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REPOA Brief

REPOA Knowledge is Power

Experience of youth in applying for the Councils Economic Empowerment loans

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Key Messages

- Despite recent improvements, many young people still find the loan application process too lengthy and burdened with excessive documentation requirements.
- Applicants experience disbursement delays and receives less funds than the amount requested.
- Some Community Development Officers do not possess adequate project management and digital skills, which slows down the pace of application and processing.

Introduction

One of the strategies of the Tanzanian government to empower people economically is to provide interest-free loans through Local Government Authorities (LGAs). The loans are interest free as they target low-income earners who cannot meet the minimum requirements of financial institutions. The LGAs allocate 10% of their internal collection (own sources) for special groups of the population which include women, youth and people with disabilities (PWDs). Women and youth receive four percent each while PWDs receive two percent. Not only does the strategy empower people economically, but it also addresses the problem of sustainable national development and unemployment as many youths do not possess employable skills nor productive assets.

The Council Credit Scheme was established in 2018. In 2023, it was suspended to address several challenges including the presence of ghost beneficiaries, and difficulties many beneficiaries faced in servicing their loans. The scheme was resumed in the mid-2024.

REPOA conducted a study to examine the effectiveness of council's loans to youth. The research sheds light on the experience of youth in applying for the council's loan.

The purpose of this policy brief is to share with policymakers and actors the experience of youth regarding the application for Councils' loans to improve the process even further.

Methodology

The research employed a qualitative methodology that included semi-structured interviews and a focus group discussion (FGD) for data collection, and coding for data analysis. The data were collected from 68 youth loan beneficiaries, their 22 customers, and 13 community development officers (CDOs) in four LGAs, namely Dar es Salaam City, Kinondoni Municipal, Bumbuli, and Kibaha District Councils. The data collection fieldwork was conducted between June and July 2024.

Findings

Councils' loan provision process

The process of applying for councils' loan began with the youth's awareness of the scheme. The beneficiaries learned about the council credit scheme through various communication channels and media. Communication channels include human senses such as seeing and hearing, while media include devices like radio and television. From a different perspective, information was also shared through interpersonal and mass media communication. Applicants heard about the Councils' loan from their clients, elected and non-elected council officials, friends, neighbours, and relatives. Councils also shared that information through office noticeboards and street announcements made using megaphones.

> *"There is a woman we live with in our area; she is a businessperson. During her walk, she came across that information. At first, she organized a group, but when they applied, she was told that you cannot form a group outside your residential area. So, she came back to our neighbourhood, educated us, and that is how we formed the group." (Kibaha DC, Youth no. 2)*

> *"Here, there are vehicles that go around promoting Mama Samia's loan initiative, showing her care for the youth. They talk about how to form groups, accessing the loan, and using it for business. This year, it has already passed by about twice; that's how we received the information." (Kibaha DC, youth 10)*

The beneficiaries showed interest and started the application process, which involved different steps from Lower to Higher Local Government level. They were required to form a group of five to ten individuals, submit a business proposal, have a common business goal and aim to expand their business. They also had to present a tax identification number (TIN), national identity, a birth certificate, a group bank account and statement, business licence, and physical address. Applicants had to be between 18 and 35 years old. Finally, they signed the agreement and received their loans.

> *"Contracts; yes, our agreements were about making repayments. When you take a loan, it means you must make repayments. So, if you do not pay, there are rules. We were given contracts, as you said, and in those contracts, there are procedures set out. One of them is that members who have not paid must be reported. We have to notify the local government authorities, and once we do that, they will know how to assist us." (Kinondoni MC, Youth no. 6)*

Challenges experienced when attempting to secure the loan

The beneficiaries faced numerous challenges when they were applying for loans, some of which are administrative, and others relates to the enabling environment in terms of institutional set-up, policies, and socio-economic aspects. First, some received less amounts of money than what they requested. Second, the disbursement of funds took longer than the three-month period stated in the policy, due to various reasons. For example, many CDOs did not possess project management skills, and some councils faced technical glitches in their computer systems. Third, some beneficiaries struggled to draft their group constitution even though the council officials fully supported them. In addition, forming groups proved challenging for some beneficiaries because it was difficult to identify the right people.

> *"We were told to form a group of at least five people, young people under the age of 35. For women, I was not sure. We were instructed to write a constitution and regulations, and it was registered at the municipal office, and then we were given a certificate. They informed us through the constitution because they had left a phone number to tell us that our certificate was ready." (DSM CC, Youth no. 11)*

> *"For instance, you gather nine others to make a group of ten so you can qualify for the loan. But nowadays, finding trustworthy people is difficult, even just three is a challenge. So, we went through a tough time figuring out the suitable and unsuitable members. But we succeeded, and honestly, we thank God that we're progressing well." (Kinondoni MC, youth 7)*

Some beneficiaries proposed some actions for the government to address the challenges they have experienced. First, the government should allo w them to run at least two businesses to minimise the risk of a complete collapse of business because of market challenges. Second, they suggested to raise the upper age limit for men from 35 to 45 years because they claimed that men in that age group take life more seriously. Finally, they suggested that the government should loan out funds to individuals who have collateral.

> *"The problem is that the groups exist and are active, but there is no collateral. If there were collateral; that is, a system where someone knows that if they default, their plot or house could be taken, they will definitely repay the money, and it would make follow-up easier for us." (Kibaha DC, CDO3)*

Conclusions and recommendations

Despite improvements made in the Council's loan application process and procedures, many youth applicants found the system challenging. According to the 10% LGAs loan policy, the funds should be disbursed within three months of loan approval, but in practice, it took longer than three months to release the funds.

It is recommended that despite the use of commercial banks, the government should streamline the application process and procedures even further as many councils still manage the loan provision. The government should also invest in building the capacity of Community Development Officers especially on project management and digital literacy to improve the process. An efficient feedback mechanism is also necessary, as beneficiaries offered valuable suggestions to improve the application process.

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