NGO Student loans - the future of financing higher education in Tanzania?

The demand for higher education exceeds the supply of governmental financing tools in Tanzania. Student loans originating from NGOs could be the future of financing higher education - if designed correctly.

Sub-Saharan Africa is expecting a significant increase in the young population in the next few decades. The governments, often not being able to cover the expenses for free education, resort to cost-sharing policies where the students need to pay for tuition themselves - risking excluding a large population from access to higher education. Student loans allow low-income families to offset their cost of education until they can repay. If designed right - student loans will not incur a high cost to the lending entity and enable education for all. But if misdesigned - the costs could be enormous and offset the whole lending operation. The study worked with Swedish NGO Help to Help to find out if they should start a student loan in Tanzania.

The study showed that a student loan with an income-contingent repayment plan could be a good balance between being reasonable to repay for the student while financially sustainable for the lender. However, any student loan comes with substantial financial risks due to administration costs, default costs, and economic costs - all of which are amplified by the length of the loan. Therefore, the lender must pair a repayment plan with consciously chosen loan policies to prove effective. In short, the guidelines can be categorized under one of these loan principles:

1. **Expect the loan to be repaid in full.**

A loan program can only be financially sustainable if the recovery rate, the amount of money that comes back after lent, is near 100%. If the recovery rate is below that, it should be because of targeted subsidies. The recovery rate includes the devaluation of money, making it essential to incorporate inflation in the interest rate.

2. **Insurance as a central aspect.**

To lower default costs, the lending entity should provide insurance against labor market risks. This can be achieved by only demanding repayments when the beneficiary earns more than a certain amount and that payment deferments are systematically done.

3. **Incentive problems must be recognized and properly addressed.**

The governmental student loan institutes in Tanzania suffer tremendous losses due to defaults with a 49% recovery rate. The reason could be traced to ineffective administration and lack of motivation for students to pay back. The study suggests that the lender can reduce costs by keeping a relationship with the students and allowing them to have insight into the lending entity’s operations. Even better, the lending entity can invest in the students' careers by teaching financial and labor market skills.

Four out of five children go to primary school in Tanzania, but less than four percent make it to higher education. Hopefully, NGOs can use the study to implement a student loan and allow more students to pursue higher education. If successful, the lending entity will be financially sustainable for years to come and enable students to have an impactful career - benefiting both the individual and society.