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Determinants of Group Loans Uptake at the Local Government Authorities Fund among Youths in Mwanga District Council, Tanzania

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ABSTRACT

This study examines why youth groups in Mwanga District, Tanzania, show low uptake of a local government loan fund designed to improve credit access. A cross-sectional mixed-methods design was employed, collecting data via questionnaires from 122 youth group leaders selected through stratified cluster sampling. A highly predictive model (Nagelkerke R^2 = 0.90) identified four key determinants: marital status, non-farm economic activities, positive borrower attitude and the loan amount requested. Notably, only 36.9% of groups received their full applied amount. Major barriers were perceptual (widespread favouritism at 71.3%) and institutional (impractical short repayment periods at 67.9%). The study concludes that low uptake stems from a misalignment between the fund's design and the realities of youth entrepreneurs. It recommends transparent, merit-based administration, redesigning loan terms to align with business cash flows, simplifying procedures, and adding mandatory financial literacy training to enhance the fund's effectiveness for youth entrepreneurship and financial inclusion.

1. Introduction

The demographic landscape is increasingly youthful, presenting both immense opportunities and significant challenges for sustainable development. With a world population projected to reach 9 billion by 2050, of which 14% will be youth, the imperative to create viable economic opportunities for this cohort has never been more urgent (FAO, 2014). Globally, young people constitute a quarter of the working-age population yet account for nearly half of the world's unemployed, highlighting a critical disconnect between demographic trends and economic absorption capacity (FAO, 2015). This challenge is particularly acute in Africa, where nations like Tanzania experience a stark mismatch between the high growth rate of the youth population (3.2%) and an economic growth rate (6.8%) that fails to generate sufficient formal-sector employment (UNFPA, 2012; NGTR, 2016). The scale of the challenge is immense: approximately 900,000 young Tanzanians enter the job market annually, competing for only 50,000 to 60,000 new formal jobs (URT, 2016). In this context, access to finance is widely recognized as a pivotal driver of development, catalyzing entrepreneurial ventures, economic growth, and poverty reduction (World Bank, 2012).

In response to this pressing global and national issue, governments, including Tanzania's, have made concerted efforts to implement targeted interventions. There is a growing appreciation that empowering youth economically is integral to national development, leading to support for youth ministries, policies, and dedicated programmes (Muller & Thurlow, 2019; Redford, 2017; Filmer & Fox, 2014; Yunus, 2008). Tanzania's approach has evolved through various flagship initiatives, including the Youth Development Fund (YDF), Women Development Fund (WDF), National Enterprise Development Fund (NEDF), and the Presidential Trust Fund (PTF). The most recent and structurally significant intervention is the amendment of the Local Government Authorities Financial Act (2018) - Cap 290, which introduced Section 37A. This registration mandates all LGAs to set aside 10% of their locally collected revenue to provide interest-free loans specifically to registered groups of women (4%), youth (4%), and persons with disabilities (2%) (URT, 2018). This fund is strategically designed to surpass the traditional barriers posed by commercial financial institutions, offering a lifeline to those deemed 'unbankable.'

Despite these commendable and well-intentioned governmental efforts, a persistent and paradoxical challenge remains as the uptake of these dedicated funds by the intended youth beneficiaries remains disproportionately low. As Odera et al. (2013) note, youths continue to face significant hurdles in accessing credit, even from government-designed facilities. This is not a new phenomenon; banks and microfinance institutions have historically been reluctant to serve this demographic due to perceived risks associated with a lack of physical collateral, inadequate financial records and insufficient technical and management skills among entrepreneurs (Wanjohi, 2011; Pham & Lensink, 2007). The situation in Tanzania reflects this broader trend. Muller (2007) suggests that lower demand for credit among youth entrepreneurs might be a factor, while Adera et al. (2014) contend that systemic eligibility criteria, often mirroring those of formal banks, effectively exclude young people who cannot meet requirements for collateral or guaranteed income. Empirical evidence of this low uptake is stark: over three consecutive fiscal years (2015/16-2017/18), youth groups accessed only 50% of their total allocated budget through these schemes (ANSAF, 2019).

