

Trustco Finance (Pty) Ltd.

COMPANY BACKGROUND

Trustco Finance (Pty) Ltd. provides educational loans to students enrolled at the Institute for Open Learning (IOL)—the largest private distance-learning tertiary education institution in Namibia. Both entities are subsidiaries of Trustco Education (Pty) Ltd., which was established when Trustco Group Holdings (TGH) acquired IOL in 2005. TGH is a public company with three core business lines: microfinance and education, micro-insurance and technology solutions, and properties. It is majority-owned by its founder with other large shareholders including First National Bank Nominees Namibia (Pty) Ltd. and Standard Bank (Namibia) Nominees (Pty) Ltd. TGH targets middle-

Country: Namibia

Sector: Education Finance

IFC's Investment: \$21.3 million in long-term debt financing and \$2.9 million in equity

to low-income customers who have limited access to insurance, education, and finance.

DRIVERS FOR TRUSTCO FINANCE'S INCLUSIVE BUSINESS MODEL

- Significant market demand for loans for tertiary education and very limited supply of education finance
- Business opportunity to create a one-stop-shop for distance learning tertiary education and associated tuition finance
- Government regulation enables microlenders to reduce loan repayment risk through payroll deduction

With the little public funding available for secondary and tertiary education, Namibia experiences a disparity between high demand and very limited supply. As of 2011, only 12% of students could proceed to tertiary education due to the limited number of places available in universities.¹ Distance learning institutions like IOL are filling this gap and thriving as they accommodate working professionals and reach underserved regions. Within the distance learning market, the government-subsidized Namibian College of Open Learning (NAM COL) has become the largest institution for secondary education; it also offers vocational and professional training. Against this backdrop, TGH recognized an opportunity to offer tertiary education through distance learning, along with affordable tuition financing.

This model responds to demand for convenient access to education financing in a country where students have few options. The Namibia Students Financial Assistance Fund, the main public provider of financial support, receives about 15,000 applications per year, of which it supports about 3,000 through scholarships and loans.² To encourage lenders to provide student finance, the government is enabling payroll deduction which helps minimize non-payment risk.

¹ Sasman, Catherine (28 June 2011). "Quality, shortages, and concerns of teachers". The Namibian.

² Millennium Challenge Account Namibia, http://www.mcanamibia.org/proj_activities.php?type=Activity&id=35&activityname=.

TRUSTCO FINANCE'S INCLUSIVE BUSINESS MODEL

Lack of access to education finance is a significant barrier to students and working professionals seeking further education in Namibia. To address this, Trustco Education provides students enrolled in IOL's distance learning tertiary education courses with direct access to affordable financing through Trustco Finance.

IOL offers certificate, diploma, and degree programs in education, business, and information technology, with course prices ranging from \$66 (N\$500) to \$2,123 (N\$16,000). While most programs are two or three years in duration, students can be afforded additional time to complete courses. IOL's six regional Student Support Centers provide students with access to computers and other technical resources if they don't have access at home. Courses are delivered via pre-recorded video sessions and are supplemented by in-person tutors at the centers. Almost half of IOL's students are women while 97% are employed full-time.

From 2005 to 2011, approximately 98% of IOL students received loans from Trustco Finance. Trustco Finance borrowers range between 18 and 55 years of age, and are all employed. As of 2011, loans to students between 18 and 24 years of age comprised approximately 49% of the

loan portfolio, while students between 26 and 45 years comprised approximately 47%. Loans to students residing in rural areas made up 77% of the loan portfolio. The monthly income of student borrowers ranges from \$265 (N\$2,000) to \$3,317 (N\$25,000).

Trustco Finance minimizes its risk by maintaining a high level of control over the loan collection process through payroll and bank account deductions



Typical loan amounts range from \$125 (N\$1,000) to \$2,500 (N\$20,000), with repayment terms ranging from 12 to 60 months and averaging 29 months. Loan repayment begins upon commencement of courses. Interest rates are set in accordance with Namibia's Micro Lending Regulations at twice the prime interest rate or, as of 2010, 22% per annum. At times, Trustco Finance is able to offer interest rate discounts as a result of government subsidies. For example, in 2009, the Development Bank of Namibia provided a \$1.78 million (N\$15 million) facility that enabled Trustco Finance to offer an interest rate discount of 7% to teachers who were upgrading their qualifications.

Trustco Finance determines borrower eligibility based on a set of standard documents and criteria. These include, but are not limited to, valid identification documents, a valid salary advice (pay slip), a bank account, a minimum of one year of employment for private sector applicants, existing credit limit to not have exceeded \$4,518 (N\$ 35,000), and a clear credit check. Government employees are eligible for 100% financing on all IOL courses. In order for private sector employees to be eligible for 100% financing, their company must have an agreement with Trustco Finance to enable loan repayment via automatic salary deduction.

Trustco Finance minimizes its risk by maintaining a high level of control over the loan collection process through payroll and bank account deductions. As of 2012, 98% of loan repayments are made via payroll and bank account automatic deductions; only 2% are made in cash. Trustco



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IOL's extensive customer outreach supports Trustco Finance in reaching new borrowers. IOL's marketing team regularly visits government agencies, secondary schools, and corporations to provide potential students with academic and financial information, and assist them with completing course and loan application forms. To reach students in small, remote towns, IOL uses a mobile office which serves as a traveling resource. Mobile office staff provide students with course-related information, respond to financial queries, and assist students in applying for a loan. They also assist existing students with making payments, applying for refunds, and printing statements. In addition, IOL leverages TGH's customer base by marketing its programs to the group's 300,000 insurance customers.

RESULTS OF TRUSTCO FINANCE'S INCLUSIVE BUSINESS MODEL

- 98% of IOL students financed between 2005 and 2011
- As of 2011, \$33 million in gross educational loans
- Over \$5 million in revenue and \$1.7 million in EBITDA in 2011

IOL has grown to become the largest private distance education provider in Namibia, enrolling 29,000 students as of December 2011. IOL has also greatly expanded its course offerings so that its students will graduate with skills that meet the needs of the Namibian economy. Growing alongside IOL, Trustco Finance has expanded its reach to finance the tuition needs of approximately 98% of all IOL students, and remains the only one-stop-solution in the country for education and tuition finance. Gross educational loans increased from over \$25 million (N\$193 million) in 2010 to over \$33 million (N\$252 million) in 2011. Trustco Finance's revenue grew by 14% to \$5.2 million (N\$39 million) and EBITDA reached \$1.7 million (N\$13 million).

From 2005 to 2010, the parent company TGH achieved an average annual growth rate of 35%. In 2010, TGH realized an EBITDA margin of over 30%. TGH was the top Namibian traded stock on the Namibian Stock Exchange (NSX) in terms of value of shares traded in 2007 and, in 2009, was the first African company to list on the Johannesburg Stock Exchange (JSE) Africa Board.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$21.3 million in long-term debt financing and \$2.9 million in equity

Investment Year: 2011 to 2014

- Provide long-term debt to enable Trustco Finance to expand its lending program to \$55 million by 2015. Prior to working with IFC, the company struggled with a lack of availability of long-term finance for consumer lenders and micro lenders in Namibia. As a result, Trustco had to finance many of its student loans through intercompany loans from TGH, which negatively impacted its operating profits and limited its ability to expand
- Enhance the management of Trustco Finance's student loan portfolio through advisory support
- Strengthen Trustco's corporate governance structure to facilitate its potential expansion into new markets

(Published August 2012)

For more information, visit ifc.org/inclusivebusiness and trustcofin.na