as outstanding balances. The details are as indicated in Table 3.12.

Table 3.12: Balances Recorded by HESLB while they had Zero Balances

Name of Government Institution	No. of Loan Beneficiaries with outstanding Loans as per HESLB	Total Outstanding Balances Per HESLB (TZS in millions)
Arusha CC	17	53.13
Dodoma MC	17	79.95
Mwanza CC	16	15.05
Dar es Salaam CC	9	15.40
MoHCDGE	17	66.78
MoEST	17	35.55
PoRALG	9	20.24
UDOM	16	29.79
Kibaha Education Centre	17	45.98
Total	135	361.87

Source: HESLB Balances, March 2018

Table 3.12 indicates that a total of TZS 362 million was not billed to loan beneficiaries. This means that HESLB did not submit full amount of outstanding loan to the government payroll to be deducted. The impact of not fully submitting the outstanding loan amounts to the government was that there could be delays in obtaining the available cash which could contribute to higher education students revolving fund.

Most of loan beneficiaries were not aware of the outstanding balances as their salary slips from government payroll show that they had completed their loans. Since, the outstanding balances were subjected to different charges such as retentions fees and late payment penalties, they tend to increase burden of cost to loan beneficiaries. This scenario also puts HESLB into risk of incurring additional cost of recovering these loan balances as it increased chances of defaults. However, the audit noted that HESLB took initiative during the course of audit by writing a letter dated 19 February, 2018 requesting POPSM to restate the outstanding balances on the payroll.

3.3.6 Number of Loan Guarantors traced

In loans repayment and recovery activities, HESLB was expected to use the guarantors to trace loans beneficiaries whose repayment status was poor and not traceable. Section 7(c) of the LRRM 2008, required the Loan beneficiaries' guarantor to be discharged only upon issuance of loan clearance certificate. This means that the guarantors of the loan beneficiaries were an integral part of the loan repayment and recovery process.

However, the audit noted that, HESLB did not adequately use loan guarantors' details to locate loans beneficiaries during implementing loan recovery activities. For the past 13 years i.e. since its establishment, HESLB did not adequately involve the guarantors in tracing loans beneficiaries or loan defaulters. **Table 3.13** indicates a number of guarantors contacted over the past years as compared to number of loans defaulters per year.

Table 3.13: Number of Guarantors contacted as Compared by Total Number of Defaulters

Year	Total Number of Defaulters with Due loans per database	Number of Guarantors Contacted	Percent Rate of Number of Guarantors Contacted
1997-2012	112,856	42	0.04 -
2013	29,586	12	0.04
2014	29,756	32	0.11
2015	35,768	168	0.47
Total	207,966	254	0.12

Source: HESLB Repayment and Recovery Records, 2018

Table 3.13 shows that the generally, the percentage rate of number of total number of guarantors contacted by HESLB in loan recovery activities is less than one percent (0.12 percent).

In reviewing the responsiveness of contacted guarantors the audit team noted that the number of guarantors responded were varying from 31 to 63 percent as indicated in **Table 3.14**.

Table 3.14: Number of Contacted Guarantors and their Response to HESLB

Year	Number of Guarantors Contacted	Number of who Responded Guarantors	% of Guarantors Responded
1997-2012	42	13	31
2013	12	6	50
2014	32	20	63
2015	168	70	42
Total	254	109	43

Source: HESLB Data for Loans Defaulters and Guarantors Contacted March 2018

Table 3.13 and **3.14** indicate that HESLB did not adequately use guarantors to trace loan beneficiaries especially those who had defaulted or likely to default. For the period of i.e. 1997-2015, HESLB

was able to trace a total number of 254 guarantors but only 109 (equivalent to 43 percent) responded.

Review of the database and interviews with loan repayment and recovery section officials indicated that it was not possible to adequately use guarantors because the HESLB database did not capture the guarantors' details during recording the details in the database. In addition guarantors' contact information in the data base was not regularly updated to take on board any changes of contact information. In future, probably it is better to include or demand telephone numbers and National Identification numbers of guarantors in the loan forms.

Further, it was noted that guarantors information was kept in a separate excel spread sheet instead of aligning this information with account of loan beneficiaries in the database. This means that there was a great risk of losing possible collections due to lack of follow-up of the loans beneficiaries through guarantors. Nevertheless, of all guarantors contacted, there was no amount that was recovered from them.

3.3.7 Trend of Sanctions Applied to Defaulters

Section 2.3.6 of LRRM 2008 requires HESLB to ensure that the loan officers compile a report of all defaulters and submit it to the legal unit for further legal actions.

The audit team found that HESLB did not have a practise of maintaining the updated list of number of loan defaulters. Based on the data provided to audit team for 2015/2016 and FY 2016/2017, and based on the unpaid due loans the analysis, HESLB had a total of 163,394 and 291,672 of loan defaulters in two years respectively. This means that there was an increase of 128,278 loans defaulters as per audit analysis. However records provided by HESLB indicated that there were only 18 individual defaulters. Only two individual defaulters have been sanctioned to the court for the past two years.

In addition, the audit noted that HESLB through its loan repayment and recovery directorate did not prepare or submit to the legal unit a list of all loan defaulters for further legal actions. There was no register or database that was used to establish and update the list of loan defaulters as per LRRM 2008.

During interviews with Officials of HESLB Legal Directorate it was revealed that reasons for failure to attend as much cases as planned was due to lack of staff. It was confirmed that by the time of this

audit, the legal department had only one Staff i.e. the acting Director for Legal Services.

The impact of not following up on defaulters including not sanctioning the defaulters reduced chances of collecting more than the current collections as this would ring the alarm to loan defaulters and stimulate voluntary repayments. Thus increase voluntary collection base.

3.3.8 Low rate of Loan Deduction and Penalties Issued to Employers

HESLB Act, 2004 under Section 19 (4) (c) and its respective Regulations require the employer to notify HESLB on new employees and submit deductions of the loan beneficiaries to the Board. In addition LRRM, 2008²⁰ requires employers to disclose the details of its graduate employees of the Board in order to identify loan beneficiaries.

The Act and its Regulations also required employers to deduct part of the salaries equal to 8 percent, before it was amended to 15 percent in FY 2015/2016, of the employers' basic salary and submit it to HESLB. Non-deduction of such amount qualifies for penalties to the employer equivalent to the amount to be deducted. The review and analysis of defaulting list of employers as provided by HESLB shows that 34 percent of employers who were issued with penalties did not pay the charged penalties (Table 3.15).

Table 3.15: Employers Charged with Late Deductions Penalties and their Responses

FY	Total Number of Employers Charged with Penalty	Number of Employers Responded	Difference in %
2013/2014	0-	0-	-
2014/2015	0-	0-	-
2015/2016	0-	0-	-
2016/2017	70	24	34
TOTAL	70	24	

Source: Auditors' Analysis

The review of penalties issued to employers who were charged late payment /non deduction penalties. Out of 70 employers 14 were public

²⁰HESLB Loan repayment and recovery manual Section 2.3.3.5, March 2008: Section 5 of the Manual also requires HESLB to recover the whole loan or part of the loan where a loan beneficiary without good cause fails to repay instalments due for repayment as indicated in the repayment schedule for consecutive three (3) months, the Board shall have power to recover the whole loan or part of the loan.

employers. The amount of money involved in penalties associated with delayed deduction of loan payment is presented in **Table 3.16** below.

Table 3.16: Amount Charged for Late Deductions and Amount Paid

FY	Amount from Total Number of Employers Charged with Penalty (TZS)	Amount from Number of Employers Responded (TZS)	Difference in Percentage
2013/2014	0	0	0
2014/2015	0	0	0
2015/2016	0	0	0
2016/2017	267,474,796	57,189,513	21

Source: Auditors' Analysis

Table 3.16 shows that total penalties for all 70 employers amounted to TZS 267.5 million, out of this amount TZS 134.2 million was charged to public sector employers. However HESLB managed to collect 21 percent of the penalties from employers which amounted to TZS 57 million. Out of the TZS 57 million, TZS 25.6 million was collected from public institutions. HESLB did not maintain the records of employers who were in default prior to 2016/2017 financial years.

CHAPTER FOUR

DESIGN AND MONITORING OF LOAN COLLECTION STRATEGIES

4.1 Introduction

This chapter presents findings related to HESLB's design, implementation and monitoring of its loan repayment and recovery strategies. The chapter also covers gaps noted in monitoring activities conducted by MoEST to support HESLB.

The audit noted positive improvements in improving designing of strategies and how to monitor them. In late FY 2015/2016, there was change in HESLB management which came up with new strategies leading to initiation of a new strategic plan 2017-2022, though at the time of this report the plan was still in draft. However, the audit noted several gaps which needed improvements in areas of designing and monitoring of loan repayment and recovery strategies.

4.2 Design and Implementation of Loan Repayment and Recovery Activities

Strategies designed were those enshrined within the reviewed Strategic Plans (SPs) of 2011-2014 and 2014-2017. According to National Medium Term Strategic Planning and Budgeting Manual to be referred herein as National Strategic Planning Manual of 2008, Section 4.10.1, a good strategic objective is expected to describe broad achievement, be outcome oriented and explain the entire operations of the institution. In this context, they are expected to describe how the institution will achieve its objectives by linking loan repayment and recovery objectives to expected targets.

Each objective was supposed to have its own set of unique strategies which describe the broad approach to effect change. However, review of Higher Education Students' Loans Board (HESLB) strategic plans and annual plans indicated that there were weaknesses as explained hereunder:

4.2.1 The Status of Implementation of Activities Relating to Loan Repayment and Recovery

The audit reviewed the implementation status of activities of two Strategic Plans (SPs) covering financial years 2011-2014 and 2014-2017 respectively. The review indicated that there were a 39 activities in

two SPs related to loan repayment and recovery. The audit could not be able to determine the implementation status of these activities because they were not easy to measure.

These activities involved both routine and non-routine activities especially those with development nature. The activities with routine nature such as tracing, billing and collection were executed on daily basis by HELSB unlike the activities with development nature. Among the activities which had development nature and were connected to development of loans repayment and recovery sorted out from 39 activities (**Appendix 6**) and their implementation status was analysed as indicated in **Table 4.1**.

4.1: Status of Implementation of Activities with Development Nature in Loan Repayment and Recovery

SN	Activities with development nature	Fully Implemented	Partly Implemented	Not Implemented
1.	Streamlining loan repayment activities according to sector		✓	
2.	To enhance permanent linkage and network with Higher Learning Institutions	✓		
3.	Partner with network providers such as M-PESA, TIGO PESA etc			✓
4.	Make uses of Health Act to enforce loan repayment and recovery		✓	
5.	Net working with key stakeholders on loan repayment include entities deals with public registration and regulatory bodies		✓	
6.	Matching Graduates Information with key stakeholders		✓	
7.	Establish linkage with e-governance			✓

Source: Auditors Analysis, 2018

Table 4.1 shows the analysis of implementation of activities with development nature were seven. One out of seven was fully implemented while four were partly implemented and two was not implemented. The delay in implementing these activities hampered

efforts of HESLB in carrying out its activities such as tracing, billing and collection efficiently. Among the reasons provided by HESLB officials for not implementing the planned activities was lack of clear priorities on which activities has start based on the available fund.