This low uptake severely restricts capital for youth-led SMEs, which are crucial for economic growth and employment (Ngugi et al., 2012), perpetuating high youth unemployment and representing a failed public investment. While loan uptake from commercial sources is well-studied, a gap exists in the literature regarding government-facilitated, group-based schemes. To fill this gap, the research systematically investigated the determinants of loan uptake by analyzing its status and the socioeconomic factors and barriers that influence it.

This study provides evidence-based insights for the Mwanga District Council to enhance its youth fund regulations, procedures, and outreach. The findings also inform national policymakers designing similar entrepreneurship programmes. Furthermore, it contributes empirical data to academic discourse on financial inclusion and youth entrepreneurship, serving as a foundation for future research.

2. Materials and Methods

2.1. Study Area

This study was conducted in Mwanga District Council, a rural authority in Tanzania's Kilimanjaro region. The district was selected as a critical case study due to a documented paradox: high youth unemployment and access to funds coinciding with persistently low loan uptake among youth groups (Community Development Office, Mwanga District Council, 2025).

2.2. Research Design

A cross-sectional research design was employed to collect data from multiple respondent groups at a single point in time, appropriate for ascertaining relationships between socioeconomic variables while maximising resource efficiency (De Vaus, 2002, as cited in Ruheza et al., 2012).

2.3. Sampling Procedure

The target population comprised all 607 registered youth groups within the Mwanga District Council (Black,2008). The accessible sampling frame comprised 406 groups across seven wards (Community Development Office, Mwanga District Council, 2025). A multi-stage sampling technique was adopted (Orodho, 2005). Firstly, seven wards were purposively selected as primary clusters. Secondly, a stratified cluster sampling approach was applied, with a 30% sample proportionally selected from the youth group population in each ward, as per Mugenda and Mugenda's (2003) guidelines for adequate representation (Oso & Onen, 2008). Finally, purposive sampling identified group heads as primary respondents, supplemented by six key informants for expert insights, consistent with Kumar's (1989) methodology. To address the gender imbalance concern (75.4% male), the purposive selection explicitly included female-led groups where available, though the final sample reflects the actual population distribution of registered youth groups in the district council. Table 1 presents the distribution of sample sizes across wards.

Table 1: Sample size distribution across wards

Wards (Clusters)	Number of Groups	Sample Size (30%)
Mwanga	80	24
Kwakoa	53	16
Lembeni	53	16
Shighatani	57	17
Msangeni	73	22
Usangi	43	13
Mgagao	47	14
Total	**406**	**122**

2.4. Data Collection

Data collection used a mixed-methods approach. Primary data were gathered via self-administered, semi-structured questionnaires administered to youth group chairpersons, a method endorsed for its objectivity and effectiveness (Kothari, 2009). Unstructured questionnaires were administered to ward community development officers and district practitioners. Secondary data were sourced from literature and official reports. Instrument reliability was confirmed using Cronbach's Alpha, with all values exceeding the 0.7 benchmark for acceptable reliability (Kombo & Tromp, 2009) as shown in Table 2.

Table 2: Pilot test results

Variable	Number of Tests	Alpha Value
Financial literacy and training	10	0.794
Lending procedures	10	0.762
Access to information	10	0.833
Loan amount and repayment period	10	0.721
Loan uptake	10	0.827
Overall	**50**	**0.787**

2.5. Data Analysis

Data processing followed Kothari's (2009) framework of editing, coding, classification and tabulation, with entries made into IBM SPSS Statistics (version 22). Analysis involved descriptive statistics (frequencies, percentages, means) and inferential statistics. A binary logistic regression analysis, guided by Hosmer et al. (2013), was expressed as follows:

$$\text{Ln}(P_i / 1-P_i) = \alpha + X_i\beta$$

Where:
P_i is the predicted probability of loan uptake by a youth group
α is the regression constant
β is the vector of regression coefficients and
X_i is the vector of explanatory variables
The dependent variable was operationalised as a binary measure: 1 indicated full receipt of a group loan and 0 indicated non-full receipt (including partial receipt or no receipt). The dependent and independent variables are described in Table 3.

