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Beyond *Access* to *Finance*: Youth Motivations, Loan Utilization, and Repayment Behaviour in Local Government Soft Loan Schemes in Rural Tanzania

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Abstract: *Access to affordable finance remains a critical barrier for rural youth in Tanzania, where stringent collateral requirements by commercial banks systematically exclude young people from formal credit markets. In response, Local Government Authorities have implemented soft loan schemes targeting youth groups to foster entrepreneurship and economic inclusion. This mixed-methods study investigates youth motivations for accessing soft loans, utilization and investment patterns, and determinants of repayment success in Morogoro Rural District. We surveyed 200 youth loan beneficiaries through stratified random sampling, conducted focus group discussions with 16 participants from 14 youth groups, and interviewed three district officials. Quantitative data were analyzed using STATA version 18 for descriptive statistics, chi-square tests, and binary logistic regression, while qualitative data were thematically analyzed using Atlas.ti version 25. Findings reveal that structural features, such as absence of collateral and zero-interest rates, were primary motivators for loan uptake. However, a significant proportion of beneficiaries partially diverted funds toward household consumption needs due to economic pressures. Agriculture dominated investment choices, though technical capacity gaps led to substantial losses. Peer influence motivated participation but often propagated misinformation regarding repayment obligations. Logistic regression identified key predictors of repayment success: fully collective (OR = 3.434, p = 0.001) and mixed investment models (OR = 2.129, p = 0.027), alignment with stated purposes (full alignment OR = 4.789, p = 0.001; partial alignment OR = 2.440, p = 0.025), agricultural investments (OR = 2.489, p = 0.013), motivation by no collateral requirement (OR = 2.201, p = 0.014), and more recent loan cohorts (2023–2024; OR = 2.435, p = 0.003). Peer influence reduced the odds of repayment success (OR = 0.508, p = 0.019). We conclude that while LGA soft loans enhance financial access, sustainable impact requires integrated support systems addressing technical capacity, household survival pressures, misinformation, group governance, and continuous monitoring. Policy recommendations include mandatory pre-disbursement training, strengthened monitoring and evaluation, targeted communication to combat misinformation, support for sectoral diversification, and promotion of genuine collective enterprises.*

Keywords: *Youth financial inclusion; Soft loan schemes; Loan utilization patterns; Repayment behavior; Rural entrepreneurship*

1. Background Information

Youth unemployment represents a persistent structural challenge across sub-Saharan Africa, where rapid demographic expansion presents both a potential demographic dividend and a significant risk of social and economic instability if not strategically addressed (Bhorat *et al.*, 2020; International Labour Organization [ILO], 2022). In Tanzania, youth (aged 15–35) constitute over 35% of the population, yet face an official unemployment rate of approximately 13.7%, a figure that belies widespread underemployment, vulnerable informal sector work, and pervasive economic exclusion, particularly in rural regions where formal financial and labor markets remain underdeveloped (National Bureau of Statistics [NBS], 2022; World Bank, 2023). This demographic imperative is central to national and continental development ambitions, including Tanzania's Development Vision 2025 and 2050, which prioritize youth empowerment and entrepreneurship as catalysts for transforming Tanzania into a middle-income and subsequently high-income economy (United Republic of Tanzania [URT], 2021). Similarly, the African Union's Agenda 2063, through Aspiration 1 (A prosperous Africa based on inclusive growth) and Aspiration 6 (An Africa whose development is people-driven, relying on the potential

of its people), explicitly frames youth economic inclusion as foundational to achieving "The Africa We Want" (African Union Commission, 2015).

Globally, the Sustainable Development Goals (SDGs) further underscore the urgency of youth-focused financial and entrepreneurial inclusion. Specifically, SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequalities) collectively call for expanding access to financial services and creating viable livelihood opportunities for young people (United Nations, 2015). In response to well-documented financial exclusion, driven by commercial banks' stringent collateral requirements, high transaction costs, and perceived risk of youth borrowers, Local Government Authorities (LGAs) in Tanzania have implemented publicly subsidized *soft loan schemes* characterized by below-market (often zero) interest rates, flexible repayment schedules, and minimal or no collateral demands (Mori, 2015; Agwu, 2024). These interventions represent a pragmatic decentralization of poverty reduction and entrepreneurship policy, operationalizing objectives outlined in Tanzania's National Youth Development Policy (2007), Poverty Reduction Strategy (2010), and Five-Year Development Plans (URT, 2016). Recent data indicate substantial public investment in this approach, with LGAs disbursing approximately TZS 43.94 billion in statutory loans to women and youth groups in 2023 alone, reaching over 23,000 beneficiaries (Tanzania Investment Centre, 2024).

While such supply-side interventions have demonstrably expanded access to credit, their sustainability and developmental impact remain contested within global microfinance scholarship. Critical debates center on program viability, loan fungibility (the diversion of funds from productive investment to immediate consumption), and borrower repayment behavior—issues acutely relevant in Tanzania, where aggregate default rates for LGA youth loans have reached 43.5% (Audit, 2021; Abdallah & Mwakalobo, 2024). International evidence suggests that well-designed soft loan programs can stimulate job creation and entrepreneurial activity, particularly among marginalized groups excluded from formal finance (Khaleque *et al.*, 2021; Mohammed *et al.*, 2023). However, recurring challenges, including limited technical capacity among borrowers, mismatched loan products, inadequate post-disbursement support, and the powerful influence of social networks, often undermine projected economic returns and threaten program continuity (Hermes & Lensink, 2011; Stewart *et al.*, 2010).

In Tanzania, despite growing fiscal commitments to youth lending, a critical knowledge gap persists regarding the *behavioural and social processes* that shape how young borrowers engage with these programs. Existing studies predominantly offer macro-level analyses of disbursement volumes and aggregate repayment rates (e.g., Audit, 2021; Kilindo, 2022), providing limited empirical insight into the micro-level decision-making of youth borrowers. Specifically, little is known about: (1) how the unique structural features of soft loans (e.g., zero interest, no collateral) interact with youth motivations; (2) how intra-group dynamics, peer influence, and local norms mediate fund utilization and repayment attitudes; and (3) how household-level economic pressures lead to loan diversion as a rational coping strategy rather than deliberate non-compliance. This gap constrains evidence-based policy refinement, resulting in program designs that may inadequately reflect the lived realities and complex priorities of rural youth.

