Examining the socio-economic factors influencing loan repayment among youth: Evidence from local government authority soft loan programs in Morogoro Rural District, Tanzania

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ABSTRACT

Youth financial exclusion is still a critical barrier to rural economic participation in Tanzania. Local Government Authorities (LGAs) introduced soft loan schemes to support youth entrepreneurship, yet sustainability is threatened by poor repayment performance, with 43.5% of funds unrepaid. This study is guided by the Theory of Planned Behaviour (TPB) as introduced by Ajzen in 1991, which states that individuals' behaviour is influenced by their intentions, which are in turn shaped by their attitudes, subjective norms, and perceived behavioural control. The study used a cross-sectional research design. The target population of the study is youth groups which have benefited from loans from the Morogoro rural district since 2019. The sample size was found by using Yamane's formula. Data was collected from 190 youth respondents through structured questionnaires, supplemented by focus group discussions with 16 participants and key informant interviews with 3 district officials. Binary logistic regression and chi-square tests found significant associations and predictors of repayment performance. Demographic characteristics significantly shaped repayment outcomes. Age demonstrated a clear progression effect, with youth aged 29–40 years 2.35 times more likely to repay than those aged 18–28 ($p = 0.012$), while those above 40 achieved even higher odds (OR = 3.20, $p = 0.047$), reflecting maturity's positive influence on financial discipline. Secondary education increased repayment likelihood by 1.87 times ($p = 0.028$), confirming financial literacy's importance. Employment status proved decisive: self-employed youth were 6.63 times more likely to repay than unemployed borrowers ($p < 0.001$), while formally employed youth achieved 5.34 times higher odds ($p < 0.001$). These dramatic differences underscore that stable, reliable income is essential for loan servicing. Loan design features critically influenced outcomes. Adequate loan amounts tripled repayment likelihood (OR = 3.42, $p < 0.001$), emphasizing that proper sizing matched to investment scale is essential for profitability. Prior business experience doubled repayment probability (OR = 1.98, $p = 0.003$), proving how market knowledge and cash-flow management skills enhance sustainability. The investment sector mattered significantly, with agriculture and small businesses showing strong repayment. Financial literacy training generated substantial improvement (OR = 4.20, $p < 0.001$), with trained borrowers achieving 84.8% good repayment versus 54.1% without training. Most powerfully, borrowers whose repayment source was investment profits were 11.84 times more likely to repay than those dependent on family support ($p < 0.001$). Qualitative findings revealed that program features attracted youth, but household survival pressures undermined implementation. Approximately 54% of borrowers partially diverted funds toward consumption, particularly education and basic needs. The study concludes that repayment performance reflects the complex interplay of maturity, employment stability, loan adequacy, institutional support, and productive use. For sustainability, LGAs should prioritize adequate loan sizing, provide mandatory comprehensive training, strengthen ongoing monitoring, and address household survival pressures through complementary support mechanisms.

Keywords: Research Design, Repayment Performance, Socio-Economic Factors, Tanzania, Youth Soft Loan

I. INTRODUCTION

Youth unemployment and underemployment remain among the most pressing socio-economic challenges across Sub-Saharan Africa, undermining development gains and threatening social stability. Tanzania is no exception, as its youthful population presents both opportunity and challenge for inclusive economic growth. According to the Tanzania National Bureau of Statistics [NBS] (2023), youth aged 15–35 years are approximately 34.5% of the national population, yet unemployment among this group stays above 13%. The Tanzanian government has, over the years, introduced multiple initiatives aimed at addressing youth unemployment. Among the most significant is the establishment of Local Government Authority (LGA) soft loan programs, which set aside 10% of council revenues to support youth, women, and people with disabilities. These initiatives are framed within national policies, including the National Youth Development Policy in 2007. The rationale behind these programs is that lack of access to affordable finance has historically excluded youth from entrepreneurship and enterprise development (Mussa, 2013; Tarimo, 2024). Unlike commercial loans that are tied to collateral and interest obligations, LGA loans are interest-free and collateral-free, designed to ease entry for youth who are financially marginalized. However, the sustainability of these programs

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is threatened by poor repayment performance, which undermines the revolving fund principle and reduces the number of potential beneficiaries (Controller and Auditor General [CAG], 2020; Makorere, 2014). Understanding repayment performance is crucial not only for program survival but also for wider development aims. Repayment failures limit the capacity of LGAs to support successive cohorts of youth, thereby weakening their poverty alleviation mandate.

