

# Behavioral Factors Influencing Students' Loan Repayment in Tanzania

Momole Kasambala<sup>1</sup> & Jacktan Stephen Musiba<sup>2</sup>

<sup>1&2</sup>Tanzania Institute of Accountancy

Corresponding e-mail: momole.kasambala@tia.ac.tz

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## **Abstract**

*This study examined behavioral factors influencing student loan repayment among beneficiaries in Tanzania using a cross-sectional survey of 324 respondents. Findings revealed that 65% of respondents indicated a medium likelihood of timely repayment if their income increased, while actual repayment behavior was mostly rated as medium (61%), with only a small percentage making high repayments. Although 65% acknowledged the importance of timely repayment, prioritization of loan payments relative to other expenses was generally low to medium. Guided by behaviorism theory, the study highlights a disconnect between awareness of repayment importance and actual repayment behavior, suggesting weak environmental reinforcement of repayment habits. The study recommends strengthening incentives and penalties, improving financial literacy, and adopting flexible repayment plans to enhance loan repayment rates and sustainability of student loan schemes in Tanzania.*

**Keywords:** Non-Performing Loans, Student loans, and Loans Repayment

## **1.0 INTRODUCTION**

Tanzania's government invested in education for its battement and benefits of citizens since its independence. In 1963, the Tanzania government abolished school fees in primary and secondary schools while in higher learning institutions, students from poor families were offered bursary loans to cover fees and living expenses. The loans were partially recovered from graduates by offering non-payable services to the nation for six months, thereafter employed in the public sector by accepting a deduction of 60% from their monthly gross salary for 18 months (Rugambuka, 2008). As a result of the 1970s global financial crisis, the Tanzania government experienced difficulties in financing public education. The bursary system was heavily loaded and the response to the crisis by the government was to reduce the expenditure on the social sector. So, the reinstatement of the cost-sharing policy in education was made in the 1980s and formally announced in January 1992 (Nyahende, 2019). Financing students in higher learning institutions through loan programmes is not only the case in Tanzania, but also has been introduced in about 70 countries around the world (World Bank, 2010). Governments of developed countries like Japan, Scandinavia and the U.S.A. started to finance students in higher learning institutions in the years between 1940s and 1950s while in Canada and other developing countries loan programmes were launched in the 1960s (Galabawa, 1991). The proceeding consequence of sharing policy in high learning institutions was the replacement of the bursary system with student loan schemes in 1994/95. In the scheme, repayment of the entire loan was through deductions from the beneficiaries' salaries for ten years (Dunia, 2020). The scheme faced legal framework challenges and subsequently, the Parliamentary Act No. 9 of 2004 (amended in 2015) was formulated leading to the legal establishment of the Higher Education Students' Loans Board (HESLB). Students funded by HESLB are currently offered a maximum of TZS 3,600,000 (US\$ 2250) for tuition fees, TZS 7,500 (US\$ 4.69) per day of studies for meals and accommodation, TZS 200,000.00 (US\$ 125) for books and stationery per annum and TZS 560,000 (US\$ 350) for field practical/teaching practical work (HESLB, 2022). Through the HESLB, the government is investing in education hence improving the well-being of its society and human resources in terms of trained government officers.

Researchers (Nyahende, 2013; Mussa, 2015; Mapunda, 2017) reported that students' loan recoveries are highly not realized in Tanzanian. The HESLB at the beginning was inherited with TZS 13 billion debts disabused by Student Loans Schemes since 1994/95. Evidence indicates that collection of disbursement had started in July 2007 (Rugambuka, 2008). The advocated tools for loan recovery were Debt Collecting Agents, advertising names of loanees in media (newspapers, radio and television) and voluntary loan repayment (Nyahende,

2013). Despite the establishment of HESLB, for the period of ten years (2006 - 2016), the amount of the loan not recovered has reached TZS 90 billion and the recovery gap is widening instead of narrowing (Memba, 2016).

