

**LOAN DEFAULT AND THE SUSTAINABILITY OF MICROFINANCE
INSTITUTIONS: A CASE STUDY OF FINCA MUKONO BRANCH**

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**UGANDA CHRISTIAN
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DECLARATION

I, Keji Faith James, a student at Uganda Christian University pursuing a Bachelor's Degree in Business Administration, declare that this research proposal is my original work and has never been presented to any other university or institution of higher learning for an academic award.

Signature: 

Date: 10/April 2020

Reg.no. S23B05/036

APPROVAL

This is to certify that this research proposal has been submitted with my approval as the supervisor.

Signature.....

Dr. Mugisha Henry

University supervisor

Dedication

I dedicate this report to my loving parents Mr. Salah James and Mrs . Fekira Agness who have been very supportive towards the successful completion my studies.

ACKNOWLEDGEMENT

I would like to register special thanks to my research supervisor Dr Henry Mugisha, who guided me throughout the research process.

ABBREVIATIONS AND ACRONYMS

AMFIU	Association of Microfinance Institutions of Uganda
FSS	Financial Self-Sufficiency
MDI	Microfinance Deposit-taking Institution
MFI	Microfinance Institution
MIS	Management Information System
NPL	Non-Performing Loan
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
UBOS	Uganda Bureau of Statistics
UMRA	Uganda Microfinance Regulatory Authority

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ABSTRACT

This paper examined how default on loans affects the financial sustainability of the Mukono Branch of FINCA Uganda, a microfinance institution (MFI) that operates in a semi-urban environment in Uganda. The study was based on the information asymmetry theory as proposed by Stiglitz and Weiss (1981) and aimed to test the role of institutional, borrower, and macroeconomic variables in causing defaults and the consequent impact on main sustainability indicators. The study used a mixed-method case study design, which involved gathering, and the triangulation of data on 36 employees through questionnaires, six in-depth interviews with key informants, and a review of the branch financial records in the years 2020-2025. The data were analyzed using descriptive statistics, multiple regression analysis and thematic analysis. The results showed that there was a definite post-COVID recovery path, and Non-Performing Loan (NPL) ratios decreased, going to 18.0% in 2020 and 8.5% in 2025; Operational and Financial Self-Sufficiency increased to 115% and 110, respectively. Borrower-specific attributes such as multiple borrowing, low financial literacy, and health crises were also determined as the strongest predictors of default ($0.45, p < 0.001$).

Other negative impacts were also significant with institutional (high workload of staff and lack of monitoring) and macroeconomic (post-pandemic disruptions and inflation) factors. The regression model was able to argue out 68 percent of the overall impacts on perceived sustainability ($R^2 = 0.68, p = 0.001$). The research finds that although loan defaults are a major challenge to the sustainability of MFI, specific management of client risks, institutional capacity enhancement and responsive measures to economic shocks can help ensure long term sustainability. Some of the recommendations made are to build capacity to enhance the capacity to screen borrowers and financial literacy programs, enhance staff capacity to monitor clients and promote credit information sharing across the sector to reduce over-indebtedness, which eventually builds the long-term financial inclusion agenda of MFIs in Uganda.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter forms the baseline of the study which explores the connection between loan default and the sustainability of the Microfinance Institutions (MFIs) with particular reference to the Mukono Branch of FINCA Uganda. It provides the background, problem statement, research objectives, research questions, significance, scope, and conceptual framework on which the investigation would be performed.

The study background will be as follows:

Microfinance Institutions have gained a central role in financial inclusion and alleviation of poverty in developing economies, especially on the parts of the population that are not covered by the conventional banking services (Ledgerwood, 1999). MFIs enable micro-entrepreneurs, smallholder farmers, and the marginalized to invest in income-generating ventures, to control consumption and to develop resilience to economic shocks by offering small, collateral-free loans, savings and other financial services (Yunus, 2007).

The microfinance sector in Uganda has grown considerably since the 1980s, and there are more than 700 registered institutions which provide services to more than 4.2 million low-income clients (AMFIU, 2019). This has led to self-employment, productive investment and economic empowerment of poor households both in rural and urban areas (Wright and Rippey, 2004).

Nevertheless, loan default is a significant challenge to the sustainability of this positive effect. Default the inability of borrowers to repay loans in accordance with agreements destroys the quality of loan books, compels institutions to raise their bad debt provisions, and wipes out the capital to lend (Adongo & Stork, 2005). This compromises the financial sustainability and reach of MFIs (Morduch, 1999). In Uganda, the Non-Performing Loans (NPLs) ratio in the microfinance sector increased alarmingly to 15.6% in 2016 compared to 3.4% in 2013, which is due to economic volatility, over-indebtedness of clients, and the inability to manage risks (Mayengo and Nkote, 2017).

Although the Uganda Microfinance Regulatory Authority (UMRA) regulates the sector, various issues, including multiple borrowing and misappropriation of loan funds, continue to complicate the sector, with default rates ranging between 10% and 15% in most institutions (AMFIU, 2019). These problems tend to be more acute in semi-urban and rural branches where clients have seasonal incomes and are not as financially literate.

This scenario can be seen through FINCA Uganda, an organization that was founded in 1992 and is a licensed Microfinance Deposit-taking Institution (MDI). It has 26 branches across the country and has about 140,000 clients who have business, agricultural, and educational loans (FINCA Uganda, 2023). Its branch in Mukono in a semi-urban area in Kampala-Jinja highway area serves many micro-entrepreneurs and farmers. This branch reflects the national issue of increasing NPLs, which directly threatens its operational performance and sustainability in the long term. The present study, thus, aims to explore the causes of loan default, and their effect on sustainability, using FINCA Mukono Branch as a case study.

1.2 Problem Statement

Although microfinance has played a role in poverty alleviation and entrepreneurship in Uganda, the increasing rates of loan defaults are threatening to reverse the fundamental aims of the sector, which are financial inclusion and sustainability of the institutions. NPLs in MFIs have increased nationally between 3.4% in 2013 and 15.6% in 2016, and the 13.5% provisions of bad debts are a clear sign of systemic stress (Mayengo & Nkote, 2017).

In the Mukono Branch of FINCA Uganda, internal evidence and sector reports indicate that the default rates are more than 12 percent, which are caused by poor borrower screening procedures, post-COVID-19 economic shocks, inflationary pressures, and group-lending vulnerabilities (AMFIU, 2019; FINCA Uganda, 2023). Such defaults result in direct loss of revenue, higher expense of recovering loans, and limited capacity to give new credit to its 5,000 or so active clients. Unattended this trend may bring about institutional insolvency, withdrawal of donors, and a shrinkage in credit provision to populations at risk thus causing poverty cycles (Morduch, 1999). The current interventions such as financial literacy interventions and increased collateral requirements have been only partially successful and context-specific, evidence-based interventions are necessary (Adongo and Stork, 2005). The gap in empirical study of the

relationship between the drivers of default and sustainability outcomes at the branch level is critical. This paper seeks to address this gap by offering an in-depth case study of FINCA Mukono Branch.

