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REPOA Brief

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Challenges faced by youth beneficiaries of loans from the Local Government Authorities

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Key Messages

- Youth loan beneficiaries primarily operate in trade, food vending, motorbike town transport, agriculture, light manufacturing, and construction.
- Most businesses activies are at an infant stage of business growth and micro in nature.
- Youth face multiple, often structural challenges ranging from skills gaps and market constraints to environmental and social factors that require complementary measures from the government and other intermediaries.

Introduction

In Tanzania, some youth receive loans from Local Government Authorities (LGAs) to establish and expand businesses, enhancing their well-being while contributing to national development and expanding the tax base. LGAs loans to the youth are intended to reduce youth unemployment rate, which is caused by various factors, including skill gaps and mismatches, and those related to slow structural transformation. In response to the skills gap challenge, the government has reviewed its education policy and is reviewing curricula at all education levels. As the review process was continuing, in 2018, the government introduced a loan scheme for the youth financed through 10% of LGAs internal revenue collection, of which four percent is allocated to the youth, four percent to women, and two percent to people with disabilities (PWD).

The scheme was suspended in 2023 to pave way for major improvements and was resumed after mid-2024. In 2025, three commercial banks entered into agreements with the government to manage the scheme on behalf of selected LGAs as a pilot. These are CRDB, the National Microfinance Bank (NMB), and Uchumi Commercial Bank.

According to REPOA's study on the effectiveness of the four percent LGAs loan allocated to the youth, the beneficiaries experience a lot of business challenges, which require complementary interventions beyond loans.

The purpose of this policy brief is to delineate the business challenges facing youth who have received the capital through LGAs credit scheme to inform its implementation.

Methodology

The study employed a qualitative methodology, through semi-structured interviews and a focus group discussion (FGD). The data were collected from 68 youth loan beneficiaries, their 22 customers, and 13 Community Development Officers residing in Dar es Salaam City, Kinondoni Municipal, Bumbuli, and

Kibaha District Councils. The data were collected between June and July 2024.

Findings

Economic sectors

The loan beneficiaries operate businesses across various economic sectors. For instance, some businesses were trade-related, especially food vending, hardware shops, and flour milling. Some beneficiaries ran transportation business, mainly motorcycle taxi popularly known as 'boda-boda'. Also, some engaged in agricultural activities, including poultry keeping and crop production. Others engaged themselves in construction and manufacturing related businesses, especially brickmaking.

> *"Our loan was for a brick-making project. Our business is in the industrial sector because it involves machinery and production. We use sand and cement to produce bricks." (Kinondoni MC, Youth no. 3)*

Experienced business challenges

Some beneficiaries experienced various challenges when running their businesses. The challenges were about environment and climate, finances and cost, governance and institutions, health, infrastructure and service delivery, market and business environment, human capital and skills, social and group dynamics, and supply chain and operations.

Environmental and climate risks involved environmental degradation, weather variability, and climate change. For instance, charcoal producers faced shortage of the suitable tree species for charcoal production as tree felling exceeded tree planting. Also, extreme weather events due to climate change affected some businesses particularly crops production and brickmaking.

> *"In brickmaking, sometimes you encounter challenges due to hostile weather conditions. Yes, you may have already made the bricks, but then the weather changes, so sometimes it results in losses. Also, storage space can sometimes be a challenge." (Bumbuli DC, Youth no. 11)*

The rise in the cost of raw materials increased financial and cost pressures to some businesses of some beneficiaries. For instance, the prices of sand for brickmaking, feeds for poultry, and petrol for boda-boda were hiked. Also, some crop businesses could not afford pesticides while those in brickmaking, boda-boda and irrigation did not afford to maintain brickmaking machines, motorcycles, and water pumps respectively.

> *"Our working capital is now eight million seven hundred fifty thousand shillings. However, the challenge is that our vehicles are wearing out, and the cost of spare parts for repairs has become very high." (DSM CC, Youth no. 12)*

Governance and institutional constraints also affected beneficiaries' businesses as some government officials had negative attitudes towards their businesses because they were small and at an early stage of formalisation. Furthermore, some beneficiaries located their businesses in the undesignated area, and government-mandated relocation to other authorized areas always caused disruption in business operations. Again, the government fees for dairy products were also too high with severe penalties for non-payment.