Table 3: Description of dependent and independent variables involved binary logistic regression model specification

Variable	Description
Dependent Variable:	
(***Categorical***) Youth group's receipt status of the applied loan	If the youth group received the full amount of the applied loan (1 if Yes, 0 if Otherwise)
Independent variables:	
Gender (X_1)	Gender of youth group leader (1=Male; 0=Female)
Age (X_2)	Age of respondent (Years)
Education (X_3)	Highest education level of respondent (1=Secondary education and above; 0= Lower to secondary education)
Marital (X_4)	Respondent's marital status (1=Married; 0= Otherwise
Occupation (X_5)	The main economic activity of the group (1= Non-farm; 0 = Farm-related activities)
Awareness (X_6)	Respondents' awareness of the existence of LGAs loans (1=Aware; 0=Not aware)
Financial knowledge (X_7)	Access to Financial knowledge and skills – Training (1=Yes; 0=Otherwise)
Attitude (X_8)	Perception of respondent towards group loans offered by LGAs (1 if Favourable; 0 if Otherwise)
Location (X_9)	The geographical location of respondent (1=from rural area; 0=from other areas)
Amount (X_{10})	Amount of loan applied by a group (Figures)

3. Results and Discussion

3.1. Socio-Demographic Characteristics of Respondents

Based on the socio-demographic profile of 122 respondents, Table 4 reveals a cohort predominantly consisting of married males (71.3% and 75.4%, respectively) within the core youth bracket of 27-35 years (73%). This profile immediately highlights a significant gender gap in the study sample, which likely reflects the real-world barriers to female participation in economic programmes, potentially stemming from cultural norms, collateral requirements or a focus on male-dominated sectors.

Furthermore, the results in Table 4 indicate that the economic landscape of the respondents is dominated by the informal sector, with motorcycle taxi operation (Bodaboda) constituting the primary source of income for 45.9% of youths, followed by livestock keeping (24.6%). This concentration suggests that the relevance and design of loan products are critical determinants of uptake; loans must be tailored to the cash-flow patterns, asset-acquisition needs and risk profiles of these specific informal enterprises to be viable.

Table 4: Socio-demographic characteristics of respondents

Category	Frequency	Percent (%)
Sex of Respondents		
Male	92	75.4
Female	30	24.6
Sub Total	**122**	**100**
Age of Respondents		
18-26	13	10.5
27-35	89	73
36 and above	20	16.4
Sub Total	**122**	**100**
Education level		
Non formal	05	4.1
Primary	61	50
Secondary	54	44.3
College and above	02	1.6
Sub Total	**122**	**100**
Marital status		
Single	25	20.5
Married	87	71.3
Widow/Widower	06	4.9
Divorced	02	1.6
Separated	02	1.6
Sub Total	**122**	**100**
Group activity		
Livestock keeping	30	24.6
Agribusiness	03	2.5
Petty trading	13	10.7
Transportation (*Bodaboda)*	56	45.9
Saloon	02	1.6
Food vendoring	02	1.6
Shoe making	08	6.6
Butchery	04	3.3
General business	04	3.3
Sub Total	**122**	**100**

Educationally, most respondents have primary or secondary education (94.3%), indicating adequate literacy but potentially limited formal financial or business management skills that could affect their ability to navigate complex loan application forms, develop bankable business plans, or manage debt effectively. The higher rate (71.3%) of married individuals may indicate a higher sense of financial responsibility, potentially making them more reliable borrowers, but also points to greater financial pressures that could deter risk-taking.

Consequently, the determinants of loan uptake are deeply intertwined with socio-demographic context. Strategies must therefore address this male-dominated, youth-driven informal sector by designing accessible informal products, coupled with targeted financial literacy training, to overcome the specific barriers and leverage the characteristics of this key demographic.

3.2. Status of Loan Uptake among Youths at the LGAs Fund

Table 5 presents the findings on loan uptake, revealing a critical distinction in the experience of youth groups with the LGAs fund. The data indicate that 45 groups (36.9%) successfully received the full amount of the loan they applied for, constituting a 'YES' response. Conversely, the vast majority, 77 groups (63.1%), fall into the 'NO' category, which is a composite of two distinct situations: groups that received no loan at all and groups that received only a partial disbursement of the amount they applied for. The nuanced definition of 'NO' is pivotal, as it indicates that the challenge is not merely about accessing the fund but also about securing adequate and complete financing.

