INSTITUTIONAL SPECIFIC FACTORS AND STUDENTS' LOANS RECOVERY IN KENYA

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Abstract

This paper focuses on the institutional specific factors and students' loans recovery at the Higher Education Loans Board (HELB) in Kenya. The major problem of education revolving funds and students' loan schemes worldwide is the low rates of loans recovery leading to difficulties in meeting the rising demand for students' loans. In Kenya, 40% of students' loans are in default. The Institutional Specific Factors examined in this study include Loan Collection Approaches and Strategic Credit Information Sharing done by HELB to trace students' loan defaulters. The study sought to find out the relationship between these factors and students' loan recovery at HELB. Descriptive research design was used. The population comprised of 349 HELB staff members at the head offices and auxiliary offices at government 'huduma' centres countrywide. Purposive sampling was used to draw a sample of 137 staff members who deal with students' loans recovery and were deemed relevant to the study. Primary data was collected using self-administered questionnaires. Data was coded and analyzed using SPSS 24. Descriptive statistics comprising of frequencies, percentages, means and standard deviations and inferential statistics comprised of correlation, robust linear regression model and factor analysis were used. The Pearson's moment correlation coefficient indicated that loan collection

approaches (r=0.573) and Credit Information Sharing (r=0.623) had a strong positive association with students' loan recovery. The study found that 61.8% of students' loan recovery in Kenya could be explained by Institutional Specific Factors (R square value of .618).Further, the findings indicated that Loan Collection Approaches (t- value 4.840) and Credit Information Sharing (t-value 5.426) are significantly related to Students' Loan Recovery.

Keywords: Loans Recovery, Portfolio at Risk, Loan Collection Approaches, Credit Information Sharing, Defaulters

INTRODUCTION

Most governments around the word invest in human capital through financing higher education as a key to economic development. Use of students' loan schemes as an alternative means of funding higher education has become popular in different African countries including Kenya, Ghana, Tanzania, Namibia, South Africa, Nigeria and recently, Rwanda and Uganda (Onen, Ajuaba, Oceng, & Ndaruhutse, 2015). Student loans have been widely advocated as a way of financing the private costs of investing in higher education. Around the world, more than seventy countries have student loans schemes which enable students to borrow from governments' agencies or commercial banks in order to finance tuition fees and living expenses then repay the loans after graduation.

However, in the recent past, there is a notable increase in the level of default on students' loans. According to Darolia (2013), this rise in students' loan default has led to a concern about the public financial risks associated with nonperforming debts and the financial challenges that many students face. Students' loans help in reducing the economic burden of students as well as the governments. Nevertheless, the default in these loans has become an important phenomenon in recent years. Because of personal family backgrounds, debt burden and lending institutions' aspects, the default rates on students' loans have increased recently Kenayathulla and Tengyue, (2016).

In Kenya, the Higher Education Loans Board (HELB) is the state corporation mandated to disburse loans to students and to recover the same upon maturity so as to create a revolving fund from which funds can be drawn to finance higher education for needy students. However, according to Johnstone (2015), there are low rates of loan recovery and the proportion of the debt portfolio which is at risk is high. This is causing a serious threat to sustainability the

revolving fund. The amounts recovered from loans of past students are expected to be disbursed to subsequent students.

The students' loan scheme in Kenya has low rate of recovery because HELB has relied heavily on recoveries from graduates mostly employed in government public enterprises and a few private companies since these known entities are easy to reach. According to Nawai (2010) the low rates of students' loans recovery may be attributed to a number of factors among them being the financing institutions' specific factors which are within the control of the lending organization while others are external factors which are not within the control of the organization.

Problem Statement

HELB has previously used various measures to recover long outstanding students' debt. However, despite the various measures taken to increase loans recovery, there has been a strange lack of enthusiasm by ex-university students to repay their loans. The revolving fund is still not self-sustainable 21 years after the enactment of HELB Act that aimed to a creation of a self-sustainable, revolving students' fund. The total annual amounts recovered from past loans can only cover 41% of the board's budget leaving the larger part of financing to the government through annual allocations hence overreliance on the exchequer.

According to HELB (2015), the level of non-performing loans is at 38%. The high nonperforming rate of past students' loan is a major threat to the sustainability of the education revolving fund and raised many unanswered questions hence the purpose of this study.

