Loan Repayment Performance: What Most Influences in Youth Groups Loan Uptake?

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Abstract

This paper focused on examining the determinants of repayment performance of the group loan uptake in Tanzania. The study applied a cross-sectional research design with the questionnaire as the primary method for data collection. Data were collected from youth groups based in Dar es Salaam who are beneficiaries of the Youth Development Fund (YDF). The findings have revealed that petty trading is the most preferred income- generating activity by the majority of youth beneficiaries of the YDF. Furthermore, the findings show that the amount provided by YDF to youth is not enough to run the enterprises and our results have demonstrated that the non-performing loans in youth groups are the results of not having adequate training in entrepreneurship, financial management, and business management. It has been significantly established that beneficiaries who accessed the training have more chances to improve their loan repayment as compared to those with no training in business management, financial management, and entrepreneurship. Based on the study findings the study recommends that the YDF scheme needs to improve its operations, particularly in providing training to beneficiaries that will ultimately improve loan repayment.

Keywords: *Loan Repayment Performance, Youth Development Fund, Groups Loans Uptake, Tanzania.*

JEL Classification Code: G24, P37

1.0 Introduction

The World Economic Forum estimates that the youth population will grow to 1.3 billion by 2030 (WEC, 2022). Globally, young people face unemployment challenges, and as a result, starting a business seems like a great solution to battle unemployment. While establishing businesses, accessing finance in the mainstream financial sector is not an easy task. In an attempt to address this challenge among youth in developing countries, group funding is emerging as the most innovative strategy worldwide. According to NBS (2022), youth in Tanzania comprises persons aged 15 to 35 years, and they form 35% of the total population. The challenges facing youth in Tanzania are no exception as compared to the situation in other developing countries, as such youth are encouraged to form groups and undertake micro-enterprises using credit provided by the government, microfinance institutions, and

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banks. The establishment of youth groups enables young people to run income-generating activities in their localities using local resources.

To address the challenges facing youth, the government of Tanzania introduced several policies and initiatives to make youth participate in economic activities. Among the policies formulated is the National Youth Development Policy (NYDP) (1996) which was later reviewed in 2007. The policy gives a clear direction for preparing youth with soft skills, attitudes, and competencies for the job market and self-employment. The formulation of NYDP in Tanzania led to the introduction of several strategies to deal with the unemployment challenge. Some of the initiatives were the establishment of a youth department under the community development department, Vocational Education Training Authority (VETA), and Youth Development Fund (YDF).

To curb the challenge of unemployment among youth in Tanzania, the National Assembly adopted a resolution in 2013 to start the YDF and empower the young population to create employment opportunities (Daily News, 2022). In 2018 the Local Government Finance Act, chapter 290 section 37A, was amended to categorise the loans provided through YDF, it was established that loans amounting to 10 percent of Local Councils' revenue are now issued interest-free from July 2018 based on the distribution of 4% for youth, 4% for women and 2% for people with disabilities.

The youth are urged to organize into groups and create a community-based enterprise that will include entrepreneurial initiatives that engage in income-generating activities to earn money and support the economic development of a specific community to access the group loans established by the government (Amani, 2017). Generally speaking, these businesses seem to support marginalized areas' social and economic survival as well as potential development. Additionally, these entrepreneurial endeavors have been seen as a way to improve living circumstances in economically depressed urban and rural communities.

According to an examination of Controller and Auditor General (CAG) reports of Tanzania on the trend of YDF repayment, a total of 63% of the loans given in 2016–17 were not collected; this number rose to 59% in 2017–18; and to 59% in 2018–19. Additionally, according to the CAG reports, the amount of unrecovered loans was 65% in 2019–20 and 70% in 2020–21. Some of the explanations offered by the CAG reports include the fact that the individual LGAs awarded loans without thoroughly examining the repayment histories of the organisations or assessing the pertinent project proposals to make sure the groups could return their loans on time. Moreover, there is no close follow-up to ensure that the groups repay their outstanding debts. Unpaid loans could exhaust the revolving fund.

