AfroGlobal Perspectives
Vol. 3 No. 11(2026): November 2026
https://doi.org/10.70572/7q4e2h50
Original article

Loan performance in selected microfinance institutions in Wobulenzi Town Council. A cross-sectional study.

Abel Baguma*, Dr. Muhammad Sendagi, Edmand Bakashaba
School of Graduate Studies and Research, Team University

Abstract

Background:
This study examined the loan performance in selected microfinance institutions in Wobulenzi Town Council, Luwero District, Uganda.

Methodology:
A cross-sectional correlational design was used. The Krejcie and Morgan (1970) table was used to obtain a sample of 113 participants. Six managers were selected purposively and interviewed, while 107 credit and accounts department staff were selected by stratified random sampling and given questionnaires. A documentary review was conducted, and quantitative data were analysed with SPSS using descriptive statistics, Pearson correlation, and multiple regression, while qualitative data were analysed thematically.

Results:
Loan performance was found to be low (mean = 2.56); the average non-performing loan ratio of the six institutions rose from 22% in 2022 to 38% in 2025, while the repayment rate fell from 84% to 67.8%. The loan performance in the selected microfinance institutions was low. Portfolio at risk above 30 days averaged 40% in 2025, and the average repayment rate fell from 84% to 67.8%, all far outside the benchmarks of below 10% for NPLs and above 90% for the repayment rate.

Conclusion:
Loan performance across the selected microfinance institutions was critically low. Worsening portfolio quality and declining borrower repayments fell far outside standard benchmarks, threatening long-term financial sustainability.

Recommendation:
The institutions should enforce full assessment of repayment capacity before disbursement, introduce computerised arrears alerts, provide transport and facilitation for field monitoring, reduce credit officer caseloads, and apply recovery procedures promptly and consistently.

Keywords: *Loan performance, Wobulenzi Town Council, Microfinance Institutions.*
Submitted: *November 01, 2026* ***Accepted:*** *November 13, 2026* ***Published:*** *November 23, 2026*
Corresponding author: *Abel Baguma*
Email:*bagumaabel14@gmail.com*
School of Graduate Studies and Research, Team University

Background
Globally, the evolution of loan performance in microfinance institutions (MFIs) can be traced to the emergence of modern microcredit systems in the 1970s, particularly the pioneering group-based lending models that emphasised social collateral and joint liability (Cull, Demirgüç-Kunt, & Morduch, 2018). These early innovations significantly improved repayment rates among low-income borrowers who lacked conventional collateral. Over time, the microfinance sector moved from a purely welfare-oriented approach to a more commercialised and sustainability-driven model, which placed greater emphasis on financial performance indicators such as portfolio at risk (PAR), repayment rates, and operational self-sufficiency. Despite these advances, MFIs around the world continued to face challenges related to information asymmetry, borrower over-indebtedness, and economic shocks, all of which affected loan performance negatively. Recent studies highlighted the growing importance of digital credit scoring, data analytics, and robust risk management systems in improving loan portfolio quality and institutional resilience (World Bank, 2023).

In Africa, the development of microfinance institutions gained momentum in the 1980s and 1990s as governments and development partners promoted financial inclusion as a strategy for poverty reduction. However, loan performance across the continent was historically constrained by structural and institutional challenges, including weak

regulatory frameworks, macroeconomic instability, and limited financial literacy among borrowers (Beck, Senbet, & Simbanegavi, 2015).

Within East Africa, the microfinance sector expanded rapidly from the 1990s, supported by donor funding, policy reforms, and increased demand for financial services among underserved populations (Mersland & Strøm, 2014). Kenya, Tanzania and Uganda developed relatively vibrant microfinance industries made up of both formal and informal institutions. Consequently, MFIs in East Africa increasingly adopted individual lending models, strengthened their credit appraisal systems and integrated technology-driven solutions to enhance loan monitoring and recovery (CGAP, 2021).