Moreover, persistent defaults risk reinforcing negative stereotypes about youth borrowers as financially irresponsible, further restricting their access to formal credit institutions (Bhatt & Tang, 2002; Wongnaa & Awunyo-Vitor, 2013). These challenges are compounded by rural realities such as infrastructural bottlenecks, limited market access, and climate risks that affect agriculture, the sector where most youth loans are invested (Dubale & Beshir, 2020; Akpaeti & Umoren, 2020). As Nawai and Shariff (2012) emphasize, income stability and adequacy of loan size are fundamental for repayment, yet these conditions are often undermined by rural structural constraints. The Morogoro Rural District offers a proper case study for examining these dynamics. With an active record of youth loan disbursement over the past five years, the district presents a diverse set of experiences in agriculture, trading, services, and small-scale manufacturing.

A substantial body of empirical research has highlighted the role of demographic characteristics such as age, education, and gender in shaping loan repayment outcomes. Age is often cited as a predictor of financial discipline and repayment capacity. In Tanzania, Makorere (2014) found that older borrowers in Dar es Salaam and Morogoro regions showed stronger repayment behaviour compared to younger borrowers, attributing this to maturity, accumulated life experience, and more stable sources of income. Similar findings have been reported in Ethiopia, where Dubale and Beshir (2020) saw that farmers aged between 30–45 years repaid loans more reliably than their younger counterparts. This evidence suggests that youth borrowers may face repayment challenges not because of unwillingness but due to their limited financial maturity and fewer established income streams.

Education has also been strongly linked to repayment performance, with many studies showings that educated borrowers tend to have higher repayment rates. Bhatt and Tang (2002) proved in U.S. microcredit programs that higher educational attainment was associated with improved repayment discipline, due to better financial literacy and management skills. Similar evidence comes from Ghana, where Wongnaa and Awunyo-Vitor (2013) found that secondary education significantly improved repayment among yam farmers. In contrast, Abara (2021), in a study of Sidama Microfinance Institution in Ethiopia, cautioned that the education effect is context-specific and often moderated by economic opportunities available in local markets. This suggests that while education may equip borrowers with better decision-making skills, its impact on repayment outcomes depends on whether these skills can be productively applied in the borrower's environment.

Financial capacity and loan use remain core determinants of repayment performance. Income levels and stability have been widely studied, with Nawai and Shariff (2012) in Malaysia proving that borrowers with steady and predictable incomes had significantly better repayment records. Awoyemi and Olowa (2010) in Nigeria further showed that repayment success was strongly associated with receiving adequate loan sizes to cover investment plans; undersized loans often led to repayment difficulties due to low returns. These findings emphasize that financial adequacy and predictability of returns are more important than absolute income levels for repayment outcomes.

Business experience is another important economic factor. Akpaeti and Umoren (2020), studying cooperative beneficiaries in South-South Nigeria, found that borrowers with prior business experience were 2.3 times more likely to repay loans successfully compared to inexperienced entrepreneurs. This was attributed to their superior understanding of market dynamics, customer behaviour, and cash flow management. These insights highlight that experience provides not only skills but also resilience to shocks, which is crucial in volatile rural markets.

The sector of investment also influences repayment capacity. Simachew and Hassen (2020) found that Ethiopian borrowers who invested in agricultural activities such as livestock and crop farming proved more consistent repayment than those who engaged in trading, due to the predictable returns from agriculture in their study context. Conversely, Mussa (2013) in Tanzania and Tarimo (2024) in Moshi Municipality found that youth loans invested in agriculture were vulnerable to climate variability and market fluctuations, leading to higher risks of default. These contrasting findings suggest that sectoral impacts on repayment are context-dependent and influenced by local economic structures. Thus, while agriculture often dominates youth investment, diversification into trading, services, and manufacturing may reduce repayment risks if properly supported.

Earlier research on Tanzania's Youth Development Fund (Mussa, 2013; Tarimo, 2024) has shown that youth face challenges such as inadequate loan sizes, migration, and limited family support, while evidence from Malawi and Kenya (Mbaluko, 2014; Chemwa, 2015) reveals similar issues of default and program inefficiency. Yet there stays a scarcity of empirical work focusing specifically on Tanzania's LGA soft loans, particularly from a youth perspective. This study therefore looks to fill the gap by examining the socio-economic determinants of loan repayment among youth beneficiaries of LGA soft loans in Morogoro Rural District. By analysing demographic characteristics, financial and economic conditions, social factors, and institutional variables, the study provides a multidimensional understanding of repayment performance. Employing rigorous quantitative techniques, it contributes evidence-based insights for policy

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reform and program design. In doing so, the study not only informs the sustainability of youth loan schemes but also enhances the broader discourse on youth empowerment, financial inclusion, and rural development in Tanzania.

1.1 Research Objectives

i. To assess the socio-demographic characteristics of youth beneficiaries and their influence on loan repayment performance.
ii. To analyse the economic factors affecting loan repayment among youth beneficiaries of LGA soft loan programs.
iii. To examine institutional and program-related factors influencing loan repayment performance among youth.

II. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1Theory of Planned Behaviour

This study is guided by the Theory of Planned Behavior (TPB),The Theory states that individuals' behavior is influenced by their intentions, which are in turn shaped by their attitudes, subjective norms, and perceived behavioral control (Ajzen, 1991). Focusing on factors affecting youth loan repayment, the theory is particularly relevant for understanding how social dynamics within youth groups, community norms, household economic pressures, and institutional support systems influence repayment decisions. While attitudes reflect individual assessment of repayment capacity, subjective norms capture how family, peer, and community expectations shape financial behavior. Perceived behavioural control reflects whether borrowers believe they can successfully invest loans and generate returns. The TPB offers a comprehensive framework that integrates cognitive, social, and volitional factors in predicting behavior. For example, in a meta-analysis examining the predictive validity of TPB across 185 studies, the TPB accounted for an average of 39% of the variance in intentions and 27% of the variance in behavior (Armitage & Conner, 2001). While other related theories like the Theory of Reasoned Action (TRA) and Social Cognitive Theory (SCT), focus solely on individual cognition or social influence only. However, Ajzen insist that the Theory doesn't involve choosing between options, it explores why someone intends to do something based on their attitudes, perceived social expectations, and sense of control over the action.

2.2 Empirical Review

2.2.1 Youth Recipients' Sociodemographic Traits and Loan Repayment Performance

Several empirical studies have examined how socio-demographic characteristics influence loan repayment behaviour among borrowers. Age is commonly identified as an important determinant of repayment performance. Older borrowers are often considered more financially responsible due to greater life experience and stable income sources. For example, Makorere (2014) found that borrowers aged above 30 years in Tanzania showed better loan repayment performance compared to younger borrowers because they possessed more stable economic activities and stronger commitment to financial obligations. Similarly, Dubale and Beshir (2020) in Ethiopia reported that farmers aged between 30 and 45 years had higher repayment rates than younger farmers, largely due to their greater farming experience and financial discipline.

Education level is another socio-demographic factor frequently associated with loan repayment performance. Education enhances financial literacy, record-keeping ability, and better decision-making in business activities. Bhatt and Tang (2002) found that borrowers with higher educational attainment in microfinance programs in the United States demonstrated better loan repayment behaviour because they were more capable of understanding financial agreements and managing business risks. Likewise, Wongnaa and Awunyo-Vitor (2013) in Ghana reported that borrowers with secondary education were more likely to repay loans compared to those with lower education levels due to improved business planning and financial management skills.

These findings suggest that socio-demographic factors shape borrowers' financial behaviour, discipline, and ability to generate income for loan repayment.

2.2.2 Economic Factors Affecting Loan Repayment among Youth Beneficiaries of LGA Soft Loan Programs

It is commonly acknowledged that economic circumstances play a major role in determining loan repayment performance,because loan repayment is mostly dependent on the borrower's capacity to make enough money from investments or work, income level and income stability are among these very crucial aspects. In comparison to borrowers with erratic income, Shu-Teng et al. (2015) discovered that borrowers with steady and predictable income sources had much higher loan repayment rates. Similarly, Awoyemi and Olowa (2010) found that among Nigerian small-scale farmers, income level had a beneficial impact on payback performance. owners are more adept at-risk management, financial management, and marketing.

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Another significant economic element affecting repayment performance is loan size and appropriateness. Borrowers can effectively participate in profitable ventures that yield adequate returns when loan amounts are adequate. According to Awoyemi and Olowa (2010), borrowers who were given sufficient loan amounts were able to fully execute their business ideas, which resulted in higher repayment rates. On the other hand, inadequate loan amounts frequently result in underinvestment and decreased profitability, making loan repayment challenging for borrowers

2.2.3 Institutional and Program-Related Factors Influencing Loan Repayment Performance among Youth

Institutional and program-related factors also play a crucial role in shaping loan repayment performance. One important factor is financial literacy training provided to borrowers before or after receiving loans. Financial education equips borrowers with skills in budgeting, financial planning, and record-keeping, which improves their ability to manage loans effectively. Sigei (2017) found that youth who received financial training were more likely to repay loans successfully compared to those who did not receive training. Similarly, Tegambwage and Kasoga (2022) reported that financial literacy significantly improved loan repayment performance among youth entrepreneurs.

Loan monitoring and supervision by lending institutions also influence repayment behaviour. Effective monitoring ensures that borrowers use loans for intended purposes and receive guidance when challenges arise. According to Rugeiyamu (2023), weak monitoring and follow-up mechanisms contribute significantly to loan default among youth borrowers because problems in business operations remain unnoticed until repayment becomes difficult.

Additionally, program design factors such as loan disbursement procedures and loan conditions influence repayment outcomes. Delays in loan disbursement can disrupt planned investment activities and reduce expected returns. Chemwa (2015) found that delayed loan disbursement negatively affected repayment performance among youth loan beneficiaries in Kenya because it prevented borrowers from investing at the appropriate time.