Apart from weaknesses in implementing activities in the two SPs, the audit noted also some weaknesses in formulation of HESLB strategic plans covering financial years 2011-2014 and 2014-2017. The weaknesses noted specifically were as explained below:

Activities planned for loan collection were not logically aligned to the core function of loan repayment and recovery process

The audit noted that there were overlaps between strategies and the series of activities in the two SPs. The audit noted that strategies were not aligned to the core function of the loan repayment and recovery which were tracing, billing, collection and enforcement of sanctions to loan defaulters. The audit noted further that the 39 activities which were presented in two SPs were not linked to each other and to core processing functions of loan repayment and recovery processing cycle. It was difficult also to know how each activity was to contribute to the overall target of collecting 80 percent of loan due.

In order to form a clear understanding of the nature of strategies and activities developed by HESLB and their level of their implementation, the audit considered all activities indicated in SP 2011-2014 and 2014-2017 respectively and grouped the activities into categories which were related to loan recovery and repayment cycle which basically include tracing, billing and collection of loans including taking actions to defaulters. **Appendix 6** shows the auditors' analysis relating to re-categorised activities as extracted from HESLB's SPs.

The categorisation of activities in line with loan repayment and processing cycle would help in providing consistence in planning, identifying critical issues which could provide order of priority during implementation. Furthermore, these practices would help HESLB reduce the number of activities by avoiding duplication which at the end, simplify monitoring and evaluation exercise.

Vague and Un-measurable Planned Loan Collection Activities

Further review of the SPs indicated that, in two SPs under review, there were 8 activities and 31 activities in SP 2011-2014 and 2014-2017 respectively making a total of 39 activities in both SPs respectively.

The audit review of both SPs and analysis indicated that the activities were vague and not specific.

The audit noted that out of 39 activities outlined in both SPs, 31 were not clearly formulated. This is because they were too broad and could not be quantified. This means that these activities were not easily measurable. Apart of being too broad, there was also no timeframe set for their implementation. Furthermore, there were no targets or indicators for measuring the implementation of various aspects of the strategic plans.

For example the right way of presenting an activity for implementation in the SP could read as follows:: Activity No.1 -*Inspect 6,000 employers between financial years 2014-2017 in order to verify information of employed loan beneficiaries* instead of writing: “*inspection and verifying information of employed loan beneficiaries*” as is the case in the HESLB SP.

The audit revealed that among the reasons contributing to weak design of HESLB strategic plans was non-compliance to National Strategic Plan 2008 requirements. Another reason was non-application of risk framework and statistical data as key inputs during development of SPs. It was also evident that HESLB did not conduct external evaluations to assess the status of implementation of loans and repayment activities against the set targets.

4.2.2 Less Priority Given to Loan Recovery Activities

The audit noted that there were two categories for loan collections activities which are loan repayment and loan recovery. The two components are distinct as repayment refers to a situation where loan beneficiaries deduct or repay their due loans voluntarily or upon being billed whereas loan recovery relates to a situation where the loan beneficiaries do not either voluntarily or upon being billed do not repay their due loans necessitated legal actions to be taken.

A review of the activities outlined in both SPs, revealed that there were a total of 39 activities under loan repayment and recovery under both strategic objectives in particular in SP 2014-2017. It was noted that the activities were not categorized to address the two components of loan collection. In the 39 activities reviewed only 4 activities (as per audit observation) were related to loan recovery whilst the remaining 35 were directly related to loan repayment. Furthermore, there were no tracing strategies which were aligned to recovery activities. This means that the issue of identifying and

grouping loan defaulters under different aspects for planning and improving control purposes were not done effectively.

The audit made a further analysis to assess the actual expenditures in recovery activities against total expenditure for the above named categories and noted that total expenditure was TZS 4.7 billion for FY 2012/2013 to 2016/2017. The audit noted that only 1.6 percent was allocated to loan recovery activities whilst the remaining 97.4 percent was allocated to repayment activities. Audit analysis of recovery activities and related expenditures are indicated in **Table 4.2**.

Table 4.2: Expenditure on Activities Related to Loan Recovery for FY 2012/2013 to 2016/2017

S/N	Recovery Activities	Amount Allocated (TZS in Millions)
1	Ensuring loan employers mandatory submission of loan beneficiaries information;	38.3
2	Engaging regulatory authorities in facilitating loan collections;	0
3	Enforcement of loan repayment awareness;	15.6
4	Enforcement of strong compliance to bills issued	22.5
Total Expenditure for recovery activities		76.4
Total expenditure 2013/13-2016/17		4,700
Percentage of expenditure on recovery to total expenditure		1.6

Source: HESLB SPs, 2011-2014 and 2014-2017

Further analysis indicated that loan repayment activities received much attention compared to loan recovery activities. This was a result of analysis that was made based on the budget allocation to recovery activities compared to repayment activities from the total budget for the period of past five consecutive years i.e. 2012/2013 to 2016/2017 as shown in **Table 4.3**.

Table 4.3: Budget Expenditure for Repayment Compared with Recovery Activities for Period between 2012/2013 to 2016/2017

FY	Total Budget (TZS in Millions)	Categories		Percentage allocated for Recovery compared to Budgeted Repayment Expenditure
		Loan Repayment (TZS in Millions)	Loan Recovery (TZS in Millions)	
2012/2013	560.22	560.00	0.22	0.04
2013/2014	1,126.10	1,092.03	34.07	3

2014/2015	1,040.03	1,011.03	29.00	3
2015/2016	1,641.95	1,641.95	0 -	0
2016/2017	421.47	383.42	38.05	10
Total Budget	4,789.77	4,688.43	101.34	

Source: Plans and Progress reports & auditors' Analysis

Table 4.3 shows that budget set aside for financing loan recovery activities was less compared to that of repayment activities. This situation was attributed to unknown workload due to non-evaluation of the performance of recovery activities and its potential impact to loans collections. Lack of specific target for loan collection through recovery activities also contributed to the marginalisation of recovery activities since in all reviewed SPs the collection targets were combined together with repayment activities.

The audit also noted that HESLB had engaged private debt collection agents who were contracted to conduct loans collection activities thus increased loan collection budget. However, these loan collection agents were not involved in recovery of loans from loans defaulters despite huge budget that the loan collection agents received. The audit noted that HESLB was at the time of this report using its own staff to collect loans after noting shortcomings of using private debt collectors.

4.3 Weaknesses in Planning and Reporting Inspections Outcome

HESLB Act²¹ and its respective regulations as well as LRRM 2008 required an employer to notify HESLB on new employees and submit deductions of the loan beneficiaries to the Board. Similarly, the Strategic Plan 2014-2017 had laid down strategies to manifest loan repayment and recovery through surveys and inspections of employers' premises with a view of identifying new employees or loan beneficiaries.

HESLB officials pointed out that, inspections were conducted on employers' premises by assessing employers' compliance level, ensuring employers submitted genuine information, accurate instalment deductions and rate deducted was compliant to 8 percent before the introduction of the new deduction rate of 15 percent in FY 2015/2016 both in public and private organizations. However, the audit

²¹HESLB Act, under Section 19 (4) (c) and LRRM 2008 requires the employer to disclose the information of employed loan beneficiary to the Board. However, when an employer fails to provide such information to the Board, the Director of Loan Repayment and Recovery shall inspect or cause inspection of the employer's office and business premise (for a self-employed loanee) to identify loan beneficiaries.

noted weaknesses on the implementation of loan repayment and recovery strategies as explained below:

Review of the availed annual plans and budget for the years 2012/2013 to 2016/2017 and interviews with officers responsible for inspections indicated that HESLB rarely planned and documented the results of its inspections conducted to employers as indicated in Table 4.4.

Table 4:4.Number of Planned as Compared to Actual Number of Inspections conducted

FY	Number of Planned Inspections	Inspections Conducted	Percentage of performance
2012/2013	0	0	0
2013/2014	0	0	0
2014/2015	0	0	0
2015/2016	0	0	0
2016/2017	3,600	3,320	92

Source: Draft²²Quarterly Progress Reports, 2012/2013-2016/2017

Table 4.4 indicates that HESLB did not plan for the number of inspections for the period of four financial years i.e. from 2012/2013-2015/2016. Nonetheless, it was noted that HESLB had prepared an inspection plan for a financial year 2016-2017 but the status of milestone was unknown. The audit also noted an inspection report for 2016/2017 which indicated that performance of inspection was 92 percent. Yet, the inspection report was not approved or endorsed by management as there was no proof to that effect. It is however worth noting that positive improvements are underway.

Among the reasons which contributed to this situation is weakness in design and formulation of collection strategies such as inspections from SP. The activities such as inspection were not SMART²³ since both SPs did not show how many inspections to be conducted and in which areas depending on risk or potentials of those areas had in loan collections. Hence, lack of SMART formulated activities in each objective affected implementation of the activities as there were no immediate targets to benchmark the implementation of these activities.

Apart from not planning properly the inspections, the audit also noted that the results of inspections were not reported after each inspection and not aggregated at the end of each financial year to show the comprehensive picture on cost used, achievements attained and challenges encountered. This limited HESLB management in getting

²²HESLB could not provide signed Quarterly progress Reports

²³SMART refers to Specific, Measurable, Attainable, Realistic and Timely/time bound

information for making informed decision to improve collection strategies from inspection activities.

Interviews with HESLB officials pointed out that inspection plans were not prepared and the only tool which was used was a sweeping²⁴ strategy. Under this strategy, Officers made surprise visits to employers' premises in search for information on employees who were beneficiaries of the loan scheme. This strategy was however not mentioned in the Loan Collection Manual of 2008.

Due to this weakness, the audit could not establish how many inspections were conducted in each year under review in relation to results obtained. Further, the audit noted that inspection plans started to be prepared in FY 2016/2017 on quarterly basis. Nevertheless, these plans lacked details on priority areas, type and focus of employers based on various parameters such as streamlined sectoral approach as required by the Strategic Plans. It also lacked performance indicators for measuring and reporting achievement attained in inspection activities conducted.

Equally, the manual did not provide any guidance on how inspection plans should be prepared, the plan lay out of the report and reporting structure of conducted inspections. The manual limited information to be gathered and reported because it required only two categories of information to be reported namely; details of employers contacted and employers submitting details of loan beneficiaries.

In financial year 2016/2017 the audit noted the efforts made by HESLB, whereby 36,000 of employers were targeted for inspection. HESLB planned to inspect 900 employers quarterly unlike other previous years where this practice was not done. However, there were no inspection reports showing results of the inspections of these employers inspected. The reasons and impacts related to weaknesses in conducting effective inspections are explained in subsequent sections.