Table 5: Status of loan uptake among youths at the LGAs fund

Whether the group applied for a loan	Frequency	Percent (%)
Yes	45	36.9
No	77	63.1
Total	**122**	**100**

This finding invites a discussion centred on funding adequacy and institutional trust. For the 36.9% who received their full requested amount, the fund is likely perceived as a reliable and transparent partner, which is crucial for its sustainability. However, for the 63.1% who did not get what they applied for, significant operational and perceptual issues are evident. The experience of groups that received a partial sum (e.g., applying for Tsh. 30,000,000 but receiving only Tsh. 15,000,000) is particularly telling. This shortfall can severely hamper project implementation, potentially leading to business failure and fostering disillusionment with the fund.

Key informant interviews revealed that partial disbursement often occurs due to insufficient capitalization of funds at the district level. As one district officer explained:

"*The council receives limited own-source revenue, and when the 10% set- aside is calculated, the amount available for youth is often far below the total applications received. We are forced to ration across many groups rather than fully fund fewer viable projects*" (District official, Mwanga, March 2025).

This pattern is not isolated. As Mpoto et al. (2022) note, in Tanzania inconsistent disbursement plagues similar funds, while in Kenya Khaoya and Moronge (2016) observed that the amounts accessed are often too small for meaningful impact. The poor recovery rates and limited beneficiary reach reported in Uganda (Nshimye et al., 2025) and Nigeria (Naiya et al., 2025) further confirm a regional trend of youth funds failing to deliver adequate, transformational capital.

Consequently, the low uptake rate is a symptom of systemic constraints. It suggests supply-side limitations, such as insufficient fund capitalisation, disbursement delays, or rigid risk models that prioritization, disbursement delays or rigid risk models that prioritise wide but shallow outreach over deep investment in viable proposals. Simultaneously, it reflects demand-side weaknesses in business planning among youth groups (Rugeiyamu, 2022). This disconnect between the fund's disbursement capacity and the actual capital requirements of youth enterprises represents a significant barrier to fostering substantive entrepreneurial growth.

3.3. Determinants of Group Loans Uptake at the LGAs Fund among Youths

The study's second objective, which explored how socio-economic factors affect youth groups' likelihood of securing full loans from the LGAs fund, revealed a highly predictive model. The analysis demonstrated that the selected variables collectively explained 90% of the variation in loan uptake, indicating a very strong model in which only 10% of the influence came from unmeasured factors (Nagelkerke $R^2 = 0.90$).

Crucially, the research identified four key drivers that significantly impact funding success. The marital status of its members strongly influenced a group's chances, its primary economic activity, the collective attitude towards borrowing and the specific loan amount requested ($P \leq 0.05$), as shown in Table 6.

Table 6: Binary logistic regression analysis for factors determining group loans uptake at the LGAs fund among youths

Variable	B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I.for EXP(B) Lower	Upper
Education level	2.046	1.512	1.832	1	0.176	7.735	0.400	149.654
Marital status	3.776	1.610	5.499	1	0.019*	0.023	0.001	0.538
Group's Activity	-4.976	2.171	5.253	1	0.022*	0.007	0.000	0.487
Awareness	-11.397	4.019E4	0.000	1	1.000	0.000	0.000	.
Training	16.021	4.019E4	0.000	1	1.000	9.075E6	0.000	.
Sex	0.601	1.568	0.147	1	0.702	1.823	0.084	39.410
Geographical location	2.543	1.416	3.222	1	0.073	12.714	0.792	204.149
Attitude	4.868	2.482	3.845	1	0.050*	0.008	0.000	0.998
Amount applied	0.000	0.000	8.426	1	0.004*	1.000	1.000	1.000
Age (yrs)	0.401	0.223	3.228	1	0.072	1.494	0.964	2.314
Constant	9.721	4.077	5.684	1	0.017	1.667E4		

Nagelkerke $R^2 = 0.90$, *statistically significant at $p \leq 0.05$ and **NS** =Not Significant

Conversely, several other factors were found to have no statistically significant effect on the outcome. These included the age, education level and sex of respondents, as well as their general awareness of loans, prior training and geographical locations (P > 0.05). This sharpens the focus for groups and lenders, highlighting that specific operational and attitudinal characteristics are more critical for success than broader demographic profiles.