This study addresses these gaps by examining three core research questions in the context of Morogoro Rural District, Tanzania:

i. What motivates youth to apply for LGA soft loans?
ii. How are the acquired loans utilized, and what patterns of investment or diversion emerge?
iii. What factors determine successful loan repayment?

The study is guided by the Theory of Planned Behaviour (TPB) (Ajzen, 1991), which posits that individual behavior is driven by intention, which in turn is shaped by *attitudes* toward the behavior, *subjective norms* (perceived social pressure), and *perceived behavioural control* (self-efficacy and perceived ease/difficulty). This framework is particularly apt for analyzing youth borrowing, as it moves beyond purely economic rationality to incorporate the social embeddedness of financial decisions, the role of peer networks, and borrowers' confidence in their entrepreneurial capabilities (Rahman, 2001; Conley & Udry, 2010). Therefore, by integrating quantitative surveys of loan beneficiaries with qualitative focus group discussions and key informant interviews, this research provides a nuanced, mixed-methods analysis of youth engagement with public credit schemes. In doing so, it contributes directly to scholarly and policy dialogues on sustainable financial inclusion, offering evidence-based insights for enhancing the design, implementation, and supportive ecosystems of youth loan programs. Ultimately, the findings aim to inform strategies that align local government interventions with the complex motivations and constraints of rural youth, thereby advancing Tanzania's development goals, continental aspirations under Agenda 2063, and global commitments to the SDGs.

2. Theoretical Framework and Operationalization of Variables

2.1 Theoretical Framework

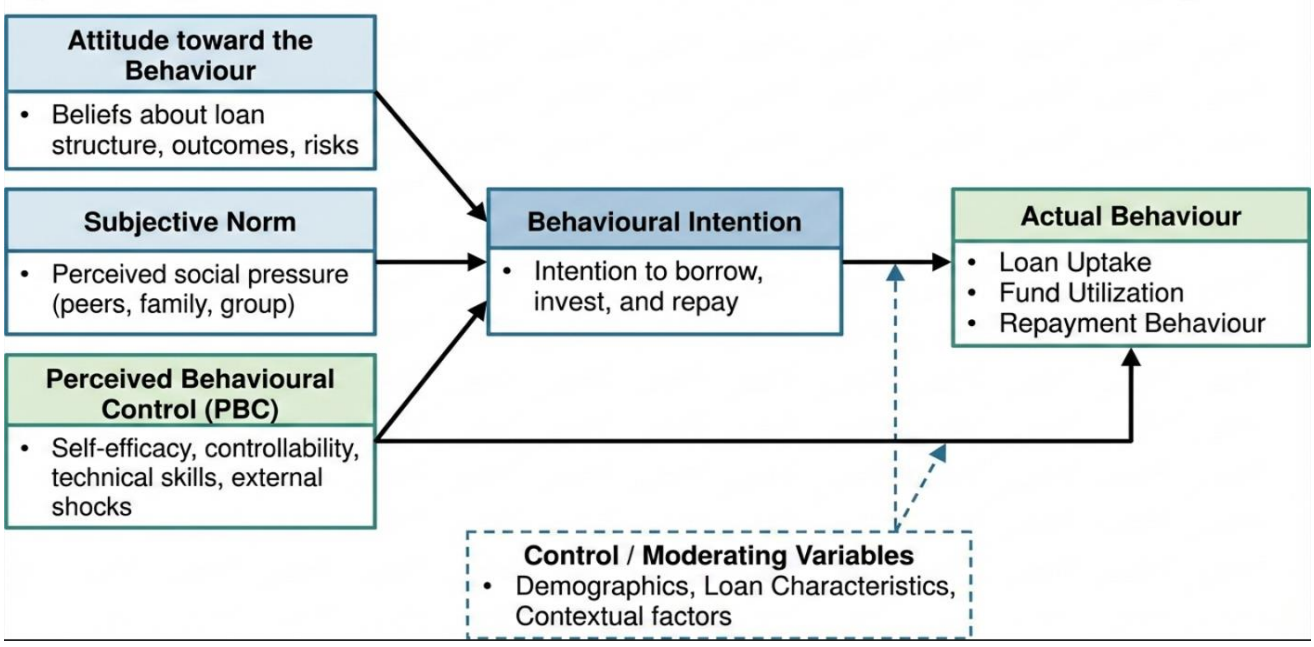
This study is anchored in the Theory of Planned Behaviour (TPB), a robust psychological framework developed by Icek

Ajzen (1991) that posits human action is guided by three core determinants: *attitudes toward the behaviour*, *subjective norms*, and *perceived behavioural control*. Together, these factors shape an individual's *behavioural intention*, which is the most immediate antecedent of actual behaviour (Ajzen, 1991, 2012).

The selection of TPB is particularly apt for investigating youth engagement with soft loan schemes, as it transcends purely economic or rational-choice models by incorporating the social, cognitive, and volitional dimensions of decision-making. Financial behaviours, especially in collectivist and group-based settings such as rural Tanzania, are not merely transactions but are deeply embedded in social networks, normative expectations, and individuals' self-assessments of their capability to succeed (Rahman, 2001; Conley & Udry, 2010). TPB provides a comprehensive, parsimonious structure to unpack how youth intentions to borrow, invest, and repay are formed and how they translate, or fail to translate, into action amidst structural constraints and social pressures.

As depicted in Figure 1, the adapted TPB model for this study illustrates the hypothesized pathways through which the theory's core constructs influence the key outcomes of loan uptake, utilization, and repayment.