4.4 Monitoring of Loan Tracing Activities

The National Strategic Planning Manual 2008: Section 10 requires strategic plans to outline or set strategies or activities which can be achieved at the end of the strategic period. However, the audit noted weaknesses, these there were: Database Not Used to Plan for

²⁴This was an ad-hoc approach of inspections whereas HESLB staff visited various employers or workshops to verify the details of the workers/employers and determine whether they were loan beneficiaries or not. However, for the past five years HESLB failed to report on the effective of this approach.

Tracing of Loan Beneficiaries; and Non Application of Risk Based Tracing and Billing Approach as explained below:

4.4.1 Database Not Used to Plan for Tracing of Loan Beneficiaries

In tracing loan beneficiaries, the Manual²⁵ provided six approaches depending on nature or group of loan beneficiaries targeted. These loan beneficiaries were those who were either employed in formal sector, self-employed or employed/residing outside Tanzania.

The six approaches were: awareness sessions through media; communicating to employers through mails and telephone requesting them to disclose their graduate employees, tracing loan beneficiaries by way of visits to employers, liaising with Tanzanian Embassies or High Commissions for submission of the requested information related to the possible loanees employed or residing in the countries they were representing, and publishing the names of all unidentified loan beneficiaries and summon them to come to the Board for loan repayment arrangements.

However, the audit team reviewed the extent to which database is used to facilitate effective planning and execution of the six approaches. There was no evidence which showed the use of database in planning the execution of planned method. The manual did not provide guidance on how to choose the six approaches with the support analysis of databases. The audit expected that before using the above methods, the decision should consider location of loan beneficiaries, number of loanees to be visited, potential amount to be collected, risk associated with a particular approach and cost against benefit for implementing such approach.

For instance, findings showed that HESLB paid about TZS 4.18 billion equivalent to 5 percent of the collected of TZS 83.04 billion amount to loans collection agents for four financial years i.e. from 2012/2013 to 2015/2016. **Table 4.5** indicates cost incurred by HESLB in facilitating an independent loan collection agent is as shown below:

Table 4.5: Cost of Engagement of Individual Loan Collection Agent

FY	Amount Collected (TZS in Billions)	Cost incurred to engage Loan Collection Agents (TZS in Billions)	Percentage of cost incurred
2012/2013	14.85	0.89	6

²⁵ Loan Repayment and Recovery Manual Section 2.3.3, March 2008

FY	Amount Collected (TZS in Billions)	Cost incurred to engage Loan Collection Agents (TZS in Billions)	Percentage of cost incurred
2013/2014	18.08	1.06	5
2014/2015	21.91	1.06	5
2015/2016	28.19	1.15	3
Total	83.04	4.17	

Source: HESLB Repayment Database and Financial Statement, 2012/2013 to 2016/2017

However, with the new management, HESLB cancelled the engagement of independent loan beneficiaries whereas tracing of loan beneficiaries was entirely carried out by HESLB loan officers in FY 2016/2017. Despite the cancellation, HESLB had a notable rate of loans repayment which stood at TZS 116 billion for FY 2016/2017 whilst cost incurred for collection was TZS 421.47 million.

Apart from saving on cost which resulted from cancelling the practice of using collection agents, there was a risk that non-use database in planning, executing and monitoring tracing, billing and collection of activities can have the cost implication. The audit noted the huge variation of cost incurred under different activities associated by loan repayment and recovery but it was difficult to establish the output obtained in those activities. This is because the database was not designed to reflect the progress made (Appendix 7).

4.4.2 Non Application of Risk Based Tracing Approach

Review of the implemented activities showed that tracing approach which aimed at identification of loan beneficiaries by visiting employers were conducted without considering the costs and benefits. HESLB was not in a position to identify which method of tracing loan beneficiaries was most cost effective in relation to the results achieved. Hence, non-documenting and analysis of cost incurred to various tracing methods hindered efficient allocation of resources for tracing activities.

For instance, the audit noted that awareness and inspections of employers premises were the main methods used in tracing loan beneficiaries by HESLB and it was more expensive (in terms of cost) than other tracing methods. However, the audit noted that most of visited employers were Government institutions and well known private sectors and non-government organisations. These kinds of employers could be reached through letters, telephone, emails and

sometimes media requesting them to disclose their graduate employees without necessarily visiting them.

The audit noted that apart from above tracing methods, the risk non-compliance with loan repayment laws for employers or loanees under public sector could be mitigated by other oversight bodies such as the Office of Controller and Auditor General and that of Internal Auditor General through their audits. For example, the CAG through its statutory audit report for central government for financial year 2015/2016 raised the audit observation for eight government entities with 659 loan beneficiaries not submitting the total of 913 million to HESLB. Likewise, in the same year 73 LGAs were traced on the same ground while in year 2014/2015, the total of 51 LGAs were reported that they did not submit to HESLB the outstanding deductions from their employees amounting to 914 million.

Among the reasons which contributed to the above malpractice was non-application of risk based tracing. The application of risk based tracing could provide areas which were of high risk in relation to loan repayment which would help HESLB design appropriate tracing methods which would save cost and at the same time will bring output in terms of loan collection. In those areas with low risk of non-compliance application of most cost effective methods could be used including strengthening of work relationship with oversight bodies responsible in those areas.

4.5 Planning and Implementation of Billing and Collection Activities

Bills were invoices for total outstanding loans granted to student loan beneficiaries prepared and sent to employers to demand loan repayment. The process of preparing these invoices was termed as billing. This activity proceeds after the tracing activity. The purpose of compliance process was to ascertain that all bills reached the targeted employer/self-employed beneficiaries timely. This enabled loan repayments to be prepared accordingly by employers or loanees respectively²⁶. The review of the billing activities revealed the following weaknesses:

4.5.1 Planning and Targets of Billing Activities not Effective

Review of strategies outlined in both SPs revealed that a number of strategic activities dealing with billing were not adequately planned

²⁶LRRM 2008: Section 2.3.4 and 2.3.5

and implemented. This was because there were no targets outlined in SPs or plans for billing. There were also no plans which were set prior to conducting billing activities. Loan officers responsible with billing loan beneficiaries did not plan for identification and number or amount of loans to be collected from bills. **Table 4.6** indicates that billing was not adequately planned.

Table 4.6: Planned Number of Loan Beneficiaries to be billed and those billed

FY	Planned Number of Loan Beneficiaries Billed	Number of Billed Beneficiaries	Percent of Bills covered
2012/2013	0	0	0
2013/2014	0	6	0
2014/2015	0	5	0
2015/2016	0	56,672	-
2016/2017	0	59,108	-

Source: HESLB Billing Database

Table 4.6 indicates that HESLB did not prepare billing plans nor did it set targets of billing. According to interviews, this was attributed to HESLB's failure to document its plans and targets prior to implementing them. Based on interviews and review of loan repayment and recovery database, it can be noted that for the years prior to 2015/2016 billing was not adequately documented. However, in 2015/2016 and 2016/2017, HESLB started to bill beneficiaries whose loans were due. It was noted from the database that there were quite a big number of bills which were sent to loan beneficiaries. However, the challenge noted was that, billing information was not timely updated in the database causing discrepancies between details in the database and those of billing.

4.5.2 Absence of Billing Reports

The audit also noted that, billing activities had huge budget and expenditures but there were no results which were documented or recorded to measure its impact on the rate of collection. The analysis of activities related to billing also showed that there were errors in reported amounts of loan collections because of lack of follow-up of billed loan beneficiaries.

HESLB did not also monitor its billing activities which were carried out from FYs 2012/2013 to 2016/2017. Review of budget and expenditure indicated that billing activities cost a total of TZS 462.3 million. However, there were no billing plans and reports showing the

implementation including bills issued, those honoured and those which were not honoured in relation to amount collected.

4.5.3 Limited Methods of Making Loans Repayment

The audit also made some inquiry on the methodologies used in billing and noted that, in SPs 2011-2014, HESLB had planned to introduce various separate payment methods to ease collection of loans. These included the use of mobile service providers companies such as M-PESA, TiGO PESA, Airtel Money e.t.c. However, since 2011 to date, HESLB has failed to put into effect the above strategy.

Nevertheless, HESLB maintained only three loan collection accounts with CRDB, National Microfinance Bank (NMB) and Tanzania Postal Bank (TPB). Failures to put into effect the strategy of widening and simplifying loan repayment methods limited chances of increasing loan collections especially to those loan beneficiaries who were not accessing these banking services.

4.6 Design and Implementing of Loan Recovery Strategies

HESLB, through the Loan Repayment and Recovery Directorate, was responsible for ensuring that loans were fully recovered from loan beneficiaries. In doing so, HESLB was expected to develop specific strategies for recovering loans from defaulters. However, review of the database and Strategies indicated in SP on recovery indicated that there were Ineffective Identification and Reporting of Loan Defaulters, and weak Planning and Monitoring of Enforcement of Sanctions to Defaulters in designing loan recovery strategies.

4.6.1 Ineffective Identification and Reporting of Loan Defaulters

Review of HESLB strategies showed that, HESLB had outlined recovery activities as one of the functional area that was under the Loan Recovery and Repayment Directorate that was expected to collect loans which were under default through legal means.

The review of the SPs, and Plans indicated that HESLB did not treat loan recovery as the area of priority in their plans. Interviews with HESLB officials indicated that loan recovery was not a preferred methodology to increase collection.

It was noted that loan recovery strategies did not show how HESLB identified, located and reported loan defaulters. The LRRM, 2008 did not provide for this either. As a result, HESLB did neither keep records

of loan defaulters register nor did it lay down strategies to locate and report on their whereabouts. There were no regular reports which showed trend analysis on potential increase or decrease of defaulters and action to be taken in that regard.

4.6.2 Weak Planning and Monitoring of Enforcement of Sanctions to Defaulters

The review of SPs and availed Plans and reports from HESLB indicated that sanctions were not adequately carried out to all types of defaulters namely; loan beneficiaries, loan guarantors or employers. Likewise, for the past five years (as indicted in chapter one of this report), HESLB failed to record significant number of sanctions to loan defaulters or employers defaulting to deduct loan instalments from employees. There were no sanctions at all to any loan guarantor. Sanction activities were not well documented or shared between the loan repayment directorate and the legal department.

Further review noted that in all reports apart from having planned activities which focused on recovery issues, implementation reports availed to auditors indicated that HESLB did not include recovery components in its reporting channels.

Among the reasons contributing to the above weakness was that, planned activities were vague and did not indicate the target set in this area to enable effective monitoring of loan recovery activities. The designed strategies were not adequately spelt out in the SPs or HESLB annual operation plans about number of defaulters which were expected to be traced under recovery activities. Similarly, the strategies did not spell out amount which was targeted to be collected from implementing recovery activities. Furthermore, the LRRM did not specifically spell out provide for how loan recovery strategies should be planned, implemented or reported.

