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The Contribution of Student Loans to Student Retention in Higher Education Institutions in Mwanza City, Tanzania

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Abstract: This study examined the contribution of student loans to the retention of students in higher education institutions in Mwanza City, Tanzania. Higher education is critical for national development, yet financial constraints remain a major barrier to student persistence, particularly for those from low-income backgrounds. Guided by Human Capital Theory, the study focused on how student loans influence access, retention, and academic performance. A mixed-methods approach using a convergent parallel design was employed, involving 133 respondents, including students from CUHAS and CBE, as well as admission and loan officers. Quantitative data were collected through structured questionnaires while qualitative data were obtained via interviews. Quantitative data were analyzed using descriptive statistics, and qualitative data were subjected to thematic analysis. The findings revealed that although students are aware of funding strategies, particularly student loans and scholarships, 97.6% of respondents reported that current loan amounts are insufficient to fully cover tuition, living, and academic expenses. Nonetheless, student loans were found to significantly improve access to higher education, reduce financial burdens on families, and support student retention and academic performance. Well-structured loan schemes with reasonable and flexible repayment conditions further enhanced students' confidence and reduced financial stress. The study concluded that student loans play a critical role in promoting higher education access and retention, but gaps in sufficiency and delays in disbursement remain key challenges. It is recommended that policymakers increase loan amounts to match actual costs, ensure timely disbursement, provide awareness of alternative funding options, and maintain flexible, income-based repayment schemes. Strengthening these measures will enhance retention, academic success, and the development of a skilled workforce in Tanzania.

Keyword : Disbursment; Retention; Attrition; Loans; Access; Constraints.

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INTRODUCTION

Higher education plays a vital role in fostering national development by equipping individuals with the skills and knowledge required for innovation and social progress. Trinh and Cicea (2019) emphasize that investment in higher education positively influences human capital and contributes to overall national growth.

However, the link between higher education funding and student retention is critical, as sufficient financial resources ensure student persistence and academic success. Mgaiwa and Ishengoma (2023) observe that inadequate funding creates barriers to completion, especially for students from low-income families. Hence, student loans serve as a crucial tool to promote equity and retention by easing financial burdens and enhancing access to educational opportunities.

Globally, financing strategies such as student loan programs have been developed to ensure access, sustainability, and quality in higher education. Wang et al. (2023) highlight that student loans provide opportunities for students to pursue education regardless of their socioeconomic background, with repayment typically beginning after graduation. Behr et al. (2020) further assert that improved financial support systems lead to better retention and graduation outcomes, strengthening institutional stability. The World Declaration on Higher Education (1998) reinforced the importance of inclusive financing policies by urging governments to reform student funding systems to enhance access for disadvantaged groups. This global framework underscores the significance of student loans as instruments for retention and equity.

Many countries have successfully implemented student loan schemes suited to their contexts. In the United States, federal and private loan systems enable millions to access higher education (Pernagallo, 2024), while Finland's 1969 reform introduced government-guaranteed loans to promote equality in educational access (Chen, 2024). In Asia, nations such as China, Japan, and Malaysia have also developed similar schemes to expand access and maintain quality amid rising enrolments (Huang, 2018). Across Africa, student loan programs are equally vital but often face sustainability challenges. South Africa's NSFAS, created in 1991, provides financial assistance to underprivileged students (Asah & Louw, 2021), while Ghana's Student Loan Trust Fund and Kenya's Higher Education Loans Board (HELB) aim to support financially needy students (Benjamin et al., 2019). These examples demonstrate that well-managed loan systems enhance both access and student retention in higher education institutions.

In Tanzania, higher education funding has undergone major reforms to address persistent financial barriers. The Higher Education Students' Loans Board (HESLB) was established in 2004 following the National Higher Education Policy to provide loans to qualified students from low-income families (Mulokozi, 2020). HESLB covers tuition, research, fieldwork, and other academic expenses, ensuring inclusivity through a cost-sharing model. The Tanzanian government continues to strengthen its investment in this area, allocating TZS 787 billion for 2024/2025, a notable increase from TZS 731 billion in 2023/2024 (HESLB, 2024). This increase reflects the government's commitment to expanding access to higher education and promoting student persistence. However, studies indicate that despite these efforts, many

students still face challenges in completing their studies due to delays in disbursement and insufficient coverage of living costs (Mgaiwa & Ishengoma, 2023).

