Structural and Operational reforms of HESLB: **Alternative Financing**

Proposal

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Prepared For
The Ministry of Education, Science and Technology (MoEST)

Prepared By
Dr. Bill Kiwia, Executive Director
HESLB

PSSSF House 4th Floor,
Makole Road Plot No 4 & 5,
Block W Uhindini

+255 758 067577
+255 739 067577

info@heslb.go.tz

http://heslb.go.tz

1. Executive Summary

1.1 Purpose of the Proposal

This proposal responds to directives issued through the Permanent Secretary, Ministry of Education, Science and Technology (MoEST) letter with reference # AB. 128/215/01I/87 dated 3/12/2025, requiring the Higher Education Students' Loans Board (HESLB) to outline a clear and credible pathway toward long-term financial sustainability while expanding student financing coverage and introducing additional products aligned with national development priorities.

The proposal presents a hybrid student financing model that blends Government support, loan recoveries, Government seed capital, concessional financing, education savings, investment income, statutory levies, and PPP-based commercial undertakings. It also introduces a structured portfolio of new products targeting middle-level and technical education, graduate entrepreneurship, and digital service delivery.

1.2 Strategic Problem and Proposed Solution

Demand for higher and technical education financing in Tanzania is rising rapidly, driven by demographic growth, expanded access to secondary education, and national skills and industrialisation objectives. However, the current financing model, largely dependent on Government subventions and loan recoveries, faces increasing strain and an expanding financing gap.

The proposed solution is a diversified, hybrid funding architecture that preserves HESLB's social mandate while mobilising additional domestic and market-based resources. The model is supported by institutional reforms, digital transformation, and strong governance to ensure sustainability, efficiency, and accountability.

1.3 Expected Outcomes

If implemented, the proposed model is expected to:

- Improve HESLB's long-term financial sustainability and reduce reliance on annual budget subvention.
- Expand access to financing for middle-level and technical college students in priority economic sectors.
- Support graduate employability and entrepreneurship through structured seed-capital products.
- Strengthen loan recoveries through better data integration, labour-market linkage, and digital systems.
- Establish commercially viable PPP undertakings that generate predictable income for education financing.
- Enhance governance, risk management, and evidence-based decision-making.

1.4 Alignment with National and Sectoral Frameworks

The proposed hybrid model and additional products are aligned with Tanzania's long-term and medium-term policy frameworks, including:

- Tanzania Development Vision (TDV) 2050, which emphasises a competitive, inclusive and skills-based economy.
- Third National Five-Year Development Plan (FYDP III), which prioritises human capital development, job creation and private sector–driven growth.
- The Education and Training Policy (2014, 2023 Edition), the Education Sector Development Plan (ESDP 2025/26–2029/30) and the National Skills Development Strategy (NSDS), which promote increased access to higher, technical and vocational education and closer links to labour market needs.
- Regional and global commitments under EAC Vision 2050, Agenda 2063 and SDG 4 on inclusive and equitable quality education and lifelong learning.

The proposal also stresses complementarity with existing Government youth and women empowerment funds and other national enterprise schemes. It positions HESLB's graduate seed capital and associated products as reinforcing, not displacing, these programmes by targeting HESLB beneficiaries and focusing on higher education–linked skills and enterprises.

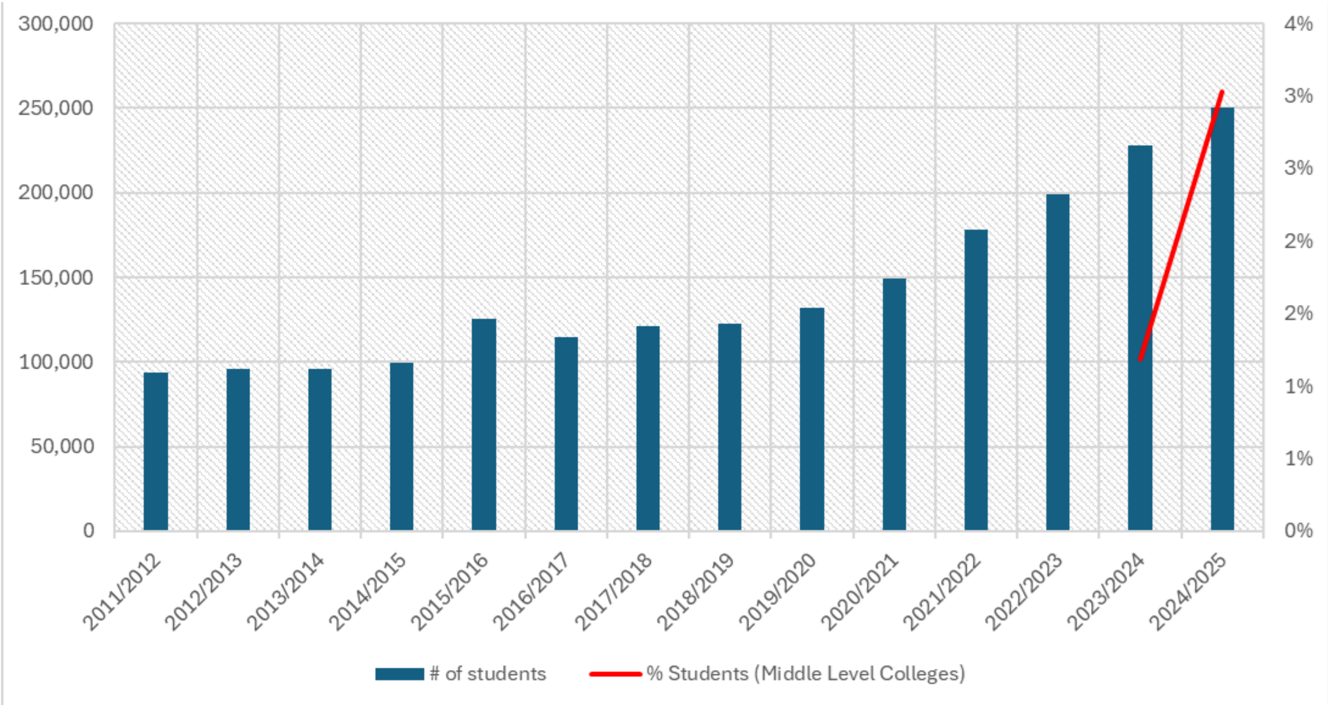
2. Context & Problem Statement

2.1 HESLB Mandate and Current Operating Model

HESLB is mandated to mobilise resources, provide loans and grants to eligible students, and recover loans from beneficiaries upon completion of studies. Since its establishment, the Board has played a central role in expanding access to higher education.

However, the current operating model relies predominantly on Government budget allocations and loan recoveries, with limited use of alternative financing instruments. While coverage has expanded significantly, financing for middle-level and technical colleges remains minimal, and the system faces increasing fiscal pressure. The number of students financed each year has increased from just under 100,000 in 2011/2012 to about 250,000 in 2024/2025, reflecting strong growth in overall coverage. However, students from middle-level colleges remain a very small share of this portfolio: they only begin to appear from 2023/2024, accounting for roughly 01–03% of total beneficiaries, confirming that HESLB support is still heavily concentrated in degree programmes with limited reach to middle-level and technical colleges.

Figure 1: Strong Growth in Students Financed, with Late but Fast Uptake from Middle-Level Colleges



2.2 Demand Growth and Fiscal Pressures

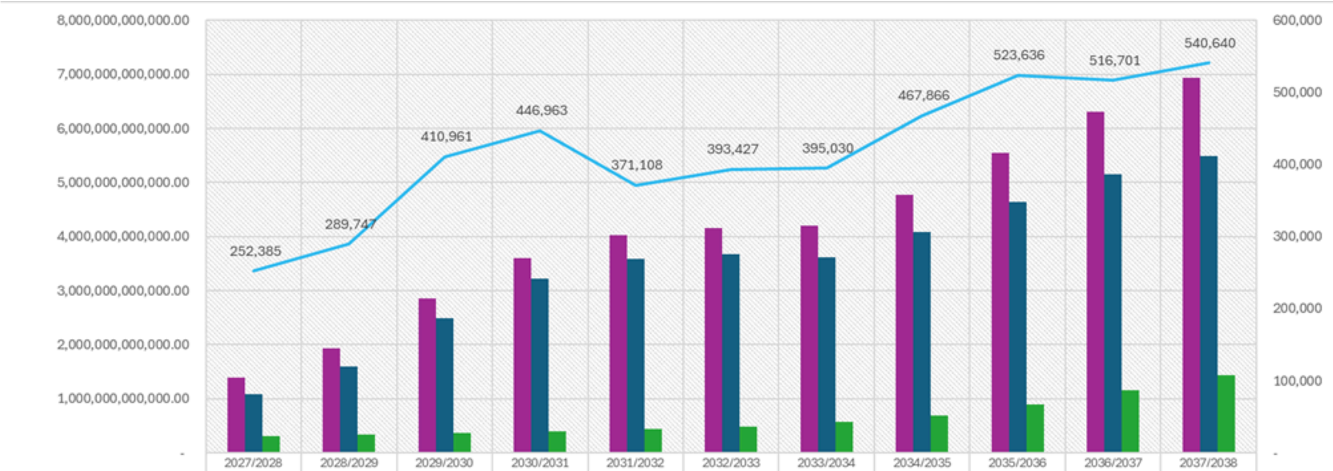
HESLB projections for the period 2027/2028 to 2037/2038 indicate that the number of potential applicants is expected to increase from **252,385 to 540,640**, representing a more than twofold rise (approximately 2.14 times) over the projection horizon.

During the same period, the annual loan requirement is expected to rise from approximately **TZS 1.4 trillion** in 2027/2028 to about **TZS 7 trillion** in 2037/2038, nearly five times higher. At the same time, the current demand gap (unfunded requirement) is projected to grow from roughly **TZS 1.1 trillion** to **TZS 5.5 trillion**, increasing by just over five times (about 5.09 times), assuming all students are financed.

While annual repayments are projected to rise from approximately **TZS 308 billion** annually in 2027/28 to around **TZS 1.4 trillion** annually within the next 10 years, an increase of about 4.67 times, they will remain substantially lower than the total loan requirement. Under the current framework, the combined contributions of repayments and government subsidies are expected to cover less than one-quarter of the projected funding needs, thereby resulting in a significant and persistent financing shortfall.