Purpose of the study

The general objective of this study was to ascertain the relationship between Institution's Specific Factors and students' loans recovery at the Higher Education Loans Board in Kenya. The specific objectives were:

i. To establish the relationship between Loan collection approaches and students' loans recovery

ii. To ascertain the relationship between Credit Information Sharing and students' loans recovery

LITERATURE REVIEW

Theoretical Orientation

The theories of financial intermediation, Principal Agent theory and the Recourse based view were considered appropriate in this study as they touch on an agent (HELB), who is given

various resources to offer financial services to needy students on behalf of the government of Kenya.

Financial Intermediation Theory

A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction. Some of the common examples of financial intermediaries include commercial banks, investment banks, insurance companies, pension funds and mutual funds (Seed, 2005). Financial intermediaries come in deferent ways between two parties and help to facilitate trading. They have the role to create assets for creditors and liabilities for debtors which are much more attractive for each of them than if the transfer of funds from creditor to debtor were to be made directly between the two parties (Diamond, 1984). HELB is an intermediary through whom the Kenyan Government channels funds for financing higher learning to her eligible citizens and it's tasked with the recovery of the same upon maturity. Other than the annual recovery amounts and government capitation, the board mobilizes funds from various stakeholders for lending to needy students on behalf of the government of Kenya.

Principal-Agent Theory

This theory was developed by Jorge and Lic (2000). It was developed on relationships between agents on one party and their principals on the other end. The principals delegate some actions of control to the agent in which case the agents are expected to adhere to the directives of their principals. Agency theory was introduced basically as a separation of ownership and control and thus to give a clear distinction between the two (Bhimani, 2008). HELB is an agent of the government through the Ministry of Education.

Resource Based Theory

The fundamental premise of the Resource based theory (RBT) is that companies gain a sustained competitive advantage through the usage of resources and capabilities that are valuable, rare, imperfectly imitable, and not substitutable to create value (Barney, 1995).The theory postulates that the competitive advantage of any organization depends on how it uses the resources at its own disposal (Wernerfelt, 1984). The resources controlled by an organization include assets, capabilities, organizational processes; organization attributes and people which will enable it develop a strategy and implement it successfully. According to HELB (2016), HELB has a wide base of resources with an asset portfolio of over fifty billion Kenya Shillings. Other than the financial resources, the board has skilled and experienced workforce

who have formulated working strategies, innovative Loan collection Approaches managed relationships with strategic partners to facilitated netting of defaulters.

Empirical Review

Loan Collection Approaches

Various studies on loan collection approaches and loans recovery have been done around the world. Engede (2015) sought to identify the roles played by various strategies that were adopted in loans recovery. The study concluded that close follow up mechanism helped in increasing the recovery from former university loan beneficiaries. Engede (2015) concurswith Ogolla (2012) who indicated that proper operational strategies on debt with a well empowered work force can help a bank to manage its debt recovery strategy. Further, these concurs with Onen et al. (2015) who recommended the use of well thought loans collection procedures to promote reduce default levels.

Strategic communication to debtors as a reminder to repay their loans can facilitate recovery. According to Migwi (2013), continuous reminder to debtors to repay the loan installments led to reduced default rates. This concurs with Musyoka (2014) who indicated that close credit monitoring and reminders have reduced default levels in commercial banks in Kenya. Rendleman and Weingart (2014) found that guarantors can be contacted to push the principal borrower to repay a defaulted loan.
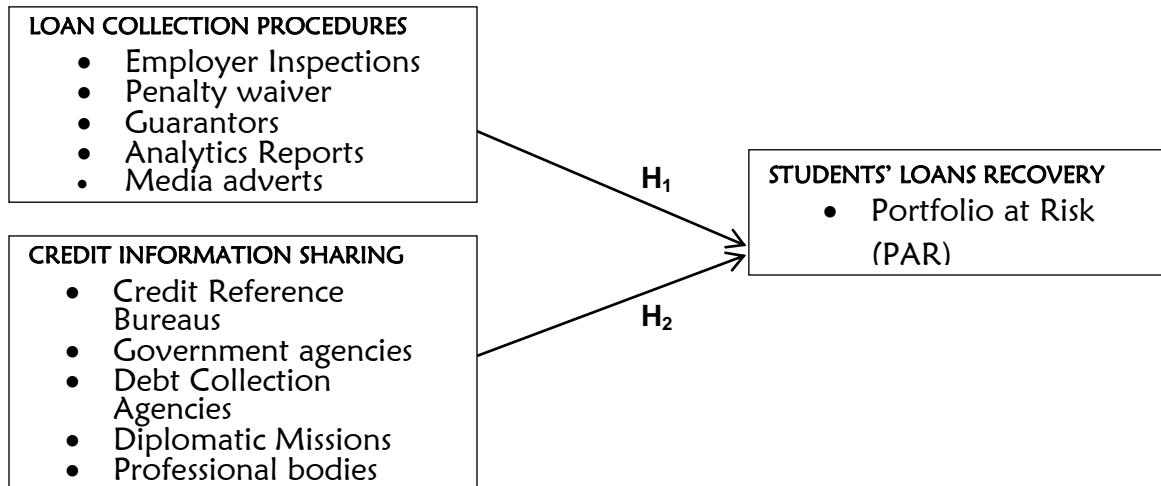
Credit Information Sharing