4.7 Management of Loan Repayment and Recovery Database

Upon reviews and interviews with Officials from the Information, Communication and Technology Units, it was noted that HESLB database could generate six different reports which were: loans allocation and disbursement; loans collected through repayments and recoveries; list of loans due for repayment; loans statements; loans bills; and list of employers deducting loanable amounts from their employees. Out of these, three reports were related to loans repayment and recovery. However, the following gaps were found:

4.7.1 Incomprehensive Loan Repayment and Recovery Database

The audit conducted analysis to ascertain whether database maintained key fields of information so as to provide useful, adequate and timely information to decision makers. The audit developed minimum requirement of key fields of information based on loan repayment and recovery section core functions as well as strategic objective, target and activities mentioned in two Strategic plans under review. The audit team came up with ten key fields of information which it considered as critical and were tested to find whether such fields were available or were fundamental criteria used on measuring appropriateness and sufficiency of information provided as shown in Table 4.7.

Table 4.7: Information Maintained in HESLB Loan Repayment and Recovery Database

SN	Expected Fields of Information to be in database	Field Available	Filed Not Available
1.	Traced loanees	✓	
2.	Loan maturity (due)	✓	
3.	Loan billed	✓	
4.	Loan Repayments	✓	
5.	Defaulters		✓
6.	Sanctions		✓
7.	Beneficiaries by Sectors		✓
8.	Diaspora		✓
9.	Ageing Analysis		✓
10.	Exempted/deceased loanees		✓

Source: Auditors Analysis of HESLB Database, 2018

Table 4.7 indicates that HESLB's database had four fields of information out of ten. Apart from availability of these fields, yet processing of their information could be obtained by undergoing manual analysis which takes time and increases chances of making errors in the analysed information.

For instance, in order to establish number of loans issued or collected from loan beneficiaries, more workings were required. This means that there could be chances of making errors during computation of numbers of loans not captured easily.

Lack of customised fields of information in the database such as defaulters, sanctioned, aging and others as indicated in Table 4.7

might affect monitoring of tracing, repayment and recoverability of loan beneficiaries activities.

Nonetheless, HESLB developed database that assisted tracking of beneficiaries which had information of employers in private and public sectors. However, it was noted that existing database captured loanees' information from FY 2012/2013 to 2016/2017. In this regard, loan beneficiaries who received loans prior to FY 2012/2013 were not entirely captured in HESLB's loans repayment and recovery database.

Interviews with Directorate of Planning, Research and ICT officials indicated that HESLB was in the process of upgrading the current loan management system. To that effect, the audit reviewed the proposal for the project, the project inception report and initial user requirements and noted that the project was still at a very initial stage and the old system was still in use.

4.7.2 Lack of Linkage between Different Parts of the Database

HESLB database was not updated as it was not automatic thus each data that was updated by one section could not automatically feed in the system thus cause difficulties to integrate disbursement information, Vote-Book Financial Management System and Repayment system. This situation hindered interchange of loanees' information among directorates within HESLB, especially loans allocation and disbursement directorate, Loans repayment and recovery Directorate and the Accounts department as each information was generated separately from the other.

Thus there were differences between the data maintained by the loans allocation and disbursement section and that which were maintained by the loans collection unit and the figures reported by the accounts section as collections.

Differences in reported loans collected by the loan collection unit and the Accounts Section are as indicated in **Table 4.8**.

Table 4.8: Variances in Reported Loans Collection 2012/2013 - 2016/2017

FY	Collection as per Accounts Section (TZS in Billions)	Collections as per Loan Collection Unit (TZS in Billion)	Variance between accounts and Database (TZS in Billion)
2012/2013	13.7	0	13.7
2013/2014	19.1	0	19.1

FY	Collection as per Accounts Section (TZS in Billions)	Collections as per Loan Collection Unit (TZS in Billion)	Variance between accounts and Database (TZS in Billion)
2014/2015	20.9	12.2	8.7
2015/2016	28.2	30.3	-2.1
2016/2017	116.7	116.7	0

Source: Extract from HESLB Database for Loan Beneficiaries and Auditors' Analysis

Table 4.8 shows that there was variance in amount reported between data base maintained by LRR Directory and those which were maintained by Accounts section. The comparison shows that the records of LRR Directory was overstated by TZS 2.1 billion in year 2015/2016 but underestimated in three consecutive years (2012/2013 to 2014/2015) by a range of TZS 8.7 to 19.1 billion.

Table 4.9: Discrepancies Reported on Loan Collection Between Financial Statement and Strategic Plans

FY	Collections as per Financial Statements (TZS in Billions)	Collections Reported in Strategic Plans (TZS in Billions)	Variance between Accounts and Strategic Plans (TZS in Billions)
2012/2013	13.75	14.23	-0.48
2013/2014	19.15	20.26	-1.11
2014/2015	21.16	21.91	-0.75
2015/2016	- ²⁷	28.19	-28.19

Source: Audited financial statements and HESLB's Strategic Plans

Table 4.9 indicates that there were variances in amounts of loans collected as reported in the audited financial statement and the ones recorded by the Loan Repayment and Recovery Directorate in the Strategic plans reports. The comparison shows that the ones reported by LRR directorate tend to be higher in all the five financial years (between 2012/2013 and 2015/2016) than those figures reported in financial statements.

4.7.3 Errors in Processing Loan Repayment and Recovery Information in Database

HESLB's database for loan repayment and recovery was not inter-linked with other information such as loans disbursement to ensure all loan

²⁷ The audited financial statement for year 2016/2017 was not yet released at the time this audit was conducted.

beneficiaries were well captured when their loans were due for repayment. This affected the completeness and accuracy of information. This can be explained based on a number of complaints received by HESLB. Out of 1,072 complaints registered by HESLB, 845 which was equivalent to 79 percent were related to accuracy in their data especially with regard to overcharging, overbilling or billing of individuals who did not receive loans from HESLB at all. This was because the database was fragmented where by each Section ran its own part of the database.

The audit noted that there was also weaknesses in data transfer procedures that ensure complete, accurate and authentic transfer of data from the disbursement module to the repayment module. For instance in the financial year 2015/16, disbursement data for 43 loan beneficiaries was yet to be transferred from the disbursement module to the repayment module thus leading to overstatement of the loan portfolio by TZS 12 billion. Inadequate design and configuration of system data transfer measures and controls were among the factors which contributed to the above anomaly.

According to internal audit reports, the system had been configured to compute: penalty fee for non-repaying beneficiaries whose loans were past the grace period; Value retention fees (VRF) on reducing principal balance at annual rate of 6% and administration fees which was 1% of the total principal amount. However, based on samples the penalty and administration fee computations were miscalculated leading to misstatement by TZS 29 million and TZS 279,134 respectively. Similarly, there was a computation error of Value Retention Fees of TZS 7 million for loan beneficiaries, who started repaying before January, 2017. These anomalies were not addressed to the time of the audit.

4.8 Internal and External Oversight in Loan Collection

The audit assessed the framework available for lesson learned and noted that there were four major areas which HESLB could draw their lessons learnt for improving their daily operations. These areas were: oversight activities carried out through Complaints Desk which handles all customer complaints; Internal Audit Unit and Monitoring Unit which were responsible for conducting regular motoring and internal evaluation as well as for organising external evaluations or reviews. This normally tends to engage external subject matter experts or professional body to undertake these independent reviews.

4.8.1 Weaknesses in Complaints Management System

As indicated in HESLB strategic Plan of 2014-2017 and HESLB internal Audit Manual, complaints were an important way for the management of HESLB to be accountable to the public, as well as providing valuable prompts to review organizational performance for further improvement.

Undocumented Complaints from Other Channels/Sources

The audit noted that HESLB did not document all complaints received from various sources. The complaints desk officers preferred to deal with complaints submitted physically at the HESLB. The complaints channelled from other means such as emails, telephone calls, letters were not documented compared to those submitted physically.

Similar issue was observed by HESLB Internal Audit Unit. In their report, it was revealed that despite the fact that complaints were channelled in different ways but desk officers dealing with complaints prefers dealing with verbal complaints and neglecting others²⁸. Other complaints were received but not recorded and attended to.

The audit reviewed the complaint register of 2016-2017 and noted that there were 1072 complains recorded. However, when the audit team requested for the previous year complaints registers, they were not availed to auditors. This implies that in previous years complains were received but not documented for further action as it was planned in the SP 2011-2014.

Ineffective System for Tracking and Reporting Complaints

Furthermore, the audit noted that there were no effective system for tracking the handling of complaints at different stages such as tracing, billing, collection and loan clearance. The only tool which was used to document the received complaints was complaints register. The register contains name of the complainants, nature of complaints and the action to be taken. Equally, It did not show movements of the complaints from when it was received to its attendance. Hence there were no sufficient details that would be used to ascertain actions taken and whether the complaints was conclusively dealt with or attended.

²⁸Complaints audit 2016/2017

In addition, the register did not show name of the officer who was assigned to attend complaints, timelines and officer responsible for closing off the complaints cases after being processed. The audit also noted that there were no regular preparations of the reports which show the overall picture on the number of complaints received and processed from each channel, the number of complaints cleared within time frame and those which are still outstanding.

Among the factors which contribute to this situation was lack of clear defined system which provides accountability to all officers in the loan management system. At the time of this report, the existing complaints management system was designed to work in silos from other systems and no accountability was attached to it. There were no guidelines which stipulated how complains should be documented, analysed, reported and monitored.

Delays in Putting into Use the Client Service Charter

HESLB strategic plans of 2014-2017 indicated that HESLB planned to develop a client service charter for effective handling of customer complains. It was noted that Client Service Charter was to be in place since 2012, however, until the time of this report it was not been put in place.

It was also noted in HESLB's Internal Audit Reports for FY 2016-2017 the importance of putting into use the client service charter. Nonetheless, it was noted that HESLB had not yet put into use the client service charter, reason being lack of prioritization, as a lot of efforts were employed on inspections and tracing of loan beneficiaries. In addition, lack of Key Performance Indicators on handling of complaints was not addressed in the performance logical framework and also not emphasized in SP of 2014-2017.

4.8.2 Weakness in Monitoring and Evaluation of HESLB's Loan Repayment Activities

The audit reviewed the availed medium term strategic plan implementation reports and asses monitoring activities which were carried by Monitoring and Evaluation Unit under Directorate of Planning, Information, Communication Technology and Research and noted the following weaknesses relate to Loan Recovery and Repayment activities.

Absence of Monitoring Framework

The Monitoring and Evaluating Unit was not proactive in ensuring each Directorate including Directorate of Loan recovery and Repayment have clear monitoring framework which was designed to measure and report consistently performance of key function of HESLB such as Loan repayment and Recovery activities.