Explanation of Non-Significant Variables: The lack of statistical significance for education level, age and sex warrants discussion. Regarding education, while 94.3% of respondents had primary or secondary education, the homogeneity of this variable (limited variation) may explain its non-significance. More critically, the findings suggest that practical business management skills and financial literacy, which were not captured by mere educational attainment, may matter more than formal schooling. For age, the narrow distribution (73% within 27-35 years) limited variation, but these data also imply that, within the youth definition, age alone does not determine funding success. Regarding sex, the male-dominated sample (75.4%) limits the power to detect gender effects; however, this finding may also indicate that group-based lending mechanisms, which emphasise social collateral and collective responsibility, mitigate individual gender-based discrimination common in individual lending contexts.

3.3.1. Marital Status

The analysis in Table 6 shows that marital status is a powerful, statistically significant predictor of group loan uptake among youths ($p < 0.05$). Furthermore, the results show that married youths had dramatically higher odds of taking a loan compared to youths from other marital statuses. Specifically, the odds for unmarried youths are 43.6 times lower (OR = 0.023, 95% C.I. 0.001-0.538), meaning married youths are significantly more likely to secure loans.

This local result aligns with a consistent global theme: marriage is associated with greater participation in diverse financial systems, from online lending platforms, where married borrowers see the highest funding success (Huang et al., 2022), to broader financial inclusion, where married individuals have a 2.370 times higher likelihood of demanding financial products (Mhlanga & Denhere, 2020). Several interconnected mechanisms, supported by aligned studies, likely explain this pronounced effect. First, marriage typically coincides with increased and more complex financial responsibilities such as housing, childcare, education and household investments, which create a concrete need for capital that group loans can fulfil (Mwangi & Kimani, 2015). Second, married individuals may benefit from enhanced household stability and the pooling of resources and information, making them more viable candidates for group-based lending as observed in cooperative settings (Adejo et al., 2017). Third, marriage potentially provides a form of social collateral; lenders, whether formal or informal, may perceive married individuals as more socially embedded and thus less likely to default, a perception reflected in higher funding success rates on lending platforms (Huang et al., 2022).

However, a critical nuance is that marriage, while driving uptake, does not guarantee repayment, as it is also associated with significant disparities in loan default rates (Mwanukizi et al., 2024). Married youths represent the primary demand segment for these group loans, and this insight should inform targeted product design and marketing for the LGAs fund as well as other financial institutions.

3.3.2. Group's Main Economic Activity

The analysis reveals a stark divergence in loan uptake, with the group's main economic activity being a decisive factor. Crucially, engagement in farm-related activity is a powerful negative predictor, reducing the odds of loan uptake to just 0.7% (OR = 0.007, 95% C.I. 0.000-0.487), indicating 99.3% lower odds compared to other sectors (Table 6). This demonstrates that the fund is primarily used for non-farm ventures such as motorcycle taxi transportation (Bodaboda), salons, and sewing projects.

This finding aligns with established literature on loan performance. Business viability drives both demand and repayment capacity; poor outcomes are a primary cause of default and reduced future uptake (Waichungo, 2014; Mugira, 2012). The preference for non-farm activities here suggests they are perceived or proven to be more viable, a notion supported by Sileshi et al. (2012) in Ethiopia, who found that off-farm activities and technical assistance positively influenced loan uptake and repayment.

However, securing the fund remains a challenge. As Kubaison and Ibuathu (2013) noted, youth groups often struggle with a lack of functional projects and the administrative burden of proposal writing, sometimes even paying for assistance. While the LGAs' funds' lack of traditional collateral is an opportunity, the prevailing deficit in business management skills—evident in both the preference for simpler non-farm trades and the literature—hinders effective utilization of these funds and broader inclusion, particularly for agricultural ventures. Therefore, the fund's design may inadvertently exclude key sectors, suggesting a need for tailored support to align its objectives with diverse youth enterprises.

Supporting Farm-Related Activities: The findings indicate that agricultural groups face unique barriers, including seasonal cash flows that conflict with rigid repayment schedules, greater perceived lender risk, and a lack of agricultural-specific business development support. To better support farm-related activities, the fund could introduce flexible repayment schedules aligned with harvest cycles, provide agricultural extension linkages, and offer lower interest rates (or extended grace periods) for value-added agricultural processing ventures that demonstrate viability.