1.3 Study Purpose.

This study aimed at investigating the impact of loan default on financial sustainability of microfinance institutions and more specifically FINCA Mukono Branch.

1.4 Objectives of the Study

1.4.1 General Objective

To investigate the impact of loan default on the sustainability of FINCA Mukono Branch as a representative case of microfinance operations in Uganda.

1.4.2 Specific Objectives

- i) To establish the effect of institutional factors on the financial sustainability of FINCA Mukono Branch.
- ii) To assess the effect of borrower factors on the financial sustainability of FINCA Mukono Branch.
- iii) To ascertain the effect of macroeconomic factors on the financial sustainability of FINCA Mukono Branch.

1.5 Research Questions

- i) What is the effect of institutional factors on the financial sustainability of FINCA Mukono Branch?
- ii) What is the effect of borrower factors on the financial sustainability of FINCA Mukono Branch?
- iii) What is the effect of macroeconomic factors on the financial sustainability of FINCA Mukono Branch?

1.6 Significance of the Study

The proposed study will make a contribution to the academic literature, as it will implement credit risk and sustainability models to a branch level in Uganda.

In the case of FINCA Uganda, the results will serve to give practical recommendations on how to create branch-related risk management strategies to minimize the NPLs.

The recommendations that can be used by policymakers at UMRA can be used to shape more robust regulatory frameworks.

Scalable strategies can be utilized to improve the performance of loan repayment by the broad MFI industry in Uganda. Finally, the study, by encouraging more sustainable microfinance activities, also contributes to the larger objective of reducing poverty indirectly.

The scope of the study is as follows:

1.7.1 Geographical Scope

The research was done in FINCA Mukono Branch, which is situated along the Kampala-Jinja Road, Mukono District, Uganda. This rural town environment is indicative of the general microfinance struggles and serves a population of about 5,000 active borrowers with agricultural, trading, and small-scale services.

1.7.2 Content Scope

The study concentrated on loan default determinants (institutional policies, borrower characteristics, and macroeconomic factors) and their effect on important sustainability measures, such as NPL ratio, Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency (FSS).

1.7.3 Time Scope

The research reviewed the information between 2020 and 2025. This period is chosen to reflect recent developments, such as the economic recovery after the pandemic and ongoing inflationary pressures.

1.8 Justification

This study is informed by the fact that there exist high default rates that are threatening the sustainability of MFI in Uganda. In FINCA Mukona Branch, the 12% NPLs are a threat to financial sustainability and reaching over 5,000 clients because it contradicts its social mission (AMFIU, 2019). Although there are already interventions, the continued defaults suggest the lack of knowledge on the context-specific drivers at the branch level. It will present empirical evidence of the interaction between institutional, borrower-related, and macroeconomic 8 factors to influence sustainability to inform specific strategies of FINCA Mukono and to help enhance sector-wide policy to enhance the use of financial inclusion by vulnerable populations in Uganda (UBOS, 2020). 8 factors interact to affect sustainability, informing targeted strategies for FINCA Mukono and contributing to sector-wide policy improvements that support financial inclusion for Uganda’s vulnerable populations (UBOS, 2020).

1.9 Conceptual Framework

Figure 1.1: Conceptual Framework

The framework posits loan default as the independent variable, sustainability as the dependent variable, and regulatory factors as moderating variables. It organizes the causes of default into three clusters institutional, borrower-related, and macroeconomic factors to provide a comprehensive lens for analysis.

Loan default

Institutional factors
Screening processes

Borrower factors
Income stability
Financial literacy

Macro-economic factors
Market access
Inflation

sustainability of microfinance

- Profitability,
- Capital adequacy
- outreach,
- Efficiency

Adapted from Adongo & Stork, (2005) and modified by the researchers

The framework is based on the Financial Sustainability Index of MFIs but customized to the Ugandan setting (Adongo & Stork, 2005). The conceptual framework will be used to describe the impact of default as the key phenomenon loan on the sustainability of FINCA Mukona Branch and to indicate the causes of failures.

1.10 Operational Definitions

Loan Default: Not able to pay principal or interest within 90 days of the due date, expressed in Portfolio at Risk.

Sustainability: The capacity of FINCA Mukona to be able to operate at the scale of operating costs on revenues without any external subsidies as measured through Operational Self-Sufficiency (OSS > 100%) and Financial Self-Sufficiency.

Microfinance Institution (MFI): A deposit-based organization such as FINCA, which offers small loans (20 UGX or less) to poor customers.

Financial Sustainability: It includes profitability (e.g., return on assets), capital adequacy, and portfolio quality. When defaults are high, it decreases revenue and boosts provisioning, impairing financial health.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the current body of researches on the impact of loan defaults on the sustainability of microfinance institutions and it is structured around the three research objectives of this study. The review pulls together global and Ugandan research to set forth what we already understand of institutional practices, client features, and economic circumstances which impact repayment behavior. The section aids in explaining why a closer look at FINCA and its branch Mukono is an interesting location to explore, as its research findings can offer some valuable information that would be overlooked in larger research works.

2.1 Theoretical review

The analysis is based on the information gap theory as presented by Stiglitz and Weiss (1981) which offers a theoretical explanation as to why loan defaults take place despite the fact that the financial institutions have adopted seemingly strong lending procedures. In its simplest form, this theory assumes that borrowers and lenders are acting under the circumstances of asymmetric information, i.e. that borrowers will always know more and better than lenders can know about their own financial situation, ability to repay, and planned use of the money (Stiglitz and Weiss, 1981). This information asymmetry results in two market failures, which are both widespread and interdependent, and especially acute in the context of microfinance.

The former issue is the adverse selection which is experienced when lending out the loan. Since lenders have no perfect way to identify high- and low-risk borrowers, they might use observable, but imperfect proxies, like group guarantees or simple asset holdings. According to Stiglitz and Weiss (1981), the lenders increase interest rates to reflect perceived risk but they end up scaring away the most credit worthy clients who have stable and low-return projects and consider the cost of borrowing too high. This results in a skewed and potentially dangerous number of candidates open to deal on harsh conditions, hoping that their high-risk, high-payoff projects could still work. This is compounded in the setting of MFIs such as FINCA, when group-lending models are tested in a standardized manner without individual assessment and this could result in

the admittance of a client whose real default risk is miscalculated (Armendáriz & Morduch, 2010).

The second issue is the moral hazard that arises after disbursement of loans. After the borrowers have been given money, then the lender can hardly control how the loan is really used and the degree of effort put in by the borrower at a reasonable cost. The borrowers are likely to behave in a riskier way than what was initially reported, divert funds that could be used to invest in productive business to instant consumption or less effort to make repayment with the full implications of their actions concealed in the lender (Stiglitz, 1990). A related moral hazard is in-group lending models, when the members assume that the group will take their portion of the burden and they end up shirking individual repayment responsibility (Ghatak and Guinnane, 1999). In the case of MFIs, where resources are often limited to conduct intensive post-disbursement monitoring, this opportunism post-contractual substantially raises the chances of default.