Further, (Mapunda, 2017) pointed out that for the past three years 2013 – 2016, the recovered loan amounts to 45.5% only while the recovery gap is widening. Studies (Memba, 2016; Mapunda, 2017) revealed that loan recoveries have at least been responded to by beneficiaries employed in government departments, institutions, quasi-government institutions and very few private employees through the use of employers as Debt Collecting Agents. So far, the collection of loans residing in informal sectors like businessmen and farmers is very poor as it depends on their voluntary payment (*ibid*). However, past studies have had little focus on behavioral factors. Thus, this study examined behavioral factors influencing students' loans repayment in Tanzania.

## **2.0 LITERATURE REVIEW**

### **2.1 Theoretical Review**

This study was guided by behaviorism theory by Watson (1913). The theory posits that behavior is shaped by interaction with the environment through conditioning. According to this theory, any individual can be trained to behave in a particular way under right environmental stimuli, regardless of personal background. Behaviorism focuses solely on observable and measurable behaviours, excluding internal states like thoughts or emotions (Kundu, 2013; Bhattarai, 2018). In the context of student loan repayment in Tanzania, this theory suggests that repayment behaviors are influenced by learned responses to environmental factors such as institutional policies, repayment reminders, consequence for default and specific stimulus response patterns. These help to address how consistent exposure to positive or negative consequences can condition students' repayment behaviors (Cang 2011; Wong 2012). Thus, behaviourism theory provides a useful lens for understanding how external influences condition students' actions regarding loan repayment.

### **2.2 Empirical Literature Review**

A body of empirical research emphasizes the importance of behavioural factors in shaping students' behavior toward education loan repayment. Lim et al. (2024) found that student attitude, parental influence, and perceptions about life after graduation positively correlate with students' intention to repay educational loans. Similarly, Ismail *et al.* (2015) revealed the pivotal role of attitude and perceptions in determining repayment behavior, affirming that cognitive and emotional responses to debt are as influential as economic factors. Boatman et al. (2022) reported that loan evasion behavior among students in higher learning

institutions remains a significant challenge. Abu Bakar *et al.* (2006) observed that while students were generally knowledgeable about the terms of the loan scheme, a substantial proportion displayed negative attitude toward repayment. Bhandary *et al.* (2024) identified that negative factors such as perceived debt burden and poor quality of life were found to be correlated with high risk of loan default. Conversely, positive behavior traits including good credit history, financial literacy, and prioritization of repayment were linked to lower loan default rates. Adibelli *et al.* (2022) emphasized the significance of repayment structures, income sensitivity and administrative efficiency.

### 3.0 METHODS

This study employed a quantitative cross sectional survey design to assess the behavioral factors influencing students' loan repayment in Tanzania. This design enabled the collection of data at a single point in time, making it suitable for capturing the attitude of respondents regarding loan repayment. The study targeted loan beneficiaries across the country, utilizing email contacts obtained from the HESLB database. Through this approach 324 respondents were engaged to provide the required data of the study. Descriptive statistics was employed to analyse the collected data.

### 4.0 FINDINGS AND DISCUSSION

Table 1 reveals that only 22.9% of students have participated in financial literacy programmes, suggesting limited exposure to financial education. This low participation may correlate with a lack of preparedness and negative attitude toward student loan repayment. Similar findings were reported by Bhandary *et al.* (2023) who revealed that financial knowledge has positive influence toward students' loan repayment. However, this may not always be the case across countries. Abu Bakar *et al.* (2006) revealed that students in Malaysia had good knowledge about National Education Fund Corporation but they had negative attitude toward loan repayment. The variations of the findings suggest that financial knowledge alone may be insufficient in cultivating responsible repayment behavior.

**Table 1: Participated in financial literacy programs or seminars**

Response	Frequency	Per cent
Yes	74	22.9
No	250	77.1
<b>Total</b>	<b>324</b>	<b>100</b>

Source: Field Data (2024)

Similarly, the finding of the study presented in Table 2 indicates a significant insight into students' financial preparedness in relation to loan repayment. Only 25% of the respondents reported having a clear budgeting plan to manage their finances and ensure timely loan repayment. In contrast, majority of the respondents (75%) admitted to lacking such a plan. This finding suggests a critical gap in financial literacy and preparedness among the majority of the students. This finding corresponds with the findings reported by Bhandary *et al.* (2023).