In Mwanza City, retention challenges remain significant among students in higher education institutions, primarily due to financial constraints and administrative inefficiencies in accessing loan funds. Odilah et al. (2025) report that although student loan availability has increased access to universities, many students continue to struggle with delayed payments and partial loan coverage, leading to absenteeism and dropout. Mwanza's higher learning institutions rely heavily on HESLB support, making the effectiveness of the student loan program a critical factor in ensuring student continuity. Therefore, examining the contribution of student loans to student retention in Mwanza is essential for understanding how financial mechanisms can be strengthened to promote equitable and sustainable higher education outcomes.

The Tanzanian government has made significant efforts to improve access to higher education through initiatives such as the Higher Education Students' Loans Board (HESLB), which provides financial assistance to students from low-income families. However, despite these efforts, student retention remains a major challenge, particularly in Mwanza City, where many students struggle to afford tuition, accommodation, and other living expenses due to inadequate or delayed loan disbursements. If this challenge is not addressed, higher learning institutions risk continued student dropouts, reduced graduation rates, and a decline in the overall quality and productivity of the education system ultimately hindering national development. Therefore, this study examined the contribution of student loans to student retention in higher education institutions in Mwanza City.

Theoretical Review

The study employed Human Capital Theory developed by Gary Becker (1964). It emphasizes that education, skills, and health are key investments that enhance individual productivity and national economic growth. It views education particularly higher education as comparable to physical capital investment, as it increases human capacity, income potential, and overall societal development. The theory's strength lies in linking education funding to productivity and development, reinforcing the importance of supporting students through adequate financial mechanisms such as student loans to promote retention and success. However, its weakness is its narrow focus on economic returns, overlooking social and cultural benefits and the inequalities faced by those unable to afford education. The Human Capital Theory is relevant to this study as it explains how investing in higher education through student loans enhances both individual and national development. By enabling students particularly those from low-income backgrounds to access and complete their studies, student loans act as an investment in human capital that

improves skills, productivity, and employability. This, in turn, strengthens national economic growth by creating a more educated and competitive workforce. The theory supports the study's focus by showing that adequate higher education funding promotes student retention, reduces dropouts caused by financial hardship, and ensures long-term returns through social and economic advancement in Tanzania.

Empirical Literature Review

Studies across various countries have demonstrated the complex relationship between student loans, access to higher education, and social equity. In Japan, Furuta (2024) investigated the burden of student loan debt across socioeconomic backgrounds, revealing that students from economically disadvantaged families were more likely to borrow but often opted for shorter programs to reduce debt risk. The study also found gendered dynamics in decision-making, where mothers emphasized cost-benefit concerns. It concluded that loan policies must address both financial need and perceived risk to ensure equitable access. However, the reliance on self-reported data limited the study's ability to fully capture real financial decision-making behaviors, prompting a recommendation for future research incorporating behavioral and institutional factors.

In China, Qi et al. (2022) explored how different forms of financial aid affected academic achievement among university students using logistic regression analysis based on Human Capital and Student Development theories. The findings showed that National Scholarships and Student Loans had positive effects on academic success, while work-study and National Grants were negatively associated with performance, possibly due to time and workload constraints. The study concluded that well-structured and sufficiently funded aid programs enhance student outcomes, while poor design can have adverse effects. It recommended refining aid structures and resource targeting to maximize academic benefits and reduce negative impacts.

In Nigeria, Salaudeen and Muhammad (2024) analyzed the Student Loan Act (SLA) through a qualitative lens grounded in Human Capital Theory, assessing its philosophical foundation and feasibility. Their findings indicated that while the SLA aims to promote educational access, its current framework replicates previous policy failures, given the country's high unemployment and economic instability. The study highlighted a mismatch between educational expansion and economic growth, termed "growth without development," and recommended a national education reform before fully implementing the SLA. This underscores the need for context-sensitive and economically sustainable student loan systems in developing nations.

Similarly, in Zimbabwe, Muchimba and Liestiawati (2024) used a mixed-methods approach to examine the impact of grants and student loans on college access and retention. Results showed that although financial aid increased enrolment among low-income students, persistent inequalities especially gender-based limited its

overall success. Structural challenges such as complex loan processes, fear of long-term debt, and weak job prospects constrained participation. The study concluded that financial aid policies should be more inclusive, simplify access, and strengthen post-graduation employment support. While the study effectively demonstrated aid's role in widening access, it called for more robust measures addressing inequality and loan system inefficiencies.