In response to previous operational challenges of the Women, Youth and People with Disabilities Fund (WYDF), on 29 March 2023, upon receipt of CAG annual report for the financial year 2021/2022, the President ordered a review of the loan disbursement procedures. Subsequently, the Prime Minister directed all LGAs nationwide to suspend issuing loans to special groups to give the Government time to establish a new system for issuing loans that address the highlighted challenges. The CAG review for the financial year 2022/23 revealed that 62 LGAs did not fully contribute the required 10% to the Fund, resulting in unremitted contributions amounting to TZS 7.27 billion. Upon evaluating the performance of the WYDF, CAG observed that loan beneficiaries in 151 LGAs defaulted repayments totaling TZS 79.70 billion for issued loans, which remained unrecovered as of 30 June 2023. Furthermore, upon examining loans issued to groups, CAG noted that 46 LGAs had outstanding loans totaling TZS 5.70 billion from 1,334 groups that ceased operations; and the existence of 851 groups in 19 LGAs that reported to have received loans totaling TZS 2.6 billion could not be confirmed. To this end, our study examined what most influences non-performing youth group loans in Tanzania using the Dar es Salaam region as a case study.

This paper consists of five sections. The second section is the literature review. The third section discusses the research methodology. The fourth section discusses the research findings. The fifth section provides the conclusions and recommendations based on the findings of the study.

2.0 Literature Review

According to Jafo (2019), the main objective of the YDF is to encourage disadvantaged youth to engage in legal income-generating activities and increase their income. In the Tanzania context, various studies have been done on the provision of YDF, for example, Tarimo (2019), investigated the effects of YDF on the growth of youth economic activities; while Sehaba and Nyanda (2022) explored the role of YDF in youth employment creation in Kilosa district. Furthermore, Temu (2019) assessed youth credit accessibility and employment creation. All these prior studies ignored an issue of non-performing loans specifically in youth groups loan uptake in Tanzania.

Loan repayment is an achievement of a beneficiary to return the property or pay back the money to the lender according to the terms of the loan agreement which include an interest charged. Usually, there is a predetermined time frame for repaying a loan, and generally, the lender has to bear the risk that the borrower may not repay the loan. Typically, the money is paid back in regular installments, or partial repayments (Suleiman *et al.,* 2017).

There are few studies in Sub-Saharan Africa relating to youth group loan uptake, for example, a study carried out by Macharia (2015) studied the Kawangware slum of Nairobi on the influence of entrepreneurship skills on the sustainability of youth enterprises. The study aimed to establish ways in which skills in different aspects such as project planning, market access, resource mobilization, and financial literacy affect youth businesses' sustainability. The study revealed that most of the youth entrepreneurs lack skills and experience which leads to the failure of many projects they implement. From the previous findings, the following hypotheses were developed and tested:

Moreover, Abdul (2018) conducted a study on the entrepreneurship skills and growth of small and medium enterprises of Nigerian entrepreneurs and a minority of UK entrepreneurs. It focused on revealing the influence of creative thinking, problem-solving, and communication skills on the growth of the enterprises in the two countries. A descriptive analysis of data was used. The study found that in both countries there is a significant relationship between entrepreneurship skills and SME growth. Furthermore, the study revealed that creative thinking, problem-solving, and communication skills have an influence in increasing sales, and gave them a competitive advantage. UK minority entrepreneurs argue also that creative thinking and a balance of problem-solving, and communication skills are critical to SMEs' growth.

3.0 Research Methodology

The youth population in Tanzania makes up 35% of the total population according to the 2022 population and housing census reported by the National Bureau of Statistics in December 2022. For this study, the population will involve youth groups from all five (5) districts of the Dar-es-salaam region who access loans from YDF. Dar es Salaam region has a total number of 456 youth groups with average members of 5 to 10. Table 1 shows the youth group distribution and sample size used to get data. The sample size was established by taking two (2) members from each sampled youth group. A total of two hundred (200) youths were identified and respondents were asked to complete a research questionnaire. A combination of purposeful and random sampling was deployed to explore the case. Purposeful sampling was deployed to select wards where groups will be accessed. The random sampling was deployed to select several youths from the selected groups.

Youth from the groups served as a unit of analysis from which data were gathered and therein followed by analysis and conclusion.

Table 1: Youth Groups in the Dar es Salaam Region

District	Youth groups	Percentage of the total	Sample size
Temeke	123	27%	34
Ubungo	76	17%	14
Ilala	90	20%	18
Kinondoni	102	22%	23
Kigamboni	65	14%	11
Total	**456**	**100%**	**100**

Source: Own research (2023)

Participants were selected based on the criterion of first being part of the group, running a business, and having at least taken a loan once. This study involved the collection of primary and secondary data. Primary data comprised of respondents' characteristics including education levels, occupation of the respondents, and experience with the YDF youth. Likewise, data on business performance and loan repayment were collected. The study variables were measured by the Likert scale.