Without structural reform, the financing gap will continue to widen, constraining coverage, increasing fiscal pressure, and undermining national human-capital objectives

Figure 2: Growing Aspirations, Growing Shortfall: Rising Applicants, Loan Requirements and the Widening Financing Gap



	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038
Loan Requirement	1,387,836,973	1,930,848,970	2,860,261,462	3,606,034,285	4,019,732,034	4,158,712,643	4,193,772,726	4,777,403,405	5,541,750,304	6,307,968,002	6,934,095,250
Status Quo - Demand Gap	1,079,074,570	1,593,946,003	2,493,313,601	3,214,223,559	3,584,800,906	3,674,851,063	3,620,623,818	4,081,468,294	4,643,840,326	5,152,005,827	5,490,995,800
Annual Repayments	308,762,402,9	336,902,967,1	366,947,861,1	391,810,725,1	434,931,128,2	483,861,580,1	573,148,908,1	695,935,110,8	897,909,978,0	1,155,962,175	1,443,099,449
Potential Applicants	252,385	289,747	410,961	446,963	371,108	393,427	395,030	467,866	523,636	516,701	540,640

2.3 Sustainability Gaps in the Current Model

The projections highlight several structural weaknesses in the current model:

- **Persistent and widening financing gap** - even with growing recoveries, the gap between projected loan requirement and available resources (status quo) remains very large, at roughly 75–80% of total requirement throughout the projection period.
- **Concentration of funding sources** - the system depends on Government subvention and loan recoveries, with limited use of concessional borrowing, investment income, education savings schemes or PPP/commercial windows to close the gap.
- **Narrow product scope** - the focus on traditional student loans for higher education means that financing for middle-level and technical colleges and structured graduate seed capital are not yet systematically covered.
- **Operational and structural constraints** – the existing organisational structure and scheme of service are primarily geared towards loan administration and collections, with limited specialised capacity for investment management, PPPs, product innovation and advanced analytics.
- **Systems and data integration gaps** – incomplete integration with TRA, NIDA, the National Addressing System, financial institutions, TCRA-regulated operators and other key systems constrains accurate identification, income assessment, address verification and recovery processes.

Without a change in funding architecture, product mix, structure and systems, the projected growth in applicants and loan requirement will outstrip the capacity of the current model, threatening both sustainability and the ability to deliver on national higher education and skills priorities.

2.4 Strategic Trigger: Presidential Directives via PS's Letter

Presidential directives communicated through the PS’s letter require HESLB to:

- Strengthen long-term sustainability beyond the current funding framework.
- Expand financing to middle-level and technical colleges.
- Introduce graduate-focused financing and support products.
- Explore alternative and innovative financing mechanisms.

This proposal provides a structured response to those directives.

3. Strategic Objectives for Sustainability and Growth

3.1 Overall Goal

Transform HESLB into a financially sustainable, diversified, and digitally enabled education financing institution that increases access to higher and technical education, encourages graduate entrepreneurship, and reduces the risk of non-performing loans, all while staying aligned with national development priorities.

3.2 Specific Strategic Objectives

Over the next planning horizon, HESLB will pursue the following strategic objectives:

1. **Strengthen long-term financial sustainability**
   - Diversify funding sources through a hybrid model that combines Government subvention, loan repayments, education savings schemes, concessional funding, investment income and PPP/commercial undertakings with private sector partners.
2. **Expand product coverage and depth**
   - Introduce and scale loans for middle-level and technical colleges, and develop a structured graduate seed capital facility offering grants, soft loans, tools/devices and token financing for eligible HESLB beneficiaries, especially organised in groups.
3. **Ensure complementarity with existing Government empowerment funds**
   - Design graduate seed capital and related products so that they complement, rather than duplicate or displace, municipal women and youth funds and other Government empowerment programmes, focusing on HESLB beneficiaries and higher-education-linked enterprises.
4. **Reduce non-performing loans through employability and enterprise support**
   - Link financing, graduate support and recovery strategies so that improved employability and business survival translate into higher repayment rates and lower NPLs over time.
5. **Upgrade organisational structure, capacity and scheme of service**
   - Align HESLB's structure and scheme of service to support new functions in investment and fund management, PPPs, product design, advanced analytics, risk management and MEL, while strengthening core loan administration and recovery functions.

6. Deepen ICT, data and systems interoperability
   - Achieve full and secure integration with TRA, NIDA, the National Addressing System, financial institutions, TCRA-regulated operators, credit information systems and education regulators, in line with the e-Government Interoperability Framework and data protection requirements.

7. Enhance governance, risk management and compliance
   - Strengthen Board and management oversight of investments, PPP arrangements and new products, and ensure compliance with the HESLB Act, public finance laws, PPP framework, data protection rules and sectoral regulations.

8. Institutionalise evidence-based decision-making and MEL
   - Build a robust Monitoring, Evaluation and Learning system that tracks financial sustainability, coverage, equity, graduate enterprise outcomes and repayment performance, and uses this evidence to adapt products and policies.

3.3 Alignment with National and Regional Strategies

These objectives are aligned with:

- Tanzania Development Vision (TDV) 2050, which calls for a competitive, inclusive and knowledge-based economy.
- FYDP III, which prioritises human capital development, job creation, industrialisation and private sector participation.
- The Education and Training Policy (2014, 2023 Edition), Education Sector Development Plan (ESDP 2025/26–2029/30) and National Skills Development Strategy (NSDS), which emphasise expanded access to higher and technical education, stronger TVET and closer links to labour market needs.
- Regional and continental frameworks such as EAC Vision 2050 and Agenda 2063, and global commitments under SDG 4.

By pursuing these objectives, HESLB aims to reposition itself from a predominantly budget-dependent loans board to a hybrid, multi-product education financing institution that works in partnership with Government, private sector and development partners to sustain and scale student financing in Tanzania.

4. Sustainability Model and Funding Architecture

4.1 Design Principles

The proposed sustainability model is guided by the following principles:

- **Sustainability and prudence** – preserve capital, match assets and liabilities and avoid excessive fiscal risk.
- **Equity and inclusion** – support access for poor and vulnerable students while expanding to middle-level and technical colleges.
- **Complementarity** – operate alongside, not in competition with, existing Government empowerment schemes for youth and women.
- **Crowding in private capital and expertise** – use PPP and commercial undertakings to leverage private resources, technology and innovation.
- **Digital-by-default and data-driven** – rely on integrated digital systems and analytics to improve targeting, recovery and risk management.
- **Compliance and transparency** – align with the HESLB Act, public finance laws, PPP framework, data protection rules and sector policies.

4.2 Core Funding Pillars

Under the proposed model, HESLB's funding base will gradually shift from a predominantly budget-and-repayments model to a hybrid mix combining:

- **Government subvention & Loan Receoveries** – Government subvention and recoveries remain the foundation of HESLB financing. While recoveries are projected to grow faster than new budget allocations, they will not fully close the financing gap on their own.
- **Government seed capital and investment Income –**The proposal introduces a ring-fenced Government Seed Capital programme, invested professionally in line with public investment guidelines. Investment income generated will be partially revolved into student financing and partially reinvested to grow the education fund over time.

  This mechanism converts upfront fiscal commitments into a permanent, income-generating asset base.
- **Concessional loans and facilities** – HESLB will pursue concessional financing from development partners to expand lending capacity in the medium term. Interest spreads will be used both to support student financing and to build long-term capital through reinvestment.

- **Statutory Charges and Levies –** HESLB will explore small, targeted statutory levies on high-volume sectors such as fuel, electricity, and mining royalties. These levies would be collected by TRA and earmarked for higher-education financing, subject to feasibility studies, stakeholder consultation, and legislative approval.
- **Education Bond / Social Impact Bond –** HESLB will explore issuance of an Education Bond / Social Impact Bond, informed by international experience. The initial target size is TZS 1.5–2.0 trillion, with proceeds ring-fenced for student financing and system upgrades. Detailed feasibility studies will confirm structure, pricing, and investor appetite.

4.2.1 Government Subvention (New Subvention plus Recoveries)

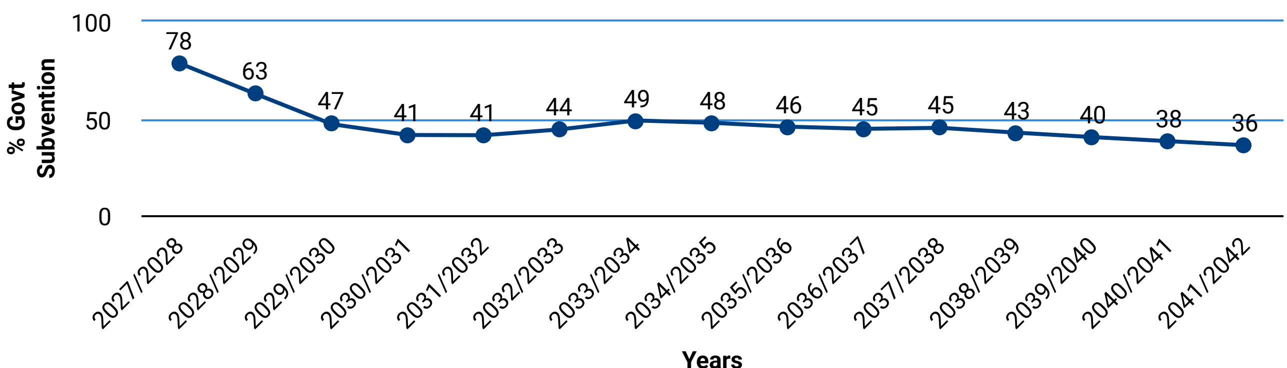
Over the past decade and a half, the Government-funded window, which includes new budget subvention and loan recoveries, has been the main source of HESLB funding. Through this window, total loans allocated increased from approximately **TZS 309.96 billion** in 2011/2012 to about **TZS 790 billion** in 2024/2025, while the number of students supported grew from **93,613** to **250,264**. This demonstrates strong financial commitment and a conscious policy to broaden access to higher education.