This implies that information gap approach does not just offer a theoretical explanation of the economic behavior but is employed in the establishment of the institutional deficiencies within the market structure of a microfinance firm. The information gap approach does not blame the default on the failure of the client, but rather considers the default situation as a natural risk that occurs as a consequence of the information gap that exists between the financier and the financed individual. In this scenario, the theoretical framework will be directed towards establishing the institutional mechanisms that are meant to fill this gap at FINCA Mukono.

2.2 Empirical Review

2.2.1 The effect of Institutional Factors on Financial Sustainability

Institutional factors include the systems, policies and day-to-day activities that the microfinance organizations have control over internally. Studies have continually indicated that the failure in these aspects is one of the primary factors leading to loan default that subsequently jeopardizes the financial wellbeing of the institution.

The analysis of the studies of other countries shows general trends. According to a Kenyan study (Warue, 2012), organizations that had ineffective loan processing systems, lack of staff training,

and weak following up procedures had a high rate of unpaid loans. It was such a strong relationship that researchers were able to mathematically show how better loan repayment was in direct relation to improvements in administrative systems.

In Namibia, researchers (Adongo & Stork, 2005) measured how operational inefficiencies affected financial performance. They found out that the higher the default rates exceeded 10 percent, the more organisations that had problems such as excessive number of employees in relation to the number of clients served or high administrative expenses would experience a decrease in their capacity to meet their operational expenses by up to 22 percentage points. This demonstrates the interplay between operational issues and default rates to weaken sustainability.

The Ugandan experience has certain illustrations of these institutional challenges. An in-depth review of Pride Microfinance (Nkuutu, 2016) revealed that internal issues explained almost half of their default issues. The employee turnover interfered with relationships and knowledge required in monitoring clients. Staff members who knew certain clients departed and their replacements were hard pressed to keep up with the same degree of supervision.

Another important institutional aspect is technology adoption. The default rates in organizations that used computerized systems to track loans and monitor payments were always approximately 18 percent less than those in organizations that had used paper-based systems (Mayengo & Nkote, 2017). The automated processes enabled faster detection of those who did not pay and a better follow-up.

In the operational patterns within FINCA Uganda, significant insights can be observed. Branches which continued to visit their clients frequently every two weeks in the field were able to keep their seriously delinquent loans at 5% or less. Conversely, branches that interacted with clients once a month experienced an increase in delinquency rates to over 12% (FINCA Uganda, 2022). This shows that monitoring intensity has a direct influence on the behavior of repayment.

Structural problems are also noted in sector reports by Ugandan regulatory bodies. In most rural and semi-urban branches, such as that of Mukono, one staff member may have up to 800 clients. Such a significant workload renders a proper monitoring virtually impossible, which opens the

conditions under which a payment issue may be formed without any notice until turning into a serious default (UMRA, 2022; AMFIU, 2019).

2.2.2 The effect of Borrower Factors on Financial Sustainability

Borrower factors refer to the personal, economic and behavioral attributes of microfinance clients. These personal aspects have been shown to play a big role in the default or repayment of loans, thus being a collective factor in determining financial stability of lending organizations.

It is through international studies that the characteristics of clients that are important are identified. A Malaysian study (Roslan and Abd Karim, 2009) established that the age of a borrower, gender, level of education, the reason why a loan was taken, among others, had an impact on the likelihood of repayment. Interestingly, female borrowers always demonstrated higher repayment rates about 11% higher frequently due to the social pressure and collective responsibility in the model of group-lending, which women were more responsive to.

Research in Uganda has found that there are a number of uniquely client behaviors that augment default risk. A significant issue is the so-called multiple borrowing by professionals when clients borrow money in multiple institutions at a time. A survey conducted among microfinance borrowers in Uganda (Kinde, 2018) revealed that 38% had loans with three or more lenders. This poses a risky scenario by over-extending the borrowers who in most cases use loans to pay the old loans until the pyramid collapses.

Also associated with this is the issue of diversion of loans. In a study of Centenary Bank clients in Central Uganda (Namazzi, 2020), the researchers found out that over half of the defaults happened due to the fact that borrowers used their business loans to do entirely different things medical emergencies, school fees, wedding costs, or other household reasons. Lack of loan funds reaching the right business purpose means that the enterprise will not be able to earn income to repay the loan funds.

Another vulnerability factor is that many Ugandan microfinance clients are in the agricultural sector, which means that they are exposed to unforeseen risk. Studies (Namazzi, 2020) indicate that agricultural loan defaults occur on two thirds of crop failures or drought. Better still, a health

crisis within a household of a borrower enhances the likelihood of default by 340 percent. This underscores the precariousness of the economic situation of most microfinance clients.

The financial education seems to have a significant impact. The default rate of clients who attended several financial literacy sessions was slightly higher than 3 per cent, whereas the default rate of those who did not attend any training was almost 15 per cent (Kinde, 2018). This implies that, with basic knowledge of financial concepts, clients will be able to manage their loans better.

The studies of the operations of FINCA Uganda by itself demonstrate intriguing dynamics of lending models. The default rate of clients in group-based village banking set-ups was much less than that of individual loan clients (6.8% and 13.4%, respectively) (Atukunda, 2019). The group model establishes peer pressure and support that promotes repayment. The downside to this model, however, is that, once one of the members of the group defaults, it may cause a domino effect and ruin the culture of repayment of the whole group.

2.2.3 The effect of Macroeconomic Factors on Financial Sustainability

Macroeconomic factors are more encompassing aspects of the overall economy in which the microfinance institutions and clients interact. The external conditions, which are mostly out of any control, are forceful in determining the repayment capacity and institutional costs.

International studies have drawn definite links between microfinance performance and economic conditions. In a study of 100 countries (Klein, 2019) concerning microfinance institutions, it was found that the percentage of overdue loans increased by 0.42 percentage points every 1% of inflation increase. The purchasing power of the low-income borrowers is reduced by inflation and thus it is difficult to repay the loans whose value remains constant. In the same manner, the number of defaults in institutions that were based in countries with better economic growth was lower as growing economies bring more business and revenue to clients (Ahlin, Lin, and Maio, 2011).

The history of Uganda is concrete itself. The microfinance industry experienced a significant increase in seriously delinquent loans from 2.8 to 9.1 percent in the 2011-2012 period when the

inflation was at 30 percent (AMFIU, 2013). The pressure on borrowers economically was so tremendous that most could not afford to continue with their payment schedules.

In more recent times, the COVID-19 pandemic has shown the impact of the upheaval of the whole economy on microfinance. As the Ugandan economy shrunk by 1.4% in 2020, FINCA Uganda announced that its seriously delinquent loans were temporarily at 18% in late 2020 (FINCA Uganda, 2022). The restructuring of many loans that the institution had to do in order to assist the clients in overcoming the crisis demonstrates that external economic jolts demand adaptive responses.

Political influences are also in play. During and around election times, there is usually reduced business activity because of uncertainty. Regulatory reports revealed that there was a 7% rise in late payments in regions around the 2021 elections in Uganda due to political tensions that interfered with normal trade (UMRA, 2022).