In Tanzania, two key studies by Mgaiwa and Ishengoma (2023) and Sululu and Kahimba (2022) provided insights into the national higher education loan scheme. Mgaiwa and Ishengoma (2023) revealed that the current financing system perpetuates inequality by favoring certain programs and students from better socioeconomic backgrounds. They called for reforms to promote equitable, needs-based funding aligned with Sustainable Development Goals. On the other hand, Sululu and Kahimba (2022) focused on graduates' post-education experiences, finding that while loans helped access education, repayment burdens limited economic advancement and life stability. They recommended reducing deduction rates and supporting income growth for graduates. Together, these studies emphasize that Tanzania's student loan system, though vital for access and retention, requires structural adjustments to ensure fairness, affordability, and long-term sustainability.

METHODOLOGY

The study employed a mixed methods approach using a convergent parallel design, integrating quantitative and qualitative data to comprehensively. Conducted at CUHAS and CBE, the study targeted 1,444 individuals including 1132 CUHAS students, 308 CBE students, 2 admission officers and 2 loan officers. From this population, a sample size of 133 respondents including 99 CUHAS students, 30 CBE students, 2 admission officers, and 2 loan officers was drawn. Stratified and simple random sampling were used for students, while purposive sampling selected key admission officers and loan officers. Data were collected through questionnaires and interviews. Validity was ensured through expert review and content analysis, while reliability was confirmed via a pilot study, yielding a test–retest coefficient of 0.70. Quantitative data were analyzed using SPSS version 26 for descriptive and correlational statistics, while qualitative data underwent thematic analysis. Ethical standards including informed consent, confidentiality, and official research clearance from relevant authorities were strictly observed to maintain research integrity and participant protection.

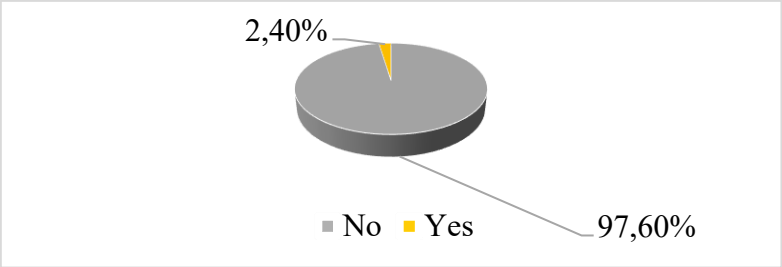
RESULT AND DISCUSSION

Contribution of Student Loans to the Retention of Students in Higher Education Institutions

The study aimed to examine the contribution of students' loan to the retention of students in higher education institutions. This presentation of the findings was categorized into two parts which included the sufficiency of loan for students as well as the Likert scale containing statements on the contribution of students' loan to the retention of students in higher education institutions.

Sufficiency of Loan Provision

The aim of the part is to look on students' knowledge on the sufficiency of loan. The results from this part were collected through Yes/No question from the questionnaire and interview from admission officers and loan officers.



Source: Field Data (2025)

Figure 1. Students Response on Students' Opinions on Students' Loan Enough.

Figure 1 presents the findings on students' opinions to whether students' loan is enough for their retention in higher education institutions. 97.6% (124 respondents) responded that student's loan is not enough while 2.4% (3 respondents) stated that students' loan is enough. This implies that most students believe the current student loan is not enough to support their stay in higher education. The high percentage shows a strong concern about the adequacy of financial support provided. Insufficient loans may lead to challenges in meeting basic academic and living needs, which can increase the risk of dropout. Therefore, reviewing and improving the loan amount and coverage is important to support student retention. One interviewee added that;

> *"Many students complained that the loan they receive does not fully cover their needs, especially when it comes to meals, rent, and learning materials. We follow the guidelines from the loan board, but the cost of living has gone up, and the loan amounts have not changed much. Some students end up borrowing money from others just to survive. This puts pressure on them and affects their focus on studie".* (Interview, L1, September 2025)

This implies that the current student loan structure appears misaligned with the actual cost of living and studying, leading many students to experience significant financial stress. This financial burden can negatively impact their academic performance, well-being, and ultimately increase their risk of dropping out. To enhance student retention, it is essential to review and redesign the loan scheme to reflect the real-life financial needs of students.