3.3.3. Attitude

The synthesis identifies attitude as the most powerful psychological determinant of loan uptake. Results reveal an overwhelming effect: youth with a positive attitude towards the LGAs fund had significantly higher odds (OR interpretation: a negative coefficient indicates a positive attitude associated with lower odds of non-uptake) of securing the loan than those with a negative perception (Table 6). This finding underscores that, beyond structural factors like economic activity, subjective willingness is a critical gateway.

This aligns closely with the established literature, which shows that a positive disposition towards borrowing directly correlates with higher application rates (Nyanchama & Munene, 2024). As Jebarajakirthy et al. (2015) indicate, such positive affect enhances intentions to obtain microcredit, while perceived deterrents suppress them. In the context of group lending, Njoroge (2012) confirms that favourable perceptions significantly increase youths' willingness to participate in group loan uptake.

Consequently, the fund's success is not merely a function of its financial design but also of its perceived legitimacy and value among the target beneficiaries. A positive attitude acts as the essential catalyst that transforms availability into actual uptake. Therefore, alongside improving fund accessibility, dedicated interventions to shape constructive perceptions through awareness campaigns, success stories and trust-building are imperative to mobilize youth participation and achieve the fund's entrepreneurial development objectives.

3.3.4. Loan Amount Applied For

The results in Table 6 reveal a critical paradox regarding the amount applied for. While statistically significant, its negligible odds ratio (OR = 1.000, 95% C.I. 1.000-1.000) indicates that simply applying for more money does not meaningfully increase the probability of uptake. This finding points to deeper structural issues within the fund's design.

The literature consistently suggests that loan size appropriateness, rather than the amount itself, is the true determinant. Inadequate sums fail to incentivize application or support viable business expansion, as noted by Athiambo (2024) and Sikenyi (2017). Conversely, amounts too large for a group's repayment capacity, as highlighted by Kamadi (2013) and Ndirangu and Terer (2016), heighten the risk of default and may deter both lenders and borrowers.

Therefore, the significant but practically null statistical relationship underscores a fundamental misalignment. The fund's loan offerings appear disconnected from the actual financial needs and managerial capabilities of youth groups. This misalignment creates dual constraints: insufficient loans are not worth applying for, while perceived excessive loans are too risky to manage. To improve uptake, the fund must move beyond a one-size-fits-all approach and calibrate loan products that are both adequate for enterprise growth and commensurate with group repayment capacity, as Kazosi et al. (2024) similarly imply.

3.4. Institutional and Perceptual Barriers Affecting Uptake

The results in Table 7 show that a combination of deep-seated perceptual distrust and critical institutional design flaws primarily hinders youth uptake. The most significant barrier is a profound perception of institutional unfairness, dominated by widespread favouritism (71.3%), which erodes trust. Key informant interviews reveal that widespread favouritism dominates loans offered in most cases, as one participant argued:

"Politicians, especially councillors, bring us groups of their people and force us to give them these loans even when they do not meet the qualifications to obtain these loans" (Key informant, Mwanga District, March 2025).

Table 7: Institutional and perceptual barriers affecting uptake

Challenge/Barrier	Frequency	Percent (%)
Favourtism	87	71.3
Low financial education	24	19.7
Long loan procedures	30	24.6
Poor leadership	13	10.7
Limited business education	3	2.5
Low awareness of lending procedures	16	13.1
Short repayment period	85	69.7
Bureaucratic nature of some officers	32	26.2
Long follow-up	5	4.1
Incomplete information	1	0.8
A small amount compared to the applied loan	1	0.8
Membership dropout	2	1.6
Difficult conditions	9	7.4
Complicated procedures	4	3.3

The existing literature strongly validates the overwhelming identification of favouritism as a key barrier. The works of Giannetti and Yu (2007) and Kolstad and Wiig (2013) provide a theoretical backbone, explaining that in environments with high information costs, financiers naturally resort to funding familiar networks, thereby institutionalizing favouritism. This is not merely a perception but an operational reality, as Balakumar and Maitra (2023) confirm, showing how elite capture and political connections dictate access to financial services. Thus, the perceived unfairness is a direct reflection of documented, embedded practices that privilege certain groups over others.