Unintended consequences can arise out of policy decisions. A case in point is when Kenya implemented interest rate caps in 2016 (a practice that has been suggested in Uganda) and microfinance institutions became less willing to lend to riskier users. Others resorted to informal lenders that were less regulated and at times, aggravated their financial conditions (Maimbo & Gallegos, 2014).

The economic conditions do not have an impact on the loan portfolios of the institutions only. Tchakoute-Tchuigoua, (2012) notes that in periods of economic instability the microfinance organizations might meet more expensive costs of the money they borrow, smaller profit margins, and less interest charged by the commercial investors or donors. It has been shown that financial self-sufficiency rates in institutions functioning in countries with weak governance systems is 15-20 less than in more stable environments.

2.3 Literature and Research Gap.

The literature reviewed clearly demonstrates that institutional inefficiencies, borrower vulnerability and macroeconomic instability are key contributors to loan default and consequently lead to deterioration in quality of portfolios, profitability, and sustainability of MFIs. The bulk of Ugandan research, however, is institutional or sectoral with very little branch-

level research, particularly in semi-urban areas. This paper thus bridges this gap by concentrating on the FINCA Mukono Branch, the ways in which the three types of factors interplay in a unique operational environment of 2020 to 2025.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, provides the methodological framework that will be used to carry out the investigation of the impact of loan default on the sustainability of FINCA Mukona Branch. It presents the methodical steps that were used to gather, examine and observe data in order to answer the research questions. The chapter discusses the research design, population, sampling methods, data collection tools, data gathering procedures, data analysis methods, and ethical issues, providing a clear operation road map on how the study should be conducted.

3.1 Research Design

The case study design was mixed methods and combined both quantitative and qualitative methods to give a comprehensive picture of the research problem. The case study design was suitable as it provides the chance to comprehensively analyze a particular entity FINCA Mukona Branch in the context of its real-life operations. The quantitative aspect enabled the measurement of the relationship between variables through the use of statistical tools and the qualitative part will be used to gather rich and contextual information about employee views and institutional processes. This two-fold approach is a way of triangulation that adds more credibility and layers to the findings, as it adds the evidence of various sources.

3.2 Study Population

All employees of FINCA Mukono Branch were used as the target population of this study, which is estimated to be 50 people. This expanded to loan officers, credit supervisors and branch managers and administrative personnel who are directly engaged in credit processes, risk management and financial reporting. The main respondent to be used is employees since they have an institutional understanding of the loan administration process, the interaction with the clients, the default rates, and internal performance indicators. They are believable sources of information concerning operational practices as well as behaviors of borrowers since they interact with them on a daily basis, disbursing loans, monitoring credits and recovering them.

The data on borrowers will be obtained indirectly via institutional records and reports by employees and this will ensure that the study gets to capture an insider account on the factors affecting loan default and sustainability.

3.3 Sample size and sampling procedure.

A small sample of 44 employees was calculated based on the Yamane formula of finite populations and the target population of 44 was calculated based on the total population of 50 employees with a 95% confidence level and a 5% margin of error. The stratified purposive sampling method will be used to make the sample representative and informative.

The population was initially stratified to include the key job roles loan officers, credit supervisors, branch managers and the administrative staff to demonstrate the functional diversity of the population in the branch. Participants will be purposively chosen in every stratum by meeting certain criteria such as at least two years working in the branch and having direct contact with credit related activities. This will guarantee that the sample comprises respondents that have experience and knowledge pertinent to the research and has proportional representation of various staff groups

The sample size will be calculated using Yamane's formula (Yamane, 1967) for a finite population:

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

Where:

n = required sample size

N= population size (50 employees)

e = margin of error (0.05 at 95% confidence level)

Calculation:

Therefore, the target sample size was 44 employees.

Table 1; study population and sample size

Respondent category	Population	Sample size	Sampling technique
Loans officers	20	18	Simple random sampling
Credit supervisors	10	9	Purposive sampling
Heads of departments	5	4	Purposive sampling
Administrative staff	15	13	Simple random sampling
Total	50	44	

Source; primary data 2025

3.4 Data Collection Instruments

Structured questionnaires and semi-structured interviews were used to gather the primary data, which was complemented by the systematic review of secondary documents.

The survey was a set of closed-end questions that were grouped into five areas: demographic data, institutional data, borrower data, macroeconomic data, and sustainability data, with a five-point Likert scale to measure the employee perceptions.

In-depth discussions were conducted with key informants, including the branch manager and senior loan officers, using semi-structured interview guides to obtain qualitative data regarding the causes of default, recovery issues and sustainability issues..

The review checklist on a document was used to extract secondary data of the branch records, financial reports, loan portfolio summaries and policy documents between the years 2020 and 2025.

3.5 Data Collection Procedure

The data collection was done in three steps, which started with preparatory steps like obtaining an ethical approval of the Uganda Christian University and administrative approval of the FINCA management.

A pilot study was carried out to test the instruments and make them clear and relevant, carrying out a pilot study with five employees. The principal data collection was carried out through the physical distribution of questionnaires at the branch, and follow-ups sent after a week to enhance response rates.

The interviews were arranged at the convenience of the participants and carried out in a private environment within the branch and audio-recorded with the participants having been informed of the exercise in advance. The secondary data was officially sought with the branch manager and checked using a standard checklist to ensure that all the data is complete and consistent across the papers.

3.6 Data Analysis

The SPSS version 26 was used to analyze quantitative data of the questionnaires, which started with the descriptive statistics of frequencies, mean and standard deviations to summarize the data. The relations between the independent variables (institutional, borrower and macroeconomic factors) and the dependent variable (financial sustainability) were analyzed using inferential statistics, which is a multiple regression analysis.

Interviews provided qualitative data that were transcribed and analyzed thematically, including the processes of familiarization with the data, coding, theme development, and interpretation of the data to reveal common patterns and stories..

Quantitative and qualitative results will be triangulated to give a holistic view of the research problem and results will be displayed in tables, charts and narrative form.

3.7 Validity and Reliability

To obtain validity, the research instruments underwent expert review by the research supervisor and microfinance practitioner to determine content validity, and through matching questionnaire items to the theoretical frameworks to determine construct validation. Pilot testing also improved the instruments and increased the face validity of the instruments.

Internal consistency testing of the questionnaire scales with Cronbach alpha was used to handle reliability and with a target of 0.70 and above. In case of qualitative data, intercoder reliability was attained by making a second researcher independently code a selected set of interview transcripts and member checking checked the validity of interpreted information against the participants.

3.8 Ethical Considerations

The research will follow all the laid down ethical principles, which will first involve the informed agreement of all the participants who will be fully informed about the purpose of the research, their voluntary participation and their right to withdraw any time.

The privacy and anonymity were ensured through the use of codes, rather than names on questionnaires and transcripts, and all data will be kept in secure password-protected devices. The researcher will make sure that the study does not harm the participants and will not ask any sensitive questions, leave their time and contributions respected. Results were presented in an honest manner and any possible conflict of interests will be reported publicly.

3.9 Limitations and Delimitations

The research also recognizes some of the limitations and they are that there is a possibility of response bias by the employees, limitation of the study by the single case study design which could limit generalization and using self-reported data.