Between 2019/2020 and 2024/2025, loans financed through this combined window rose from about **TZS 468.19 billion** to about **TZS 790 billion**, implying an average annual growth rate of roughly **11.1%**. For modelling purposes, we treat this as the indicative growth rate of the overall Government subvention envelope, acknowledging that within this envelope the share of recoveries is rising and can gradually ease pressure on the recurrent budget.

When this combined envelope growth of about **11.1%** per year is projected forward and compared with the projected loan requirement, which grows at about **17.45%** per year, a significant divergence emerges. Over the 15-year period from 2027/2028–2041/2042, the Government-financed window's share of total demand falls from roughly **78.43%** to about **36.10%**, while the annual financing gap widens from around **TZS 0.30 trillion** to more than **TZS 8.43 trillion**.

This confirms that even with strong growth in both new subvention and recoveries, the Government-financed window cannot, on its own, keep pace with projected loan demand. Without additional funding sources and instruments, HESLB would have to either constrain coverage and benefit levels or accept an unsustainable gap between policy ambitions and available resources. The hybrid funding model proposed in this document therefore positions Government subvention as a core but insufficient pillar, to be complemented by education savings schemes, concessional funding, investment income and PPP/commercial undertakings with the private sector.

Figure 3: 15-Years Government Share of Student Loan Demand Projections (2027/28–2041/42)



4.2.2 Government Subvention (Recoveries)

Loan recoveries form the second pillar of the Government-financed window and are expected to grow strongly as HESLB's portfolio matures. Projections show that annual recoveries rise from about **TZS 0.31 trillion** in 2027/2028 to around **TZS 1.44 trillion** in 2037/2038, implying an average annual growth rate of roughly **16–17.%**. This growth is driven by larger cohorts of beneficiaries entering the labour market and progressive improvements in compliance, enforcement and data integration.

If this pace continues, recoveries are projected to exceed **TZS 2.50 trillion** by 2041/2042, representing an increase of more than **eight times over the 15-year period** from 2027/2028–2041/2042. As recoveries grow faster than new budget subvention, their share within the combined Government window (new subvention plus recoveries) steadily increases.
The composition projections show that:

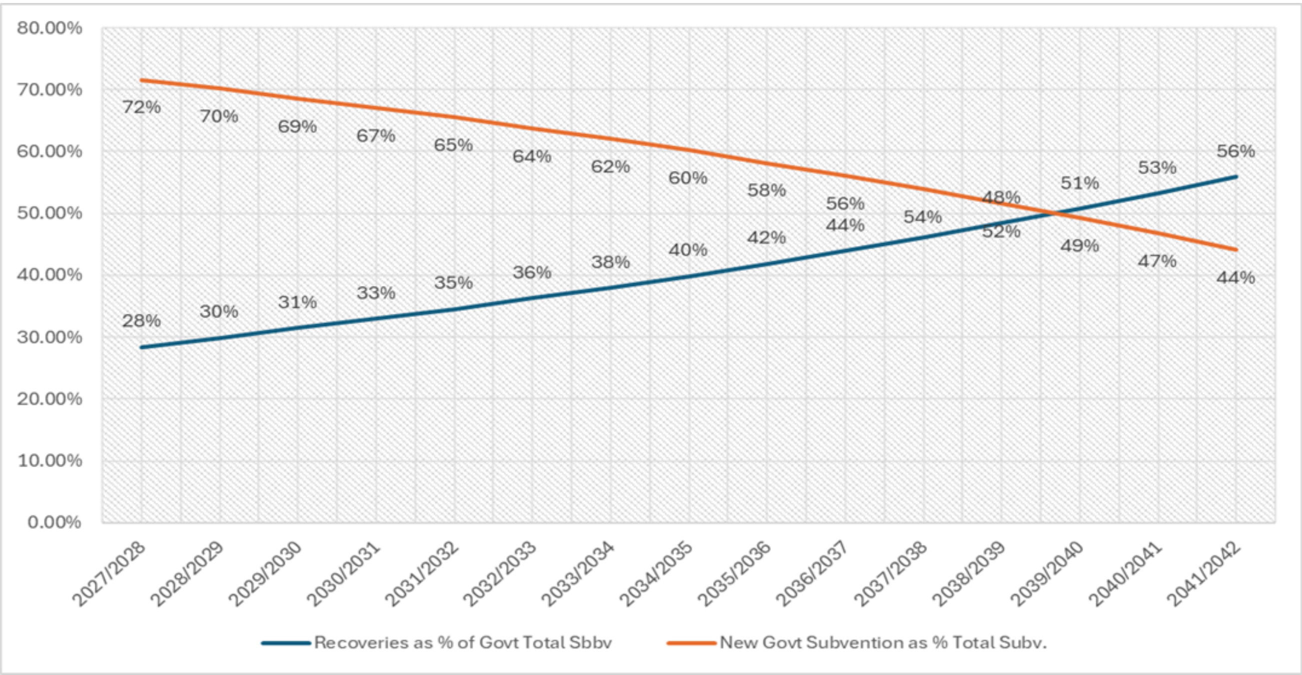
- In 2027/2028, recoveries account for about **28%** of the combined Government envelope, while new budget subvention contributes about **72%**.
- By 2033/2034, the recovery share has risen to roughly **38%**, with new subvention at about **62%**.
- Around 2039/2040, recoveries and new subvention are almost at parity, at **51%** and **49%** respectively.
- By 2041/2042, recoveries are expected to contribute about **56%** of the combined envelope, with new subvention providing the remaining **44% (Figure 4)**.

This trajectory means that, over time, recoveries become the dominant engine of the Government window, gradually shifting HESLB from a scheme that is mainly " Government budget-financed" to one that is increasingly self-replenishing. It also underscores the need to continuously invest in:

- Systems integration with TRA, NIDA, the National Addressing System, financial institutions, TCRA-regulated operators and credit information systems to improve tracing, assessment and collection.
- Stronger legal and compliance frameworks, including employer enforcement, garnishing mechanisms and negotiated settlement options.
- Customer engagement and data analytics, so that repayment behaviour can be monitored by cohort, sector, gender and product, and targeted interventions deployed.

Within the hybrid model, a strong and predictable recovery stream not only reduces pressure on new budget subvention but also provides a solid base for leveraging savings schemes, concessional facilities and PPP/commercial undertakings, enabling HESLB to scale while protecting fiscal space.

Figure 4: Towards a Revolving Fund: Recoveries Become the Main Engine of HESLB Financing



4.2.3 Government Seed Capital and Investment Income

To close the structural gap between projected demand and the Government-financed window, the proposal introduces a ring-fenced Government Seed Capital for education financing. Under the working scenario, cumulative seed injections of about **TZS 11 trillion** are made between 2025/2026 and 2029/2030, starting with **TZS 1.5 trillion** and rising to **TZS 3 trillion**. This capital is dedicated to student financing and long-term investment in line with public investment and BoT guidelines.

In the first five years (2025/2026–2029/2030), seed capital is used to fully cover total loan demand, with the "Loan Fund from Seed Capital" equalling the total loan requirement each year. At the same time, the unused portion of the seed capital is invested. The total invested amount grows from about **TZS 0.6 trillion** in 2025/2026 to about **TZS 4.2 trillion** by 2029/2030, generating growing interest income that is added to the fund.

From 2030/2031 onwards, the model assumes a steady annual allocation of **TZS 1 trillion** from the seed fund to support loans for new and continuing students, while the bulk of the capital remains invested. As the invested base grows from about **TZS 4.8 trillion** in 2030/2031 to about **TZS 7.9 trillion** by 2037/2038, annual interest income rises from roughly **TZS 0.6 trillion** to about **TZS 1.2 trillion**. A portion of this interest, around **TZS 0.4 trillion** in 2030/2031, increasing to about **TZS 0.6 trillion** by 2037/2038, is revolved back into student financing, covering roughly 9–11% of annual loan demand in those years, while the balance is reinvested to further grow the fund.

By 2037/2038, the seed capital mechanism thus supports student financing in three ways:

- Providing a stable annual loan fund of **TZS 1 trillion**;
- Generating additional interest flows that finance close to a tenth of annual demand; and
- Building a sizeable invested asset base of about **TZS 7.9 trillion**, which strengthens HESLB's balance sheet and cushions fiscal risk **(Table 1)**.

This design positions Government Seed Capital as a transformational third pillar in the hybrid model: it converts an upfront fiscal commitment into a permanent, income-generating education fund, reduces long-term pressure on recurrent subvention, and creates room to layer in PPPs, concessional facilities and savings products on top of a strong domestic capital base. Detailed parameters, such as the legal vehicle, permitted asset classes, target return, risk limits and governance structure, will be refined with MoFP, BoT and the Treasury Registrar.

Table 1: Invest Once, Finance Forever: Building an Education Fund from Seed Capital and Reinvested Returns

FY	Seed Capital (T)	Loan Fund from Seed Capital (T	Fresh Invested Amount from Seed Capital (	Interests erned (T)	Interest re-invested (T	Interest revolved to finance students (T)	Total Invested Amount (T)
2025/2026	1.50	0.92	0.58	0.09	0.09		0.58
2026/2027	2.00	0.98	1.02	0.25	0.25		1.69
2027/2028	2.00	1.39	0.61	0.38	0.38		2.55
2028/2029	2.50	1.93	0.57	0.53	0.53		3.50
2029/2030	3.00	2.86	0.14	0.63	0.63		4.17
2030/2031		1.00		0.72	0.36	0.36	4.79
2031/2032		1.00		0.77	0.39	0.39	5.15
2032/2033		1.00		0.83	0.42	0.42	5.54
2033/2034		1.00		0.89	0.45	0.45	5.96
2034/2035		1.00		0.96	0.48	0.48	6.40
2035/2036		1.00		1.03	0.52	0.52	6.88
2036/2037		1.00		1.11	0.56	0.56	7.40
2037/2038		1.00		1.19	0.60	0.60	7.96

4.2.4 Concessional Loans and Facilities

In addition to Government subvention and seed capital, the model assumes a concessional loan facility of TZS 3.60 trillion in 2025/2026, obtained on soft terms from development partners or specialised financing windows. The facility is on-lent to students and managed alongside HESLB's wider portfolio, with a clear schedule for interest payments, principal amortisation and use of the positive interest spread.