In Uganda, the microfinance sector evolved significantly over the last three decades, moving from informal savings groups to a regulated financial subsector under frameworks such as the Microfinance Deposit-Taking Institutions Act. The sector played a critical role in promoting financial inclusion, particularly among rural and low-income populations (Bank of Uganda, 2023). However, loan performance in Ugandan MFIs was historically affected by weak credit appraisal processes, inadequate borrower monitoring, and external shocks, including inflation and agricultural risks. Recent reports further emphasised the role of digital financial services and mobile money integration in improving repayment efficiency and reducing default rates (Microfinance Support Centre, 2024). This study was anchored on the Credit Risk Theory, which explains how financial institutions identify, assess, and manage the risk of borrower default in lending activities. The theory holds that effective credit risk management through proper appraisal, monitoring, and control enhances the quality of loan portfolios and improves loan performance (Altman, 1968). In the context of microfinance institutions in Wobulenzi Town Council, the Credit Risk Theory was highly applicable because these institutions often lent to clients with limited collateral, informal income sources, and inadequate credit histories. This increased their exposure to default risk and called for robust loan portfolio management. The theory explained that thorough client screening, regular loan monitoring, and effective recovery procedures were essential for minimising portfolio at risk and improving loan repayment.

Loan portfolio management encompasses client screening, credit appraisal, loan disbursement, monitoring and recovery, all aimed at maintaining the quality of the loan portfolio. High loan performance reflects effective credit risk management and strong borrower discipline, while poor loan performance is characterised by delinquency, default, and increased provisioning for loan losses. This study examined the loan performance in selected microfinance institutions in Wobulenzi Town Council, Luwero District, Uganda.

Methodology

Research Design

The study adopted a cross-sectional correlational research design. Descriptive statistics were used to summarize the data. The study used both quantitative and qualitative approaches: quantitative data were collected through questionnaires and from loan records, while qualitative data were collected through interviews and documentary review, so that the findings from one source could be checked and explained by the others.

Study Population

The study population consisted of the staff of six microfinance institutions operating in Wobulenzi Town Council, namely FINCA Uganda, UGAFODE Microfinance Limited, BRAC Uganda Bank Limited, Opportunity Bank Uganda Limited, VisionFund Uganda and Rural Finance Initiative (RUFI). These institutions were selected because they offered loans to traders, farmers, and households in the town council and kept records on loan performance. The respondents were the branch managers, the credit department staff (credit/loan officers and recovery officers), and the accounts department staff of these institutions, because they were directly involved in appraising, monitoring, and recovering loans and in recording loan performance. The target population was 160 staff: 6 managers, 90 credit department staff, and 64 accounts department staff.

AfroGlobal Perspectives
Vol. 3 No. 11(2026): November 2026
https://doi.org/10.70572/7q4e2h50
Original article

Table 1: Target Population and Sample Size by Microfinance Institution

No.	Microfinance Institution	Managers (N)	Credit Dept. Staff (N)	Accounts Dept. Staff (N)	Total Population (N)	Sample Size (n)
1	FINCA Uganda	1	15	11	27	19
2	UGAFODE Microfinance Limited	1	15	10	26	18
3	BRAC Uganda Bank Limited	1	15	11	27	19
4	Opportunity Bank Uganda Limited	1	15	10	26	18
5	VisionFund Uganda	1	15	11	27	20
6	Rural Finance Initiative (RUFI)	1	15	11	27	19
	Total	**6**	**90**	**64**	**160**	**113**

Source: Human resource records of the selected microfinance institutions (2025).

Sample Size

The total population of each category of staff was obtained by adding up the staff in that category across the six microfinance institutions. The total population of 160 staff was then used to determine the sample size using the Krejcie and Morgan (1970) table, which gives a sample of 113 for a population of 160. The same result is obtained from the formula on which the table is based:

$s = X^2NP(1 - P) \div [d^2(N - 1) + X^2P(1 - P)]$

where s is the required sample size, X^2 is the chi-square value for one degree of freedom at the 95% confidence level (3.841), N is the population size (160), P is the population proportion (0.50), and d is the margin of error (0.05). This gave $s = (3.841 \times 160 \times 0.25) \div [(0.0025 \times 159) + (3.841 \times 0.25)] = 153.64 \div 1.358 \approx 113$ respondents.

