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Factors Affecting Loan Default in Microfinance Institutions in Uganda: A Case Study of Pride Microfinance Limited, Lugazi Branch

The last two decades have been characterised by increased use of credit and overwhelming growth of Micro-Finance Institutions (MFIs) in Uganda. This has been the move by the government and donors to support the private sector particularly in alleviating poverty in Uganda. MFIs, however, have suffered great losses through clients defaulting and thus, this study was designed to establish the factors affecting loan default in MFIs in Uganda. The study used PRIDE microfinance Lugazi branch as a case study because between 2007 and 2009 its portfolio at risk was at one time as high as 18.3%. The study design was analytical and used 147 respondents of which 100 were loan clients who had borrowed from PRIDE microfinance Lugazi branch between 2008 and 2009. Questionnaires and document review were used to gather data, which was consequently analysed using the Statistical Package for the Social Sciences (SPSS) and content analysis. The study revealed that the client's sex influenced loan defaulting whereby there was a higher tendency for males to default than did their females counterparts. It was also found that; clients of large loan size and those who had borrowed loans many times tended to default more often than those with small loans or those who had just started borrowing loans. The study also showed that government interventions particularly policies on interest rates, scrutiny for licensing MFIs, credit services to farmers and repayment conditions increase the rates of loan defaulting. Client's education level, main occupation, marital status, type of business in which the loans are invested and loan maturity period did not have significant effect on loan defaulting. MFIs should take extreme precautions when lending loans to males and clients who have borrowed many times. MFIs should restrict large loans or otherwise ask for corresponding collateral securities from them. Microfinance institutions should always do thorough loan appraisal of loan applicants and regularly monitor loan clients. Further research should be done on the effect of economic and political factors on effectiveness of loan management in Uganda.

Key words: Loans, Microfinance, Pride, Default