In the first year, the facility generates about **TZS 0.54 trillion** in interest income while HESLB pays only **TZS 0.29 trillion** in interest charges, leaving a positive spread of roughly T**ZS 0.25 trillion**, which is fully reinvested. In the second year, interest income rises to about **TZS 0.58 trillion**, interest charges remains **TZS 0.29 trillion** and the spread of about **TZS 0.29 trillion** is again reinvested. The principal balance remains at **TZS 3.60 trillion** during these first two years, effectively providing a grace period before amortisation begins.

From third year onwards, HESLB starts repaying principal at **TZS 0.36 trillion** per year, while interest payments gradually decline from about **TZS 0.29 trillion** to zero as the outstanding balance falls from **TZS 3.60 trillion** to zero by 2036/2037. Over this period, interest earned on the facility remains higher than interest paid, and the difference is split between reinvestment and direct support to student financing. For example:

- In 2030/2031, interest income is about **TZS 0.61 trillion**; after paying **TZS 0.20 trillion** in interest, around **TZS 0.05 trillion** is revolved to finance students and **TZS 0.05 trillion** is reinvested.
- By 2035/2036, interest income reaches roughly **TZS 0.66 trillion**; interest paid has fallen to **TZS 0.06 trillion**, and around **TZS 0.12 trillion** is both revolved for student financing and reinvested.
- In 2037/2038, after the principal has been fully repaid, interest income of about **TZS 0.70 trillion** is split equally, with roughly **TZS 0.35 trillion** used to finance students and **TZS 0.35 trillion** reinvested **(Table 2).**

By the end of the period, HESLB has fully repaid the concessional principal while having:

- Used part of the interest spread to co-finance student loans every year from 2030/2031, and
- Built a permanent invested asset base from reinvested interest, which continues to generate income even after the external facility is closed.

This means concessional borrowing functions not only as temporary additional liquidity but also as a catalyst for long-term capital formation. When combined with Government seed capital and growing recoveries, concessional facilities enable HESLB to:

- Expand lending capacity in the medium term;
- Smooth the transition while demand rises faster than domestic resources; and
- Leave behind a stronger balance sheet and income stream once the concessional debt is fully repaid.

Detailed design of these facilities, including eligible instruments, risk-sharing arrangements, currency considerations and integration with PPP structures, will be agreed with MoFP and partners after a detailed feasibility study before implementation.

Table 2: From Debt to Dividend: Concessional Loans That Pay for Themselves and Future Students

FY	Concessional Loans	Interests Earned	Interest revolved for students financing	Interest Amount Reinvested	Interest Paid	Principal Repaid	Principal Loan Balance
2025/2026	3.60	0.54		0.25	0.29		3.60
2026/2027		0.58		0.29	0.29		3.60
2027/2028		0.62		0.00	0.29	0.36	3.60
2028/2029		0.61		0.00	0.26	0.36	3.24
2029/2030		0.61		0.02	0.23	0.36	2.88
2030/2031		0.61	0.03	0.03	0.20	0.36	2.52
2031/2032		0.62	0.04	0.04	0.17	0.36	2.16
2032/2033		0.63	0.06	0.06	0.14	0.36	1.80
2033/2034		0.63	0.08	0.08	0.12	0.36	1.44
2034/2035		0.65	0.10	0.10	0.09	0.36	1.08
2035/2036		0.66	0.12	0.12	0.06	0.36	0.72
2036/2037		0.68	0.15	0.15	0.03	0.36	0.36
2037/2038		0.70	0.35	0.35			0.00

4.2.5 Other Emerging and Innovative Financing Mechanisms
(Education Savings, Digital Wallet, PPP and Commercial Infrastructure)

To complement Government subvention, loan recoveries, seed capital and concessional borrowing, HESLB will develop a portfolio of innovative mechanisms that mobilise private capital and reduce long-term pressure on the national budget. Before implementation, each mechanism will be subjected to detailed feasibility, actuarial and legal reviews, drawing from international experience and local market research.

a) National Education Savings Scheme

HESLB will establish a National Education Savings Scheme as a long-term accumulation product that enables households, employers and sponsors to systematically save toward future education costs. The scheme is designed to mobilise domestic capital early, reduce future reliance on debt financing, and strengthen intergenerational responsibility for education financing.

The design of the scheme will draw lessons from South Korea’s education savings and student financing ecosystem, particularly the experience of the Korea Student Aid Foundation (KOSAF). In South Korea, early household savings, employer-supported education accounts and structured student financing instruments operate alongside Government support, allowing families to prepare for higher education well in advance while reducing pressure on public budgets at the point of entry. This approach has contributed to high tertiary participation rates and improved sustainability of the student financing system.

Under the proposed Tanzanian model, the National Education Savings Scheme will allow contributors to make regular, voluntary contributions over time, with balances invested prudently in line with public investment guidelines. Accumulated savings may be used to support future tuition, approved education-related expenses, or to partially offset borrowing requirements when beneficiaries enter higher or technical education. Where fiscally feasible, the Government and development partners may consider targeted matching contributions or incentives for low-income households, drawing on international best practice.

The scheme will be governed under clear legal and regulatory frameworks to protect savers, ensure transparency, and ring-fence funds for education purposes only. By encouraging early savings and long-term planning, the National Education Savings Scheme will complement HESLB’s loan programme, smooth future financing demand, and contribute to the gradual transformation of HESLB from a predominantly loan-financed model to a more balanced education financing ecosystem, consistent with South Korea’s long-term approach to human capital investment.

b) Graduate Wallet

The Graduate Mobile Wallet is envisioned as a comprehensive digital platform designed to streamline and enhance the management of student loan information, repayments, and graduate-related services, while also offering token-based support and a variety of commercial add-ons. This innovative solution will empower beneficiaries by providing real-time access to their loan information, enabling convenient repayment options through mobile money and traditional banking channels. Additionally, users will benefit from access to essential support services such as data bundles and vouchers, as well as important documentation like verification letters and credit feedback reports, all within a single, easy-to-use mobile interface.

In developing this platform, HESLB will draw upon valuable insights and best practices from Ghana and other countries that have successfully implemented mobile and digital financial services closely linked to national identification systems. By integrating the Graduate Mobile Wallet with key national entities such as the Tanzania Revenue Authority (TRA), the National Identification Authority (NIDA), the National Addressing System, various financial institutions, the Tanzania Communications Regulatory Authority (TCRA), credit bureaus, and other government platforms, the system aims to ensure accurate identification of users, enhance transparency, improve risk management, and facilitate efficient loan tracing and repayment monitoring.

Built with a mobile-first design philosophy, the wallet will offer a range of flexible repayment options tailored to the needs of graduates. These include self-initiated payments, automated debit arrangements, and deductions directly from employer payrolls where applicable. To incentivize timely and consistent repayments, the platform will feature a rewards system, providing financial incentives and recognition for users who maintain good repayment records. Complementing this, the wallet will also deliver valuable financial literacy content to educate and empower beneficiaries and graduates to manage their finances responsibly. Furthermore, it will provide priority access to specialized graduate programs and additional career-enhancing services that support long-term professional development.

Beyond basic services, HESLB is exploring the introduction of modest fees associated with premium digital services offered through the platform, as well as anonymized data analytics that can generate insights to improve student financing strategies. Importantly, revenues generated from these activities will be reinvested into student support initiatives and graduate financing programs, creating a sustainable financial ecosystem that continually benefits beneficiaries and supports the broader goals of the organization.

c) Stakeholders Portal and Data-Driven Services

The Stakehodelrs Portal is designed to serve as HESLB's primary digital platform dedicated to the comprehensive management of student and graduate financing. This robust system encompasses a full range of services including application submission, eligibility assessment, fund allocation, disbursement processes, loan repayment management, and ongoing monitoring for both university and TVET (Technical and Vocational Education and Training) beneficiaries. By centralizing these functions, the Portal aims to streamline financial aid administration and enhance the overall experience for all stakeholders involved.

Students and graduates benefit significantly from the Portal's user-friendly interface, which allows them to create and update detailed profiles seamlessly linked to national identification and educational systems. Through the Portal, users can apply for various loans and grants, upload necessary supporting documents, and conveniently track the real-time status of their applications.

Employers and private-sector partners are also integrated into the ecosystem, given secure access rights that enable them to verify the loan status and educational records of potential hires. They can update employment details to assist with repayment tracking and are empowered to post job opportunities tailored to graduates.

For HESLB and government authorities, the Portal provides a powerful tool for integrated case management and advanced analytics capabilities. This enables continuous monitoring of key performance indicators such as access to education financing, equity among beneficiaries, repayment behaviors, and the effectiveness of targeted financial products. The system also supports secure and compliant data sharing with regulatory bodies and partner institutions, adhering strictly to e-Government interoperability standards to maintain high levels of data protection and operational transparency.

While distinct from the Graduate Mobile Wallet, the Portal complements it perfectly. The Portal predominantly focuses on maintaining accurate financial and educational records, managing application workflows, and delivering institutional services. In contrast, the Graduate Mobile Wallet is engineered to facilitate frequent, seamless monetary transactions such as loan repayments and receipt of tokens. Together, these two platforms form a cohesive and unified digital ecosystem that balances the need for data integrity, comprehensive service delivery, and user convenience. This integrated approach not only improves operational efficiency but also enriches the user experience for students, graduates, employers, and government agencies alike.

d) PPP-Based Commercial and Social Infrastructure

HESLB will pursue PPP arrangements to generate long-term revenue streams, including:

- Investment in a Commercial Building combining office space, retail units, and innovation or digital-service areas. Rental income will support the education fund and host digital platforms and customer-engagement services.
- Student hostel PPPs in major university hubs.
- Device and equipment PPPs to support affordable access to study tools.

All PPPs will follow the PPP Act and Regulations and be subject to full feasibility and value-for-money assessments.

4.2.6 Statutory Charges and Levies (Fuel, Electricity, Mining and Related Royalties)

To further strengthen long-term sustainability, HESLB will explore the introduction of dedicated statutory charges and levies on selected high-volume sectors, such as fuel, electricity and mining royalties, with proceeds earmarked for higher education financing. These levies would be collected centrally by the Tanzania Revenue Authority (TRA) and transferred to HESLB in a manner similar to the way earmarked education levies are handled in countries such as Ghana, where a portion of VAT and other revenues are channelled to the Ghana Education Trust Fund (GETFund) to support education infrastructure and services.