All 6 managers were included because there were few, and they held key information on loan portfolio management. The remaining 107 respondents were drawn from the credit and accounts departments. Because the credit department staff were the ones who directly appraised, monitored, and recovered loans, the 107 places were shared between the two departments in the ratio 60:40 in favour of the credit department, which gave 64 credit department staff ($0.60 \times 107 = 64.2$) and 43 accounts department staff ($0.40 \times 107 = 42.8$).

Table 2: Population, Sample Size and Sampling Techniques

Category of respondents	Population (N)	Sample size (n)	Sampling technique
Managers	6	6	Purposive sampling (census)
Credit department staff	90	64	Stratified random sampling
Accounts department staff	64	43	Stratified random sampling
Total	**160**	**113**	

Source: Table 2; Krejcie and Morgan (1970).

Sampling Techniques

Purposive Sampling

Purposive sampling was used to select the six managers of the microfinance institutions because they made the final decisions on loan approval, monitoring, and recovery and therefore held specialized knowledge of loan portfolio management and loan performance.

Stratified Random Sampling

Stratified random sampling was used to select the credit department staff and accounts department staff. Each microfinance institution formed a stratum, and the sample for each department was shared among the six institutions in proportion to the number of staff in that department in each institution, which gave the institutional sample sizes.

Within each institution, respondents were then selected by simple random sampling from the staff list, so that every institution and department was fairly represented.

Methods of Data Collection

Questionnaire Method

Structured questionnaires were administered to the selected credit department staff and accounts department staff. The questionnaire consisted of closed-ended items on a five-point Likert scale covering loan appraisal, loan monitoring, loan recovery strategies, and loan performance. This method enabled the collection of standardised data from a relatively large number of respondents efficiently.

Interview Method

Face-to-face interviews were conducted with the managers of the six microfinance institutions using a semi-structured interview guide. The interviews provided in-depth information on loan appraisal, monitoring and recovery practices, on the challenges faced in managing the loan portfolio, and on the explanations behind the changes in loan performance.

Documentary Review

Documentary review involved examining the records of the selected microfinance institutions, including annual portfolio and portfolio-at-risk reports, loan registers, non-performing loan and aging reports, loan recovery reports, and credit committee minutes. In each institution, 20 loan files and 15 delinquent loan accounts were selected at random, and the minutes of six credit committee meetings were reviewed, giving a total of 120 loan files, 90 delinquent accounts, and 36 sets of minutes. These records were used to compute the repayment rate, portfolio at risk, non-performing loan ratio, and write-offs, to check whether appraisal, monitoring, and recovery steps were actually documented, and to verify the information collected through questionnaires and interviews.

Data Collection Instruments

Questionnaires

The questionnaire had five sections: Section A on the background of respondents, Section B on loan appraisal, Section C on loan monitoring, Section D on loan recovery strategies, and Section E on loan performance. Sections B to E each contained five items based on the indicators in the conceptual framework, rated on a scale of 1 (strongly disagree) to 5 (strongly agree).

Interview Guide

An interview guide was used to collect data from the managers. It contained semi-structured questions on each of the three dimensions of loan portfolio management and on loan performance, which allowed the researcher to probe further where necessary.

Documentary Checklist

A documentary review checklist was used to review the loan records, loan files, delinquent accounts, and committee minutes of the selected microfinance institutions in a consistent way and to record the portfolio quality indicators for each year.

Data Collection Procedure

An introductory letter was obtained from the School of Graduate Studies and Research and presented to the management of each selected microfinance institution to seek permission to conduct the study. After permission was granted, the staff lists were obtained from each institution, and respondents were selected.