Initially, defaulters thrived in an information asymmetry environment where the lenders were making decisions without a formally informed credit history of the borrower. However, with the legislation of Credit Reference Bureaus (CRB)in Kenya, third parties are allowed to source customer credit history, share information and aid in credit decision making. According to Tuwei et al., (2015), lending institutions were not allowed to share customers' information including the credit history but with the introduction of the CRBs it is now possible. HELB partnered with the government and non- governmental entities to continuously share its defaulters' details. Some of these include the CRBs while others include Professional bodies, and alumni associations and outsourced debt collection agencies.

According to Osoro, Nyolei, Cheruto and Odhiambo (2015), there is a strong positive relationship between accuracy of information and loan recovery. This concurs with Gitahi (2013) who indicated that commercial banks usually estimate the chances of loan recovery before disbursing loans to its borrowers. This appraisal includes review of borrowers' credit history as

shared by other lenders and it's important because past and future performance on loan repayment have a relationship.

Figure 1 Conceptual Framework

LOAN COLLECTION PROCEDURES
- Employer Inspections
- Penalty waiver
- Guarantors
- Analytics Reports
- Media adverts

CREDIT INFORMATION SHARING
- Credit Reference Bureaus
- Government agencies
- Debt Collection Agencies
- Diplomatic Missions
- Professional bodies

H_1

H_2

STUDENTS' LOANS RECOVERY
- Portfolio at Risk (PAR)

RESEARCH METHODOLOGY

The study adopted a descriptive research design. The population comprised of 349 HELB staff members at the head offices and auxiliary offices at government 'Huduma' Centers countrywide. Purposive random sampling technique was used to draw a sample of 137 staff members who deal with students' loans recovery and were deemed relevant to the study. Primary data was collected using self-administered questionnaires. Data was coded and analyzed using statistical package for social sciences (SPSS, version 24.0). Descriptive statistics comprising of frequencies, percentages, means and standard deviations and inferential statistics comprised of correlation, robust linear regression model and factor analysis were used.

RESULTS AND DISCUSSION

Reliability test

To test the internal consistency of the research instruments, reliability test was done and a Cronbach's Alpha of 0.887 was obtained. The 88.7% reliability level is acceptable in research according to Creswell (2013) who recommends an 80% agreement on coding of passages.

Response Rate

The researcher distributed 137 questionnaires and obtained responses from 111 respondents. This represents 81% response rate which a reliable rate for data analysis. According to Mugeda and Mugeda (2003), a response rate of 70% and above is excellent.

Loan collection approaches and Students Loan Recovery

The first objective sought to examine the effect of loan collection approaches on students' loan recovery. Five key procedures were considered ranging from the use of penalty waiver to encourage loanees to pay in lumpsum, contacting guarantors to push defaulters, conducting employer inspections, use of analytics reports to provide information on loan defaulters and media adverts to promote loan recovery awareness. These were measured on a scale of 1 to 5 where 1=Strongly Disagree and 5 = Strongly Agree. The results are as presented in table 1.

Table 1 Descriptive Statistics

Statement	Mean	Standard Deviation	Rank
Penalty waiver offers	3.7243	.39946	2
Guarantors	3.5676	.43942	4
Employer inspections	3.4234	.60281	5
Analytic reports	3.6455	.42204	3
Media adverts	3.8360	.31122	1
Aggregate Score	**3.6394**		

Majority of the respondents agreed that the various statement were applicable to HELB loans recovery to a great extent as shown by an aggregate score of (M = 3.64). Top in the rank is the use of media adverts to promote students loan recovery (M=3.84; SD=0.31122).Media adverts creates awareness, informs and reminds loanees to repay back their loans. With the growing internet access in Kenya and increased use of smart phones, most loanees are using social media. HELB has commonly used twitter and Facebook to remind loanees on loan repayments and respond to various queries.