III. METHODOLOGY

3.1 Study Area

The study was conducted in Morogoro Rural District, found in the Morogoro Region of Tanzania. The district was selected because it represents a typical rural Tanzanian context with active implementation of LGA soft loan schemes, high youth participation rates (over 400 beneficiaries since 2019), documented repayment challenges (consistent with national 43.5% default rates), and diverse agricultural and entrepreneurial activities allowing for generalizable insights on youth financial inclusion. This research focused on Kiroka and Mikese wards.

3.2 Research Design

The study used a cross-sectional research design, where data were collected once at the study site. This design helps to capture multiple variables at a specific time. The study employed both quantitative and qualitative approaches to examine relationships between socio-economic factors and repayment performance. The qualitative part employed focus group discussions and key informant interviews to illuminate the lived experiences, decision-making processes, and contextual factors shaping repayment behavior.

3.3 Sampling Procedures and Sample Size

The target population formed youth beneficiaries who had accessed LGA soft loans within the past five years (2019–2024). Based on district records showing approximately 400 youth loan beneficiaries, the required sample size was figured out using Yamane's (1967) formula at 95% confidence level and 5% margin of error:

$n = N / [1 + N(e^2)]$ $n = 400 / [1 + 400(0.05^2)]$ $n = 400 / 2$ $n = 200$

The Proportionate Stratified Sampling technique was used to obtain the required sample size as shown in Table 1.

Table 1

Proportionate Stratified Sampling Procedure

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

Simple Random Sampling was then used to select respondents from each stratum. A purposive sampling procedure was used to select focus group discussion participants from fourteen (14) youth groups found through district loan records, specifically those who were active LGA loan recipients in both wards. The selection was based on: (1)

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diversity of loan use patterns; (2) representation of different repayment experiences; and (3) inclusion of both group leaders and ordinary members to capture different perspectives on group dynamics and decision-making.

Two focus group discussions were conducted, one per ward, each with 8 participants. Three (3) key informants were purposively selected based on institutional roles: (1) the District Community Development Officer responsible for program coordination; (2) a Ward Executive Officer from Mikese ward with direct oversight of youth groups; and (3) a senior loan officer involved in disbursement and monitoring. These informants stood for different institutional levels and functional roles, ensuring comprehensive triangulation of perspectives on youth behavior and program implementation.

3.4 Data Collection Methods and Tools

3.4.1 Quantitative Data Collection

Primary data were collected using a structured questionnaire with closed-ended and open-ended questions covering demographic characteristics, financial factors, employment status, loan adequacy, investment sectors, repayment sources, financial literacy training, and institutional factors.

3.4.2 Qualitative Data Collection

A Focus Group Discussion (FGD) guide and Key Informant Interview (KII) guide were used for qualitative data collection. Key informant interviews lasting 60–90 minutes explored program design and implementation, including: program aims, disbursement criteria and processes, implementation challenges, monitoring systems, officers' observations of youth behavior, barriers to repayment, and recommendations for improvement. Interviews were conducted in Swahili at informants' offices and audio-recorded with consent.

3.4.3 Variable Definition and Measurement

Table 2

Variable Definitions, Expected Signs, and Data Sources

Variable	Measurement	Expected Sign
Dependent Variable		
Loan Repayment Performance	Binary (1=Good: Always/Sometimes; 0=Poor: Rarely/Never)	—
Independent Variables		
Demographic Factors		
Age Category	Categorical (18–28; 29–40; >40 years)	Positive (+)
Education Level	Binary (1=Secondary; 0=No formal/Primary)	Positive (+)
Marital Status	Categorical (Single; Married; Divorced/Widowed)	Mixed (±)
Employment Status	Categorical (Unemployed; Self-employed; Employed)	Positive (+)
Financial Factors		
Monthly Income	Continuous (TZS)	Positive (+)
Business Experience	Binary (1=Yes; 0=No)	Positive (+)
Loan Amount Adequacy	Binary (1=Adequate; 0=Inadequate)	Positive (+)
Investment Sector	Categorical (Agriculture; Small business; Manufacturing; Education; Real estate)	Mixed (±)
Major Repayment Source	Categorical (Investment profits; Salary; Family support)	Positive (+) for profits
Social and Institutional Factors		
Financial Literacy Training	Binary (1=Yes; 0=No)	Positive (+)
Group Tenure	Categorical (<1 year; 1–3 years; >3 years)	Positive (+)
Other Group Membership	Binary (1=Multiple; 0=Single)	Positive (+)
Group Accountability	Binary (1=Yes; 0=No)	Positive (+)
Peer Support	Ordinal (1=Very unsupportive to 5=Incredibly supportive)	Positive (+)
Loan Program Factors		
Disbursement Delays	Binary (1=Yes; 0=No)	Negative (−)