Equally, the audit noted that the Monitoring and Evaluation Unit did not guide other Units or Divisions on which information to be collected and processed in order to be able to measure the performance of those Directorates. For example, monitoring and evaluation units relied on just collecting information using very broad targets. The Unit did not prepare monitoring plan which covered monitoring of loan activities in the whole period under audit. This was contrary to Strategic Plans which indicated that HESLB was supposed to be monitoring its activities through the Monitoring and Evaluation unit.

Ineffective use of Logical Framework Analysis in Monitoring of Loan Repayment and Recovery Activities

In monitoring and evaluating HESLB Strategic Plan 2014-2017, the management opted to use a Logical Framework Analysis (LFA) to facilitate M&E activities. Besides being a tool for assisting the implementation of the planned activities, the LFA was expected to facilitate HESLB Management to keep in constant touch with the status of implementation of the strategic plans.

Review of HESLB Logical Framework presented to the audit team specifically in loan repayment and recovery activities indicated that HESLB were underperforming in loan repayment and recovery activities as they had failed to meet targets that has been set. HESLB had set target of tracing 70,404 loan beneficiaries by June 2015 but it managed to trace 30,417 which was equivalent to 43percent of the target. Ineffective use of logical framework was caused by laxity of HESLB to document lesson learnt from the challenges encountered and taking serious measures to apply holistic approaches on dealing with noted challenges to improve its operations.

Non-Reporting of the Performance of Loan Repayment and Recovery Activities

The Monitoring and Evaluation unit was responsible for ensuring Loan Repayment and Recovery was carried out accordingly and reports any deficiencies to the management so that preventive measures can

timely be taken. Yet, the M&E Unit was not proactive to ensure the Directorate of Loan Repayment and Recovery produces all reports required with accuracy. This was indicated by existing discrepancies of information and inconsistency when reporting various aspects of parameters used to measure performance. For example, the report of loan collection figure varies from strategic plans, financial statements as well as from reports extracted from the database.

Section 8 of the LRRM 2008 requires Loan Repayment and Recovery Directorate to produce a total of seven reports which were: monthly loan repayment reconciliation report; total loan portfolio; total loans which are due for repayment; details of employers contacted for submission of details of Loan Beneficiary employees; Similarly, section 8 of the LRRM 2008 requires Loan Repayment and Recovery Directorate to produce details of employers who have submitted information of their Loan Beneficiary employees; monthly and cumulative collected loans; total Loans in arrears; quarterly performance reports on loan repayment and recovery; any other reports as may be required.

The audit noted that, HESLB had not been adequately producing the above mentioned reports except for quarterly report. However, the quarterly reports were not comprehensive enough to cover the details of the loan repayment and recovery activities. Furthermore, the audit noted that since these reports were manually prepared, their submission to higher level should be formalized and documented properly for institutional memory.

Contrary to auditors' expectations, these reports were not formalized and properly documented. This was because when these reports were requested by the auditors, it was noted that the reports had no signature of the preparer or approval or transmittal letter meaning that that they were not formally processed. In many cases only spreadsheets extracted from database were provided which had bulk information relating to loans. In that situation it was very hard for the HESLB's Management, HESLB's Board of Directors, MoEST or any other user to use the above information.

Apart from weaknesses of preparation of reports related to loan repayment and recovery, these reports were not shared regularly even to the Unit responsible for M&E. Among the reasons contributing to this situation was ineffective involvement of M&E unit in making follow up on performance reports of loan repayment and recovery activities.

Weaknesses in Team Appraisal after Conducting Repayment and Recovery Activities

HESLB strategic plan 2014/15-2016/17 required staff to produce reports after every activity especially inspection of employers and communication with beneficiaries. However, it was noted that HESLB officials were not preparing reports either after loan inspections were conducted or quarterly reports.

It was noted that there were no any evaluations of team activities upon accomplishment of activities to assess the team performance. Interview with HESLB official in repayment directory revealed that they conducted evaluation of achievements and milestones made by the team.

However the audit team requested evaluation reports to affirm if they prepared appraisal reports but they were not available. Failure to evaluate and appraise conducted activities might affect the opportunity for the team to assess potential areas for improvement so as to expand the loan repayment and recovery base. There were no any actions taken by M&E unit including reporting this anomaly to management.

Irregular Independent Reviews and Evaluation

According to HESLB Strategic Plan of 2014-2017, HESLB was required to conduct mid-year or end of the Strategic Plan implementation period evaluation. The evaluation was to be conducted by either through an independent review or normal internal evaluation which was supposed to be conducted by the Directorate of Planning and Research.

The audit noted that there were no self-checks, Independent reviews for activities related to loan repayment and recovery activities. According to interviews with HESLB officials it was revealed that independent reviews and self-evaluation were not conducted were. This was due to lack of capacity to conduct monitoring and evaluation that would enable HESLB to assess its strength and weaknesses with regard to loan repayment and recovery activities. The audit team found that Despite the Unit being established in 2012/2013, for a period of five years HESLB failed to regularly evaluate its performance relating to loan repayment and recovery activities as required.

As a result, HESLB had been setting unrealistic loans collection targets which they could practically not achieve for the two strategic plans periods they operated i.e. Strategic Plan 2011-2014 and SP 2014-2017.

Lack of self-checks, independent reviews and evaluations denied HESLB an opportunity to identify and document available strengths and weaknesses appearing in loan repayment and recovery process. Hence, the audit team noted that there was no any action taken to address observed weaknesses as well as safeguarding the achievements made.

4.9 Board of Directors did not Give Adequate Attention to Issues of Loan Repayment and Recovery Strategies

According to Section 6 of HESLB Act 2004 and Strategic plan 2014-2017 the Board of Directors (BoD) was required to oversee HESLB management operations in ensuring optimal HESLB performance in supervising the loan repayment and recovery activities. However, based on the availed BoD's meetings, it was noted that it did not direct HESLB management on streamlining its loan repayment and recovery strategies.

The Board did not adequately exercise its powers of reviewing and setting out realistic and measurable targets that could improve loans repayment and recovery. The audit noted also that BoD was not efficient as it did not invent controls that would enable HESLB management to benchmark the progress made in achieving strategic objectives of loan repayment and recovery in a specified time frame.

Furthermore, BoD did not adequately advise HESLB's management on strategies that would enable HESLB to increase loan repayment and recovery performance. The review of SPs implementation reports for years 2011-2016 noted that HESLB did not achieve the targets of collecting 70 percent to 80 percent of due loans. The underperformance was caused by lack of commitment of BoD members in applying robust strategies that would assist HESLB management in ensuring loan repayment and recovery strategies were effective and attainable. This was evidenced by the Board's meeting where the issue of not reaching targets was not discussed at all in all in the meeting.

Likewise, the Board's deliberations on quarterly reports submitted by HESLB to the Management were not critically reviewed and recommendations issued to the Management were not documented. This is as indicated in **Table 4.10**.

Table 4.10: Targets not Achieved but not Addressed by Board of Directors

Year	Target	Status of Implementation	BoD Comment /Per Board Meeting minutes
2012/2013	70% of Due Loans Repaid and Recovered to Ensure Sustainability in the Provision of Loans by 2014	Not met	Not deliberated
2013/2014	70% of Due Loans Repaid and Recovered to Ensure Sustainability in the Provision of Loans by 2014	Not met	Not deliberated
2014/2015	80% of due loans repaid and recovered to ensure sustainability in the provision of loans by 2015	Not met	Not deliberated
2015/2016	80% of due loans repaid and recovered to ensure sustainability in the provision of loans by 2015	Not met	Not deliberated

Source: Strategic plan implementation reports

Table 4.10 indicates that despite the loans collection targets not being met, the Board of Directors did not have time to deliberate on why the target was not met and advise HESLB's Management on the way forward or take actions for underperformance.

The audit noted that the Board of Directors' focus was mainly on loan allocation and disbursement. Even when the Loan Allocation and Repayment committee met (made of selected Board members) most of the agenda discussed focused on loan allocation and disbursement.

4.9.1 Limited Follow-up of Decisions Made and Action Taken

Through review of Board of Directors' minutes, the audit noted that the Board did make follow up to ascertain the status of implementation of issues/agenda discussed during various Board meeting. Review of availed Strategic plan implementation reports from 2012/2013-2016/2017 provided to the audit team revealed that Loan repayment and recovery targets were discussed during board meeting but were not deliberated upon thus remained unachievable. This

weakness was caused by limited priority accorded to repayment and recovery of loans by the Board.

4.9.2 The Composition of Board of Directors was not in compliance with HESLB Act 2004

Further review shows that the composition of the BoD was not in compliance to the requirement of the Act. According to Section 5 of the HESLB Act, the composition of the BoD should not be less than nine members or more than fourteen. The same section required BoD members to have the technical qualification or experience by virtue of their involvement in higher education, commerce, finance public service or administration that would enable them provide useful contribution during the to the deliberation of the BoD. Furthermore, Section 8 of the act also required BoD to work on three committees for efficient performance of its functions one of them being the repayment and recovery functions.

The audit review shows that the composition of the BoD in terms of numbers was below the minimum requirement of nine members. The current BoD had seven members where by some key representation according to the Act was missing such as member from financial institutional and treasury. The audit also noted that, the background of academic qualifications on finance was missing. The academic qualifications of available members included education, structural engineering, sociology, geotechnical engineering and corporate management. Limited number of members in BoD might affect the composition of committees of the board in working efficiently as required. Furthermore, non-availability of qualification relating to core business of HELSB such as finance may also affect the performance of the HESLB in repayment and recovery as well as in financing activities.

4.10 Role of the Ministry of Education, Science and Technology (MoEST)

According to the Ministry of Education, Science and Technology (MoEST)'s Strategic Plan of 2014-2018 MoEST was responsible for policies on education and their implementation. MoEST through the Division for Higher Education was required to among other functions, to monitor, evaluate and advise on the implementation of Higher Education Policies and Programmes. However, in reviewing the implementation of the above function, the audit noted the following shortcomings:

4.10.1 MoEST did not Monitor HESLB's Loan Repayment Activities

According to interviews with MoEST officials from the Division of Higher Education (HE) and Division of Policy and Planning, MoEST did not monitor the performance of HESLB in ensuring that there was optimization of loans collections through repayment and recovery of loans. Review of MoEST's Strategic Plan 2012-2016 indicated that monitoring of HESLB's activities was not documented as one of the ministry's priority area.

MoEST's SP and HESLB Strategic Plan require the Ministry to receive progress report from HESLB quarterly. Upon receipt, they were required to review the report and give feedback and recommendation on the observations noted from the report. However, the follow up by MoEST was rarely conducted in loan disbursement issues and the same was not conducted at all on issues related to loan repayment and recovery activities. This shows that MoEST was more interested in monitoring loan disbursement activities than loan repayment and recovery activities.