Kasambala and Musiba, (2025) supports this view by revealing that the Student Loan Act (SLA) replicates the structural weaknesses of past schemes, particularly their lack of sustainability in high-unemployment contexts, which limits their effectiveness in supporting long-term educational goals. Similarly, Oketch (2023) emphasizes that sustainable student financing must be flexible and responsive to socio-economic realities. Drawing on Human Capital Theory, these findings highlight that while students recognize the value of education, inadequate and rigid financial support can undermine retention and reduce the potential return on educational investment. Therefore, to improve student outcomes and long-term economic productivity, financial aid schemes must be both accessible and responsive to students' actual circumstances.

Also, the researcher intended to examine the contribution of student loans to the retention of students in higher education institutions. The result of this objective was collected through a Likert scale added to the questionnaire and interviews. In collecting data for this objective, students first were required to indicate SD= Strongly disagree, D=Disagree, U=Undecided, A=Agree, and SA=Strongly agree, followed by findings from the interview, as shown in Table 1.

Table 1. Students' Response on the Contribution of Student Loans to the Retention of Students in Higher Education Institutions

No.	Items	SD		D		U		A		SA	
		F	%	F	%	F	%	F	%	F	%
1.	Student loans have significantly improved access to higher education for financially disadvantaged students.	-	-	-	-	1	0.8	105	82.7	21	16.5
2.	The availability of student loans reduces the financial burden on students and their families.	-	-	-	-	2	1.6	23	18.1	1.2	80.3
3.	Student loan schemes are well-structured and effectively managed by	-	-	2	1.6	2	1.6	100	78.7	23	18.1

	higher education funding institutions.										
4.	Repayment conditions of student loans are reasonable and consider the financial capacity of graduates.	2	1.6	1	0.8	1	0.8	24	18.9	99	78
5.	Student loans contribute positively to student retention and academic performance in higher education.	-	-	-	-	4	3.1	102	80.3	21	16.5

Source: Field Data (2025)

Student Loans Improve Access to Higher Education

According to the data, 82.7% of respondents (105 respondents) agreed and 16.5% (21 respondents) strongly agreed that student loans have significantly improved access to higher education for financially disadvantaged students. Only 0.8% (1 respondent) remained undecided, and none disagreed. This finding clearly indicates that the majority of respondents believe student loans are making higher education more accessible, especially for those who cannot afford tuition and other related costs. In many cases, financial constraints are major barriers to higher education, and this data suggests that student loans are helping bridge that gap. By removing this financial obstacle, loans are allowing more young people from poor or low-income backgrounds to enroll in colleges and universities. This not only promotes equal opportunity but also contributes to the overall development of a more educated and skilled society. Through interviews, the majority of respondents indicated that student loans play a crucial role in making higher education accessible to students from low-income backgrounds by alleviating financial barriers. One of the respondents added that;

> *"Student loans really open up opportunities for a lot of students who might not have the money to pay for college right away. I have seen students who thought college was out of reach be able to enroll and pursue their dreams because of loans. It is definitely not easy to take on debt, but loans can be a helpful tool when used carefully. For many, loans are the bridge that makes higher education possible".* (Interview L1, September 2025).

This means that student loans help remove financial barriers that might stop someone from going to college. Because of loans, more students can attend universities and improve their chances in life. This leads to a more skilled workforce

and can help people move up socially and economically. Loans play a key role in giving more people access to education who otherwise might not have it. This aligns with Muchimba and Liestiawati (2024), who reveals that while grants and loans have positively influenced enrollment, especially among low-income students, disparities remain for marginalized groups such as women. They also highlight challenges like complicated loan application processes, fear of long-term debt, and uncertain job prospects after graduation that hinder broader loan access. This perspective is supported by human capital theory, which emphasizes education as an investment that enhances individual productivity and societal economic growth.

Student Loans Reduce Financial Burden on Families

In this category, 80.3% of respondents (102 respondents) strongly agreed, and 18.1% (23 respondents) agreed that student loans help reduce the financial burden on both students and their families. A small number, 1.6% (2 respondents), were undecided. None disagreed. This result shows that student loans not only benefit individual students but also ease financial pressure on their households. Paying for university or college can be a major financial challenge, especially in families with low or moderate income. Student loans act as a financial cushion, allowing families to avoid heavy debts or the need to sacrifice other basic needs to fund a child's education. As a result, both students and parents experience less stress, and students are more likely to stay in school and perform better academically. In the interview conducted to one of the respondents displays that;