3.5 Data Analysis

Data were coded, cleaned, and analysed using STATA version 18. The analysis went ahead in three stages, including the first descriptive Analysis whereby Frequencies, percentages, means, and standard deviations were computed to summarize sample characteristics and key variables. And the other is inferential Analysis: Chi-square tests of independence were conducted to examine associations between categorical variables and loan repayment performance. The Chi-square statistics were computed as:

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$\chi^2 = \Sigma[(Oij - Eij)^2 / Eij]$

where Oij stands for the observed frequency and Eij the expected frequency under the null hypothesis of independence. Finally, Binary Logistic Regression whereby it was employed to find significant predictors of loan repayment performance while controlling for confounding variables. The logistic regression model was specified as:

Logit Y= (log (Pi/1- Pi)) = $\beta_0 + \Sigma (\beta j \times Xij) + \varepsilon i$

where Pi is the probability of good repayment performance for individual i, Xij stands for the jth explanatory variable, βj are the regression coefficients, and εi is the error term. Marginal effects were calculated to provide practical interpretation of the logistic regression coefficients, showing the change in probability of good repayment associated with each variable. The other part was qualitative Data Analysis whereby recordings were transcribed verbatim in Swahili, translated to English with verification, and analysed using Braun and Clarke's (2006) thematic coding framework through iterative stages of familiarization, open coding, axial coding, focused coding, and theme refinement. Atlas.ti version 25 eased systematic organization. Quantitative patterns were examined alongside qualitative insights through convergence and complementarity strategies at the interpretation stage, synthesizing statistics with narratives and connecting both to existing literature.

3.6 Ethical Considerations

All participants provided informed consent after receiving clear information about the study's purpose, procedures, and voluntary nature. Confidentiality was kept through pseudonyms and secure data storage. Light refreshments were offered during group discussions as appreciation for participation.

IV. FINDINGS & DISCUSSION

4.1 Demographic Characteristics and Loan Repayment Performance

Table 3 presents the cross-tabulation analysis between key demographic factors and loan repayment performance.

Table 3

Cross-Tabulation of Demographic Characteristics and Loan Repayment Performance (N = 190)

Demographic Factor	Category	Good Repayment	Poor Repayment	Total	χ^2 (df)	p-value
Age Category					8.94(2)	0.011*
	18–28 years	35 (55.6%)	28 (44.4%)	63 (33.2%)		
	29–40 years	91 (78.4%)	25 (21.6%)	116 (61.1%)		
	Above 40 years	9 (81.8%)	2 (18.2%)	11 (5.8%)		
Education Level					12.47(2)	0.002*
	No formal/Primary	89 (66.4%)	45 (33.6%)	134 (70.5%)		
	Secondary	46 (82.1%)	10 (17.9%)	56 (29.5%)		
Marital Status					6.23(3)	0.101
	Single	24 (66.7%)	12 (33.3%)	36 (18.9%)		
	Married	102 (73.9%)	36 (26.1%)	138 (72.6%)		
	Divorced/Widowed	9 (56.3%)	7 (43.8%)	16 (8.4%)		
Employment Status					15.82(2)	0.000*
	Self-employed	98 (78.4%)	27 (21.6%)	125 (65.8%)		
	Employed	28 (75.7%)	9 (24.3%)	37 (19.5%)		
	Unemployed	9 (32.1%)	19 (67.9%)	28 (14.7%)		

*Note: * p < 0.05, ** p < 0.01, *** p < 0.001*

The dependent variable 'loan repayment performance' was derived from question 52 ('How often does your group repay the loan on time?'), where responses were categorized as "Good repayment" (Always/Sometimes) versus "Poor repayment" (Rarely/Never). The results show significant associations between age, education, employment status, and loan repayment performance.

Youth aged 29–40 years proved superior repayment rates (78.4%) compared to younger counterparts aged 18–28 years (55.6%), suggesting that maturity and life experience contribute to better fiscal management. This finding aligns with existing literature indicating that older youth often have more stable income sources and better understanding of financial obligations (Khandker & Samad, 2014). Education emerged as a critical factor, with secondary education holders achieving 82.1% good repayment rates compared to 66.4% among those with primary or no formal education. This supports the financial literacy hypothesis, where higher education enhances borrowers' capacity to understand loan terms, manage finances, and plan for repayment (Ibitomi et al., 2024; Ahlin, 2015).

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Employment status showed the strongest association with repayment performance. Self-employed youth (78.4%) and formally employed youth (75.7%) proved much better repayment rates than unemployed youth (32.1%). This finding underscores the importance of steady income sources for meeting repayment obligations and suggests that loan programs should prioritize income-generating activities. A focus group participant said: *"When you have your own business, you know every month you will earn something. Whether it is from selling crops or trading, there is income. When you have no job, how do you find money to pay back?*" (FGD participant, Mikese ward, 28.12.2024).