In this study, a quantitative data analysis approach was applied. Quantitative analysis was carried out using descriptive statistics and results were displayed in tables and graphs. The study makes use of SPSS program version 20 to analyse quantitative data. From the literature review, the independent variables of the model include training on entrepreneurship management (TEM), training on business management (TBM), and training on financial management (TFM) while the dependent variable is loan repayment performance (LRP)

4.0 Findings and Discussion of Results

4.1 Descriptive Analysis

Among the youth interviewed, males and females were 70% and 30% respectively as indicated in Table 2. These findings imply that the YDF beneficiaries are mostly young men engaged in different income-generating activities. Further inquiry was made to the fund providers as to why this is the case, a justification was provided that women have a separate fund scheme known as the women fund scheme and it is probably the reason why there are not so many women beneficiaries in the YDF scheme. It should note that the YDF targets both young men and young women and further investigation may be required as to why more young women are not participating in the YDF. Scholars like Ritter-Hayashi *et al.* (2019) argued that diversity in terms of gender improves capacities and decision- making.

The Tanzania youth development policy identifies youth groups as those aged between 18 to 35 years and as such the study wanted to find out the age range of those involved in the YDF. Findings in Table 2 reveal that most of the beneficiaries (51%) were aged between 31-35 years old, about 33.5% had an age range of between 26 – 30 years and 15.5% had attained the age of 18-25 years old. These results imply that most of the youth beneficiaries are in the age bracket which the government is pushing so much effort to address the challenge of unemployment and providing funding through YDF loans is one of the best approaches. To comment on the efforts undertaken by the government, Biney (2018) emphasized in the previous studies that younger business owners and entrepreneurs can potentially succeed if they are provided with the necessary support and incentives to undertake their business operations, same was confirmed by the study of Tundui and Tundui (2023).

Education levels play an important role in young people's aspiration to achieve a certain level of development and entrepreneurial mind set. In this case, the findings show that most of the YDF beneficiaries (72.5%) had achieved primary education and about 21.5% had attained secondary education. This implies that most youth with primary education resort to income-generating activities as the only opportunity as compared to their colleagues who have attained post-secondary education. These imply that most youths are likely to engage in small income-generating activities if their education level is less than the secondary level. Moreover, among the youth interviewed 71.5% were married and 23.5% were single. Our findings imply that the YDF beneficiaries are mostly coupled and 68% have household size (number of dependents/children) of 1 to 3.

Table 2: Demographic characteristics of the respondents (n= 200)

Demographic characteristics of the respondents		**Frequency**	**Percentage**
Sex	Male	140	70.0
	Female	60	30.0
Age (Years)	18-25	31	15.5
	26-30	67	33.5
	31-35	102	51.0

Demographic characteristics of the respondents		Frequency	Percentage
Education level	No education	10	5.0
	Primary Level	145	72.5
	Secondary Level	43	21.5
	Technical Education	2	1.0
Marital status	Single	47	23.5
	Married	143	71.5
	Divorced	8	4.0
	Widow/Widower	2	1.0
Household size (number of dependents/children)	1-3	136	68.0
	4-5	40	20
	6-8	21	10.5
	More than 8	3	1.5

Source: Own research (2023)

Furthermore, the study focused on characterising the businesses undertaken by youth who access loans from YDF scheme in the Dar es Salaam region. Every participant was asked to indicate the type of business they do which helped them to access the loan from the fund. Results show that 32.5% are engaged in petty trading at the market which is about one-third of all interviewed respondents. Further findings indicated in Table 3 have revealed that about 16.5% of the youth engage in meat roasting along streets and about 11% are involved in the transportation business through owning a motorcycle. More business engagements are as detailed in Table 3.

Table 3: Income-generating activities conducted by youth with YDF support

Type of enterprise	Frequency	Percentage (%)
Carpentry	14	7.0
Petty trading at the market	65	32.5
Livestock keeping	3	1.5
Food processing	9	4.5
Poultry keeping	16	8.0
Street hawking	14	7.0
Embroidering and cake baking	1	0.5
Tailoring	8	4.0
Selling drinks	5	2.5
Food vending	7	3.5
Meat roasting	33	16.5
Fruits selling	1	0.5

Type of enterprise	Frequency	Percentage (%)
Boda boda transporter	22	11.0
Hair cutting saloon	1	0.5
Bricks making	1	0.5
Total	**200**	**100**

Source: Own research (2023)

In the presence of so many bureaucracies and the increased cost of starting a well-established business, most youth resort to micro-businesses across the street which are labour-intensive and they can change from one type of business to the other based on what is trending in the market. For instance, someone may switch from fruit vending to meat roasting or any other form of business that attract customers in a particular neighbourhood. Studies by Kafle *et al.* (2019) corroborate the findings of this research as they established that most small businesses are established by youth who lack the capital and skills to start high capital-intensive investments.