Figure 1: Adapted Theory of Planned Behaviour Framework for Youth Soft Loan Engagement



Application to Youth Soft Loan Context:

- ***Attitude toward the Behaviour*** refers to the degree to which a youth holds a favourable or unfavourable evaluation of applying for and using a soft loan. This is shaped by beliefs about the loan's structural features (e.g., "Zero interest is good for my business"), perceived outcomes ("This loan will help me generate income"), and associated risks ("Defaulting could exclude my group from future funds") (Ajzen, 1991). Youth who view loans as a genuine opportunity for economic advancement are theorized to have stronger intentions for productive use and repayment.
- ***Subjective Norm*** encompasses the perceived social pressure from important referents, such as peers, family members, group leaders, and local officials, to engage or not engage in the borrowing behaviour (Ajzen, 1991). In tight-knit rural communities, normative expectations can powerfully motivate loan uptake (e.g., "Everyone in my group is applying") but can also propagate misinformation that undermines repayment discipline (e.g., "People say this is like a government grant") (Conley & Udry, 2010). This construct captures the social embeddedness of financial decisions.
- ***Perceived Behavioural Control (PBC)*** reflects an individual's perception of the ease or difficulty of performing the behaviour, encompassing self-efficacy and controllability (Ajzen, 1991, 2002). For a youth borrower, PBC involves confidence in one's ability to successfully execute the steps required: developing a viable proposal, managing the invested funds, navigating business challenges, and generating sufficient returns for repayment. Limited technical skills, lack of market access, or household economic shocks can severely diminish PBC, making even well-intentioned repayment difficult.

The framework's explanatory power is further enhanced by its acknowledgment of the ***intention-behaviour gap*** (Sheeran, 2002). Even strong intentions may not materialize into corresponding behaviour if actual control (e.g., a sudden family illness, crop failure) differs from perceived control at the time of intention formation. This is critical for understanding loan diversion and default, which may stem not from poor intent but from a loss of actual control due to unforeseen constraints.

TPB is superior to alternative frameworks such as the Theory of Reasoned Action (which omits perceived control) or Social Cognitive Theory (which is broader and less parsimonious for predicting specific behaviours) for this study's purposes. It provides a focused, testable model that integrates personal, social, and contextual factors shaping the discrete financial behaviours under investigation (Mathieson, 1991; Madden *et al.*, 1992).

2.2 Operationalization of Variables

The core constructs of TPB and the study's key outcome variables were operationalized into measurable indicators using a multi-method approach, as summarized in Table 1.

Table 1: Operationalization of Theoretical Constructs and Study Variables

Construct / Variable	Definition	Quantitative Measurement	Qualitative Exploration
Independent Variables (TPB Constructs)			
Attitude Toward Loan Uptake & Use	Youth's evaluation of the desirability and utility of accessing and using the soft loan.	• Likert-scale items (1-5) on perceived benefits/risks of loan features (no collateral, zero interest). • Ranking of primary motivations for application (structural, economic, social).	FGD probes: *"What did you believe would happen when you got the loan?" "What were the good and bad sides of taking this loan?"*
Subjective Norm	Perceived social pressure from important others (peers, family, group) to apply for and manage the loan.	• Binary (Yes/No) and frequency items on peer/family influence. • Scale items on perceived expectations of group members regarding repayment.	FGD probes: *"Who encouraged you to apply?" "What do others in your community say about these loans?"* KII probes on observed group dynamics.
Perceived Behavioural Control (PBC)	Youth's confidence in their ability to successfully execute all steps related to the loan (investment, repayment).	• Likert-scale (1-5) on confidence in business skills, investment management, and repayment capability. • Self-reported assessment of challenges faced.	FGD probes: *"What made you feel capable or incapable of managing this loan?" "What obstacles did you not expect?"*
Dependent Variables			
Loan Uptake	The act of successfully applying for and receiving a soft loan.	• Binary variable (Beneficiary = 1, Non-beneficiary = 0). Sample drawn from beneficiary lists.	Not applicable for this study (sample is beneficiaries).
Fund Utilization	The actual allocation of disbursed loan capital.	• Categorical variable: ***Alignment Category*** (Full, Partial, Minimal, No alignment with stated purpose). • Self-reported percentage allocation to productive vs. consumption uses.	FGD narratives on spending decisions, trade-offs, and reasons for diversion.
Investment Pattern	The sectoral and organizational approach chosen for deploying loan funds.	• ***Investment Sector:*** Agriculture, Business, Services, Other. • ***Investment Model:*** Fully Collective, Mixed, Individual Distribution.	FGD discussions on group decision-making, choice of business, and coordination challenges.
Repayment Behaviour	Actions taken to fulfil the loan repayment obligation.	• ***Repayment Success:*** Binary outcome (Full/On-time Repayment = 1, Default/Delinquency = 0). • Amount repaid vs. amount due.	FGD and KII narratives on repayment experiences, challenges, and group accountability mechanisms.
Control / Moderating Variables	Contextual factors that may influence the relationships in the model.	• ***Demographics:*** Age, Gender, Education, Marital Status, Household Size. • ***Loan Characteristics:*** Loan amount, Disbursement year (cohort). • ***Contextual:*** Business experience, Access to extension services.	KII data on program design, monitoring intensity, and external support provided.

Integration for Analysis:

This operationalization allows for a convergent mixed-methods analysis. Quantitative measures (survey data) will be used to establish statistical relationships and test the predictive power of TPB constructs on behavioural outcomes via chi-square tests and logistic regression. Qualitative data (FGDs, KIIs) will then provide rich, contextual explanations for these relationships, elucidating *how* attitudes are formed, *how* social norms operate in practice, and *why* perceived control often falters. For instance, a quantitative finding that "low PBC correlates with default" will be explained through qualitative narratives of specific technical failures or household crises that eroded borrowers' actual control.