Penalty waiver (M=3.72, SD=0.39946) is used as an incentive to encourage loanees to pay in lumpsum because the loanee ends up paying a lesser amount than their outstanding balances. Most loanees take advantage of the waiver, pay in lumpsum to clear their loans and benefit from waiver of accumulated penalties. The usage of analytics reports to inform the HELB's recovery team on defaulting loanees (M=3.65; SD=0.42204 and use of guarantors were agreed on to a great extent. A guarantor of a borrower is usually treated as a secondary borrower. In the event of non-repayment, the guarantor may be called upon to facilitate the repayment of the loan (Angaine and Waari (2014). However, employer inspections were implemented to a moderate extent as shown by a mean of (M = 3.42; SD= 0.60281).

Credit Information Sharing

The second objective sought to ascertain the relationship between Credit Information Sharing and students' loan recovery at HELB. The researcher sought to find out the extent to which respondents agreed to the various statements on Credit Information Sharing. The results are presented in table 2.

Table 2 Descriptive Statistics on Credit Information Sharing

Statement	Mean	Standard Deviation	Rank
Negative listing of defaulters	4.4355	.69433	1
Defaulters denied credit due to negative listing	4.3065	.68208	2
Partnership with other government agencies	4.0806	.53849	3
Debt collection agencies	3.8065	.28130	5
Professional bodies	3.7742	.28023	6
diplomatic missions	3.8710	.27590	4
Aggregate Score	**4.0457**		

The results presented in table 4.4 show that majority of respondents agreed to the various aspects on credit information sharing to a great extent as shown by the overall mean of (M=4.05). Specifically, the findings indicate that negative listing of loan defaulters at CRBs was rated the highest with a mean of (M=4.44; SD=.69433). HELB shared information of nonperforming loans with the CRBs and that has led to negative listing of students' loan defaulters.

According to the CRB Regulations (2013), commercial banks have a mandatory obligation to regularly provide listings of all its bad debtors to CRBs. Defaulters of student loans are denied credit access in banks because of defaulting student' loans (M=4.31; SD=68208). Loanees who have nonperforming facilities have a negative credit history, low credit rating and as a result, they end up being denied credit by other lending institutions. After being denied credit facilities because of negative listing, the defaulters end up back to the listing institution (HELB) to repay their student loans. This concurs with Tuwei et al. (2015) who found that the sharing of credit information led to improved risk management and reduction of nonperforming debt portfolio.

Strength of relationship between pairs of variables

Correlation analysis was used to examine the relationship between pairs of variables. The results are presented in table 3.

Table 3 Correlation Analysis

		Loan Recovery (PAR)	Loan collection Approaches	Credit Information Sharing
Loan Recovery (PAR)	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	42		
Loan Collection Approaches	Pearson Correlation	.573**	1	
	Sig. (2-tailed)	.000		
	N	111	111	
Credit Information Sharing	Pearson Correlation	.623**	.218*	1
	Sig. (2-tailed)	.000	.022	
	N	111	111	111

**Correlation is significant at 0.01 level (2-tailed). *Correlation is significant at 0.05 level (2-tailed). N= 111

The results in table 3 show that there exists a correlation between student loan recovery and institutional specific factors. Loan collection approaches registered a strong positive association with student loan recovery (n=111, r = 0.573, p < 0.01). Credit information sharing is also reported to have a positive relationship with student loan recovery (n=111, r = 0.623, p < 0.01). This means that student loan recovery is affected by Loan collection Approaches and Credit information sharing.

Relationship between Institutional Specific Factors and Student Loan Recovery (SLR)

Regression model was specified and tested as follows:

SLR = f (Institutional Specific Factors)

SLR = f (LCP, CIS,ε_i); LCP = X_{1i}, CIS = X_{2i}

SLR = α_0 + $\alpha_1 X_{1i}$ + $\alpha_2 X_{2i}$ + ε_i

Table 41 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.786	.618	.598	15.33116

The results show that there exists a strong relationship between institutional specific factors and student loan recovery (r=0.786). The findings further indicate that 61.8% of the student loan recovery could be explained by institutional specific factors.

Table 5 Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14800.811	1	7400.406	31.485	.000
	Residual	9166.732	110	235.044		
	Total	23967.543	111			

The findings further show that F-calculated (31.485) is higher than F-critical (1, 111) at 3.92 as presented in table 5. This therefore implies that there exists a linear relationship between the student loan recovery, Loan collection Approaches and credit information sharing. In addition, the p-value was 0.000, which was less than the significance level (0.05). Therefore, the model is considered to be a good fit for the data and hence it is appropriate in predicting the effect of the institution specific factors on student loan recovery in Kenya.