4.2 Loan Characteristics and Socio-Economic Factors

Table 4 examines relationships between loan-related factors and repayment performance.

Table 4

Cross-Tabulation of Loan Characteristics and Socio-Economic Factors with Repayment Performance (N = 190)

Factor	Category	Good Repayment	Poor Repayment	Total	χ^2 (df)	p-value
Business Experience					11.34(1)	0.001*
	Had prior experience	82 (78.1%)	23 (21.9%)	105 (55.3%)		
	No prior experience	53 (62.4%)	32 (37.6%)	85 (44.7%)		
Loan Amount Adequacy					18.76(1)	0.000*
	Adequate (Met needs)	94 (82.5%)	20 (17.5%)	114 (60.0%)		
	Inadequate	41 (53.9%)	35 (46.1%)	76 (40.0%)		
Investment Sector					9.88(4)	0.042
	Agriculture	65 (76.5%)	20 (23.5%)	85 (44.7%)		
	Small Business	52 (71.2%)	21 (28.8%)	73 (38.4%)		
	Manufacturing	6 (60.0%)	4 (40.0%)	10 (5.3%)		
	Education/Training	8 (61.5%)	5 (38.5%)	13 (6.8%)		
	Real estate	4 (44.4%)	5 (55.6%)	9 (4.7%)		
Group Tenure					7.42(2)	0.024
	Less than 1 year	18 (58.1%)	13 (41.9%)	31 (16.3%)		
	1–3 years	67 (69.8%)	29 (30.2%)	96 (50.5%)		
	More than 3 years	50 (79.4%)	13 (20.6%)	63 (33.2%)		
Other Group Membership					4.89(1)	0.027
	Belongs to other groups	76 (77.6%)	22 (22.4%)	98 (51.6%)		
	Solitary group membership	59 (64.1%)	33 (35.9%)	92 (48.4%)		
Financial Literacy Training					21.45(1)	0.000*
	Received training	89 (84.8%)	16 (15.2%)	105 (55.3%)		
	No training received	46 (54.1%)	39 (45.9%)	85 (44.7%)		

*Note: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$*

4.2.1 Loan Characteristics for Youth Loan Repayment

Business experience significantly influenced repayment, with experienced entrepreneurs achieving 78.1% good repayment rates compared to 62.4% among novices. A 32-year-old with prior business experience said: *"I had experience buying and selling before the loan. I knew how markets work, how to manage money, when prices are high or low. This knowledge helps me make good decisions with the loan."* (FGD participant, Kiroka ward, 28.12.2024). Loan amount adequacy appeared as the strongest predictor of repayment success. When loans met borrowers' investment needs, 82.5% achieved good repayment compared to only 53.9% when loans were inadequate. A 28-year-old struggling borrower explained: *"The loan was too small for what I wanted to do. I wanted to start a poultry business with 500 birds, but the loan could only by 200. With fewer birds, my profit is less, and I struggle to repay on time."* (FGD participant, Mikese ward 28.12.2024)

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4.2.2 Economic Factors for Youth Loan Repayment

Investment sector analysis shows agriculture (76.5%) and small business (71.2%) achieving better repayment rates than real estate (44.4%), manufacturing (60.0%), and education (61.5%). This pattern reflects shorter gestation periods and quicker returns in agriculture and trading activities. Financial literacy training showed highly significant association with repayment. Those who received training achieved 84.8% good repayment rates compared to 54.1% without training, a 30.7 percentage point difference. A borrower who received training explained:

> *"The training taught me how to calculate profit and loss, how to keep records, and how to separate business money from family money. This helped me manage the loan better and know exactly how much I owed and when*." (FGD participant, Kiroka ward,31.12.2024)

4.2.3 Sources of Loan Repayment and Financial Sustainability

Table 5 examines relationships between repayment sources and repayment performance. Youth relying on investment profits proved highest repayment success (86.7%), followed by those using salary income (75.8%). Those dependent on family support achieved only 27.3% good repayment rates. This striking pattern reveals the critical importance of productive investment for loan sustainability.

A borrower dependent on family support explained:

> *"When the harvest was poor, and my business made no profit, my family helped me pay the loan. But my family also has problems. Soon, they could not help anymore, and I had no money to repay. This is how I fell behind*." (FGD participant, Mikese ward, 28.12.2024).

In contrast, a successful borrower explained:

> *"The money I made from selling my vegetables covers my repayment completely. Each month when I harvest and sell, I at once set aside money for the loan before spending anything else. This way I never miss a payment*." (FGD participant, Kiroka ward, 31.12.2024)

The profound difference between reliable investment profits (86.7% repayment) and uncertain family support (27.3% repayment) proves that loan sustainability depends fundamentally on productive income generation rather than external household aid.