3.0 Methodology

3.1 Research Design

This study employed a convergent parallel mixed-methods research design (Creswell & Plano Clark, 2018). This design facilitates the simultaneous but independent collection and analysis of quantitative and qualitative data, with the intention of merging the results to develop a comprehensive understanding of the research problem. The rationale for this approach is that the quantitative strand provides breadth, generalizability, and the ability to identify statistical patterns in youth motivations and behaviours, while the qualitative strand provides depth, context, and nuanced explanations for those patterns (Tashakkori & Teddlie, 2010).

A cross-sectional design was utilized for the quantitative component, capturing data at a single point in time from a sample of youth loan beneficiaries. This design is appropriate for examining prevalence, associations, and relationships between variables in the target population (Setia, 2016). The qualitative component consisted of exploratory focus group discussions (FGDs) and semi-structured key informant interviews (KIIs) to explore the lived experiences, social processes, and institutional perspectives that underpin the statistical findings.

3.2 Study Area

The research was conducted in Morogoro Rural District, Morogoro Region, Tanzania. This site was purposively selected as a critical case (Patton, 2015) that embodies the typical challenges and dynamics of rural youth financial inclusion initiatives in Tanzania. Selection criteria included:

i. *Active Program Implementation:* The district has a well-documented, active LGA soft loan program for youth groups initiated in 2019.
ii. *Representative Socioeconomic Profile:* The economy is predominantly agrarian with emerging small-scale trade, reflecting the rural economic structure of much of Tanzania.
iii. *Documented Performance Challenges:* Preliminary district records indicated loan repayment challenges consistent with the national default rate (~43.5%), making it a pertinent site for investigating determinants of repayment success.
iv. *Logistical Feasibility:* The research team had established contacts and could ensure effective data collection.

Within the district, the study focused on Kiroka and Mikese wards. These wards were selected through maximum variation sampling (Patton, 2015) to capture diversity in economic activities (Kiroka has more trading, Mikese is more agriculturally focused) while both having high concentrations of youth loan beneficiary groups, thereby enhancing the transferability of findings.

3.3 Population, Sampling, and Sample Size

Target Population

The target population comprised all youth (aged 18-40, per Tanzania's youth definition) who were registered beneficiaries of LGA soft loan schemes in Morogoro Rural District between 2019 and 2024. The sampling frame was constructed from official district community development office records.

Quantitative Sample Size and Sampling

The district registry listed approximately N = 400 eligible beneficiaries. The required sample size was calculated using Yamane's (1967) formula for a finite population at a 95% confidence level and a 5% margin of error:

$$n = \frac{N}{1 + N(e^2)}$$

$$n = \frac{400}{1 + 400(0.05^2)}$$

$$n = 200$$

To ensure proportional representation across major investment sectors; Agriculture, Livestock, and Business/Entrepreneurship; a proportionate stratified random sampling technique was applied. The total population of 400 youth loan beneficiaries was first stratified into three distinct subgroups based on their primary investment sector, as documented in the official LGA loan application records. This stratification ensured that each sector's representation in the sample reflected its actual proportion within the total beneficiary population. From each stratum, beneficiaries were then randomly selected using a computer-generated random number list. The resulting sample allocation; 92 beneficiaries from Agriculture, 58 from Livestock, and 50 from Business/Entrepreneurship; faithfully preserved the population's sectoral distribution, thereby enhancing the external validity and generalizability of the findings. The detailed sample composition is presented in Table 2.

Table 1: Proportionate Stratified Sampling Procedure

Investment Sector (Stratum)	Population (Nh)	Population %	Sample Fraction (Nh/N)	Calculation	Sample Size (nh)	Sample %
Agriculture	183	45.75%	183/400 = 0.4575	0.4575 × 200	92	46.00%
Livestock	117	29.25%	117/400 = 0.2925	0.2925 × 200	58	29.00%
Business/Entrepreneurship	100	25.00%	100/400 = 0.2500	0.2500 × 200	50	25.00%
TOTAL	**400**	**100%**	**1.0000**	---	**200**	**100%**

Within each stratum, individual beneficiaries were selected using a computer-generated random number list based on the registry.

Qualitative Sample and Sampling

For the qualitative component, purposive sampling was used to select information-rich cases (Patton, 2015).

- *Focus Group Discussions:* Participants were recruited from 14 distinct youth groups (7 per ward) identified from the district registry. Groups were selected to maximize variation in: (a) investment sector, (b) repayment performance (good vs. struggling), and (c) group size. From these groups, 16 FGD participants (8 per ward) were purposively selected to include a mix of group leaders and ordinary members, and both male and female youth. Two FGDs (one per ward) were conducted.
- *Key Informant Interviews:* Three (3) key informants were purposively selected based on their institutional roles and direct involvement with the loan program:
  i. The District Community Development Officer (program coordinator).
  ii. A Ward Executive Officer from Mikese ward (field-level oversight).
  iii. A Senior Loan Officer involved in disbursement and monitoring. This selection ensured triangulation of perspectives from policy, administration, and implementation levels.

3.4 Data Collection Methods and Instruments

Data collection occurred between August and September 2024 by a trained team fluent in Swahili and English.

3.4.1 Quantitative Data Collection

Primary data were collected via a structured, interviewer-administered questionnaire. The instrument, developed in English, translated to Swahili, and back-translated to ensure conceptual equivalence (Brislin, 1970), contained the following sections:

- *Section A:* Socio-demographic and economic characteristics.
- *Section B:* Motivations for loan uptake (operationalizing *Attitude* and *Subjective Norm* from TPB).
- *Section C:* Loan utilization patterns and investment behaviour.
- *Section D:* Repayment experience and perceived challenges (operationalizing *Perceived Behavioural Control*).
- *Section E:* Perceptions of group dynamics and institutional support.

The questionnaire incorporated Likert-scale items, multiple-choice questions, and categorical responses. It was pre-tested with 15 youth beneficiaries in the neighbouring Mvomero District, and minor adjustments were made for clarity and flow.