> *"Student loans often help families by paying in installment. Instead of paying everything upfront, parents and students manage payments more easily after graduation. I have talked to many families who feel less stressed knowing they do not have to drain their savings all at once. Loans give families some financial breathing room while still supporting the student's education". (*Interview L1, September 2025*)*

This shows that student loans help families avoid immediate financial pressure when paying for college. As a result, families can maintain their savings and manage everyday expenses without too much strain. This leads to a healthier financial situation for the whole household during the student's studies. In the long run, spreading out payments can make higher education more affordable and less overwhelming for families. This is supported by Muchimba and Liestiawati (2024), who emphasize that loans alleviate financial burdens, enabling families to better manage their resources. Kasambala and Musiba, (2025) highlights the importance of sustainable loan schemes that reduce immediate costs and promote continued access to education without causing undue financial hardship.

Student Loan Schemes are Well-Structured and Managed

A majority of 78.7% (100 respondents) agreed, and 18.1% (23 respondents) strongly agreed that the student loan systems are well-structured and effectively managed by the relevant funding institutions. Only 1.6% (2 respondents) were undecided, and another 1.6% (2 respondents) disagreed. This indicates a high level of trust and satisfaction in how student loan programs are being handled. A well-managed loan system means the application, disbursement, monitoring, and communication processes are clear, timely, and fair. When the loan system is efficient and transparent, it builds confidence among students and families, which increases participation and ensures that funds are properly used to support education. If the system were poorly managed, it could discourage applicants, delay funding, or cause confusion all of which would negatively affect student retention and performance. One of the interviewees stated that;

> *"From what I have seen, student loan programs are designed to be clear and fair for students. They often have flexible repayment plans that adjust based on a graduate's income, which helps reduce stress. The process is managed carefully to ensure students understand their responsibilities and options. This kind of support makes it easier for students to focus on their studies without worrying too much about finances".* (Interview A2, September 2025).

This suggests that well-structured loan schemes help students feel more confident about borrowing money for education. Because repayment plans are flexible, students are less likely to struggle financially after graduation. This leads to more students completing their degrees without dropping out due to money worries. Overall, good management of loan programs supports student success and financial stability. Chirwa et al. (2022) revealed that while many countries face common challenges like high demand for funding and loan recovery issues, effective institutional management and clear policies are crucial for improving loan systems. Compared to This shows that student loans help families avoid immediate financial pressure when paying for college. As a result, families can maintain their savings and manage everyday expenses without too much strain. This leads to a healthier financial situation for the whole household during the student's studies. In the long run, spreading out payments can make higher education more affordable and less overwhelming for families. This is supported by Muchimba and Liestiawati (2024), who emphasize that loans alleviate financial burdens, enabling families to better manage their resources. Kasambala and Musiba, (2025), who emphasizes the need for sustainable loan schemes to reduce financial hardship, both studies align on the importance of well-managed, adaptable loan programs in enhancing student retention and success. This aligns with human capital theory, which posits that

investing in education increases individuals' productivity and economic potential, benefiting both the students and society in the long term.

Loan Repayment Conditions are Reasonable

The finding shows that 78% of respondents (99 respondents) strongly agreed with the statement, and 18.9% (24 respondents) agreed that the repayment terms of student loans are reasonable and consider the financial situations of graduates. Only 0.8% (1 respondent) was undecided, 0.8% (1) disagreed, and 1.6% (2 respondents) strongly disagreed. This result reveals that most respondents feel confident about their ability to repay the loans after graduation. Reasonable repayment conditions such as low interest rates, grace periods, or income-based repayment are crucial to the long-term success of any student loan program. When graduates are given enough time and flexibility to repay their loans based on their income levels, they are less likely to default or face financial hardship. This also reduces anxiety about borrowing in the first place, making students more likely to complete their education rather than drop out due to fear of future debt. During the interview, one responded commented that;

> *"I have found that loan repayment terms are designed to be manageable for most students. Many programs offer flexible options, such as income-based repayment plans, where graduates repay a portion of their income rather than a fixed amount. For example, one graduate I spoke with shared that after finishing university and securing an entry-level job, her monthly loan payments were adjusted to match her salary, allowing her to cover living expenses while still making consistent repayments. This flexibility made it easier for her to plan her finances and avoid feeling overwhelmed. Overall, the goal of such repayment structures is to support students in fulfilling their financial obligations without adding excessive pressure during the early stages of their careers". (*Interview L2, September 2025*).*