Table 5

Cross-Tabulation of Repayment Sources and Repayment Performance (N = 190)

Factor	Category	Good Repayment	Poor Repayment	Total	χ^2 (df)	p-value
Major Repayment Source					24.73(2)	0.000*
	Profits from investment	98 (86.7%)	15 (13.3%)	113 (59.5%)		
	Salary from employment	25 (75.8%)	8 (24.2%)	33 (17.4%)		
	Family support	12 (27.3%)	32 (72.7%)	44 (23.2%)		

*Note: * p < 0.05, ** p < 0.01, *** p < 0.001*

When borrowers lack technical knowledge and no post-disbursement support is available, preventable losses occur, leaving them unable to repay regardless of loan adequacy or investment sector. Weak monitoring left borrowers without crucial support. A key informant acknowledged:

> *"We have three staff checking many youth groups across the district. We cannot visit every group regularly. By the time we find repayment problems, investments have often failed, and defaults have occurred*." (Key informant 3 on 28.12.2024).

Early monitoring could find problems during investment implementation when interventions might prevent failure, while current reactive monitoring only detects problems retrospectively when default has already occurred.

4.2.4 Binary Logistic Regression Analysis

Table 6 presents logistic regression results finding significant predictors of repayment performance. Age appeared as critical: borrowers aged 29–40 years were 2.35 times more likely to repay than those aged 18–28 ($p = 0.012$), while those above 40 were 3.20 times more likely ($p = 0.047$). This age progression proves that maturity and accumulated experience directly enhance repayment capacity. Education also played a significant role; youth with secondary education were 1.87 times more likely to repay compared to those with only primary or no formal education (OR = 1.87, $p = 0.028$). This reflects how educational attainment enhances economic management skills and borrower discipline, consistent with Bhatt and Tang (2002) and Wongnaa and Awunyo-Vitor (2013). Employment status proved decisive. Self-employed youth were 6.63 times more likely to repay than unemployed borrowers ($p < 0.001$), while formally employed youth were 5.34 times more likely ($p < 0.001$). This dramatic difference underscores that reliable income sources fundamentally decide repayment capacity. A key informant saw:

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> *"The unemployment group struggles most with repayment. When someone has no regular income, they cannot plan for loan repayment. Whether they invested well or not, without income, they cannot pay*." (Key informant 3 on 28.12.2024)

Business experience doubled repayment likelihood (OR = 1.98, p = 0.003), as prior business knowledge equipped borrowers with market understanding and resilience to manage cash flows and repay despite challenges. Loan adequacy was exceptionally strong, tripling repayment likelihood (OR = 3.42, p < 0.001). When loans matched investment needs, borrowers' businesses achieved profitability necessary for repayment. When loans were undersized, insufficient capital meant poor returns and repayment difficulty.

Financial literacy training increased repayment odds by 4.20 times (p < 0.001), proving that capacity building directly transforms repayment outcomes. A borrower who received training explained:

> *"Before training, I did not know how to keep records or calculate if my business was really making profit. After training, I understood, and this helped me manage better and repay on time*." (FGD participant, Kiroka ward 31.12.2024)

Further, borrowers whose repayment source was investment profits were 11.84 times more likely to repay than those depending on family support (p < 0.001), confirming the critical importance of productive investment for sustainability. These findings align with Abara (2021) and Dubale and Beshir (2020), who highlight income stability and prior work experience as determinants of repayment in Ethiopia and elsewhere.

Table 6

Binary Logistic Regression Results for Loan Repayment Performance (N = 190)

Variable	Category	Coefficient (β)	Std. Error	Odds Ratio	p-value
Age Category					
	29–40 years	0.853	0.342	2.35	0.012*
	Above 40 years	1.164	0.587	3.20	0.047*
Education Level					
	No formal/Primary (Base)	—	—	1.00	—
	Secondary education	0.627	0.285	1.87	0.028*
Employment Status					
	Self-employed	1.892	0.398	6.63	0.000***
	Employed	1.675	0.467	5.34	0.000***
Business Experience					
	Had prior experience	0.682	0.234	1.98	0.003**
Loan Amount Adequacy					
	Adequate	1.230	0.264	3.42	0.000***
Investment Sector					
	Agriculture	1.485	0.521	4.42	0.004**
	Small business	1.186	0.518	3.27	0.022*
	Manufacturing	0.693	0.687	2.00	0.313
	Education/Training	0.740	0.671	2.10	0.270
Financial Literacy Training					
	Received training	1.435	0.282	4.20	0.000***
Major Repayment Source					
	Profits from investment	2.471	0.389	11.84	0.000***
	Salary from employment	1.782	0.476	5.94	0.000***
Group Tenure					
	1–3 years	0.512	0.376	1.67	0.173
	More than 3 years	0.876	0.395	2.40	0.026*
Other Group Membership					
	Multiple groups	0.596	0.241	1.81	0.013*

