FACTORS INFLUENCING GROWTH OF HOSTELS IN KENYA

A CASE OF HOSTELS IN JUJA

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ABSTRACT

In Kenya, university education has moved from been only an essential pre-requisite in the acquisition of jobs to the provision of high level manpower needed for the socio-economic development of the country. The increase in enrolment of students in public tertiary institutions in the country has resultant accommodation difficulties and the expected expansion of residential facilities has not materialized and hence, has created the existence of resident and non-resident students. There are various factors that influence growth of Hostels in Kenya and it is the purpose of the study to analyze these factors. The target population of this study includes the University management, hostel owners and university students in Juja. A stratified sampling technique will be employed. Simple random sampling was used to give a representative sample for each category. The target population is 1300 and the sample size is 130 respondents which is 0.1 of the accessible population. This research used questionnaires as the main research instrument. The collected data was processed using SPSS computer package, analyzed and presented using frequency tables, bar charts, and pie charts. The study found out that Public funds are channeled to universities direct from ministries of finance and/or education; that Many governments have steadily moved away from being the primary financier of higher education, giving way to the participation of the private sector and more involvement of the individual student, and that Educational cost sharing aims at shifting some of the cost of public higher education towards the beneficiaries of higher education and University accommodation is a source of revenue to the University. Finally the study concludes that Interest rate on loans is one of the key determinants of growth and expansion; that A reduction in interest rate needs to be done by the Government for private hostel providers, market forces place a major role in the determination of the interest rates on loans and that the student loans should be interest free.

Keywords: *Factors Influencing Growth of Hostels in Kenya*

Introduction

According to Illustrated Dictionary (1998), accommodation is defined as a room for receiving people, especially, a place to live or lodging. Residential is explained as a place suitable for or occupied by private houses. Residential Accommodation therefore could be said to be suitable places occupied by private houses for lodging. A house is structurally separate and independent place of abode. The essential features are separateness and independence (Kwasi, 1997). In Kenya, university education has moved from been only an essential pre-requisite in the acquisition of jobs to the provision of high level manpower needed for the socio-economic development of the country. This realization, coupled with the implementation of the educational reform programmes has resulted in an increase in enrolment of students in the major tertiary institutions in the country with its resultant accommodation difficulties. The expected expansion of residential facilities has not materialized and hence, has created the existence of two categories of students: resident and non-resident (Girdwood, 1999).

Statistically, over 60 percent of students in most of the tertiary institutions are non-resident (Daily Graphic, Wednesday November 7, 2001). In the halls of residence, instead of at most four students to a room, there can now be as many as ten or twelve people in a room. The result of this scenario is overcrowding in the halls due to the increasing number of "perchers" (students who reside in the halls unofficially) and pressure on toilet and bathing facility. In some cases, students who have morning lectures have to queue to use the lavatory.

The concept of "non-residence" as a category of students became a reality and was subsequently implemented when it became obvious that the halls of residence on campus could not accommodate the ever-increasing student population. KNUST then adopted a residential policy in 2003 referred to as the In-Out-Out-Out Policy, which was to make residential accommodation available to all freshers. That is, all first year students are expected to be accommodated by the

University while continuing students look out for accommodation themselves outside the University halls of residence.

Statement of the Problem

The student accommodation sector has proved one of the most resilient during the economic downturn, despite the continued difficulty in obtaining private finance; however, changes to higher education funding will mean most Higher Education Institutions will need to review the ownership and maintenance requirements of their student halls, including campus-based universities. With limited financial resources at their disposal, many universities are now considering various outsourcing options for their student residences including selling their accommodation into the private sector and renting it back on a long-term lease. Universities are also increasingly outsourcing accommodation management functions to the private sector to save money and focus resources more closely on the core functions of teaching and research. Working in long-term partnerships with universities, private providers can provide a range of services, including the development of new student accommodation and academic facilities, specialist asset management services and the refurbishment of existing premises. These services have enabled private sector funding to address a backlog maintenance requirement of approximately £3bn which exists across the existing higher education estate.

According to the KNBS Statistical Abstract (2011), in 2005, there were only five public institutions of higher learning in Kenya with total enrolment of 49,272. By 2008, total enrolment in all tertiary (public) institutions increased to 59,297. The total enrolment during 2010-11 academic year showed further increase of about 71.38% over the 2005 figure to 84,446. These large increases in student enrolment naturally brought in its wake increased financial burdens and other problem for the Government of which residential accommodation is included as the increase in enrolment was not matched by an increase in the halls of residence (KNBS Statistical Abstract 2011).

Given the current financial climate, it is difficult to predict the annual number of new bed-spaces expected over the next few years. Whilst there has been some increase in development activity in 2011, it is doubtful that net new supply will increase at the rate seen in previous years. Although market growth has slowed, it continues to be characterized by strong and growing demand and a lack of supply of good quality, well located and managed accommodation. Locally, there is no study that has been conducted on the prevailing phenomenon and it is against this backdrop that the current study seeks to fill the existing knowledge gap by establishing the factors influencing growth of Hostels in Kenya.