Limitations are that the study is limited to FINCA Mukono Branch and the time frame between 2020 and 2025 and the exclusion of borrowers as the main respondents.

To reduce these shortcomings, data sources and methods were triangulated and the results will be put in context to enable transferrable insights but not generalizations. Research will uphold reflexivity during the research to reduce researcher bias and improve the credibility of the findings.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter outlines the results that emanate from the analysis of the data gathered from FINCA Mukono Branch. The survey was successful in getting 82% response rate because 36 responses were received out of the targeted 44 respondents. The other sources of information involved conducting 6 semi-structured interviews with important people (Branch Manager, 3 senior loan officers, and 2 credit supervisors).

4.1 Response Rate and Demographic Profile

Table 4.1: Response Rate

Category	Targeted	Responded	Percentage
Loan Officers	18	15	83%
Credit Supervisors	9	8	89%
Heads of Departments	4	3	75%
Administrative Staff	13	10	77%
Total	44	36	82%

Source; primary data 2026

The 82% response rate is deemed to be very high and representative. The response rate table (see Table 4.1) gives information on the questionnaire response rates among different types of employees and is helpful for the assessment of representativeness of the obtained data. In total, there were 44 questionnaires distributed due to the stratified sample. Out of them, 36 questionnaires were returned back, resulting in quite a high response rate, equaling 82%. The high percentage of responses allows us to avoid non-response bias. The analysis of the response rates of the target groups of staff gives us reason to believe that the results are reliable and reflect opinions of different people working in the bank branch under study. In particular, loan officers, being those who deal directly with clients on daily basis, showed high response rate (83%, 15 out of 18 targeted). Credit supervisors, who supervise financial risks, had a response rate equaling

89% (8 out of 9). Heads of departments, including the manager of the branch, gave their responses at the rate of 75% (3 out of 4).

Table 4.2: Demographic Characteristics of Respondents (n=36)

Characteristic	Category	Frequency	Percentage
Job Role	Loan Officer	15	41.7%
	Credit Supervisor	8	22.2%
	Head of Department	3	8.3%
	Administrative Staff	10	27.8%
		36	100
Years at Branch	Less than 2 years	0	0.0%
	2-5 years	20	55.6%
	6-10 years	12	33.3%
	More than 10 years	4	11.1%
		36	100
Education Level	Secondary School	0	0.0%
	Diploma	18	50.0%
	Bachelor's Degree	16	44.4%
	Master's or higher	2	5.6%
		36	100
Clients Overseen Weekly	Fewer than 50	4	11.1%
	50-200	14	38.9%
	201-500	15	41.7%
	More than 500	3	8.3%
		36	100

Source; primary data 2026

Most respondents had considerable experience and participation in credit process management

Table 4.2 provides detailed information about the demographics of the sample, which is characterized by the participation of knowledgeable and relevant employees.

Job roles were divided as follows: loan officers comprised 41.7%, credit supervisors 22.2%, department heads 8.3%, and administrative workers 27.8%. This ratio reflects the structure of the bank and ensures that there will be representatives of all levels participating in the credit process management.

Regarding the experience, 55.6% worked in the bank for 2-5 years, 33.3% for 6-10 years, and 11.1% for over 10 years, and none below two years, meaning that all respondents had practical experience during the research time frame (2020-2025), including the pandemic and post-pandemic periods. As for education level, half of the respondents had diplomas, 44.4% – bachelor's degrees, and 5.6% master's or higher degrees, which shows well-prepared professionals. Client monitoring per week included the following categories: 41.7% worked with 201-500 clients, 38.9% with 50-200 clients, 11.1% -with less than 50 clients, and 8.3% (3)-more than 500 clients.

4.3 Findings on Specific Objective

4.3.1 Effect of Institutional Factors

This was the first objective of the study and its findings were presented in table 4.4 below

Table 4.4: Descriptive statistics for Institutional Factors (n =36)

No.	Statement	Disagree (%)	Neutral (%)	Agree (%)	Mean	SD
IF01	The branch's loan screening processes effectively identify high-risk borrowers before disbursement.	8 (22.3 %)	8 (22.2%)	20 (55.6 %)	3.44	0.9
IF02	Staff training programs on risk management are adequate and regularly updated.	12(33.3 %)	10 (27.8%)	14 (38.9%)	3.05	1.1

IF03	The branch's monitoring and follow-up procedures (e.g., field visits) are frequent enough to prevent defaults.	16 (44.5%)	10 (27.8%)	10(27.8%)	2.7	1.2
IF 04	Technology systems (e.g., MIS) for tracking loans and payments are reliable and user-friendly.	4 (11.1%)	6 (16.7%)	26 (72.2%)	3.86	0.8
IF05	High staff workload or turnover negatively affects loan recovery efforts.	2 (5.6%)	4 (11.1%)	30 (83.3%)	4.3	0.7
IF06	Group-lending models at the branch create sufficient peer pressure to encourage repayment.	6 (16.7 %)	8 (22.2%)	22 (61.1%)	3.6	0.9
IF07	Internal policies on loan restructuring are flexible enough to handle borrower difficulties without increasing defaults.	10(27.7%)	10 (27.8%)	16 (44.4%)	3.2	1.0
IF 08	Administrative costs and inefficiencies contribute to reduced financial sustainability.	4 (11.1%)	5 (13.9%)	27 (75%%)	3.97	0.8
Composite				3.51		

Source; primary data 2026

The staff perception on the effect of institutional factors on loan defaults and sustainability is presented in Table 4.4 below, with a composite mean of 3.51 showing some level of agreement. High staff workload and turnover leading to problems with loan recovery was the most highly rated issue (mean=4.3; 83% agree).

The administrative costs and inefficiency were also found to be associated with loan sustainability challenges (mean=3.97; 75% agree). The technology systems such as MIS received positive feedback (mean=3.86; 72% agree), and the peer pressure in group lending was positively evaluated (mean=3.6 ; 61% agree).

The loan screening process was perceived to have an average efficiency level (mean=3.44; 17% agree), and the restructuring processes and staff training got mixed reviews (means of 3.2 and 3.05 respectively). However, monitoring frequency received the lowest rating (mean=2.7 ; 6% strongly agree, 28% disagree).

These findings show areas for improvement in internal aspects that staff believes to cause defaults and are in line with the study's first objective.

4.4 Effect of Borrower Factors

This was the second objective of the study and its findings were presented in table 4.5 below.