3.4.2 Qualitative Data Collection

- *Focus Group Discussions:* A semi-structured FGD guide was used to facilitate discussions lasting 90-120 minutes. Key themes included: initial motivations and group formation processes, decision-making on fund use, experiences with investment implementation, challenges faced, group dynamics in repayment, and interactions with LGA officials. Discussions were conducted in Swahili, audio-recorded with written consent, and supplemented with detailed field notes on non-verbal cues.
- *Key Informant Interviews:* An open-ended KII guide was used for interviews lasting 60-90 minutes. Topics covered program design rationale, beneficiary selection processes, monitoring and evaluation mechanisms, observed challenges with youth groups, institutional constraints, and recommendations for improvement. Interviews were also audio-recorded with consent.

3.5 Data Analysis

3.5.1 Quantitative Data Analysis

Survey data were cleaned, coded, and analyzed using STATA version 18.

i. *Descriptive Statistics:* Frequencies, percentages, means, and standard deviations were computed to

summarize socio-demographic variables and core study variables.

ii. *Inferential Statistics:*

- Chi-square tests of independence (χ^2) were used to examine associations between categorical demographic variables (e.g., age, education) and motivation/behaviour variables. The formula used was:

$$\chi^2 = \Sigma [(O_{ij} - E_{ij})^2 / E_{ij}]$$

where O_ij is the observed frequency and E_ij is the expected frequency under independence.

- Binary Logistic Regression was employed to model the determinants of Repayment Success (the dependent variable, coded as 1=Full/Partial Repayment, 0=Default). The model was specified as:

$$\text{Logit}(P) = \ln(P/(1-P)) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \beta_k X_k$$

logit(p)=$\ln(p / (1 - p)) = \beta_0 + \beta_1$(Investment Model)$+\beta_2$(Alignment Category)$+\beta_3$ (Peer Influence)$+\beta_4$(Investment Sector)$+\beta_5$(Primary Motivation Factor)$+\beta_6$(Year)

where P is the probability of repayment success, β_0 is the intercept, and $\beta_1...\beta_k$ are coefficients for the predictor variables. Model fit was assessed using the Log-likelihood, Pseudo R^2, and the Likelihood Ratio Test (Peng *et al.*, 2002). Odds Ratios (OR) and 95% Confidence Intervals (CI) were reported.

3.5.2 Qualitative Data Analysis

Audio recordings were transcribed verbatim in Swahili and then translated into English. Translation was verified by a bilingual researcher to ensure conceptual accuracy. Data were analyzed using thematic analysis following Braun and Clarke's (2006) six-phase framework:

i. *Familiarization:* Repeated reading of transcripts.
ii. *Generating Initial Codes:* Systematic coding of interesting features using Atlas.ti version 25 software.
iii. *Searching for Themes:* Collating codes into potential themes.
iv. *Reviewing Themes:* Refining themes in relation to coded extracts and the entire dataset.
v. *Defining and Naming Themes:* Generating clear definitions and names for each theme.
vi. *Producing the Report:* Selecting compelling extract examples and final analysis.

3.5.3 Data Integration

Integration of quantitative and qualitative findings occurred at the interpretation and discussion stage using a complementarity approach (Fetters *et al.*, 2013). Quantitative results (e.g., "X% diverted funds") were juxtaposed with qualitative explanations (e.g., narratives of school fee pressures) to provide a coherent, nuanced understanding. This synthesis is presented thematically in the Results and Discussion section, where statistical patterns are explained and illuminated by participant voices and contextual details.

3.6 Ethical Considerations

The study received ethical approval from the Sokoine University of Agriculture Research Ethics Committee. Informed consent was obtained from all participants after explaining the study's purpose, procedures, risks, benefits, and their right to withdraw. Confidentiality was maintained through the use of identification numbers and secure storage of data; all names used in reporting are pseudonyms. Participants in FGDs were provided with light refreshments as a token of appreciation for their time.

4.0 Results and Discussion

This section presents and synthesizes the findings on youth motivations, loan utilization patterns, and the determinants of repayment success for LGA soft loans in Morogoro Rural District. The analysis is structured around the core constructs of the Theory of Planned Behaviour (TPB) to provide a coherent explanatory framework for the observed behaviours. Quantitative data from 200 surveyed beneficiaries are integrated with qualitative insights from FGDs and KIIs to offer both statistical generalizability and contextual depth.

4.1 Attitudes and Loan-Structural Motivations

Youth decisions to access soft loans were predominantly driven by favourable attitudes shaped by the loans' unique structural features, which were perceived to lower traditional barriers to finance.

4.1.1 Absence of Collateral and Interest

Of the structural features attracting youth to LGA soft loans, the most compelling were the absence of collateral requirements, cited by 73% of respondents, and zero interest rates, cited by 68%. Chi-square tests confirmed statistically significant associations between these two factors and the decision to apply for a loan ($p < 0.05$), affirming that they function as primary drivers of uptake rather than peripheral considerations. This underscores that traditional barriers embedded in formal banking; specifically, asset-based eligibility and cost of borrowing; represent critical exclusion mechanisms for rural youth. The soft loan program's removal of these barriers directly addresses a fundamental market failure, effectively lowering the access threshold and reshaping youth perceptions of their own creditworthiness. These findings validate the program's design logic while simultaneously highlighting a potential vulnerability: the very generosity of terms may dilute the perceived seriousness of the financial obligation; a tension explored further in the qualitative data.