On health-related shocks, animal and human diseases affected the success of businesses of the beneficiaries. For example, one poultry business collapsed because of a chicken disease outbreak despite the vaccination and adhering to all management requirements. The epidemic and pandemic diseases like COVID-19 also affected business sales, especially food vending.

"Diseases like corona affected our business a little, and corona came in several waves as it kept recurring. Sometimes people don't use the product and reduce eating by the roadside, including during outbreaks of other epidemic diseases." (Kinondoni MC, Youth no. 12)

Infrastructure and service delivery limitations also sometimes affected the effectiveness of youth activities. For example, the frequent power cuts affect the performance of some businesses such as flour milling business, which is highly dependent on electricity.

"Most people here are farmers; after harvesting, they come to grind their produce. For example, that bag of maize you see there belongs to the assistant to the district director. I'm the one doing his work. He brought it here, found that the power was out, left it here, and went to the mosque for prayers. He'll come back to pick it up." (Bumbuli DC, Youth no. 1)

Market and business environment challenges were also faced by the beneficiaries. For instance, some customers delayed payments, some purchased services and products on credit, and some motorcycle taxi operators encountered customers who aimed to rob them. Similarly, religious beliefs of some customers prevented them from consuming certain types of food which in turn affected business sales.
Similarly, market competition influenced the performance of businesses of the beneficiaries. For example, the number of boda-boda and brickmaking businesses were increasing daily, intensifying competition. In addition, unfair competition between licensed and unlicensed businesses further complicated matters.

"Finding drivers with licenses is becoming harder; people need to train first before being licenced. Someone learns today, and by tomorrow or the day after, they're riding. Motorcycles are different from other forms of transport where you must go to a driving school and get a valid license. But with motorcycles, someone learns today, and tomorrow, if they just stop somewhere, you wave them down, and most passengers don't ask for a license or anything. They just hop on and say, 'Take me to a certain place.'" (DSM CC, Youth no. 9)

Again, different seasons influenced the demand for certain services and products. For instance, there is higher demand for school uniforms and stationery at the beginning of the academic year and during school tests and examinations, respectively. Beneficiaries also experienced price fluctuations.

Human capital and skills gaps also stood out as one of the challenges as some beneficiaries did not have adequate soft skills to run their businesses, for example, they lacked discipline, seriousness, focus, integrity, trust, and self-awareness. Similarly, lack of technical skills was evident, especially in planning and management.

"First, I thank God because the shop helped me repay the loan significantly at the beginning. I used to record everything sold daily: what was sold, what was done. But because of being busy, especially with the peanut business, sometimes I would come back late to check what happened during the day, and maybe I wouldn't review for a whole month. Then suddenly, I'd realize things were missing. That was the biggest challenge. But God is good; things will return to normal." (DSM CC, FGD Female no. 4)

About social and group dynamics, some members experienced conflicts severe enough to make others to leave the groups. Similarly, social issues like marriage break-ups, lack of family responsibilities, and high dependency affected some businesses' performance. For instance, a business working capital could dry up instantly when a family conflict arose, or when the spouse left with all business funds.

Supply chain and operational inefficiencies such as untrustworthy suppliers affected their businesses. In some instances, brickmakers were supplied with sand whose colour was disliked by their customers. This happened as the suppliers breached their agreements. Likewise, some suppliers delayed the delivery of raw materials and capital goods. Also, some beneficiaries experienced unreliable transportation and poor quality of products, especially for agricultural crops.

Conclusions and recommendations

Youth loan beneficiaries started or expanded their businesses in different economic sectors mainly trade services like food vending, urban commuter motorbikes, light manufacturing, construction, and agriculture. Different beneficiary-run businesses faced several challenges, many of which were beyond their control.

It is recommended that the government should continue to improve the business environment to foster businesses growth, including allocation of designated land for the youth for various economic activities. Likewise, the government should continue to enhance security and reduce crime to make youth businesses to operate more safely. Finally, the beneficiaries should always be equipped with all necessary skills to run their businesses profitably, even after repaying their loans, through targeted business seminars to raise business management skills.

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