Further inquiry through the literature and discussion with business leaders in the municipality offices revealed that youth like to invest in opportunities that provide quick returns and as such they are mostly found in petty trading activities. Engaging in income-generating activities like poultry keeping was regarded as capital intensive much as a good number of youths would like to invest in such businesses but access to land was a challenge. In such a situation, easy-to-go opportunities were then preferred like buying and selling chicken and its products in the market which together was termed under the umbrella of petty trading.

Much as there are diverse business opportunities undertaken by youth, there are also challenging moments that the youth face in operationalising their businesses, some of these challenges include inadequate skills in business operations which were revealed through responses on whether they have been provided with entrepreneurial training or business management courses and most of them said no. This may jeopardize the sustainability of the business and the ability to repay the loans by just lacking the knowledge that the same loan would benefit someone else once repaid. It is the call to the fund managers to provide regular capacity-building sessions to business operators keep them up to date and remind them on why they should strive to pay the loans.

4.2 Regression analysis

The study employed a linear regression model in data analysis at a 95% confidence interval and the results detailed in Table 4 reveal a model fit, underscored by a reasonable high R- squared value of 0.633 and an adjusted R-squared of 0.631. These statistics imply that approximately 63.3% of the observed loan repayment performance is accounted for by the selected independent variables, such as training on entrepreneurship management, training on business management, and training on financial management. The high F-statistic of 6.459, with a probability of 0.000, indicates that the model is generally statistically significant. This suggests that at least one independent variable significantly influences loan repayment performance.

Table 4: Regression Model Summary

R	R Square	Adjusted R Square	F-statistics	Sig	Std. Error of the Estimate
0.742	0.633	0.631	6.459	0.000	0.22

Source: Own Research (2023)

The regression model results depict that all the determinants involved in the study were found to influence the repayment of loans significantly positively with a p-value less than the pre-determined level of confidence at 95% confidence level.

$$LRPit=-0.16+0.24TEMit+0.289TFMit+0.413TBMit+\varepsilon it \ldots\ldots\ldots\ldots\ldots (2)$$

The coefficient of the estimates (see Table 5) shows that a unit increase in the training on entrepreneurship is likely to influence the likelihood of loan repayment performance by 24% keeping another factor constant. This factor was significant with a t-value of 3.888 and p-value of 0.000 which confirms that its contribution to the increase in the rate of loan repayment is statistically significant. In this case, failure to provide training on entrepreneurship leads to non-repayment of loans significantly.

The regression model also has estimated that a unit increase in the frequency of providing training on financial management is likely to improve the loan repayment by 28.9% keeping another factor constant. This finding denotes that access to training in financial management is a significant predictor of the likelihood of loan repayment with a t-value of

4.018 and a p-value of 0.000. Likewise, this implies that not having access to such training leads to an increase in non-repayment of loans taken from youth development funds. Furthermore, the model has estimated that a unit increase in the frequency of training in business management is likely to influence the likelihood of loan repayment by 41.3%. This prediction is statistically significant with a t- value of 5.75 and a p-value of 0.000.

This confirms the presumption that increased skills in business management lead to the likelihood of loan repayment.

Table 5: Estimated coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.016	.254		-.065	.949
Training on entrepreneurship enhances repayment.	.240	.062	.236	3.888	.000
Training in financial management enhances repayment.	.289	.072	.239	4.018	.000
Training in business management enhances repayment.	.413	.072	.376	5.750	.000

Source: Own Research (2023)

5.0 Conclusion and Recommendations

The study centered on assessing determinants of loan repayment performance in the youth development fund scheme managed by LGAs. Three (3) factors were considered; business management training, financial management training, and entrepreneurship training, and how all of them influence loan repayment. Based on the study findings, the study recommends that the youth development fund scheme needs to improve its operations, particularly in providing training to beneficiaries which will ultimately improve loan repayment. It has been significantly established that beneficiaries who accessed the training have more chances to improve their loan repayment as compared to those with no training in business management, financial management, and entrepreneurship.

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