Table 3: Prevalence of Structural Motivations for Loan Uptake (N=200)

Motivation Factor	Frequency (n)	Percentage (%)	χ^2	p-value
No collateral required	146	73.0	8.91	0.012*
Zero interest rates	136	68.0	12.46	0.002**
Flexible repayment terms	128	64.0	10.73	0.005**
Easier access process	94	47.0	6.32	0.042*
Group-based eligibility	82	41.0	5.18	0.075

*Note: *p < 0.05, *$p < 0.01$*

Qualitative data revealed that these features did more than provide economic relief; they reshaped youth perceptions of their own entrepreneurial identity and institutional trust. A 28-year-old FGD participant articulated this shift:

"Banks ask for papers we don't have title deeds, payslips. They make you feel like a beggar, not a businessman. But with the council [LGA], they trust our group. They see our potential, not just what we own. This loan told me, 'You are worthy of investment.'" (Male, Mikese Ward)

This sentiment aligns with the TPB construct of *attitude*, where the evaluation of a behaviour is influenced by salient beliefs about its outcomes (Ajzen, 1991). The belief that "*collateral-free loans are accessible and empowering*" led to a strongly positive attitude toward application. However, key informants noted a latent risk in this design:

"The very features that attract youth; no collateral, no interest; can inadvertently signal that the loan is not a serious financial obligation. It weakens the reciprocal accountability that underpins credit systems." (Key Informant 2, District Officer)

This finding extends the literature on financial inclusion (Mori, 2015; Agwu, 2024) by highlighting the dual-edged nature of "*soft*" terms: while they enable access, they may

dilute the perceived seriousness of the debt contract, potentially affecting repayment norms.

4.1.2 Flexible Repayment Terms

Flexible repayment terms were a significant motivator for 64% of respondents, particularly for those invested in agriculture (78.4%), as shown in Table 4. The seasonality and uncertainty of agricultural income make rigid repayment schedules prohibitive.

Table 4: Motivation by Flexible Terms, by Primary Investment Sector (n=128)

Investment Sector	Frequency	% within Sector
Agriculture	69	78.4%
Small Business	41	52.6%
Services	12	50.0%

A 35-year-old maize farmer explained:

"In farming, your payday is harvest day. If the rains delay, everything delays. The council understands this and allows us to adjust. A bank would send auctioneers. This flexibility means I can breathe and plan realistically." (Male, Kiroka Ward)

This reflects a rational *attitude* shaped by the belief that flexible terms align with real-world income volatility, thereby reducing perceived risk. This supports Morduch and Aportela's (2007) argument that successful microfinance requires products tailored to borrowers' cash-flow realities. However, our data reveal an implementation gap: this necessary flexibility, without strong individualised monitoring, can lead to perpetual postponement and strategic default, contributing to the district's high delinquency rates.

4.2 Subjective Norms and Social Motivations

Social pressures and normative expectations within peer and community networks played a substantial role in shaping borrowing intentions and behaviours.

4.2.1 Peer Influence and Misinformation

As shown in Table 5, peer influence was a cited motivation for 24.6% of youth aged 18-28, significantly more than for older cohorts ($\chi^2 = 9.47$, $p = 0.009$). This demonstrates that *subjective norms*, the perceived social pressure to perform a behaviour, are particularly potent among younger youth.

Table 5: Peer Influence as a Motivation Factor by Age Category

Age Category	n (Yes)	% within Age Group
18-28 years	28	24.6%
29-40 years	10	8.1%
>40 years	2	16.7%

Positive peer influence often came through observable success stories, which enhanced attitudes towards loan uptake:

"My neighbour bought a motorbike for boda-boda [transport] business with his loan. He was just like me. Seeing him succeed erased my fear." (Female, 26, Mikese Ward)

However, the social network also acted as a conduit for misinformation, severely distorting subjective norms

about repayment. A damaging narrative re-framed the loan as a non-repayable grant:

"In my group, the talk was that this is pesa za serikali [government money] for youth votes. Many thought, 'Why repay a gift?' By the time we learned the truth, the money was spent on household needs." (Male, 25, Kiroka Ward)

This finding critically extends the work of Conley and Udry (2010) on social learning. In the context of soft loans, networks can propagate not just suboptimal agricultural practices, but fundamentally flawed financial norms that directly drive default. The logistic regression model (Table 5) quantitatively confirms this, showing that borrowers motivated primarily by peer influence had 48% lower odds of repayment success (OR = 0.508, p = 0.019).

4.2.2 Group Dynamics and Collective Efficacy

While group membership was a gateway to access, the quality of group dynamics significantly influenced subsequent behaviour. Only 21.4% of groups operated as genuine collective enterprises (Table 6). Most (50%) functioned merely as conduits for distributing funds to individuals.

Table 6: Group Investment Organizational Models (N=14 Groups)

Investment Model	No. of Groups	%	Key Characteristics
Fully Collective Enterprise	3	21.4%	Single unified business, shared labour & profit.
Mixed Model	4	28.6%	Some collective projects, some individual.
Distribution to Individuals	7	50.0%	Funds divided; entirely individual projects.

In groups without strong collective identity, peer monitoring, a theorized benefit of group lending (Pitt & Khandker, 1998), collapsed. A member from a "*distribution*" group noted:

"We meet only when the loan officer comes. Everyone worries about their own business. If someone's business fails, it's their problem, not the group's. So why would I pressure them to repay?" (Female, 30, Kiroka Ward)

Conversely, groups with strong collective enterprises reported leveraging social norms for positive enforcement:

"Our group farm is our shared child. If one person slacks, it hurts everyone. We hold each other accountable because our faces are known. Repayment is a collective pride." (Male, 32, Mikese Ward)

This dichotomy underscores that the *subjective norm* of group responsibility is not automatic; it must be cultivated through shared enterprise and transparent governance. Its absence erodes a key mechanism for ensuring repayment.

4.3 Perceived Behavioural Control, Utilization, and Repayment Outcomes

The transition from intention to action, and ultimately to successful repayment, was largely determined by borrowers' *perceived behavioural control* (PBC), which was often undermined by technical gaps and economic shocks.

4.3.1 The Intention-Utilization Gap and Fund Diversion

A stark gap emerged between stated intentions and actual utilization. Only 31% of beneficiaries fully invested the loan as declared in their application (Table 7). A majority (54%) reported partial diversion, primarily to meet pressing household consumption needs.