On a structural level, Table 7 reveals that the loan terms themselves are major impediments: a short repayment period (69.7%) is ill-suited for youth business cycles, and long, complicated procedures exacerbate this issue. Kamadi (2013) provides direct empirical support, demonstrating that a short repayment period is a primary driver of default among youth groups, as it denies them the time needed to generate returns. This finding powerfully corroborates the data, showing that the loan product is fundamentally misaligned with the cash flow cycles of youth-led start-ups.

Furthermore, the frustration with bureaucracy (26.2%) and long, complicated procedures (24.6%) is echoed by Marystella and Kithae (2015) and Irungu et al. (2016), who explicitly argue for simplifying and shortening procedures to improve access. The long, complicated processes exacerbate the opportunity cost for youth and deepen their distrust in the system's efficiency and intent.

Current State of Financial Literacy: The study found that although 94.3% of respondents had primary or secondary education, only 19.7% identified a lack of financial education as a barrier, suggesting a potential lack of awareness of their own financial literacy gaps. Key informant interviews revealed that most youth group leaders were unable to prepare basic business plans, cash flow statements, or loan repayment schedules. This skills deficit contributes to both the high rejection/partial disbursement rates and the preference for simpler non-farm activities that require less sophisticated financial management.

In essence, youth engagement is stifled by both the perception of an inequitable system and the reality of inflexible, impractical financial mechanisms, indicating that building transparency and reforming core loan terms are essential to improving uptake.

4. Conclusion and Recommendations

4.1. Conclusion

This study concludes that the uptake of group loans among youths from the LGAs fund remains critically low, primarily due to a misalignment between the fund's design and the realities of youth entrepreneurship. Marital status, engagement in non-farm activities, positive borrower attitudes and appropriate loan sizing significantly determine uptake. However, severe institutional and perceptual barriers, particularly widespread favouritism and impractical loan terms, such as short repayment periods, erode trust and hinder access.

The study makes several theoretical contributions. First, it extends the financial inclusion literature by demonstrating that group-based government lending mechanisms face distinct challenges compared to individual microcredit models. Second, it provides empirical evidence from Tanzania that marital status and attitudinal factors are stronger predictors of uptake than traditional demographic variables such as education and age. Third, the findings challenge assumptions that government-mandated set-aside funds automatically improve access, revealing that implementation quality and institutional trust are critical mediating factors.

4.2. Recommendations

Therefore, to improve loan uptake at the LGAs fund, this study recommends transformative reforms:

First, administration must be made transparent and equitable through a public, merit-based selection process to dismantle the crippling perception of favouritism. This should include publicly advertised application windows, published selection criteria, independent review committees including youth representatives, and appeal mechanisms for rejected applications.

Second, the loan product itself requires redesigning with extended repayment periods (minimum of 12-24 months) and amounts calibrated to the cash-flow patterns of predominant youth enterprises, such as motorcycle transport and small-scale trade. For agricultural groups, seasonal repayment schedules aligned with harvest cycles should be introduced.

Third, application procedures must be simplified from the current multi-stage process to a standardized, checklist-based system that requires fewer documents and shorter processing times (target: 30 days from application to disbursement).

Fourth, mandatory financial literacy and business management training (minimum 5 days) should be required for applicant groups before disbursement. This training should cover basic bookkeeping, business plan preparation, cash flow management, and loan repayment discipline. The study found that only 19.7% of respondents had received any financial education, indicating a significant capacity gap.

Fifth, a structured monitoring and evaluation framework should be established, incorporating feedback from youth representatives through quarterly consultative forums to iteratively co-design and adapt the fund, ensuring it remains responsive and effective in fostering sustainable youth entrepreneurship.

4.3. Limitations and Future Research

This study has several limitations. First, the predominantly male sample (75.4%) limits the generalisability of the findings to female youth groups. Future research should deliberately oversample female-led groups to identify gender-specific barriers and success factors. Second, the cross-sectional design captures associations but cannot establish causality. Longitudinal studies tracking youth groups over multiple loan cycles would provide stronger evidence. Third, the study focused on a single district; comparative studies across multiple districts with varying fund administration practices would identify best practices. Fourth, qualitative exploration of why certain variables (education, age, sex) were not significant could reveal nuanced contextual factors. Finally, future research should examine the repayment behaviour of youth groups that successfully obtain loans, as uptake without sustainable repayment undermines the fund's viability.

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