Table 6 Regression Coefficients

Model		Unstandardized Coefficient		Standardized Coefficient	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	175.547	12.653		13.874	.000
	Loan collection Approaches	14.593	3.015	.486	4.840	.000
	Credit Information Sharing	14.871	2.741	.544	5.426	.000

The regression results in table 6 indicate that student loan recovery will be at 175.547 when Loan collection Approaches and credit information sharing are held constant. Enhancement in Loan collection Approaches leads to a 14.593 (β_1) increase in student loan recovery. The relationship is significant as the P-value (0.000) was less than the significance level (0.05). Loan collection Approaches (β_1=14.593, $p<0.05$) and Credit Information Sharing (β_2= 14.871, $p<0.05$) positively and significantly influence student loan recovery.

Table 7 Summary of Factor Loadings

Theme	Statement of study variables	Factor Loading
Loan collection Approaches	We use analytics reports to inform us of defaulting loanees	0.773
	Media adverts promotes loans recovery awareness	0.961
Credit information sharing	Defaulters are denied credit facilities by other institutions due to negative listing by HELB	0.884
	Professional bodies provide information on defaulters that is used in loans recovery	0.899

The results in table 7 indicate four factors extracted from Loan collection approaches and credit information sharing after Varimax rotation with Kaiser Normalization. The factors extracted had the highest factor loading under each of the variable thus with greater explanatory power as pertains to total variance.

Test of Hypotheses

H_1: There is no statistically significant relationship between loan collection approaches and students' loan recovery

Table 5 Test of Hypothesis 1

Type of Analysis	Value
ANOVA	
F-Ratio	19.598
Sig. *(p)*	0.000
R Square (R^2)	0.329
Unstandardized Beta Coefficient	0.1723
Sig. *(p)*	0.000

From the results in table 8, a positive effect (R^2 = 0.329 P<0.05) was reported meaning that 32.9 % of student loan recovery could be explained by Loan collection approaches adopted by HELB. The un-standardized beta coefficient indicates that Loan collection Approaches significantly contributes to student loan recovery (β= 0.1723; p < 0.05). The findings further show that a unit changes in Loan collection approaches leads to a 0.1723 increase in student loan recovery and that this change is statistically significant at p < 0.05. The F-ratio of 19.598 implies that the effect of Loan collection approaches on student loan recovery is statistically significant at 95% confidence interval hence the null hypothesis was rejected.

H_2: There is no statistically significant relationship between Credit Information Sharing and Students' Loan Recovery

Table 9 Test of Hypothesis 2

Type of Analysis	Value
ANOVA	
F-Ratio	25.342
Sig. *(p)*	0.000

R Square (R^2)	0.388	Table 9...
Unstandardized Beta Coefficient	0.1701	
Sig. *(p)*	0.000	

The results indicate a positive effect (R^2 = 0.388, P<0.05) indicating that 38.8% of student loan recovery could be explained by credit information sharing. The un-standardized beta coefficient indicates that credit information sharing significantly contributes to student loan recovery (β= 0.1701; p < 0.05). From the findings, a change in credit information sharing would lead to a 0.1701 change in student loan recovery and that this change is statistically significant at p < 0.05. The F-ratio of 25.342 implies that credit information sharing produces a statistically significant effect on student loan recovery at 95% confidence interval hence reject the null hypothesis as stated.

CONCLUSION

By use of cross-sectional data, this study has clarified the effectiveness of the loan recovery approaches implemented at HELB. There is a positive and statistically significant relationship between loan collection procedures and student loan recovery. Loan collection procedures are therefore a good predictor of student loan recovery. The study clarified on the effectiveness of credit information sharing implemented at HELB. Both descriptive and inferential statistics showed that there exists a strong relationship between credit information sharing and student loan recovery. Essentially, sharing of information about loan defaulters encourages them to repay up their loans to avoid the negative listing thus promoting loans recovery.

RECOMMENDATIONS

Institutional specific factors explain up to 61.8% of students' loan recovery. Since these factors are within the control HELB, itis recommended that they should concentrate more on them and should enhance them to promote loans recovery.

HELB management should consider allocating more resources to spearhead compliance visits to employers with a view of enhancing compliance levels by the employers. It is a way of compelling employers to remit the deductions to the Board from beneficiaries they employ. Penalty waiver should be applied as need arises in order to encourage loan beneficiaries to pay in lump sum. Further, multifaceted media platform should be adopted in creating awareness among loan beneficiaries with a concentration in social media which most loanees have frequent access.

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