Model statistics: Pseudo $R^2 = 0.424$, Log-likelihood = −78.32, LR $\chi^2 = 115.67$, $p < 0.001$

*Note: * p < 0.05, ** p < 0.01, *** p < 0.001*

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4.3 Institutional and Program-Related Factors Influencing Loan Repayment Performance

4.3.1 Fund Utilization and Program Challenges

Beyond the quantitative determinants, qualitative data revealed critical contextual factors shaping repayment outcomes. Focus group discussions documented extensive fund diversion toward household consumption needs, particularly education fees and survival expenses. A 24-year-old explained:

> *"When the loan arrived, my family's situation was desperate. My children needed school fees, we had no food. I did invest part in farming, but I used much for family needs. Now I am struggling to generate enough profit to cover full repayment*." (FGD participant, Mikese ward 28.12.2024)

This diversion pattern directly undermines investment capitalization and repayment capacity. When borrowers distribute only 60–70% of loans to said productive investments, the remaining capital generates insufficient returns for full loan repayment, predisposing borrowers to default despite best intentions.

Technical capacity gaps appeared as devastating constraints. A 22-year-old described total investment loss:

> "*I used the loan to buy 200 chicks for poultry business. But we did not know about chicken diseases. The birds started dying, and within weeks most were dead. All the money was gone, and I had no income to repay.*" (FGD participant, Mikese ward,28.12.2024)

These findings prove that borrowers face multiple interconnected constraints beyond individual financial capacity. Household survival pressures, lack of technical knowledge, and inadequate post-disbursement support create a complex environment where even well-intentioned borrowers struggle to achieve repayment despite receiving loans. Effective solutions must address these multiple dimensions simultaneously.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

This mixed-methods study examined socio-economic factors influencing loan repayment among youth beneficiaries of LGA soft loans in Morogoro Rural District, integrating quantitative rigor with qualitative depth to illuminate both statistical associations and lived experiences shaping repayment behaviour. The findings prove that repayment performance is decided by the interplay of multiple factors across demographic, economic, and institutional domains. Age, education, and employment stability fundamentally shape repayment capacity through their effects on financial maturity, management skills, and reliable income generation. The dramatic differences between self-employed youth and unemployed borrowers illustrate that stable income is essential for loan servicing. Loan design features proved equally critical. Adequate loan amounts significantly increased the likelihood of repayment, while financial literacy training increased odds by 4.20 times. The most powerful predictor was repayment source; borrowers whose repayment came from investment profits were 11.84 times more likely to repay than those depending on family support. This finding confirms that productive investment generating reliable cash flows is essential for sustainability.

Qualitative findings revealed the complex reality beneath aggregate statistics. While program features attract youth participation, household survival pressures drive fund diversion toward consumption, reducing investment capitalization and repayment capacity. Technical knowledge gaps lead to devastating investment losses, and weak monitoring leaves borrowers without support when problems appear. Misinformation about repayment obligations persists despite program clarity, creating misalignment between borrower expectations and program requirements. The documented high non-repayment rate reflects not borrower dishonesty but interconnected structural weaknesses: household poverty pressures, technical knowledge gaps, misinformation about obligations, insufficient loan sizing, weak monitoring providing neither accountability nor support, and a mismatch between program assumptions about borrower behaviour and actual practices. Effective reform requires integrated approaches addressing these multiple constraints simultaneously.

5.2 Recommendations

Local Government Authorities should prioritize adequate loan sizing, ensuring loan amounts match scale of intended investments. Program managers should integrate mandatory pre-disbursement financial literacy and entrepreneurship training, including sector-specific technical skills, through partnerships with agricultural extension services and vocational training centres. This directly addresses knowledge gaps contributing to investment losses. Districts must strengthen monitoring and follow-up systems beyond current reactive approaches. Regular post-disbursement monitoring during investment implementation phases can find problems when interventions might prevent failure. This requires increased staffing and resource allocation to district loan management units.

LGAs should set up systematic communication strategies through ward-level sensitization meetings and written loan agreements in clear Swahili to combat misinformation about repayment obligations. Successfully repaying groups should serve as peer ambassadors, spreading correct information and correcting false narratives. Finally, LGAs should support sectoral diversification through market opportunity assessments to reduce market saturation, limit returns, ease buyer-producer linkages, improve income generation, and strengthen group governance through training on collective

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enterprise management and transparent decision-making. These complementary interventions transform groups from administrative aggregations into genuine collective economic units with shared accountability and mutual support, enhancing both program sustainability and youth economic empowerment.

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