Table 7: Alignment Between Stated Loan Purpose and Actual Utilization

Alignment Category	Frequency (n)	Percentage (%)
Full Alignment	62	31.0
Partial Alignment	108	54.0
Minimal Alignment	24	12.0
No Alignment	6	3.0

This diversion was not typically due to dishonest intent but to a loss of *actual control* over resources amid competing survival demands, a classic manifestation of the intention-behaviour gap (Sheeran, 2002). A participant's narrative encapsulates this moral and practical dilemma:

"The plan was to buy 20 bags of fertilizer. But then my child fell sick. The clinic needed 150,000 shillings. What kind of father chooses fertilizer over medicine? The fertilizer plan shrank to 10 bags. Now my harvest is smaller, and repaying is a struggle." (Male, 29, Mikese Ward)

This rational diversion for "*consumption smoothing*" is well-documented in microfinance literature (Abdallah & Mwakalobo, 2024; Morduch, 1999). Our contribution is in quantifying its severe impact on repayment capacity. The logistic regression (Table 8) shows that compared to full alignment, partial alignment still yielded 2.44 times higher odds of repayment (OR=2.440, p=0.025), while minimal alignment showed no significant benefit. This indicates a threshold effect: diversion beyond a certain point critically undermines the productive capital needed to generate repayment income.

4.3.2 Technical Capacity and Perceived Control

PBC was severely constrained by a widespread lack of technical and business management skills, particularly in agriculture. Of the 88 respondents who invested in agriculture, over a third reported significant losses due to

pests, disease, or poor post-harvest handling. A failed poultry venture illustrates how low PBC leads to business failure:

"We received training on group registration, not on chicken diseases. When the birds started dying, we tried local herbs, but it was too late. We lost 80% of them. We felt helpless. You cannot repay a loan with dead chickens." (Female, 22, Mikese Ward)

This experience directly operationalizes low PBC: a lack of knowledge (low self-efficacy) and an uncontrollable event (disease outbreak) shattered perceived control, leading to investment failure and default. The regression model confirms the sector's risk, but also its potential: agricultural investment was associated with 2.49 times higher odds of repayment (OR=2.489, p=0.013) when borrowers had adequate control. This suggests that for familiar sectors like agriculture, the primary constraint is not the sector itself, but the capability to manage its risks.

4.3.3 Determinants of Repayment Success: An Integrated Model

Table 8 presents the final binary logistic regression model identifying key predictors of repayment success. The model had a statistically significant fit (LLR p < 0.001) and explains a substantial portion of the variance (Pseudo R^2 = 0.142).

Table 8: Binary Logistic Regression Model for Repayment Success (N=200)

Predictor Variable	Coef. (β)	S.E.	z	p-value	Odds Ratio (OR)	95% CI for OR
Intercept	-0.452	0.412	-1.097	0.273	0.636	[0.282, 1.435]
Investment Model (Ref: Individual Distribution)						
• Fully Collective	1.234	0.381	3.239	0.001	3.434	[1.624, 7.256]
• Mixed	0.756	0.342	2.211	0.027	2.129	[1.090, 4.159]
Alignment (Ref: Minimal/None)						
• Full Alignment	1.567	0.456	3.435	0.001	4.789	[1.956, 11.726]
• Partial Alignment	0.892	0.398	2.241	0.025	2.440	[1.118, 5.325]
Peer Influence (Yes)	-0.678	0.289	-2.346	0.019	0.508	[0.288, 0.896]
Sector (Ref: Services/Other)						
• Agriculture	0.912	0.367	2.485	0.013	2.489	[1.215, 5.099]
• Small Business	0.567	0.354	1.602	0.109	1.763	[0.881, 3.527]
Motivation: No Collateral	0.789	0.321	2.457	0.014	2.201	[1.174, 4.127]
Cohort (Ref: 2019-2020)						
• 2021-2022	0.567	0.312	1.817	0.069	1.763	[0.956, 3.250]
• 2023-2024	0.890	0.298	2.986	0.003	2.435	[1.360, 4.361]
Model Summary: Pseudo R^2 = 0.142; Log-Likelihood = -108.24; LLR χ^2 p-value < 0.001.						

The model powerfully integrates the TPB framework:

i. ***Attitude & PBC (Operationalized by Investment Model & Alignment):*** Fully collective enterprise (OR=3.434) and high alignment (OR=4.789) represent behaviours where positive attitudes (towards collective work) are coupled with high control (clear investment focus), leading to success.

ii. ***Subjective Norm (Operationalized by Peer Influence):*** The negative impact of peer influence (OR=0.508) quantifies how detrimental social norms can override individual intention and capability.

iii. ***Control & Context (Operationalized by Sector, Motivation, Cohort):*** The positive odds for agriculture and "no collateral" motivation indicate that familiarity and access enable control. The improving odds for recent cohorts suggest possible learning effects or program adjustments over time, enhancing institutional support for borrower control.

4.4 Synthesis and Theoretical Implications

The findings confirm the utility of the TPB in explaining youth financial behaviour in a development context. The pathway to successful repayment is not linear but is mediated by the interaction of:

- ***A positive attitude*** fostered by accessible loan features.
- ***Supportive subjective norms*** within well-functioning groups, contrasted with the destructive power of misinformation.
- ***Adequate perceived behavioural control***, which is frequently undermined by technical deficits and household economic shocks.

The high default rate is thus not merely a financial management failure but a systemic outcome of programming that successfully influences *intention* (via attractive terms) but inadequately supports the translation of that intention into action (via capacity building and protective safeguards). This aligns with and extends critiques of microfinance that highlight the "missing middle" of non-financial support (Hermes & Lensink, 2011).

The study therefore argues for a TPB-informed program design: interventions must simultaneously shape positive attitudes and norms *while* concretely enhancing borrowers' actual behavioural control through integrated technical

training, adaptive monitoring, and mechanisms that buffer against common livelihood shocks.