Under this proposal, HESLB, MoEST and MoFP would jointly commission a detailed feasibility and incidence study to test options such as:

- A small surcharge on fuel (e.g. per litre), designed to have minimal inflationary effect while leveraging a broad base.
- A dedicated levy on electricity consumption, with possible thresholds or exemptions to protect low-income households and small users.
- A top-slice of mining royalties and related extractive-sector revenues, linked to local-content and skills-development objectives in mining regions.

The study would assess:

- Revenue potential under different rates and bases, and how much of the long-term financing gap could realistically be covered.
- Distributional impact, ensuring that levies are progressive and do not unduly burden poor households or small businesses.
- Macroeconomic and competitiveness effects, especially for fuel and electricity-intensive sectors.
- Administrative feasibility and cost, including how TRA would assess, collect and transfer the levy to HESLB and how this would be reported within the budget.

In the hybrid model, statutory charges and levies would be designed to complement, not replace, other instruments:

- They can provide a stable, predictable inflow that underpins Government seed capital and helps grow the education fund over time.
- They can be structured to service concessional loans (interest and principal), thereby leveraging external finance without placing the full burden on the general budget.

- They can create a transparent social contract, where citizens and industries see a clear link between small sectoral contributions and expanded opportunities for higher and technical education.

Any move towards such levies would require:

- Amendments to tax and public finance laws to create the levy, define the base and rate, and earmark a share for higher education financing.
- Clear rules on governance, transparency and accountability, including public reporting on how levy proceeds are used and their impact on access, equity and quality.
- Robust communication and stakeholder engagement with industry, consumer groups and Parliament to build support and manage concerns.

Statutory charges and levies are therefore treated as a potential fifth pillar of the hybrid model, powerful but requiring careful design, strong evidence and broad consensus before implementation.

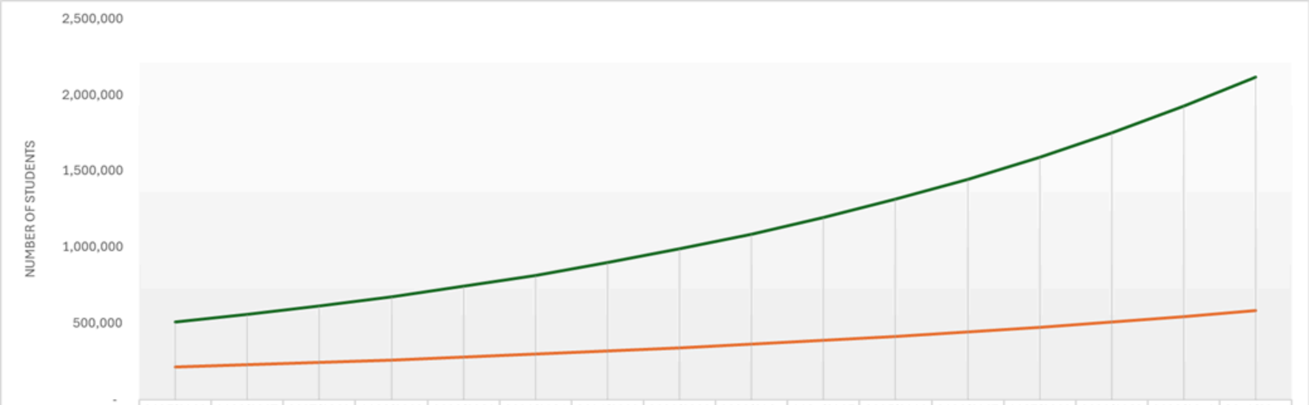
5. Additional Products Portfolio

The proposed products expand HESLB's offering beyond traditional tuition and living-cost loans. They are designed to support middle-level and technical students, graduates, and strategic skills areas, while remaining complementary to other Government empowerment schemes rather than duplicating them. Each product will undergo a detailed feasibility study, legal review and pilot phase before full rollout.

5.1 Loans for Middle-Level and Technical Colleges

This product extends HESLB financing to middle-level and technical colleges (TVET) in a structured way, in line with the Education and Training Policy and national skills strategies.

5.1.1 Projected VET and Technical Education Enrolment Trends



	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039	2039/2040	2040/2041
Tech_Enrol	211,030	225,802	241,608	258,521	276,617	295,980	316,699	338,868	362,589	387,970	415,128	444,187	475,280	508,550	544,148	582,238
VET_Enrol	506,776	557,453	613,198	674,518	741,970	816,167	897,784	987,562	1,086,318	1,194,950	1,314,445	1,445,890	1,590,479	1,749,527	1,924,479	2,116,927

The figure shows projected enrolment trends for Vocational Education and Training (VET) and technical education from 2025/2026 to 2040/2041, assuming current enrolment levels are maintained and the government implementation of a VET construction project in every municipality.

Under these assumptions, VET enrolment is expected to grow from about 506,776 to 2,116,927 students, a fourfold increase driven by new training centres, better access, and higher demand aligned with national industrial and employment goals. Technical education enrolment will grow more moderately, from 211,030 to 582,238 students, reflecting steady capacity expansion and sustained demand for diploma- and certificate-level programmes.

The widening gap highlights a shift toward skills-based training, enabled by expanded VET infrastructure, increasing access for students outside traditional academic paths. Overall, expanded VET infrastructure at the municipal level will significantly boost participation, requiring scaled-up financing, especially for middle-level skills in key economic sectors like construction, manufacturing, transport, agriculture, energy, and digital services.

Purpose and rationale

- Close the financing gap for students in diploma, certificate and technical programmes, who are currently under-represented in HESLB's portfolio.
- Support national priorities on skills, employability and industrialisation, especially in engineering, health, agriculture, ICT and tourism.

Target users

- HESLB-eligible students enrolled in accredited public and private TVET institutions, prioritising low-income and vulnerable groups.
- Pathways may include students progressing from Form IV/VI into diploma and technical routes.

Key product parameters (to be confirmed by feasibility study)

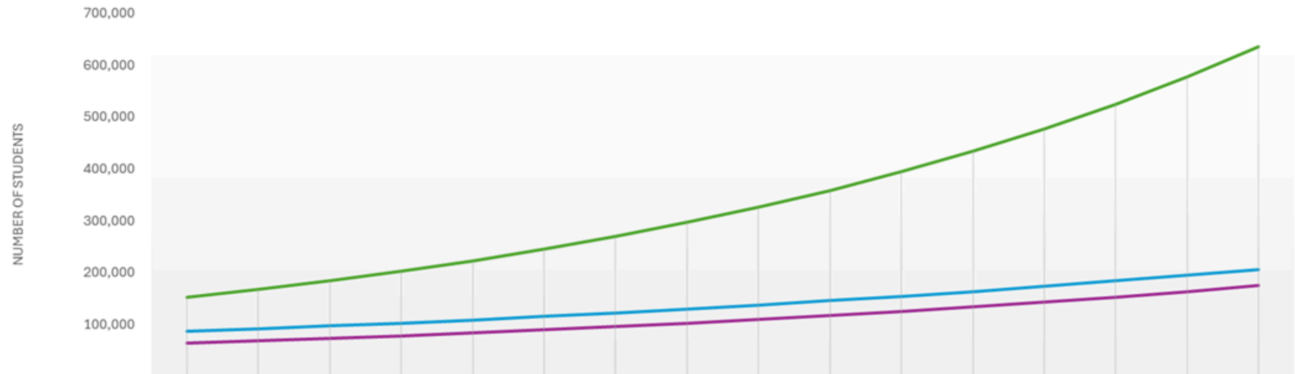
- Loan coverage for tuition, regulated fees, essential tools and limited living costs, calibrated to TVET cost structures.
- Repayment terms aligned with standard HESLB loans but with stronger linkage to employment sectors where TVET graduates work.
- Integration with NACTVET and other regulators for institution and programme eligibility.

Complementarity

- Products will be carefully mapped against existing youth and women funds and skills programmes, to avoid overlap and ensure TVET loans focus on education and training costs, not general business capital.

5.2 Graduate Seed Capital Facility (Grants, Loans, Devices/Tools and Tokens)

This facility provides structured support to HESLB graduates to start or grow income-generating activities, thereby reducing unemployment and non-performing loans over time.



	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039	2039/2040	2040/2041
Univ_Grads_All	85,940	91,097	96,562	102,356	108,497	115,007	121,908	129,222	136,975	145,194	153,906	163,140	172,928	183,304	194,302	205,960
Tech_Grads_All	63,309	67,741	72,482	77,556	82,985	88,794	95,010	101,660	108,777	116,391	124,538	133,256	142,584	152,565	163,244	174,672
Vet_Grads_All	152,033	167,236	183,960	202,355	222,591	244,850	269,335	296,269	325,896	358,485	394,334	433,767	477,144	524,858	577,344	635,078

5.2.1 Projected Graduate Output from Universities, Technical Colleges and VET Institutions

The figure shows projected graduate trends from universities, technical institutions, and VET institutions from 2025/2026 to 2040/2041, assuming current enrolment levels and sustained capacity expansion, especially in VET through municipal infrastructure investment.

VET graduates are expected to rise sharply from about 152,033 to 635,078, more than quadrupling due to expanded facilities, better access, and alignment with labour-market needs. Technical institution graduates will grow steadily from 63,309 to 174,672, reflecting controlled expansion linked to sector demand. University graduates will increase from 85,940 to 205,960, indicating gradual growth consistent with stable enrolment and completion rates.

The gap between VET and other graduates highlights a shift toward skills-oriented training, with VET becoming the main source of job-ready entrants in key national sectors. This trend emphasizes the need for targeted student support, employment linkages, and repayment strategies focused on the growing VET graduate cohort.