Objectives of the Study

General Objective

The general objective of this study was to establish the factors influencing growth of Hostels in Kenya.

Specific Objectives

i. To establish the effects of the rising student numbers on the growth of hostels in Kenya.
ii. To determine the effects of government spending cuts on the growth of hostels in Kenya.
iii. To assess the effects of cost of residential accommodation on the growth of hostels in Kenya.
iv. To establish the effects of high interest rates on loans on the growth of hostels in Kenya

Literature Review

Institutional Theory

The problem of whether performance measurement could improve public service delivery can be examined by applying the institutional theory. One major topic of the institutional theory (Kondra and Higgins, 1998) has been the role of institutional norms. After a research project on schools, Meyer and Scott (1983), back in the 1970s, formulated the hypothesis that a continuum of organizations exists running from those dominated by technical criteria to those dominated by "institutional" criteria (e.g. schools, private nonprofits, public administrations). For organizations dominated by institutional criteria, legitimacy and not technical efficiency is the guiding principle. Conformity to societal and cultural expectations or, more generally speaking, to external institutional norms, are the most relevant factors for this type of organizations. With this type of organizations conformity to the institutional norms of the external environment enhances their survival capabilities, opens access to resources and increases their stability. A technically optimized work flow is of less importance for institutionalized organizations than for those dominated by technical criteria. Following Greenwood and Higgins (1988), institutional norms deal with appropriate domains of operation, principles of organizing, and criteria of evaluation.

Transaction Cost Theory

Transaction cost theory tries to explain why companies exist, and why companies expand or source out activities to the external environment. The transaction cost theory supposes that companies try to minimize the costs of exchanging resources with the environment, and that companies try to minimize the bureaucratic costs of exchanges within the company. Companies are therefore weighing the costs of exchanging resources with the environment, against the bureaucratic costs of performing activities in-house (Garicano & Kaplan, 2001).

The theory sees institutions and market as different possible forms of organizing and coordinating economic transactions. When external transaction costs are higher than the company's internal bureaucratic costs, the company will grow, because the company is able to perform its activities more cheaply, than if the activities were performed in the market. However, if the bureaucratic costs for coordinating the activity are higher than the external transaction costs, the company will be downsized (Coase, 1937).

The transaction costs related to the exchange of resources with the external environment could be reflected by Environmental Uncertainty, Opportunism, Risks, Bounded Rationality and Core company assets. These factors will all potentially increase the external transaction costs, where it may become rather expensive for a company to control these factors. Therefore, it may very well be more economic to maintain the activity in-house, so that the company will not use resources on e.g. contracts with suppliers, meetings, supervision etc. Therefore, if companies see the environmental uncertainty as high, they might choose to not outsource or exchange resources with the environment (Williamson, 1985).

Irving Fisher's Theory of Interest Rates

Student loan schemes in developing countries, including Kenya, have not been effective, while several such schemes have been abandoned altogether (Albrecht, 1995). Efficiency has been jeopardized by pressure to maintain social equity. The interest rate is a key part of the government's monetary policy

Irving Fisher's theory of interest rates relates the nominal interest rate i to the rate of inflation π and the "real" interest rate r. The real interest rate r is the interest rate after adjustment for inflation. It is the interest rate that lenders have to have to be willing to loan out their funds. The relation Fisher postulated between these three rates is:

$$(1+i) = (1+r)\,(1+\pi) = 1 + r + \pi + r\,\pi$$

This is equivalent to:

$$i = r + \pi\,(1 + r)$$

Thus, according to this equation, if π increases by 1 percent the nominal interest rate increases by more than 1 percent. This means that if r and π are known then i can be determined. On the other hand, if i and π are known then r can be determined and the relationship is:

$$1+r = (1+i)/\,(1+\pi)$$

or

$$r = (i - \pi)/\,(1+\pi)$$

When π is small then r is approximately equal to $i-\pi$, but in situation involving a high rate of inflation the more accurate relationship must be taken into account.

Empirical Review

Rising Student Numbers

Large increases in student enrolment bring increased financial burdens and other problems for the Government of which residential accommodation is included as the increase in enrolment was not matched by an increase in the halls of residence. A study by Pritchett (2001) revealed that a system of cost sharing between Government, the student population and the private sector would be introduced, and that further attention would be given to identifying new mechanisms to maximize revenue generation. It was in response to the policy of cost sharing in tertiary education and the problem of increasing enrolment vis-a-vis unexpanding facilities (halls of residence) that the institutions embarked on a new paradigm in Tertiary Educational System known as Non – Resident where a first year student would be provided accommodation on campus but the second and third year students would have to find accommodation off campus.

Government Spending Cuts

Typically for most developing countries, public funds are channeled to universities direct from ministries of finance and/or education, while in other countries; this is done through an accredited government agency (such as the Higher Education Loans Board for the case of Kenya)(Johnstone et. al.,1998). A study by UNESCO (2000) found that traditionally, the state played a central role in the financing of universities for almost all developing countries. Over the years however, the trend has changed, with many governments steadily moving away from being the primary financier of higher education, giving way to the participation of the private sector and more involvement of the individual student. While low and middle level income countries experienced rapid student enrolment growth, real public expenditures on higher education fell significantly implying that the resource gap had to be filled by other sources (UNESCO, 2000).