5. Conclusion and Recommendations

5.1 Conclusion

This study provides a comprehensive, theory-informed analysis of youth engagement with Local Government Authority (LGA) soft loan schemes in rural Tanzania, addressing critical gaps in understanding the behavioural and social processes that mediate between financial access and sustainable outcomes. Employing a mixed-methods approach grounded in the Theory of Planned Behaviour (TPB), the research reveals that while these loans successfully expand formal financial inclusion by dismantling structural barriers, most notably collateral requirements and interest charges, their developmental impact and long-term viability are substantially compromised by a complex interplay of individual, social, and institutional factors.

The findings demonstrate that youth motivation for loan uptake is shaped by a favourable attitude towards the loans' accessible features, which is powerfully reinforced by subjective norms within peer networks. However, these same social networks often propagate counterproductive misinformation regarding repayment obligations, reframing loans as grants and directly undermining financial discipline. More critically, the transition from borrowing intention to successful entrepreneurial outcome is heavily contingent on perceived behavioural control. This control is systematically eroded by a triad of constraints: (1) severe technical and managerial capacity gaps that lead to high rates of investment failure in familiar sectors like agriculture; (2) pervasive household economic pressures that force rational but debilitating fund diversion from productive investment to immediate consumption needs (e.g., healthcare, education); and (3) inadequate institutional support systems, characterized by sparse post-disbursement monitoring and a lack of integrated business development services.

Consequently, the prevalent issue of loan default (mirroring the national rate of 43.5%) emerges not primarily as a matter of borrower delinquency, but as a predictable outcome of a program design that effectively stimulates demand for credit without sufficiently building the capabilities and resilience required for its effective use and repayment. The logistic regression model quantifies this, identifying that repayment success is significantly associated with collective enterprise structures, fidelity to stated investment purposes, and recent program cohorts, all factors indicative of stronger social accountability, clearer intentionality, and potentially improved program implementation over time.

Ultimately, this study concludes that LGA soft loan schemes, in their current form, function more as access-expanding mechanisms than as transformative entrepreneurial catalysts. They provide vital liquidity in a context of extreme financial exclusion but fall short of generating the sustainable livelihoods and enterprise growth envisioned by national and continental development agendas. Achieving these higher-order goals requires a fundamental shift from a narrow focus on credit disbursement to a holistic focus on entrepreneurial ecosystem support, wherein financial capital is embedded within a scaffold of human capital development, social capital reinforcement, and protective institutional frameworks.

5.2 Recommendations

To enhance the sustainability, impact, and developmental contribution of youth soft loan programs, the following evidence-based recommendations are proposed, structured according to the TPB framework that guided this analysis.

Strengthening attitudinal foundations and perceived behavioural control requires a shift from mere credit provision to capability enhancement. Mandating integrated pre-disbursement capability building represents a critical first step. Local Government Authorities should institute compulsory, practical training programs that move beyond procedural loan literacy to include three core components: financial reality testing through explicit modules clarifying the loan as a repayable debt contract using clear local-language agreements and case studies; sector-specific technical skills development through partnerships with agricultural extension services, vocational training centres, and business development providers; and household financial management training on basic budgeting and saving strategies. Simultaneously, program designers should pilot flexible "hybrid" loan products that acknowledge the reality of household needs by formally allocating a small, permissible portion (15-20%) for pre-defined welfare expenses while legally ring-fencing the bulk for productive investment. This “controlled fungibility” model aligns with borrower realities while reducing deceptive diversion and moral strain that leads to default.

Harnessing and redirecting subjective norms demands strategic interventions to counteract misinformation and cultivate positive repayment cultures. Launching a targeted social norms communication campaign should involve engaging “positive deviants” - successful youth borrowers trained as community ambassadors who share their stories of disciplined investment and repayment. Additionally, utilizing existing social structures through respected community leaders, religious institutions, and local radio can ensure consistent broadcasting of accurate messages about loan terms and success stories. Implementing digital feedback loops using SMS or mobile messaging groups would facilitate regular repayment reminders while creating platforms for peer-to-peer problem-solving. Beyond communication, institutionalizing support for genuine

collective enterprises require moving beyond treating groups as mere access conduits. Providing additional incentives for groups that submit and execute verifiable collective business plans, coupled with facilitated workshops on cooperative governance and conflict resolution, can build the social capital necessary for effective peer monitoring and mutual support.

Reinforcing institutional capacity for support and oversight necessitates transforming monitoring from compliance to coaching. Reconceptualizing LGA field officers as business development coaches requires increased staffing and resources dedicated to manageable caseloads equipped with mobile technology, a shift in performance metrics from repayment rates alone to include quality of support and business growth rates and implementing regular predictive check-ins at critical business milestones. Furthermore, fostering cross-sectoral linkages and market integration can address the constraints that limit investment returns. Actively brokering connections through off-take agreements between producer groups and institutional buyers, alongside creating ward-level business information hubs providing market intelligence and diversification opportunities, would enhance the ecosystem in which youth entrepreneurs operate.

Future research should build upon this study through several promising avenues. Conducting longitudinal panel studies would track the same youth borrowers over time, capturing the dynamic evolution of their businesses and repayment trajectories. Employing randomized controlled trials could rigorously test the impact of recommended interventions - such as integrated training versus pure credit or collective versus individual incentives - on business survival, income growth, and loan sustainability outcomes. Additionally, exploring gender-differentiated analyses within youth loan schemes would illuminate how motivations, constraints, and outcomes vary for young men and women, informing more gender-responsive program design.

In totality, realizing the full potential of youth soft loans as tools for sustainable development requires a paradigm shift from viewing youth primarily as borrowers in need of capital to recognizing them as entrepreneurs in need of an ecosystem. As such, by systematically building their capabilities, shaping supportive norms, and strengthening the institutional scaffolding around them, Local Government Authorities can transform these financial instruments from short-term palliatives into powerful engines for inclusive rural growth and youth empowerment, thereby contributing meaningfully to national development goals and continental aspirations for economic transformation.

Declaration of Conflict of Interest

I hereby declare that there are no known competing financial interests or personal relationships that could have influenced the research and findings presented in this paper.

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