Purpose and rationale

- Enable viable graduates (individually or in organised groups) to access capital, tools and support services for enterprises and self-employment.
- Link financing to employment and repayment outcomes, strengthening the revolving fund

Product types

The facility will host a menu of products, tailored by cohort and sector:

1. **Soft graduate loans**
   - Concessional loans for start-ups or early-stage firms by HESLB graduates.
   - Structured with grace periods and step-up repayments aligned to business cashflows.
2. **Targeted grants**
   - Small grants for innovation, early-stage proof-of-concept or social enterprises, especially for vulnerable groups (e.g. women, people with disabilities).
   - Capped amounts and performance-based tranches to reduce misuse.
3. **Devices and tools financing**
   - Financing for essential tools and equipment (e.g. laptops, toolkits, machinery, software licences), often through vendor/PPP arrangements and the graduate wallet.
   - Repayable through payroll deductions, wallet instalments or enterprise revenues.
4. **Token-based support**
   - Time-bound digital tokens or vouchers for specific uses such as connectivity, co-working, incubation or training, delivered via the graduate wallet.
   - Tokens can be used to de-risk early stages rather than providing cash.

Complementarity with other funds

- Products will be ring-fenced for HESLB graduates and designed to complement, not displace, municipal youth and women funds and other national schemes.
- Joint schemes may be developed where HESLB provides skills-linked screening and monitoring, while other funds co-finance or match contributions.

5.3 Wallet-Linked and Savings-Linked Products

The Graduate Portal, Wallet and Education Savings Scheme proposals provide a platform for new, low-cost products that deepen financial inclusion and reinforce sustainability.
Examples of wallet-linked products

- **Micro-savings top-ups:** automatic savings or "round-up" features for graduates to build emergency cushions or repay ahead of schedule.
- **Repayment incentives:** small token rewards credited to the wallet for on-time repayment, funded from subscription and data-service revenues.
- **Bundled insurance:** low-cost insurance (e.g. credit life, device cover) bundled with selected products, reducing default risk.

Examples of savings-linked products

- **Matched savings for low-income families**: where Government or partners match a portion of education savings up to a defined cap.
- **Payroll savings for employees**: allowing alumni or parents to save directly from salaries into education accounts for dependants.

All such products will be subject to detailed actuarial, regulatory and market-feasibility work, and designed in line with BoT, CMSA and data-protection requirements.

5.4 Other Niche and Strategic Products

Over time, HESLB may pilot additional niche products where a clear gap and strong strategic case exist, for example:

- **Targeted scholarships or top-up grants** in critical skills areas funded from PPP revenues or statutory levies.
- **Cocktail Financing Options**, a mix of financing products, including full loans, partial loans, blended loan-grant packages, and emergency partial loans. A 1% administrative fee will apply to private-sector-supported grants once beneficiaries secure employment.
- **Risk-sharing products with employers**, where employers guarantee a portion of graduate loans in exchange for access to talent.
- **Thematic funds** (e.g. green skills, digital skills, health) co-financed by development partners, linked to national and regional priorities (FYDP, TDV 2050, Agenda 2063).

Each new product will follow a structured pipeline: concept note → feasibility and legal review → Board and Ministry approval → pilot → evaluation → scale or redesign.

6. Implementation Plan and Phasing

6.1 Overall Roadmap

Implementation will be phased to manage risk, align with fiscal space and allow learning:

- Short term (0–2 years)
  - Finalise feasibility studies and legal reviews for the hybrid model, seed capital, concessional facilities, savings/wallet products, PPPs and statutory levies.
  - Secure in-principle approvals from MoEST, MoFP, Treasury Registrar, BoT, TRA, TCRA and other regulators.
  - Pilot graduate portal and wallet, selected TVET loans and a small graduate seed capital window.

- Medium term (3–5 years)
  - Operationalise the education fund architecture: seed capital fully in place, concessional loan facility active and recovery enhancement measures rolled out.
  - Scale middle-level/technical college loans and graduate seed capital products based on pilot results.
  - Launch at least one education savings product, one major PPP (e.g. hostels or Mikocheni complex) and start phased structural and scheme-of-service reforms.

- Long term (beyond 5 years)
  - Consolidate HESLB as a hybrid, multi-product education financing institution with a significant asset base.
  - Integrate statutory levies if approved, deepen PPP and commercial infrastructure, and consider transitioning to a full education fund model, subject to policy decisions.

6.2 Key Workstreams

To deliver the roadmap, HESLB and its partners will pursue coordinated workstreams:

1. **Legal and policy reforms**
   - Amend the HESLB Act and related regulations to enable seed capital management, concessional borrowing, savings and wallet products, PPPs, commercial undertakings and earmarked levies.
   - Align with the Public Finance, PPP and tax frameworks.

2. Financing architecture and treasury operations

- Operationalise the Government window (subvention plus recoveries), seed capital fund, concessional facilities and investment policies.
- Set clear rules for allocation of seed capital, interest re-investment, revolving interest from concessional loans and application of levy proceeds.

3. Product design and pilots

- Finalise detailed designs and pilot plans for: TVET loans, graduate seed capital (grants, loans, devices/tools, tokens), wallet-linked products and savings schemes.
- Define eligibility, pricing, risk-sharing and performance indicators for each product.

4. ICT, data and wallet ecosystem

- Build and integrate the Graduate Portal and Wallet, including APIs and data-sharing with TRA, NIDA, National Address System, financial institutions, TCRA-regulated operators and credit information systems.
- Implement robust cyber-security, consent management and data analytics capabilities.

5. PPP and commercial infrastructure

- Develop bankable PPP projects (hostels, Mikocheni complex, devices PPPs) and bring them through the full PPP cycle: pre-feasibility, feasibility, transaction structuring, procurement and financial close.
- Establish governance for PPP revenues and ensure they are ring-fenced for education financing.

6. Organisation, HR and scheme-of-service reforms

- Redesign the organisational structure to create or strengthen units for fund management, PPPs, product development, analytics, risk and MEL.
- Update the scheme of service, recruitment and capacity-building plans accordingly.

7. MEL and risk management

- Develop an integrated Monitoring, Evaluation and Learning framework and a strengthened risk management system covering all model pillars.

6.3 Structure and Scheme-of-Service Change Management

Given the scale of change, a dedicated change management programme will be established to:

- Map existing functions and staff to the new hybrid model, identifying gaps in investment, PPP, product design, ICT/data, legal and risk skills.
- Develop a phased HR plan combining reskilling, targeted recruitment and strategic partnerships (e.g. with universities and professional bodies).
- Update the scheme of service to reflect new roles, clear career paths and competitive conditions for specialised profiles, while preserving public service values.
- Communicate changes clearly to staff, unions and oversight bodies, and monitor morale, capability and performance throughout the transition.

6.4 Roles and Responsibilities

The implementation will require close collaboration across Government and partners:

- **MoEST –** policy lead, oversight of HESLB, coordination with education and skills strategies and submission of legal reforms to Cabinet and Parliament.
- **HESLB –** lead implementer for financing architecture, products, systems, PPPs, wallet and savings schemes.
- **MoFP and Treasury Registrar** – approval of seed capital, concessional facilities, PPP structures, statutory levies and investment policies.
- **TRA –** design and administration of any statutory charges/levies and their transfer to the education financing window.
- **BoT, CMSA and TCRA –** regulatory oversight for savings schemes, wallet and payment systems, possible sandbox participation and market conduct.
- **NIDA, PO-RALG, NACTVET, HEIs/TVET institutions –** data-sharing, targeting of beneficiaries and support for recovery and graduate tracking.
- **Development partners and private investors –** concessional finance, PPP participation, technical assistance and co-investment in products and infrastructure.

Specific roles and timelines will be set out in MoUs, PPP agreements and implementation plans.

6.5 Dependencies and Critical Enablers

Successful implementation depends on several cross-cutting enablers:

- **Timely legal and regulatory changes** – without amendments to the HESLB Act, PPP, tax and financial regulations, core elements of the model (savings, wallet, PPPs, levies) cannot proceed.
- **Robust data and interoperability** – effective integrations with TRA, NIDA, National Address System, financial institutions, TCRA-regulated operators and education regulators are foundational for targeting, recovery and wallet operations.
- **Fiscal space and commitment** – sustained support for seed capital and concessional facilities during the early years of the transition. [Data Required]
- **Institutional capacity and leadership** – strong governance, technical skills and change leadership within HESLB and key ministries.
- **Stakeholder support** – early and continuous engagement with Parliament, industry, development partners, youth and women funds, students and graduates to build legitimacy and manage expectations.

These dependencies will be tracked within the MEL framework, with escalation mechanisms where critical milestones (e.g. legal reforms or PPP approvals) are at risk.

7. Financial Implications and Value for Money

7.1 Baseline and Forecasting Approach

The financial analysis uses HESLB's projections for potential applicants, effective demand and total loan requirement for the period 2025/2026–2037/2038, extended to 2041/2042 using the same demand growth trend. The baseline assumes:

- Loan demand grows at an average of about **17.45%** per year, rising from about **TZS 0.92 trillion** in 2025/2026 to about **TZS 6.93 trillion** in 2037/2038, and beyond **TZS 13.20 trillion** by 2041/2042.
- The combined Government window (new budget plus recoveries) grows at around **11.12%** per year, based on historical trends from 2019/2020–2024/2025.
- Loan recoveries grow faster than new budget, gradually becoming the majority share of the Government window by 2041/2042.

All other pillars of the hybrid model (seed capital, concessional loans, levies, savings, PPP/commercial revenues) are modelled as additional funding streams that progressively reduce the financing gap. Detailed actuarial and sensitivity models will be developed in collaboration with MoFP, PPPC and technical partners.

7.2 Costing of New Products

The cost of new and enhanced products is embedded in the total loan demand and will be further disaggregated during feasibility and pilot design:

- TVET and middle-level loans – incremental cost driven by increased enrolment and unit costs in accredited technical and vocational programmes.
- Graduate seed capital facility – envelope needed for soft loans, grants, devices/tools and token-based support, including expected default and recovery patterns.
- Wallet-linked incentives and savings matches – limited fiscal costs for matched savings, token rewards and risk-sharing with partners.
- PPP-related subsidies and guarantees – viability gap funding, affordability subsidies and guarantees for hostels, devices and other PPP projects.

Preliminary analysis suggests that, while new products add to headline demand, they also improve repayment prospects and NPL outcomes over the medium term, partially offsetting their upfront cost by strengthening recoveries and labour-market outcomes.