Cost of Residential Accommodation

Attempts to shift part of the costs of higher education accommodation from the state to students or parents have reemphasized the important role of student loans in promoting efficiency and access to higher education. The World Bank particularly stresses that cost-sharing cannot be implemented adequately without a functioning student loan programme, where students borrow to finance their education (World Bank, 1988). Also, in order to minimize subsidy levels, government-financed student loan programs should typically charge interest sufficient to cover the government's cost of borrowing as well as administrative costs (Hauptman, 1999). Detailed financial analysis for selected countries shows that the present value of repayment collected by loan programs in developing countries constitutes a small percentage of loan value disbursed plus costs of administering. Hence, loan programs haven't reduced significantly the governments' fiscal burden for higher education (Albrecht and Ziderman, 1995)

High Interest Rates on Loans

Interest rate on loans is one of the key determinants of growth and expansion in the Private Sector. Even though the Government has reduced interest rate from about 32 percent in June 2003 to an average of 20 percent as at June 2007 (Daily Graphic, Tuesday, June 2007), the Private Sector will still find it difficult to thrive in the area of University hostel accommodation. A further reduction in interest rate needs to be done by the Government for private hostel providers to provide their complementary role to the University in terms of accommodation provision for the University to achieve its strategic objective stated in the corporate strategic Plan. Beside the impact on the University, a reduction in interest rate is necessary if the Private Sector is expected to perform its function as the engine of growth. But then it has to be said that, market forces place a major role in the determination of the interest rates on loans and so the call on the government is well placed (Daily Graphic, Tuesday, June 2007).

Student loans in Singapore are interest free. But the marketability of the program of study is a crucial prerequisite for the award. In this case, the repayment schedule should be completed by three years, starting six months after graduation. Other programs have interest free loans that are administered by the universities (World Bank, 1983).

Data Analysis/Findings

Regression analysis

The researcher conducted a multiple regression analysis so as establish the factors influencing growth of Hostels in Kenya. The researcher applied the statistical package SPSS, to enter and compute the measurements of the multiple regressions for the study as presented below.

Table 4. 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508[a]	.752	.796	.89757

Source: Research, 2013

a. Predictors: (Constant) Rising Student Numbers, Government Spending cuts, Cost of Residential Accommodation and High Interest rate on Loans.

b. growth of Hostels in Kenya

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (growth of Hostels in Kenya) that is explained by all the 4 independent variables (Rising Student Numbers, Government Spending cuts, Cost of Residential Accommodation and High Interest rate on Loans). The four independent variables that were studied, explain 75.2% of variance to establish the factors influencing growth of Hostels in

Kenya. as represented by the R^2.This therefore means that other factors not studied in this research contribute 24.8% of variance in the dependent variable. Therefore, further research should be conducted to establish the factors influencing growth of Hostels in Kenya.

Table 4. 2:ANOVA[a]

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.686	4	2.671	16.478	.000[b]
	Residual	81.193	317	.256		
	Total	91.879	321			

a.Predictors: (Constant) Rising Student Numbers, Government Spending cuts, Cost of Residential Accommodation and High Interest rate on Loans.

b. Growth of Hostels in Kenya

The F critical at 5% level of significance was 3.56.since F calculated is greater than the F critical (value 16.478), this shows that the overall model was significant. The significance is less than 0.05, thus indicating that the predictor variables, explain the variation in the dependent variable which is growth of Hostels in Kenya. If the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable.

Table 4. 8: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.978	.984		8.110	.000
	Rising Student Numbers	.270	.117	.272	2.302	.005
	Government Spending cuts	.032	.165	.025	.195	.004
	Cost of Residential Accommodation	.305	.148	.256	2.065	.003
	High Interest rate on Loans	.391	.180	.275	2.175	.001

The regression equation (**Y = β0+ β1X1 + β2X2 + β3X3 + β4X4)** was interpreted to mean

$Y= 7.978+.270X_1+.032X2+.305X_3+.391X_4$

Y= growth of Hostels in Kenya

X_1 is Rising Student Numbers X_2 Government Spending cuts, X3 is Cost of Residential Accommodation & Technology and X4 is the High Interest rate on Loans.

According to the equation, taking all factors (Rising Student Numbers, Government Spending cuts, Cost of Residential Accommodation and High Interest rate on Loans) constant at zero, overall growth of Hostels in Kenya will be 7.978. The data findings also show that a unit increase Rising Student Numbers will lead to a 0.270 increase growth of Hostels in Kenya; a unit increase Government Spending cuts will lead to a 0. 032 increase in growth of Hostels in Kenya; a unit increase in Cost of Residential Accommodation & Technology, will lead to a 0. 305 increases in growth of Hostels in Kenya and a unit increase in High Interest rate on Loans Will lead to a 0.391 increase in growth of Hostels in Kenya. This means that the most significant variable is Rising Student Numbers followed by Government Spending cuts and Cost of Residential Accommodation & Technology.

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