**Table 2: Clear budgeting plan to manage finances and timely loan payments**

Response	Frequency	Per cent
Yes	81	25
No	243	75
<b>Total</b>	<b>324</b>	<b>100</b>

Source: Field Data 2024

Moreover, the findings presented in Table 3 highlight the level of satisfaction students have with their current income which is a critical factor influencing their attitude and capacity for loan repayment. The data indicates that majority (66%) of the students are dissatisfied with their income level. This dissatisfaction may lead to increased anxiety and hence reduce their motivation to prioritize loan repayment. These findings reflect the findings reported by Boatman *et al.* (2022) that loan aversion among prospective higher education students is an issue in both countries.

**Table 3: Level of satisfaction on income level**

Response	Frequency	Per cent
Very High	10	3
High	19	6
Medium	80	25
Low	160	49
Very Low	55	17
<b>Total</b>	<b>324</b>	<b>100</b>

Source: Field Data (2024)

Another finding depicted in Table 4 presents respondents' likelihood of making timely student loan repayments in the event of an income increase. The majority of respondents (65%) rated their likelihood as medium. This result implies that income level alone may not guarantee improved repayment behavior. Thus, HESLB should consider integrating financial education programmes for effective loan repayment. The findings of this study are contrary to the findings reported by Bhandary *et al.* (2024) that indicated salary as the vital factor for educational loan repayment.

**Table 4: Timely Loan Repayment in case there's an increase in the Income Level**

Response	Frequency	Per cent
Very High	12	4
High	80	24
Medium	209	65
Low	19	6
Very Low	4	1
<b>Total</b>	<b>324</b>	<b>100</b>

Source: Field Data (2024)

Furthermore, Table 5 presents respondents' perceptions of how crucial it is to make timely student loan payments. The findings show that majority of the total respondents (65%) rated the importance as high. This implies that majority of respondents recognize the importance of making timely loan repayments. These findings correspond with behaviourism theory (Watson, 1913), that strong acknowledgement of the importance of repayment may represent cognitive awareness shaped by external influence such as repayment policies and loan enforcement mechanisms.

**Table 5: Behavioral Traits on Loan Repayment**

Response	Frequency	Per cent
Very High	60	19
High	150	46
Medium	80	24
Low	29	9
Very Low	5	2
<b>Total</b>	<b>324</b>	<b>100</b>

Source: Field Data (2024)

Additionally, Table 6 illustrates respondents' prioritization of student loan payment relative to other personal expenses. The majority of the respondents (56) rated their prioritization as medium. This implies that considerable portion of borrowers do not place a high priority on repaying their student loans. In behaviorist perspective (Watson, 1913), prioritization reflects the learned value assigned to certain actions. Thus if student loan repayment is not reinforced through positive outcomes, borrowers are unlikely to assign it high importance. Similarly, Lim *et al.* (2024); Ismail *et al.* (2015) revealed that attitudes and perceptions play a vital role toward educational loan repayment.

**Table 6: Rate of prioritizing student's loan payments as compared to other expenses**

Response	Frequency	Per cent
Very High	4	1
High	10	3
Medium	180	56
Low	80	25
Very Low	50	15
<b>Total</b>	<b>324</b>	<b>100</b>

Source: Field Data (2024)

## 5.0 CONCLUSION

The study assesses the behavioral factors influencing student loan repayment in Tanzania, with a focus on attitude, prioritization, and responsiveness to income changes. Findings revealed that while most respondents recognize the importance of timely repayment, actual repayment behavior and prioritization remain moderate to low. Even with perceived significance, repayment is often deprioritized, suggesting a gap between awareness and action. Guided by behaviorism theory, the results indicate that repayment behavior is not sufficiently reinforced by current environmental stimuli which may explain the weak behavioral commitment to repayment.

## 6.0 RECOMMENDATIONS

Based on the findings, it is recommended that the HESLB strengthen behavioural reinforcement mechanisms by introducing consistent incentives for timely repayment and enforce action against defaulters to encourage habitual repayment behavior. Additionally, enhancing financial literacy programmes focused on budgeting and debt management can empower borrowers to make informed repayment decisions. The use of digital tools, timely reminders, and progress updates can further support consistent repayment habits. Finally, improving transparency and communication within the loan system will build trust and motivate borrowers to prioritize their loan repayments.

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