There were various reasons which contributed to these situations. Among the reason was unclear perception which MoEST had on its mandate and accountability regarding monitoring of HESLB performance. According to interviews with Director of Higher Education, it was noted that MoEST perceived HESLB as a semi-autonomy agency under the independent Board of Directors, thus it was not proper for Ministry to interfere on its operations. For instance during interview with MoEST it was pointed out that reviews of HESLB performance was not conducted because the Ministry also had a member in HESLB Board of Directors. Consequently, such perception denied the Ministry an opportunity to take more actions which override the decisions of the Board.

On the other hand, the accountability on whether HESLB perform better or poorly falls under the parent Ministry which is MoEST. Therefore, MoEST was responsible for making sure that financing of higher learning was sustainable by repaying the loans issued timely. The audit noted that there were views from other circles which thought that the issue of loan management probably falls more to the Ministry of Finance and Planning.

According to auditors' view, the appropriate Ministry to handle the issues of loan financing in the country would be the Ministry of Planning and Finance rather than MoEST. This is because the core function of MoEST was to ensure that higher education was provided at

a required standard and quality. Therefore, technically the issue of financing higher education should not be handled by MoEST.

According to Higher Education policy of 1999, one of the objectives of the Policy, among others, was to enact legislations on higher education so as to increase students' enrolment and eliminate imbalances in students' intakes; to broaden sources of financing of higher education and develop a financially sustainable model of funding.

Furthermore, among the functions of the HESLB which were provided under Section 6 of the HESLB Act was to advise the Minister on matters of policy and of the law concerning provisions and recovery of loans to students. Based on this requirement, it was suggested that the Minister should adequately be advised to have adequate capacity in terms of professional background and equipment in order to ensure the operation of loan financing was conducted effectively.

The audit noted that due to above misconceptions, the responsibility of ensuring the management of loan repayment and recovery by MoEST was not effectively conducted. MoEST despite being the overseer of implementation of HESLB functions did not develop a performance monitoring framework which could have been used as a guide or monitoring tool for measuring performance of HESLB in Loan repayment and recovery. Furthermore, apart from the Director for Higher Education in the MoEST, being a member of HESLB's Board of Directors; MoEST did not have any progress reports from HESLB for the past five years.

Besides, the audit team reviewed few documents availed by MoEST such as Ministry's Strategic Plans and Performance Reports for the year 2017. And found that there were no plans or information regarding HESLB's performance on loans repayments.

CHAPTER FIVE

CONCLUSION

5.1 Introduction

This Chapter presents general and specific conclusion in relation to the findings outlined in preceding Chapter. The conclusions are based on the three focus areas namely: loan repayment and recovery of higher students' loans; design and monitoring of loan repayment and recovery strategies; MoEST's role in monitoring and evaluation HESLB's performance of its loan repayment and recovery activities.

5.2 General Conclusion

The general conclusion of this audit is that there is limited assurance that HESLB will sustain itself in financing higher education without depending on subsidies and grants from the central government. This is because the trend of HESLB's performance in loans collection for the past five financial years from 2012/2013 to 2016/2017 is below 50 percent of amount of all loans due. Most the collections are collected through loan repayment activities from loan beneficiaries employed in public sector and few employers in private sectors. Loans collection is not significant from loan beneficiaries who are in the formal sector and those who reside abroad. Likewise, the contribution from loans collected through recovery activities in loans collections was also very low.

The audit recognized efforts made by HESLB including cancelling the practices of using loan collection agents who were adding up additional costs to HESLB. This function was at the time of this report being conducted by HESLB by using its own staff. There were also trend of increasing in cumulative loans collections in FY 2016/2017 compare to the past years. This increase in collection was attributed to many factors including the increase of rate of deduction from 8 to 15 percent with effect from financial year 2016/2017 which contributed to TZS 20 billion. However, apart from all these efforts there was still a gap in loan repayment and recovery which was caused by various factors as discussed throughout the report.

5.3 Specific Conclusion

5.2.1 The Strategies for Loan Repayment and Recovery were not Effectively Designed to Enable Maximum Collection

Among the factors which contributed to non-achievement the collection targets included the weakness in designing the objective, targets and activities related to loan collections namely loan repayment and recovery activities. The objectives were too broad with combined targets for loan repayment and recovery expressed only on monetary values and ignoring other aspects such as number of loan beneficiaries.

On the other hand, assessing the performance of loan collection using combined overall targets without breaking it down created a risk of overlooking other activities. For example, the recovery activities were not given adequate attention in loan collection. Likewise, the use of one aspect such as monetary values without combining it with other aspects such as numbers of loan beneficiaries or number of loans in setting collection targets limited the scope of analysis and interpretation when measuring performance.

Loan collection included in this report had many activities especially for Strategic plan 2014/2015-2016/2017. The SP had 31 activities compared to the previous one of 2011/2012 to 2013/2014 which had only 8 activities for the same function. Unfortunately, these activities were too broad and were not measurable.

Apart from being many and broad, there were no code or reference numbers given to the activities which made difficult to trace them in annual plans and budget and in reporting their implementation. Furthermore, these activities were not aligned logically to the loan repayment and recovery processing cycle. This is because HESLB did not use the National Strategic Planning Manual of 2008 which provided adequate guidance in formulating strategic plans for public sector institutions.

5.2.2 Ineffective Use of Loan Database and Risk Based Method in Planning the Tracing of Loan Beneficiaries and Recovery Strategies

Non-use of risk based approach and database in loan repayment and recovery contributed to inefficiency in HESLB's loan collection operations. HESLB did not conduct risk profiling to all its beneficiaries in the student loan database. Hence, the choice of approaches to use in tracing loan beneficiaries or of taking remedial measures were not

guided by documented risk profile. This hindered the proper way of allocating the scarce resources available for loans tracing. In other words, the loan officers were not well guided in the priority areas during such inspections.

For example, most of inspections conducted were focusing on public sector and well known employers in the private sector. These areas needed less cost intervention because there was low risk of defaulters compared to other areas such as in informal sector or those loan beneficiaries residing abroad. The reasons for not applying risk based framework which would include risk policy and risk register had not been finalised.

Furthermore, the audit noted that the available database was not comprehensive enough to provide information which was critical for planning the repayment and recovery activities. This is because the database was not well designed to support the planning and monitoring activities of loan repayment and recovery activities. The Loan Repayment and Recovery Manual did not provide any guidance on how to use database in planning and monitoring these activities.

5.2.3 Inadequate Implementation and Monitoring of Loan Repayment and Recovery Activities

The implementation of loan and recovery activities was not satisfactory. For instance out of 39 activities which were planned by HESLB through its two strategic plans, only 4 were fully implemented, 20 were in progress and 15 were not implemented at all. Some of these activities were aimed at providing collaboration with other stakeholders in order to improve the tracing of loan beneficiaries, streamline and widening a scope of methods for billing and collection of loans.

The Monitoring and Evaluation Unit was not proactive in ensuring loan repayment and recovery activities were conducted properly. There were no actions taken by this Unit to design various targets and key performance indicators which were missing in many activities designed in order to realize the collection targets. There was no guidance provided by the Unit on nature and type information or types of reports to be prepared by the Directorate of Loan Repayment and Recovery for its monitoring purposes.

Lack of guidance affected the monitoring activities since there was no consistency in methodologies used to compile and analyse data for measuring performance of collection targets. This resulted to discrepancies on loan collection figures given by financial statements,

accounts section and the database maintained by Directorate of Loan Repayment and Recovery.

HESLB's Board of Directors did not adequately deliberate and respond to HESLB challenges on loans repayment and recovery activities during the Board meetings. This is because the Board's Committee responsible for Loans Allocation, Disbursement and Repayment concentrated more on loans allocation and disbursement than loan repayments. Also by not receiving regular loans repayment reports from the Directorate of Loans Repayment and Recovery, both the responsible Committee and the Board were not in a position to deliberate on this issue.

This also explains why the Board of Directors did not closely assist the HESLB Management or gave advice on actions to be taken to achieve set targets. For instance, the audit noted that most of the Board's directives were on loan disbursement and very little on loans collection.

5.2.4 Inadequate Oversight Role and Support Provided by MoEST in Ensuring Optimal Loans Collection

MoEST did not play its role in ensuring that HESLB perform better in loan collection so as to have sustainable source of financing of higher education. Similarly, MoEST did not deliberate on the performance of HESLB in loan repayment and recovery activities. Apart from the Director of Higher Education in MoEST being a member of the HESLB Board of Directors, there were no formal progress reports which were prepared and submitted to MoEST by the HESLB. The audit noted further that despite the Director being a member of the Board, he/she was not a member of the Board's Committee which deliberated on loans repayment and recovery issues.

MoEST did not issue directives, guidance or reminders to HESLB's Board of Directors of HESLB regarding the unsatisfactory achievements of loan collection or delays in implementation of loan recovery activities. Instead, MoEST had been more proactive in making close follow up on issues of budget and disbursement of loans to HESLB so that it can be issued to qualified students.

Among the reasons for weak monitoring and support from MoEST is based on its mandate and workforce at the. MoEST main mandate include the provision of quality higher education, making sure the qualified candidates are selected to join Higher Education and the right curricula are prepared, updated and issued accordingly. Apparently, the Ministry has a little interest in managing higher education student's funds. As such there is very little time set aside by

MoEST to monitor and take actions on students' loans repayment and recovery. Reviewed operational plans and budget of MoEST did not address issues related to the monitoring of HESLB performance.

The issue of managing students' loan funds required technical expertise to ensure Loan Funds were managed sustainably. The Ministry of Finance and Planning (MoFP) which is responsible for managing financial Institutions in the country lending and borrowing loans would have been the right Ministry to manage HESLB loans repayment. The audit therefore challenges MoEST to assess itself on whether it is still relevant for HESLB to be under its umbrella and being accountable for its performance especially on loans repayments

CHAPTER SIX

RECOMMENDATIONS

6.1 Introduction

This Chapter contains recommendations to the Ministry of Education (MoEST), Science and Technology and Higher Education Students Loans Board (HESLB). The Audit Office believes that these recommendations if fully implemented will improve the performance of HESLB in reaching its loan collection target which will enhance the overall goal of having sustainable loan fund.

6.2 The Ministry of Education, Science and Technology (MoEST)

The audit recommends that MoEST should;

1. Conduct HESLB's capacity needs assessment in terms systems in place, technology, equipment and human resources for managing effectively loans repayment and recovery activities and support it accordingly.
2. Develop a monitoring framework which will enable to monitor HESLB's performance through its Board of Directors especially in managing Loans Repayment and Recovery activities.
3. Conduct a self-assessment with the purpose of determining its relevance in providing direct oversight role and being accountable for HESLB's performance in managing student loan fund or transfer such role to other Ministry such Ministry of Finance and Planning.

6.3 Higher Education Students' Loan Board

The audit recommends that HESLB should:

1. Update the Repayment and Recovery Manual so as to provide further guidance in planning and reporting the results of various interventions for managing efficiently loan repayment and recovery activities.
2. Conduct need assessment in order to develop the robust Monitoring and Evaluation framework which will enable HESLB to come up with realistic targets and Key Performance

Indicators for managing performance of Loan Repayment and Recovery Directorate.