7.3 Capitalisation Requirements and Funding Mix

To operationalise the hybrid model, the following capital commitments and flows are required over the medium term:

- **Government Seed Capital** – cumulative injections of about T**ZS 11 trillion** between 2025/2026 and 2029/2030 (**TZS 1.5–3 trillion per year**). This builds an invested asset base approaching **TZS 7.96 trillion** and generates annual interest of more than **TZS 1.2 trillion** by 2037/2038, of which about **TZS 1 trillion** is used annually to finance students and the rest is reinvested.
- **Concessional Loan Facilities** – an initial **TZS 3.6 trillion** concessional facility in 2025/2026 generates annual interest income of about **TZS 0.54–0.70 trillion**, while principal is fully repaid by 2036/2037. A share of the interest (rising from about **TZS 0.03 trillion to TZS 0.35 trillion**) is revolved into student financing and the remainder reinvested, leaving behind a permanent asset base.
- Government Window (Budget + Recoveries) – continues to grow, but the mix shifts from about **72.% budget / 28.00% recoveries** in 2027/2028 to about **44% budget / 56% recoveries** by 2041/2042, easing direct budget pressure and reinforcing the revolving fund.
- **Statutory Charges and Levies** – potential revenue from levies on fuel, electricity and mining royalties is treated as an upside scenario, with detailed incidence and revenue estimates to be produced. These revenues could be earmarked to capitalise the seed fund and/or service concessional loans.
- **Savings, Wallet and PPP/Commercial Revenues** – expected to grow gradually and provide supplementary flows (subscriptions, data services, PPP dividends), mainly for operations and targeted products.

The combined effect is to transform HESLB from a single-source budget-dependent model into a multi-pillar capital structure, where the Government window is complemented by investment income, concessional spreads, levies and market-based revenues.

7.4 Value for Money and Fiscal Impact

A value-for-money (VfM) assessment will compare the “Business as Usual” scenario with the Hybrid Model across coverage, sustainability and fiscal indicators:

Business as Usual (Budget + Recoveries only)

- Government share of total demand declines from about **78.4%** in 2027/2028 to around **36.1%** by 2041/2042, even with continued **11.1%** growth.
- The annual financing gap widens from about **TZS 0.30 trillion** to over **TZS 8.43 trillion**, forcing tighter eligibility and benefit constraints.

Hybrid Model

- Seed capital and concessional facilities flatten the gap in early years, ensuring higher coverage while demand accelerates.
- Interest income and reinvestment from seed capital and concessional loans reduce dependence on recurrent budget, especially after 2030/2031.
- Statutory levies, where adopted, provide a stable earmarked flow that can either fill residual gaps or service external debt.
- Savings, wallet-based revenues and PPP/commercial returns offer additional margins to support operations and targeted innovations without large new fiscal commitments.

From a fiscal perspective, the hybrid model offers VfM by:

- Converting one-off fiscal injections into a self-sustaining education fund that pays for itself through investment returns and spreads.
- Using concessional finance and levies to share costs across time and sectors, rather than relying solely on annual education budget lines.
- Reducing long-term NPLs and improving labour-market outcomes via graduate products, thereby strengthening recoveries and lowering future fiscal risk.

A full VfM assessment will include NPV, IRR, debt sustainability and distributional analysis, and will be refined in collaboration with MoFP, PPPC and development partners.

8. Risk and Mitigation Matrix

8.1 Strategic and Policy Risks

Key risk:

- Possible misalignment between the hybrid model and future Government policy priorities due to changes in fiscal stance or leadership.

Mitigation:

- Maintain strong policy dialogue with MoEST, MoFP and the Treasury Registrar and anchor the model in TDV 2050, FYDP III and sector strategies.
- Phase implementation, with regular mid-term reviews and options to adjust parameters (seed capital pace, levies, PPP pipeline) as policy or macro conditions evolve.

8.2 Financial and Market Risks

Key risks:

- Possible investment underperformance or capital loss from seed capital and concessional spreads due to market volatility or poor asset selection.
- Possible foreign exchange or interest-rate risk on concessional loans, especially if denominated in foreign currency.
- Possible lower-than-expected revenue from levies, wallet products, PPPs or savings due to weak uptake or economic slowdown.

Mitigation:

- Adopt a conservative investment policy, with clear limits on asset classes, concentration and duration, approved by MoFP and aligned with BoT guidelines.
- Use hedging, natural hedges or local-currency facilities where feasible, and run stress tests on debt-service and coverage ratios.
- Start with pilot-scale facilities, realistic revenue assumptions and contingency buffers; revise product and levy designs based on performance.

8.3 Operational and Implementation Risks

Key risks:

- Possible delays in legal reforms, system integration or PPP approvals, slowing down the transition while demand continues to rise.
- Possible capacity gaps in new areas (fund management, PPP, advanced analytics, wallet operations) leading to execution weaknesses.
- Possible change-management challenges and resistance within HESLB or partner institutions.

Mitigation:

- Establish a formal implementation programme with a clear critical-path, milestones and escalation mechanisms for delayed reforms and approvals.
- Implement a targeted HR and capacity-building plan (training, recruitment, twinning with peer funds) for key functions.
- Use structured change-management (communication, involvement, quick wins) and regular reporting to the Board and MoEST.

8.4 Legal, Compliance and Data Protection Risks

Key risks:

- Possible inconsistency between new activities (savings schemes, wallet, PPPs, commercial undertakings, levies) and the current HESLB Act, PPP/tax laws or financial regulations.
- Possible breaches of the Personal Data Protection Act, e-Government interoperability standards or credit-information rules in wallet, data and integration projects.
- Possible procurement and PPP non-compliance, leading to legal disputes, delays or audit queries.

Mitigation:

- Conduct a comprehensive legal gap analysis and prepare a phased package of amendments and regulations before rolling out new products.
- Embed privacy-by-design, consent and data-minimisation principles in all ICT and wallet solutions; appoint a Data Protection Officer and strengthen compliance/internal audit.
- Use accredited transaction advisors, ensure full PPP and procurement-law compliance and maintain detailed documentation and audit trails.

A more detailed Risk Register Annex will assign numerical scores, risk ratings, timeframes and detailed mitigation actions for each risk, and will be updated annually as part of HESLB’s enterprise risk management process.

10. Policy, Legal and Regulatory Considerations

10.1 Consistency with HESLB Legal Framework

The Higher Education Students' Loans Board operates under the HESLB Act (R.E. 2023), which mandates resource mobilisation, loan and grant administration and recovery. The hybrid model is broadly consistent with this mandate but introduces new functions that go beyond traditional lending, including:

- Management of seed capital and long-term investments.
- Operation of education savings schemes and digital wallets.
- Engagement in PPP and commercial undertakings and potentially managing earmarked levies.

A legal review is required to determine where current wording is sufficient, ambiguous or restrictive, and to prepare targeted amendments or regulations to:

- Explicitly authorise these new functions.
- Clarify how surpluses and investment income can be retained and reinvested.
- Set guardrails for commercial activities so they remain aligned with HESLB's public mandate.

10.2 Alignment with Education and Skills Policies

The proposed model and products must remain tightly aligned with national education and skills policies, including the Education and Training Policy (2023 Edition), the Education Sector Development Plan (ESDP 2025/26–2029/30) and the National Skills Development Strategy (NSDS).

Key alignments include:

- Extending loans to **middle-level and technical students**, in line with the push to strengthen TVET and practical skills.
- Supporting **graduate entrepreneurship** and employability, matching NSDS and FYDP III priorities on jobs and industrialisation.
- Ensuring that **financing instruments, including levies and PPPs**, promote equity and inclusion, not just volume.

Regular consultation with MoEST and sector agencies will ensure that product eligibility, targeting and subsidy design remain consistent with evolving policies and plans.

10.3 Financial Sector, PPP and Tax Compliance

Several elements of the hybrid model intersect with financial-sector, PPP and tax laws. Key areas are:

- **Education savings schemes and wallet products** – likely to fall under Bank of Tanzania, CMSA and TCRAoversight, depending on product design (deposit-like, investment-like, payment-services or data-services). Licensing or sandbox participation may be required, and consumer-protection rules must be observed.
- **Concessional loans and seed capital investments** – must comply with public debt-management rules, BoT investment guidelines and any limits on public entities' investment activities.
- **PPP and commercial infrastructure projects** (hostels, Commercial complex, device PPPs) – must follow the PPP Act and Regulations, including project identification, appraisal, competitive procurement, value-for-money analysis and fiscal-risk assessment.
- **Statutory charges and levies on fuel, electricity and mining royalties** – will require amendments to tax and public finance legislation to define the levy base, rate, collection by TRA and earmarking to HESLB.

A joint legal and regulatory task team (MoFP, MoEST, HESLB, BoT, PPP Unit, TRA and others) should validate the feasibility and sequencing of each instrument before implementation.

10.4 Legal Constraints in the Current Framework and Required Amendments

Preliminary analysis suggests there are specific constraints in the current legal framework that may impede implementation of the full proposal. Indicative areas include:

- **Savings and investment products** – the Act may not yet provide clear authority for HESLB to operate education savings schemes, manage third-party funds or offer wallet-based financial services.
- **Commercial and PPP activities** – HESLB's ability to engage in commercial undertakings, retain earnings from PPPs and commercial projects and ring-fence those surpluses for education financing may be limited or unclear.
- **Statutory levies and earmarked revenues** – current laws may not allow direct earmarking of levy proceeds to HESLB or a dedicated education fund without specific enabling provisions.
- **Data and digital services** – the use of anonymised data for paid analytics services, and the charging of subscription fees for wallet-based services, may require explicit authorisation and safeguards.

10.5 Data Protection, Credit Information and ICT Interoperability

The hybrid model relies heavily on data-sharing and digital platforms, raising important legal and regulatory requirements:

- **The Personal Data Protection Act** requires lawful basis, consent, data-minimisation, security and rights of access/correction for all personal data held and processed by HESLB. Wallet and portal solutions must integrate these requirements by design.
- **Integration** with NIDA, TRA, National Address System, financial institutions, TCRA-regulated operators and credit bureaus must comply with the e-Government Interoperability Framework and relevant sector-specific laws and MoUs.
- **Credit-information sharing** must follow BoT and credit-reference regulations, including fair-treatment and dispute-resolution mechanisms for borrowers.
- Any **data commercialisation** must use strictly anonymised, aggregated data, with strong internal policies and independent oversight to prevent re-identification or discriminatory use.