This suggests that reasonable and flexible repayment conditions play a critical role in reducing financial stress for graduates as they transition into the workforce. By aligning repayments with income, students are less likely to default or fall behind, which contributes to greater financial stability early in their careers. In the long term, such equitable repayment structures not only encourage more students to pursue higher education without fear of unmanageable debt but also help level the playing field for those from disadvantaged backgrounds. This is reinforced by Mgaiwa and Ishengoma (2023), who highlight that inadequate and uneven financing mechanisms exacerbate social inequality, particularly for students from low socio-economic backgrounds who often receive little or no support. This aligns with human capital theory, which emphasizes that fair and inclusive investment in education is essential for skill development, upward mobility, and broader economic and social progress. Designing repayment plans that are both fair and responsive to graduates' financial

realities is key to promoting both educational access and long-term societal development.

Student Loans Support Retention and Academic Performance

Here, 80.3% of respondents (102 respondents) agreed, and 16.5% (21 respondents) strongly agreed that student loans positively influence student retention and academic performance. Only 3.1% (4 respondents) were undecided, and no one disagreed. This finding highlights that student loans not only facilitate access to higher education but also help students remain enrolled and perform well academically. Financial difficulties are a major cause of dropout, and by alleviating these worries such as tuition, living costs, and study materials student loans enable students to concentrate better on their studies. This financial support contributes to higher retention and improved academic outcomes, which are crucial for developing a skilled and productive workforce. One respondent commended that;

> *"Student loans help students stay enrolled by easing their financial worries. When students know they have the funds to cover tuition and living costs, they can focus better on their studies. I have seen many students improve their grades and stay in school longer thanks to this support. Loans make it possible for students to commit fully to their education without constant financial stress". (*Interview A1, September 2025*)*

This shows that student loans play an important role in helping students continue their education without interruption. When financial concerns are managed, students can concentrate more on learning and performing well academically. This leads to higher retention rates and better overall success in college. Student loans help build a stronger, more capable student body ready to graduate and contribute to society. Sululu and Kahimba (2022) indicate that while the Higher Education Students' Loans Board (HESLB) has been successful in supporting graduates who enter the workforce, particularly in public and private sectors, the expected long-term financial benefits, such as asset ownership (land, houses, capital) and the ability to establish stable families, have been limited.

Chirwa et al. (2022) emphasize that despite the positive role of loan schemes in enhancing access to higher education, challenges remain in ensuring that loans translate into sustained socio-economic improvements for graduates. This aligns with human capital theory, which asserts that investment in education enhances individual productivity and economic outcomes, but only when supported by effective financial structures and socio-economic opportunities.

CONCLUSIONS

The findings of this study concluded that student loans play a critical role in enhancing access to and retention in higher education institutions in Mwanza City. The majority of students are aware of available funding strategies, primarily student loans and scholarships, which facilitate enrollment for financially disadvantaged students. However, while the loan system reduces the financial burden on families and supports continued academic engagement, the sufficiency of loans remains a significant concern, as most students perceive the amounts provided as inadequate to fully cover tuition, living expenses, and learning materials. Well-structured and effectively managed loan programs, along with reasonable and flexible repayment conditions, contribute to greater student confidence, reduced financial stress, and improved academic performance, ultimately promoting retention. These findings underscore the alignment with Human Capital Theory, highlighting that investment in education through accessible and adequately funded loan schemes enhances individual skills, productivity, and long-term economic and social development. Nevertheless, gaps in coverage and delayed disbursement can undermine these benefits, particularly for low-income students, indicating a need for ongoing improvements in loan policies and administration.

Recommendations

To strengthen the contribution of student loans to student retention, policymakers and higher education funding institutions should increase the loan amounts to better reflect actual tuition, living, and learning costs, particularly for students from low-income backgrounds. Timely disbursement of funds must be ensured to prevent interruptions in academic engagement and reduce dropout risk. Additionally, awareness campaigns should expand beyond loans and scholarships to inform students of alternative funding opportunities, fostering informed decision-making. Loan schemes should continue to offer flexible, income-based repayment plans while considering inflation and cost-of-living adjustments, ensuring graduates can repay without undue financial hardship. Institutions should also streamline application and monitoring processes, ensuring transparency, fairness, and effective management to build student confidence in the system. By implementing these measures, student loans can more effectively support retention, academic performance, and the long-term development of a skilled workforce in Tanzania.

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