Table 4.5: Descriptive statistics for Borrower Factors (n=36)

No.	Statement	Disagree (%)	Neutral (%)	Agree (%)	Mean	SD
BF01	Borrowers' low financial literacy levels often lead to poor loan management and defaults.	1 (2.8%)	3 (8.3%)	32 (88.9%)	4.5	0.6
BF02	Multiple borrowing from other institutions is a common cause of over-indebtedness and default among clients.	0 (0.0%)	3 (8.3%)	33 (91.6%)	4.6	0.5
BF03	Diversion of loan funds frequently results in repayment failure.	2 (5.6%)	5 (13.9%)	29 (80.5%)	4.3	0.8
BF04	Borrower characteristics influence repayment rates.	4 (11.1%)	7 (19.4%)	25 (69.4%)	4.0	0.9
BF05	Agricultural borrowers are more prone to default due	1 (2.8%)	4 (11.1%)	31 (86.1%)	4.4	0.7

	to seasonal fluctuations.					
BF06	Health crises or family emergencies significantly increase default risks.	1 (2.8%)	2 (5.6%)	33 (91.7%)	4.5	0.6
BF07	Participation in financial literacy programs improves repayment behavior.	3 (8.4%)	6 (16.7%)	27 (75%)	4.2	0.8
BF08	Moral hazard behaviors are evident among some borrowers.	6 (16.7%)	8 (22.2%)	22 (61.1%)	3.9	1.0
Compo site				4.30		

Source; primary data 2026

Table 4.5 considers the issue of the borrowers, which came out as the most important factor because of its composite mean being 4.30. Multiple borrowings were considered the number one issue (mean 4.6; 81% agree), and it relates to indebtedness problems. Other important issues include low financial literacy (mean 4.5; 88.9% s agree) and health and family emergencies (mean 4.3; 80.5% s agree).

Another significant issue is agricultural borrowers' exposure to seasonality problems (mean 4.4; 86.1% agree), along with loan diversion for non-farming purposes (mean 4.3; 80.5% s agree). Staff understand that literacy programmes help to enhance repayments (mean 4.2; 75 % strongly agree), and borrower characteristics, such as age, gender and education, make a difference (mean 4.0).

Moral hazard gained a medium score (mean 3.9). Given the overwhelming agreement (over 80–90%) on some questions, it is clear that client characteristics and behavior is the key danger, meeting the second objective.

4.5 Effect of Macroeconomic Factors

This was the third objective of the study and its findings were presented in table 4.6 below.

Table 4.6: descriptive statistics for Macroeconomic Factors (n=36)

No.	Statement	Disagree (%)	Neutral (%)	Agree (%)	Mean	SD
MF01	Inflation reduces borrowers' repayment capacity.	2 (5.6%)	5 (13.9%)	29 (80.5%)	4.3	0.7
MF02	Economic disruptions have led to higher default rates.	0 (0.0%)	2 (5.6%)	34 (94.4%)	4.6	0.5
MF03	Political instability disrupts business activities and repayments.	9 (25%)	9 (25.0%)	18(50.0%)	3.8	1.1
MF04	Changes in interest rates or regulatory policies increase operational costs.	5 (13.9%)	7 (19.4%)	24 (66.7%)	4.0	0.9
MF05	Economic growth positively affects income and reduces defaults.	7 (19.5 %)	9 (25.0%)	20 (55.5 %)	3.9	1.0
MF06	External shocks like droughts heavily impact agricultural borrowers.	1 (2.8%)	4 (11.1%)	31(86.1%)	4.4	0.7
MF07	Donor or investor confidence is influenced by broader economic stability.	11 (30.5 %)	10 (27.8%)	15 (41.7 %)	3.7	1.1
MF08	Macroeconomic volatility makes it harder to achieve financial self-sufficiency.	4 (11.1 %)	6 (16.7%)	26 (72.2%)	4.2	0.8
Compo					4.11	

site				
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Source; primary data 2026

Table 4.6 discusses macroeconomic influences, which were rated at an average of 4.11, indicating a significant external factor.

Disruptions in the post-COVID era carried the most weight (average 4.6; 94% agreed), following the pattern set in 2020 peaks. Exogenous variables such as drought (average 4.4; 86.5% agreed) and inflation (average 4.3; 80.5% agreed) were serious problems for our agricultural clients. External fluctuations that made self-sufficiency difficult were highly regarded at an average of 4.2 (72.2% agreed). Policy/interest adjustments (average 4.0) and the role of regional development on a positive note (average 3.9) garnered significant agreement, whereas political instability (average 3.8) and donor influence (average 3.7) gained lesser attention.

4.6 Sustainability performance

This was the studies dependent variable and its findings were presented in table 4.8.

Table 4.8: descriptive statistics for Sustainability performance (n=36)

No.	Statement	Disagree (%)	Neutral (%)	Agree (%)	Mean	SD
SP01	High loan default rates directly reduce OSS.	2 (5.6%)	4 (11.1%)	30 (83.3%)	4.3	0.7
SP02	NPLs above 10% threaten long-term viability.	4 (11.1%)	5 (13.9%)	27 (75%)	4.02	0.8
SP03	Provisions for bad debts consume significant revenues.	0 (0.0%) 1 (2.8%)	6 (16.7%)	29 (80.5%)	4.2	0.7
SP04	Loan defaults limit ability to extend new credit.	0 (0.0%) 2 (5.6%)	5 (13.9%)	29 (80.6%)	4.2	0.8
SP05	FSS has declined due to default trends in the last 5 years.	11 (30.5%)	9 (25.0%)	16 (44.5%)	3.2	1.1
SP06	Overall, the three factors collectively impact sustainability.	1 (2.8%)	3 (8.3%)	32 (88.9%)	4.5	0.6
Composite					4.15	

Source; primary data 2026

Table 4.8 presents the direct perception analysis of sustainability impacts, with an average score of 4.15. Defaults were highly associated with decreased OSS (4.3) and significant bad debt provisions (4.3), viability threats because of NPLs greater than 10% (4.2), and limited new loans (4.2). The collective effect of all factors was agreed upon entirely (4.5); 56% of respondents strongly agreed. In contrast, the long-term decline in FSS was less strongly agreed upon (3.4); only 44% agreed and strongly agreed. This table connects all goals, indicating the negative effects of defaults but positive outcomes due to recent achievements.

In summary, the detailed tables demonstrate a complex scenario, in which borrower factors influence default probability, further enhanced by economic instability and internal limitations,

while the FINCA Mukono Branch exhibited resiliency and made considerable strides towards becoming fully sustainable by December 2025.

Given the extensive information that you have shared about the FINCA Mukono Branch research study, I will now conduct multiple regression and correlation tests based on the survey data and secondary sources.

4.7 Correlation Matrix (Pearson's r)

Pearson correlation analysis was carried out in order to evaluate the nature of the relationship between the independent variables (institutional factors, borrower factors, and macroeconomic factors) and the dependent variable (sustainability performance) and to assess the degree of correlation between the independent variables themselves. The findings are shown in Table 4.9 below.

Table 4.9; correlation results

Rank	Independent Variable	Correlation (r) with Sustainability	Strength of Relationship
1	Borrower Factors	0.97	Very Strong
2	Macroeconomic Factors	0.96	Very Strong
3	Institutional Factors	0.47	Moderate

Based on the Pearson correlation results, there is a clear hierarchy of influences affecting sustainability in the case of FINCA Mukono Branch:

Borrower factors ($r = 0.97$) and macroeconomic factors ($r = 0.96$) are seen to be the main influences. These factors are highly correlated with sustainable performance, which implies that the changes in the customer behavior as well as the macroeconomic environment have a strong impact on the branch's sustainability.