3. Upgrade and customize the Loan Repayment and Recovery Database to include all relevant fields of information which will facilitate efficient planning and consistent reporting on the implementation of loan collection activities.
4. Develop risk profile of loan beneficiaries and integrate it with loan repayment and recovery strategies so as to increase efficiency in allocation and utilisation of resources especially in tracing and billing of loan beneficiaries.
5. Identify and enforce regularly appropriate sanctions to loan defaulters including involving their guarantors and employers so as to increase loan collections.
6. Institute plans for engaging independent experts in conducting reviews or evaluations of HESLB's performance in reasonable intervals especially in the implementation of loan collection strategies.
7. Use the appropriate technology such as mobile technology to simplify loan repayment process and ease access information such as loan balances and other charges such as penalties.

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2. HESLB Audited Financial Statements, 2012/2013, 2013/2014 and 2014/2015
3. HESLB Audited Financial Statements, 2013/2014 and 2014/2015
4. HESLB Board Meeting Minutes 2012/2013 - 2016/2017
5. HESLB Internal Audit Draft Reports, 2012/2013-2016/2017
6. HESLB Loan Repayment and Recovery Inspection Checklist
7. HESLB Loan Repayment Manual, 2008
8. HESLB MTEF Implementation Reports 2012/2013-2016/2017
9. HESLB Strategic Plan 2014-2017
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18. URT (2008): National Medium Term Strategic Planning Manual, 2008
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APPENDICES

Appendix 1: Responses from the Ministry of Education, Science and Technology and Higher Education Students' Loans Board

A: Overall Response - Ministry of Education Science and Technology

S/N	Recommendation	MoEST's Comments	Action(s) to be Taken	Timeline (Financial Year)
1	Conduct HESLB's capacity needs assessment in terms systems in place, technology, equipment and human resources for managing effectively loans repayment and recovery activities and support it accordingly	This is a good recommendation and the ministry will take this recommendation to enhance performance in loan repayment and recovery	Office of the DPP and ICT conduct capacity needs assessment and deploy necessary measures to address capacity challenges	30 th June, 2019
2	Develop a monitoring framework which will enable to monitor HESLB's performance through its Board of Directors especially in managing Loans Repayment and Recovery activities.	This recommendation is well accepted	The Ministry to inform the Board of Directors of this weakness and to direct the same to develop a clear monitoring framework for effective monitoring of loan repayment and recovery	30 th June, 2019
3	Conduct a self-assessment with the purpose of determining its relevance in providing direct oversight role and being accountable for HESLB's performance in managing student	While this recommendation is acceptable, it is prudent to acknowledge that the Ministry plays crucial roles in ensuring that needy students have access to financial support	The Ministry will continue to support the overall performance of the loans board.	Ongoing work

	loan fund or transfer such role to other Ministry such Ministry of Finance and Planning	by the government.		
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B: Overall Response - Higher Education Students Loans Board

S/ N	Recommendation	MoEST's Comments	Action(s) to be Taken	Timeline (Financial Year)
1.	Update the Repayment and Recovery Manual so as to provide further guidance in planning and reporting the results of various interventions for managing efficiently loan repayment and recovery activities	Agreed	The updated manual is currently undergoing final reviews, it will however be further reviewed to reflect audit findings. Once completed the updated manual will be submitted to the Board of Directors for approval by 31 st May 2018.	31 st May 2018
2.	Conduct need assessment in order to develop the robust Monitoring and Evaluation framework which will enable HESLB to come up with realistic targets and Key Performance Indicators for managing performance of Loan Repayment and Recovery Directorate.	Agreed	HESLB is currently planning to expand the current research portfolio to include monitoring and evaluation, thus become MER unit as per a proposed new organizational structure submitted to PO-PSM via MoEST.	31 st December 2018

S/ N	Recommendation	MoEST's Comments	Action(s) to be Taken	Timeline (Financial Year)
3.	Upgrade and customize the Loan Repayment and Recovery Database to include all relevant fields of information which will facilitate efficient planning and consistent reporting on the implementation of loan collection activities.	Agreed	<p>The Repayment Directorate is preparing a request for required additional fields in the system for onward submission to the ICT Directorate for implementation by 30th April 2018.</p> <p>The ICT department to create the additional fields in the system as requested by the business by 30th June 2018</p>	30 th April 2018
4	Develop risk profile of loan beneficiaries and integrate it with loan repayment and recovery strategies so as to increase efficiency in allocation and utilisation of resources especially in tracing loan beneficiaries.	Agreed	<p>The risk profile which will take into account age of the debt, sector i.e. government employees versus Private employees, self-employed and unemployed, among others. This will be prepared by 30th June 2018</p>	30 th June 2018
5	Identify and enforce regularly appropriate sanctions to loan defaulters including	Agreed	The Repayment Directorate will prepare an updated defaulters' list	30 th June 2018

S/ N	Recommendation	MoEST's Comments	Action(s) to be Taken	Timeline (Financial Year)
	involving their guarantors and employers so as to increase loan collections.		and retrieve loan supporting documentation for onward submission to the HESLB Legal unit for legal/court proceedings. This will be done 30 th June 2018 The acting Head of Legal unit will initiate legal/court proceeding against defaulters by Quarter 1, 2018/2019	30 th September 2018
6	Institute plans for engaging independent experts in conducting reviews or evaluations of HESLB's performance in reasonable intervals especially in the implementation of loan collection strategies.	Agreed	HESLB is planning to conduct mid-term and end of term reviews of a new strategic plan. The midterm will be conducted by end of FY 2019 and the end of term towards the end of the new strategy period by 2022. These reviews will be supported by external resources and experts	30 th June 2019
7	Use the appropriate technology such as	Agreed	The use of mobile	31 st December

S/ N	Recommendation	MoEST's Comments	Action(s) to be Taken	Timeline (Financial Year)
	mobile technology to simplify loan repayment process and ease access information such as loan balances and other charges such as penalties		technology in repayment will be implemented upon completion of the ongoing Grand Automation and Systems Integration (GASi), currently implemented with the technical support from the University Computer Center (UCC), scheduled to be completed by 31 st August 2018, and therefore the use of the mobile technology be operationalized by 31 December 2018	2018

Appendix 2: List of Officials Interviewed During the Audit

S/N	Officials Interviewed	Institution	Purpose
1	Director Loans Repayment and Recovery	HESLB	He is responsible for the top decisions on matters relating to loan repayment and recovery
2	Assistant Director - Loans Repayment and Recovery	HESLB	To get over views on how they strategize loan repayment and recovery activities.
3	Director of Planning, Research and ICT	HESLB	To get an overview on how planning, budgeting and monitoring of activities relating to repayment and recovery are carried out.
4	Acting Legal Services Manager	HESLB	To understand how legal issues which relate to recovery of loans are handled
5	IT officers (database operators)	HESLB	How they keep and maintain lonees data base.
6	Loan Officers	HESLB	To understand methods, techniques and approaches used to collect loans from beneficiaries
7	HESLB Zonal Managers	HESLB zones (Dodoma, Arusha and Mwanza)	To get overview on how loan repayment and recovery activities are undertaken in their respective zones
8	Director of Higher Education	MoEST	To understand how the directorate plays an oversight role with regard to HESLB loans collection
9	Director of Policy and Planning	MoEST	To get overview of how they monitor and coordinate activities of HESLB

Appendix 3: List of Documents Reviewed During the Audit

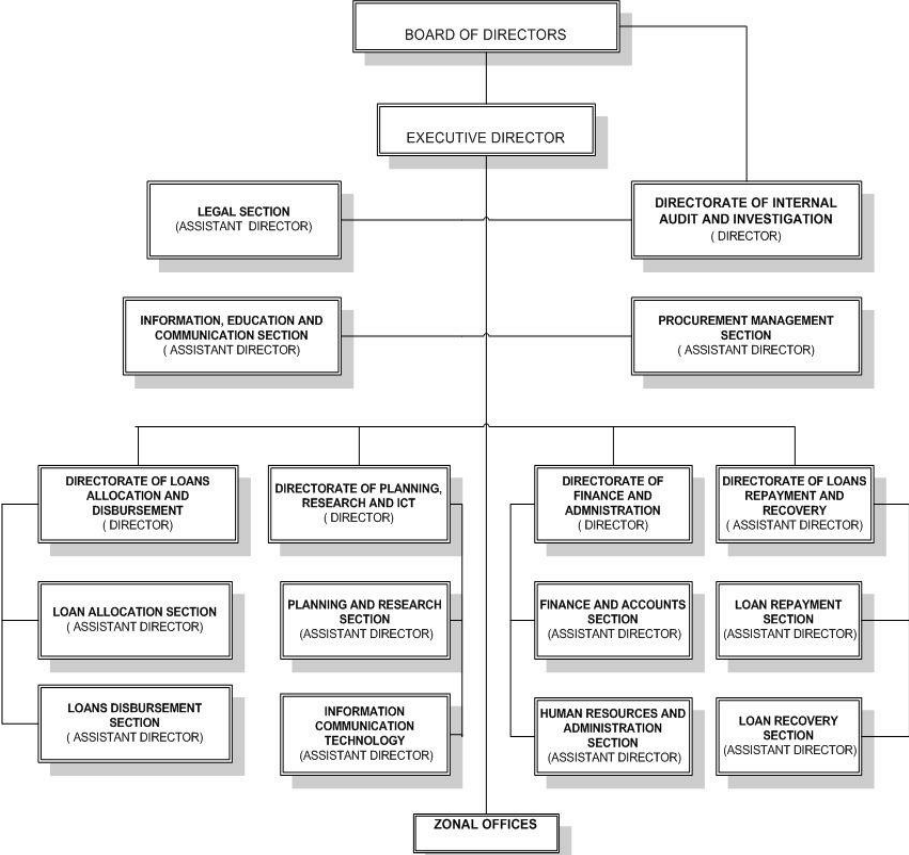
S/N	Document Reviewed	Purpose
1	Higher education policy 1999	To understand underlying principles governing higher education student loans.
2	Higher Education Student Loans Board Act 2004	To understand mandate of HESLB specifically on loans collection.
3	Progress reports	To assess extent of implementation of planned activities that relates to loan repayment and recovery
4	Internal audit reports	To identify HESLB shortfalls and identified way forward regarding loan repayment and recovery activities.
5	Meeting minutes of HESLB board of Directors	To assess decisions made by board of directors relating to repayment and recovery of students loans
6	MoEST Strategic Plans 2012-2017	Review of budgeted activities.
7	Strategic plans	To review planned activities and strategic objectives
8	Extract Reports from HESLB Loan Repayment and Recovery Database	For analysis purposes as HESLB did not maintain management reports
9	National Medium Term Strategic Planning Manual	As a National source guideline for preparation of Strategic Plans and Budgets
10	HESLB MTEF Implementation Reports	Understanding status of implementation of activities indicated in Strategic Plans
11	HESLB Internal Audit Draft Reports,	Review internal audit findings and status and management responses
12	HESLB Board Meeting Minutes	To understand matters deliberated by HESLB Board on Loan Repayment and Recovery
13	HESLB Loan Repayment and Recovery Inspection Checklist	To understand matters of importance during inspection to employers
14	HESLB Audited Financial Statements	To understand issues noted by HESLB during financial audits and status of implementation
15	MoEST Strategic Plan 2013-2017	To get an overview of how MoEST incorporated HESLB operations