HESLB will formalise a Data Governance Framework covering: roles (including a Data Protection Officer), policies, standards, DPIAs (Data Protection Impact Assessments), security controls and audit arrangements, to ensure that all digital and data initiatives are both compliant and trusted.

11. Stakeholder Engagement and Communications

11.1 Stakeholder Mapping

Implementation of the hybrid model will affect and depend on a wide network of actors, including:

- **Central Government**: MoEST, MoFP, Treasury Registrar, Office of the President – Planning & Investment, PPP and tax authorities.
- **Regulators and infrastructure bodies:** BoT, TRA, TCRA, CMSA, e-Government agencies, NIDA and National Address System custodians.
- **Education sector institutions**: public and private universities, TVET colleges, NACTVET, professional councils and examination bodies.
- **Complementary funds and schemes**: youth and women funds, skills funds, municipal development funds and related empowerment programmes.
- **Private sector and financial institutions**: banks, MFIs, mobile money operators, pension funds, insurers, device vendors and PPP investors.
- **Students, graduates and their associations**: current beneficiaries, potential TVET and university students, HESLB alumni and organised graduate groups.
- **Parliament, media and civil society**: key for oversight, legitimacy and public understanding of new instruments (levies, PPPs, savings and wallet products).

Each stakeholder group will have a clear role, interest and engagement plan linked to the implementation roadmap.

11.2 Engagement Strategy

HESLB will adopt a tiered engagement strategy:

- **Strategic and policy level**
  - Regular high-level meetings and joint technical committees with MoEST, MoFP, Treasury Registrar and regulators to agree on legal reforms, capitalisation plans, levies and PPP pipeline.
  - Periodic briefings to Cabinet and Parliament on progress, risks and requested decisions.
- **Technical and implementation level**
  - Working groups with regulators (BoT, TRA, TCRA, CMSA, PPP Unit) on savings schemes, wallet, concessional facilities and PPP structures.
  - MoUs and technical task teams with NIDA, NAS, HEIs, TVET institutions and employers on data-sharing, targeting, recoveries and graduate tracking.

- **Beneficiary and public level**
  - Participatory consultations with students, graduates and institutions on TVET loans, seed capital products, wallet services and repayment arrangements.
  - Public dialogues and media engagement on statutory levies and PPP projects to explain objectives, safeguards and expected benefits.

Engagement will be iterative, with structured feedback loops feeding into MEL and risk management.

11.3 Communications and Change Management

A dedicated communications and change-management plan will support rollout, with three main focus areas:

1. **Clarity of purpose and benefits**
   - Simple messages explaining why the model is changing, what hybrid funding means and how it protects access and sustainability.
   - Clear articulation of benefits for students, graduates, Government, private sector and the wider economy.
2. **Product and service communication**
   - Targeted campaigns for TVET loans, graduate seed capital, tools/devices financing, wallet and savings products, using digital and traditional channels.
   - Practical information on eligibility, application, repayment and grievance mechanisms, tailored to different segments.
3. **Sensitive areas: levies, PPPs and data use**
   - Transparent communication on proposed statutory charges and levies (if adopted), including their rate, base, expected revenue and safeguards.
   - Clear explanation of PPP projects (hostels, Commercial complex, devices) and how they are structured to ensure value for money and affordability.
   - Detailed information on data protection and data commercialisation, emphasising consent, anonymisation and strict governance.

Key messages will be harmonised with MoEST and MoFP, and spokespersons will be trained to handle complex topics in plain language.

11.4 Participation and Feedback Mechanisms

To make engagement meaningful, HESLB will institutionalise feedback channels such as:

- **Digital feedback tools** embedded in the Graduate Portal and Wallet (surveys, ratings, complaints and suggestions).
- **Regular stakeholder forums** with HEIs, TVET institutions, youth/women funds, financial institutions and employers.
- **Helpdesks and contact centres** capable of handling queries on new products, levies, PPP services and repayment issues.
- **Collaboration with student and alumni associations** to co-create solutions and communication materials.

Feedback will be captured, analysed and used to adjust products, processes and communications through the MEL and risk frameworks.

11.5 Parliamentary, Public Reporting and Accountability

Given the introduction of new instruments (seed capital, concessional borrowing, levies, PPPs, savings and wallet products), strong public accountability will be essential. HESLB will:

- Publish **annual reports and briefs** on hybrid model performance, including coverage, financing structure, levies collected (if applicable), PPP revenues and key KPIs.
- Report regularly to **Parliamentary committees** on education, finance and budget, with clear narratives on risks, safeguards and outcomes.
- Ensure that any statutory levies and PPP agreements are accompanied by **transparent disclosure** of terms, expected benefits and performance.

These measures aim to build and maintain trust that additional resources mobilised through the hybrid model are **used efficiently, fairly and in line with national priorities.**

13. Conclusion and Recommendations

13.1 Overall Conclusion

This proposal responds to the directives conveyed through **PS's letter** for HESLB to become a **financially sustainable, diversified and innovation-oriented education financing institution**, while expanding support to **middle-level/technical colleges** and **graduates.**

The analysis shows that, under the current model, loan demand will grow much faster than the combined Government window (budget plus recoveries), leading to a widening and structurally unsustainable financing gap. The proposed **hybrid model,** combining Government subvention, recoveries, seed capital, concessional facilities, statutory levies, savings and wallet products, PPPs and commercial undertakings, offers a practical path to:

- Close more of the financing gap.
- Protect and expand access to higher and technical education.
- Reduce non-performing loans by improving graduate employability and enterprise outcomes.

Delivering this transformation requires **clear policy direction and support from MoEST Management**, in coordination with MoFP, Treasury Registrar and other MDAs.

13.2 Key Recommendations and Decisions Requested from MoEST Management

HESLB respectfully requests MoEST Management to consider and guide on the following:

1. **In-principle guide on the hybrid financing model**
    - Provide guidance on the proposed multi-pillar funding architecture (Government window, seed capital, concessional facilities, statutory levies, savings/wallet, PPPs and commercial undertakings) as the strategic direction for HESLB's sustainability.
    - Consider the phased implementation roadmap outlined in Section 6, subject to detailed feasibility studies and MoFP concurrence.

2. Consider to initiate legal and policy reforms

- Guide HESLB, working with MoEST legal services, to prepare a detailed Legal Framework Alignment Matrix and draft amendments to the HESLB Act (R.E. 2023) and related regulations to:
  - Explicitly mandate seed capital and investment management.
  - Enable education savings schemes, wallets and data-driven services.
  - Allow PPP and commercial undertakings and retention/reinvestment of surpluses.
- Guide on the engagement with MoFP, AGC and PPP Unit on any related public finance, PPP and tax law changes, including possible statutory levies.

3. Guide on a Government Seed Capital programme in principle

- Consider the concept of a ring-fenced Government Seed Capital for education financing, with indicative cumulative injections of about **TZS 11 trillion** over the initial period (2025/2026–2029/2030), subject to MoFP's fiscal analysis and decisions.
- Support creation of an appropriate fund structure and investment policy, aligned with BoT and public finance guidelines, to convert this seed capital into a permanent, income-generating education fund.

4. Guide on the concessional loan facilities

- Consider HESLB, under MoEST and MoFP guidance, to seek and negotiate concessional facilities (e.g. the modelled **TZS 3.6 trillion** window) with development partners and specialised financiers.
- Require that all facilities undergo full debt sustainability, VfM and risk assessments, and that a portion of interest spreads is dedicated to student financing and capital formation, as per Section 4.2.4.

5. Guidance to explore statutory charges and levies

- Guide the commissioning of a joint feasibility and incidence study (MoEST, MoFP, TRA, HESLB) on possible small levies on fuel, electricity and mining royalties, with a view to earmarking a share for higher education financing.
- Noting that any levy proposals will only proceed after rigorous evidence, consultation and Cabinet/Parliament approval, and will be designed to complement, not replace, other funding pillars.

6. Consider to design and pilot new products

- Allow HESLB to proceed with detailed design and pilots for:
  - TVET/middle-level college loans;
  - Graduate seed capital products (soft loans, grants, devices/tools, tokens);
  - Wallet-linked and savings-linked products;
  - Selected niche/thematic funds (where justified).
- Require that each product passes through feasibility, legal review, risk assessment and MEL design before full-scale rollout.

7. Guide to develop the Graduate Portal, Wallet and Education Savings Scheme

- Provide guidance on the Graduate Portal and Wallet as core infrastructure for loan management, repayments, graduate tracking, savings and token-based support.
- Note that HESLB shall work with BoT, TCRA, CMSA and Data Protection authorities to obtain necessary licences or sandbox approvals, and to define a framework for subscription revenues and anonymised data services that remain fully compliant with law.

8. Consider to advance PPP and commercial infrastructure projects

- Guide the preparation of bankable PPPs and commercial undertakings (hostels, Mikocheni complex, devices PPPs and related digital infrastructure) as outlined in Section 4.2.5, ensuring they remain aligned with HESLB's mandate.
- Consider engagement with the PPP Unit and transaction advisors to carry these projects through feasibility, procurement and financial close, with PPP revenues ring-fenced for education financing.

9. Consider organisational and scheme-of-service reforms

- Support the redesign of HESLB's organisational structure and scheme of service to create or strengthen functions in fund management, PPPs, product development, analytics, risk, MEL and ICT/data integration.
- Support development of a comprehensive HR and capacity-building plan to equip current staff and recruit specialised skills, in coordination with PO-PSM and other oversight bodies.

10. Establishment of a joint implementation and oversight mechanism

- Support the formation of a Hybrid Financing Reform Taskforce (MoEST, MoFP, Treasury Registrar, PPP Unit, HESLB, regulators) to oversee implementation, unblock bottlenecks and report progress to MoEST Management and the Minister.
- Agree on a formal reporting schedule (e.g. semi-annual strategic updates) and key decision points (e.g. legal package approval, seed capital commitments, levy decisions and major PPP approvals).