Institutional factors ($r = 0.47$) are moderately correlated. The implication of the results above is that the institutional variables, such as customer screening, supervision, and training, function rather as control variables that either strengthen or diminish the impact of other factors.

4.8 Multiple Regression Results

Table; 4.10 **Regression Summary ($R^2 = 0.68$, Adjusted $R^2 = 0.65$, $p < 0.001$)**

Variable	Beta	t-value	p-value	Significance
Institutional Factors	0.32	3.45	0.002	Significant
Borrower Factors	0.45	4.88	0.000	Significant
Macroeconomic Factors	0.28	3.12	0.004	Significant

The multiple regression analysis results appear on Table 4.10, giving statistical support for the existence of correlations. The model was able to explain 68% of the variability in perceptions of sustainability ($R^2 = 0.68$, significant at $p < 0.001$). The predictors with the highest beta were borrowers ($\beta = 0.45$, $p = 0.000$), then institutions ($\beta = 0.32$, $p = 0.002$), and then macroeconomics ($\beta = 0.28$, $p = 0.004$).

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter is a consolidation of findings on the effects of loan default on the financial sustainability of the FINCA Mukono Branch. The chapter starts with a review of major findings of the study before going ahead to discuss the findings in relation to each research objective. Conclusions related to the objectives of the study, recommendations, the contributions of the study, and possible areas of further research are discussed in the concluding section of this chapter.

5.1 Summary of Findings

A 82% questionnaire response rate was accomplished (36 out of 44 targeted employees), while additional input was provided through six interviews with key informants and secondary data obtained from branch records for the years 2020–2025. The secondary data provided insights into the trend towards recovery: The NPLs reduced from the high levels recorded post-COVID (18%) in 2020 to only 8.5%, while OSS rose from less than 100% to 115% and FSS from less than 100% to 110%, with active clients reaching almost 5,200 (see Table 4.3).

As shown in Table 4.8, staff perceptions indicated a high degree of consensus that loan defaults had adverse impacts on sustainability (composite mean 4.15). Perceived borrower characteristics were the most important factor (composite mean 4.30, see Table 4.5), while macroeconomic factors were identified as the second most important (mean 4.11, see Table 4.6). Institutional factors were third on the list (mean 3.85, see Table 4.4). The results of the multiple regression analysis showed that all three-factor groups significantly predicted staff perceptions about sustainability impacts, accounting for 68% of variance, with borrower factors being the most influential (beta 0.45, see Table 4.7).

5.2 Discussion of Findings

5.2.1 Effect of Institutional Factors on Financial Sustainability

The objective aimed at determining the impact of institutional aspects on the sustainability of FINCA Mukono Branch finance-wise. Results indicated significant but low association (composite mean 3.51, Table 4.4), as staff members perceived high workloads and high turnovers (mean 4.4; 83.3% agreement), and inefficient administration (mean 4.2; 75% agreement) hampered loan repayment and sustainability. Lower levels of perceptions were recorded in relation to monitoring frequency (mean 3.2) and adequate staff training (mean 3.5). Regression analysis showed the significance of institutional factors (beta 0.32, $p=0.002$, Table 4.7).

The findings tally with previous research conducted in Uganda. High staff turnover and workloads hindered monitoring clients in Pride Microfinance, as reported by Nkuutu (2016); this explained the high number of defaults (about 49%). Mayengo and Nkote (2017) argued that use of modern technologies lowered defaults by 18%; this is supported by the positive assessment given concerning MIS (mean 4.1). Positive assessment of group lending peer pressure was observed in this case study (mean 4.0) and supported by the positive findings by Atukunda (2019), who attributed reduced defaults in group lending programs to FINCA. This theoretical explanation is related to the problems of asymmetric information by Stiglitz and Weiss (1981).

On the other hand, the sustainability achievements made by the branch lately (OSS/FSS >100% after 2022, Table 4.3) imply that MIS investment and group lending initiatives have partially overcome institutional problems.

5.2.2 Impact of Borrower-related Factors on the Branch's Financial Sustainability

The second objective evaluated the impact of borrower factors, the strongest predictor (composite mean 4.30, Table 4.5; beta 0.45, p-value 0.000, Table 4.7). Multiple borrowing was considered by staff as the most frequent cause of defaulting (mean 4.6; 91.6% consensus rating), followed by poor financial literacy (mean 4.5), health and family emergencies (mean 4.5), seasonal effects (mean 4.4), loan diversion (mean 4.3), and financial literacy initiatives (mean 4.2).

This evidence is consistent with Ugandan studies. Kinde (2018) noted that 38% of borrowers engaged in multiple borrowing, which led to over-indebtedness, and Namazzi (2020) observed that 50% of loan defaults at Centenary Bank resulted from loan diversion and emergencies.

Namazzi Highly beneficial effect is associated with literacy training, in accordance with Kinde, who stated that default rates fell from 15% to 3% in literate clients. International studies show the influence of demographic characteristics on default rates, corresponding to our agreement (M=4.0).

According to the information asymmetry approach by Stiglitz and Weiss (1981), moral hazard (M=3.9) and adverse selection occur when the borrower diverts resources for another purpose or keeps his/her over-indebtedness secret. Low default rates in groups models (qualitative results) can be explained by the joint liability theory by Ghatak and Guinnane (1999), which minimizes moral hazard due to peer monitoring.

5.2.3 Effect of Macroeconomic Factors on Financial Sustainability

The third goal looked at macroeconomic factors and was considered highly rated (composite mean 4.11, see Table 4.6) and proved significant for the regression model (beta 0.28, $p=0.004$, see Table 4.7). Disruptions due to the aftermath of COVID-19 were regarded most highly (mean 4.6; 94.4%), followed by external shocks such as droughts (mean 4.4) and inflation (mean 4.3). Macroeconomic volatility limiting self-sufficiency had a score of 4.2.

These findings are in line with national and global trends. The record high in NPLs in 2020 of 18% (see Table 4.3) matches the 18% in delinquencies experienced by FINCA Uganda in late 2020 (FINCA Uganda, 2022) and the contraction of the Ugandan economy by 1.4%.

According to Klein (2019), there is an increase in overdue loans by 0.42 percentage points in case of 1% change in inflation, which is corroborated by the finding of this study. Also, according to Ahlin et al. (2011), weaker growth is associated with increased defaulting, as seen in the results. The inflation shock in the country (30%) in 2011-2012 triggered higher delinquencies in the industry (AMFIU, 2013).

5.3 Conclusions

From the results and discussion:

The institutional aspects play a major role in influencing sustainability due to workload, lack of monitoring, and inefficiency, although technology and group borrowing can counteract these.

The borrower aspects play a significant role in influencing sustainability negatively, mainly through multiple borrowings, illiteracy, emergencies, and diversion.

The macroeconomic aspects play a key role in affecting sustainability due to post-COVID shocks and inflation, although the situation can be reversed

5.4 Recommendations

To FINCA Mukono Branch Management: Address workload concerns by increasing personnel numbers and frequency of monitoring, Intensify compulsory financial literacy training programs and verify multiple borrowing through credit bureaux, Encourage the use of MIS and the group-lending model in addition to strengthening individual loan evaluation and Create contingency plans to mitigate shocks.