Appendix4: Audit Questions and Criteria used in the Audit

Main Audit Questions	Audit Sub-Questions	Assessment Criteria
1. Does HESLB effectively design the loan collection strategies that ensures sustainable source of financing Higher Education students' loans?	1.1 Are there strategies that ensure continuous improvement in collection?	HESLB IS required to ensure that every loan is repaid in full and on time as (disbursement) between HESLB and the loan beneficiary (Section 3.1 of HESLB loan repayment and recovery manual pre agreed upon)
	1.2 Are there realistic set targets and indicators for managing collection performance?	HESLB is required to have appropriate mechanism for evaluate its objective in managing loan repayments and recovery. (HESLB Loan repayment and recovery manual)
2. Does HESLB effectively ensure optimal loans collection from loan beneficiaries?	2.1. Is there comprehensive and updated database for facilitating the tracing of loan beneficiaries?	HESLB is required to have appropriate mechanism for tracking down loan beneficiaries who are either employed in formal sector or employed outside the united republic of Tanzania. HESLB Act no.9 of 2004 (Section 2.3.3 of loan repayment manual)
	2.2 Does HESLB use existing databases to trace loan beneficiaries effectively?	HESLB is required to maintain up to date database of the loan beneficiary so as to facilitate repayment and recovery of the loan from loan beneficiary. (Section 2.3 of the loan from repayment and recovery manual)
	2.3 Does HESLB conduct surveys and inspections to identify loans beneficiaries and defaulters of higher education loans beneficiaries?	HESLB is required to set different kind of mechanism to allow for the beneficiary to repay their loan easily. Section 2.3 of the Loan Repayment and Recovery Manual
	2.4 Are sanctions enforced to the loan defaulters in exercising the repayment and recovery of loans issues to higher education students?	Employers are required to notify the Board of the employment of the graduate within twenty-eight (28) days from the date on which such graduate is employed. According to loan repayment and recovery manual.
	2.5 Does HESLB document properly the lessons learnt and	The lesson learn needs to be documented and used in improving the strategies and processes for

Main Audit Questions	Audit Sub-Questions	Assessment Criteria
	use it effectively in update its strategy and processes in managing loan collection from beneficiaries?	loan repayment and recovery
	2.6 Does the HESLB's Board of Directors ensure adequate governance in ensuring optimal collection and sustainability of the loan fund?	HESLB IS required to ensure that every loan is repaid and procedures are followed in full and on time (Section 3.1 of HESLB loan repayment manual)
3. Does the MOESTVT effectively assess the performance of HESLB in implementing loan repayment and recovery activities and take appropriate action timely?	3.1. Does Ministry adequately monitor and evaluate the performance of HESLB and take necessary actions on loans collection activities?	HESLB is required to coordinate with government agency example (TRA) for loan repayment and recovery in order to identify all loan beneficiaries who are in formal sector, self-employed and unemployed. Section 2.3 of the Loan Repayment and Recovery Manual
	3.2. Are there actions taken to improve the performance of HESLB in loans repayment and recovery activities?	Ministry is expected to take appropriate action timely to improve the performance of HESLB in debt collection s activities.

Appendix 5: HESLB Organisation Structure



Appendix 6: Activities Extracted from SPs for the Period 2012/2013 to 2016/2017

Strategies	Activities
Strategic plan 2011-2014	
Public awareness	Public awareness campaigns; Engage at least 5 mainstream media outlets for loan recovery campaign annually;
Tracking/Tracing	Streamlining loan repayment activities according to sectors; To enhance permanent linkages and network with HLLs stakeholders; Inspect and verify information of employed loan beneficiaries.
Billing	The Loan Management System is in construction to be able to issue loan statements;
Collection	Partner with network providers such as M-PESA, TIGO_PESA etc Collect all monthly instalments of due loans within 15 days of subsequent month after maturity
Enforcement	Make use of HESLB Act to enforce repayment and recovery
Public awareness	Updating loan beneficiaries database and subsidiary accounts; Conduct stakeholders consultative sessions; Attend Annual Stakeholders Conferences; Conduct Loan Repayment Exhibitions; Positive Listing of Cleared Loanees; Prepare educational materials on loan repayment by June 2017; Commission Journalists/ media companies to provide positive feature stories about HESLB by June 2017; To Produce and Air Radio and TV Spots on Repayment by June 2017; Raise Public Awareness on Loan Repayment through Radio and TV;
Tracking/Tracing	Network with key Stakeholders on repayment issues; Inspection and Verification of Employer Compliance; Facilitate competent and experienced repayment collection agent; Tracing Loan Beneficiaries through employers; Matching Graduate Information with Key

Strategies	Activities
	Stakeholders;
	Engage Regulatory Authorities in Facilitating Loan Collections;
	Collaborating with National Entities Dealing with Public Registration;
	Establish linkage with e-Government.
	Tracing of Overseas Loan Beneficiaries
Billing	Prepare and Issue loan statements to all loan beneficiaries graduates by June 2017;
	Billing of Loan Beneficiaries;
	Physical Collection of Cheques Weekly;
	Handling of Loanees Complaints and Enquiries (HLCE); adjustments in loan beneficiaries accounts statements
	Review Value Retention Fees;
	Review of Monthly Rate of Loan Repayment Deduction;
Collection	Effective handling of suspense account.
	To engage network providers such as M-PESA, TIGOPESA, ZAP in loan repayment
Enforcement	Ensure Loans Against Loss/Default
	Ensure Employers mandatory submission of Loan Beneficiaries information;
	Engage Regulatory Authorities in Facilitating Loan Collections;
	Enforce Loan Repayment and Awareness
	Enforcing strong compliance to bills issued

Appendix 7: Expenditure for Loan Repayment and Recovery Strategies, 2012/2013 - 2016/2017

Strategies (Per Audit Analysis)	Activities	Actual Expenditure for FY 2012/2013 - FY 2016/2017 (TZS)				Total amount Budgeted per activity (TZS in Millions)	
		2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	
Tracing of Loan Beneficiaries	Facilitate competent and experienced repayment collection agent by June 2013	456,960,000	841,200,000	756,770,109	1,331,853,400	0	3,386,783,509
	Inspect and Verify information of employed loan beneficiaries	28,800,000	141,000,000	145,200,000	27,175,000	0	342,175,000
	Monitor and evaluate performance of debt collectors at all zones by June 2013	35,975,000	27,750,000	0	0	0	63,725,000
	Sweeping approach for self employed loanees by June 2013	3,600,000	0	6,000,000	0	0	9,600,000
	Tracing Overseas Loan	0	0	0	0	14,000,000	14,000,000

Strategies (Per Audit Analysis)	Activities	Actual Expenditure for FY 2012/2013 - FY 2016/2017 (TZS)					Total amount Budgeted per activity (TZS in Millions)	
							2016/2017	
		2012/2013	2013/2014	2014/2015	2015/2016	2016/2017		
	Beneficiaries							
	Updating loan beneficiaries database by June 2013	10,500,000	16,800,000	33,100,000	63,525,000	20,000,000		143,925,000
SUBTOTAL		535,835,000	1,026,750,000	941,070,109	1,422,553,400	34,000,000	3,960,208,509	
Billing of Loan Beneficiaries	Billing of Loan Beneficiaries	0	12,600,000	29,000,000	42,675,000	220,482,000		304,757,000
	Prepare and Issue loan statements to loan beneficiaries by June 2013	11,825,000	29,600,000	9,100,000	97,400,000	9,650,000		157,575,000
SUBTOTAL		11,825,000	42,200,000	38,100,000	140,075,000	230,132,000	462,332,000	
Awareness	Conduct (zonal) stakeholders consultative sessions	0	15,950,000	6,000,000	17,500,000	25,958,000		65,408,000
	Establish Permanent network with	11,440,000	7,700,000	25,864,544	15,900,000	900,000		61,804,544

Strategies (Per Audit Analysis)	Activities	Actual Expenditure for FY 2012/2013 - FY 2016/2017 (TZS)					Total amount Budgeted per activity (TZS in Millions)	
							2016/2017	
		2012/2013	2013/2014	2014/2015	2015/2016	2016/2017		
	Institutions in Social Security Funds, TRA and Employers							
	Attend Annual Stakeholders Conferences	0	0	0	29,125,000	9,226,000	38,351,000	
SUBTOTAL		581,425,000	1,151,600,000	1,082,234,653	1,828,753,400	550,348,000	165,563,544	
Collection	Physical collection of cheques, deduction schedules and list of employees daily	0	0	0	16,800,000	8,200,000	25,000,000	
	Establish linkage with e-Government	0	No Budget	No Budget	No Budget	24,500,000	24,500,000	
	To engage network providers such as M-PESA, TIGOPESA, ZAP	1,125,000	0	0	0	0	1,125,000	

Strategies (Per Audit Analysis)	Activities	Actual Expenditure for FY 2012/2013 - FY 2016/2017					Total amount Budgeted per activity (TZS in Millions)
		(TZS)					
		2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	
SUBTOTAL	in loan repayment						
	Positive Listing of Cleared Loanees	0	0	0	0	28,000,000	28,000,000
		1,125,000	-	-	16,800,000	60,700,000	78,625,000
Enforcement	Follow up on Defaulted Loan Beneficiaries or Employers	0	0	0	0	15,552,000	15,552,000
	Enforce loan recovery	0	33,500,000	0	0	0	33,500,000
	Insure All HESLB Loans against Loss/Default by	0	0	0	0	22,500,000	22,500,000
SUBTOTAL		-	33,500,000	-	-	38,052,000	71,552,000
Other	Cleaning of Data Storage Containers	0	No Budget	No Budget	No Budget	20,000,000	20,000,000
	Data Cleaning and	0	No Budget	No Budget	No Budget	2,505,000	2,505,000

Strategies (Per Audit Analysis)	Activities	Actual Expenditure for FY 2012/2013 - FY 2016/2017 (TZS)					Total amount Budgeted per activity (TZS in Millions)	
							2016/2017	
		2012/2013	2013/2014	2014/2015	2015/2016			
	Reconciliation							
SUB_TOTAL		-	-	-	-		22,505,000	22,505,000
GRAND_TOTAL		1,130,210,000	2,254,050,000	2,061,404,762	3,408,181,800		935,737,000	4,760,786,053