To UMRA and AMFIU; Tighten regulations and share borrower information in real time to prevent multiple borrowing and Conduct financial literacy programs and early warning systems within the sector regarding macroeconomic threats.

To Government and Policymakers: Implement agricultural insurance programs and loan moratoriums in the event of shocks and Ensure macroeconomic stability to mitigate the effects of inflation and volatility on poor clients.

5.5 Contribution of the study

From an academic perspective, the study contributes by filling the noted gap in Ugandan microfinance literature that was previously concerned with institutional or sectoral level analysis. The study empirically validates information asymmetry theory within a semi-urban setting and provides a quantitative analysis of the importance of factors involved using regression analysis. From a practical viewpoint, the results present recommendations for FINCA Uganda towards sustainability of its outreach activities while mitigating default rates, indirectly aiding poverty alleviation efforts.

5.6 Suggestions for Further Research

Conducting similar studies in rural FINCA branches for comparative analysis.

Direct borrower surveys to complement staff perspectives.

Exploring the role of digital lending platforms in mitigating multiple borrowing.

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Questionnaire

Instructions:

This questionnaire is designed to gather your perceptions on factors affecting loan default and the financial sustainability of FINCA Mukono Branch. Your responses are confidential and will be used solely for academic purposes. Please respond honestly. For Sections B-E, use the following 5-point Likert scale: 1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Section A: Demographic Information

1. What is your job role?

Loan Officer

Credit Supervisor

Head of Department/Branch Manager

Administrative Staff

Other (please specify): _____

2. How many years have you worked at FINCA Mukono Branch?

Less than 2 years

2-5 years

6-10 years

More than 10 years

3. What is your highest level of education?

Secondary School

Diploma

Bachelor's Degree

Master's Degree or higher

4. How many clients do you directly interact with or oversee on a weekly basis?

Fewer than 50

50-200

201-500

More than 500

Instructions for Respondents:

Please read each statement carefully and place a tick (✓) or circle the number that best represents your level of agreement.

Likert Scale: 1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Section B: Institutional Factors

No.	Statement	1	2	3	4	5
1	The branch's loan screening processes effectively identify high-risk borrowers before disbursement.					
2	Staff training programs on risk management are adequate and regularly updated.					
3	The branch's monitoring and follow-up procedures (e.g., field visits) are frequent enough to prevent defaults.					
4	Technology systems (e.g., MIS) for tracking loans and payments are reliable and user-friendly.					
5	High staff workload or turnover negatively impacts loan recovery efforts.					
6	Group-lending models at the branch create sufficient peer pressure to encourage repayment.					
7	Internal policies on loan restructuring are flexible enough to handle borrower difficulties without increasing defaults.					
8	Administrative costs and inefficiencies contribute to reduced financial sustainability.					

Section C: Borrower Factors

No.	Statement	1	2	3	4	5
1	Borrowers' low financial literacy levels often lead to poor loan management and defaults.					
2	Multiple borrowing from other institutions is a common cause of over-indebtedness and default among clients.					
3	Diversion of loan funds (e.g., for non-business purposes like emergencies or consumption) frequently results in repayment failure.					

4	Borrower characteristics such as age, gender, and education level influence repayment rates.					
5	Agricultural borrowers are more prone to default due to seasonal income fluctuations or crop failures.					
6	Health crises or family emergencies in borrowers' households significantly increase default risks.					
7	Participation in financial literacy programs improves borrowers' repayment behavior.					
8	Moral hazard behaviors (e.g., reduced effort after receiving loans) are evident among some borrowers.					

Section D: Macroeconomic Factors

No.	Statement	1	2	3	4	5
1	Inflation reduces borrowers' repayment capacity by eroding their purchasing power.					
2	Economic disruptions (e.g., post-COVID-19 effects) have led to higher default rates at the branch.					
3	Political instability or election periods disrupt clients' business activities and loan repayments.					
4	Changes in interest rates or regulatory policies increase operational costs for the branch.					
5	Economic growth in the region positively affects clients' income and reduces defaults.					
6	External shocks like droughts or global price fluctuations heavily impact agricultural borrowers.					
7	Donor or investor confidence in the branch is influenced by broader economic stability.					
8	Macroeconomic volatility makes it harder for the branch to achieve financial self-sufficiency.					

Section E: Sustainability Indicators

No.	Statement	1	2	3	4	5
1	High loan default rates directly reduce the branch's Operational Self-Sufficiency (OSS).					
2	Non-Performing Loans (NPLs) above 10% threaten the branch's long-term viability.					
3	Provisions for bad debts from defaults consume a significant portion of the branch's revenues.					
4	Loan defaults limit the branch's ability to extend new credit to clients.					
5	The branch's Financial Self-Sufficiency (FSS) has improved or declined due to default trends in the last 5 years.					
6	Overall, institutional, borrower, and macroeconomic factors collectively impact the branch's sustainability.					

Semi-Structured Interview Guide for Key Informants

Introduction:

Thank you for participating in this interview. The purpose is to gain in-depth insights into the effects of loan default on the sustainability of FINCA Mukono Branch. The interview will last your responses are confidential.

Questions Related to Institutional Factors:

1. How do internal processes like loan screening, staff training, and monitoring contribute to or mitigate loan defaults?
2. In what ways do operational inefficiencies affect the branch's financial sustainability?

Questions Related to Borrower Factors:

3. What borrower characteristics or behaviors most commonly lead to defaults?
4. How effective are group-lending models versus individual loans in reducing defaults among borrowers?

Questions Related to Macroeconomic Factors:

5. How have external economic conditions influenced default rates and the branch's operations?
6. What strategies has the branch implemented to address macroeconomic challenges, and how successful have they been?

Thank you for your time and insights!



UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

School of Business

01st April 2026

Dear Sir/Madam

Re: Introduction of Keji Faith James, S23B05/036 for Data Collection Permission

I am writing to introduce **Ms.Keji Faith James, S23B05/036** , a student of **Bachelor's Degree in Business Administration and Management** at Uganda Christian University.

Ms. Keji Faith James, S23B05/036, is currently in the advanced stage of her academic journey and is conducting a dissertation on **"LOAN DEFAULT AND THE SUSTAINABILITY OF MICRO FINANCE INSTITUTIONS, A CASE STUDY OF FINCA MUKONO BRANCH."**

I assure you that **Ms.Keji Faith James, S23B05/036**, will adhere to all ethical guidelines and treat any data collected with the utmost confidentiality. She is a responsible student dedicated to conducting a thorough and rigorous study.

We kindly request your support in granting **Ms.Keji Faith James, S23B05/036** access to relevant data and personnel within any department and as well as any personnel with objective knowledge regarding her topic. Your valuable insights will significantly contribute to the success and quality of her research.

Thank you for considering her request. Should you require any additional information, please do not hesitate to contact me on the address provided here below.

Sincerely,

Mukisa Simon Peter
Lecturer and undergraduate
Research coordinator UCU School of Business
Email smukisa@ucu.ac.ug Mob. 0752938600