The questionnaires were then administered to the 107 selected credit and accounts department staff. The purpose of the study was explained, instructions on how to complete the questionnaire were given, and respondents were assured of confidentiality. Completed questionnaires were collected after an agreed period, and 104 of them were returned fully completed.

Interviews were held with the six managers at times they agreed to, and responses were recorded in notes and, with the consent of the respondent, audio-recorded. At the same time, the documentary checklist was used to extract loan performance data and file evidence from the records of each institution.

Validity of the Instruments

The validity of the instruments was ensured through expert judgement. The questionnaire and interview guide were given to experts in finance and credit management, who rated each item for its relevance to the study objectives. The Content Validity Index (CVI) was calculated (0.94) as the proportion of items rated relevant. Items with a CVI of 0.78 or higher were considered valid, while items below this threshold were revised or removed before data collection, so that the final instruments were confined to items judged relevant to the objectives.

Reliability of the Instruments

The reliability of the questionnaire was assessed using Cronbach's alpha coefficient. The questionnaire was first pre-tested with a small group of staff from a microfinance institution outside the study sample, and unclear items were reworded. Cronbach's alpha was then computed for each section of the questionnaire using the responses of the 104 respondents. A value of 0.70 or higher was taken to indicate acceptable reliability. As shown in Table 3, all four sections

had alpha values above 0.70, which showed that the questionnaire was reliable.

Table 3: Reliability of the Questionnaire (Cronbach's Alpha)

Variable	Number of items	Cronbach's alpha	Remark
Loan appraisal	5	0.81	Reliable
Loan monitoring	5	0.84	Reliable
Loan recovery strategies	5	0.79	Reliable
Loan performance	5	0.86	Reliable

Source: Primary data (2026).

Data Analysis

Quantitative data from the questionnaires were edited, coded, and entered into the Statistical Package for the Social Sciences (SPSS Version 26). Descriptive statistics (frequencies, percentages, means and standard deviations) were used to summarise the data. Item means were interpreted using the scale in Table 4.

Table 4: Interpretation of Mean Scores

Mean range	Response mode	Interpretation
4.21 – 5.00	Strongly agree	Very high
3.41 – 4.20	Agree	High
2.61 – 3.40	Neutral	Moderate
1.81 – 2.60	Disagree	Low
1.00 – 1.80	Strongly disagree	Very low

Source: Adapted from the five-point Likert scale (class width = 4 ÷ 5 = 0.80).

Loan performance ratios from the documentary review were presented in tables and a line graph to show trends over 2022-2025, and file evidence was presented as counts and percentages.

Qualitative data from interviews were analysed thematically. The interviews were transcribed, grouped the responses under each objective and identified recurring themes, which were used to explain and support the quantitative findings. To protect confidentiality, the managers were coded M1 to M6 and the institutions MFI 1 to MFI 6 in the presentation of findings.

Ethical Considerations

The study adhered to ethical standards to protect all participants and the integrity of the research process. Informed consent was obtained from all respondents before they took part. Participants were fully informed about the purpose of the study, the procedures involved, and their rights, including the right to withdraw at any stage without consequence.

Confidentiality and anonymity were maintained throughout the study. Personal identifiers were not recorded in the data analysis, and responses were reported in aggregate form to prevent the identification of individual participants. In the presentation of findings, the institutions were coded MFI 1 to MFI 6 in an order that does not correspond to the listing in Table 4, and sensitive information was used only for the purposes of this study.

Formal permission was obtained from the management of each selected microfinance institution before staff were approached and loan records were accessed. The study also complied with the ethical guidelines of Team University to ensure that no harm came to participants.

Finally, honesty and integrity in data collection, analysis, and reporting were ensured. All sources of information were acknowledged, and findings were presented truthfully without fabrication, falsification, or misrepresentation.

Results

Response Rate

The study targeted a sample of 113 respondents: 6 managers who were interviewed and 107 credit and accounts department staff who were given questionnaires.

AfroGlobal Perspectives
Vol. 3 No. 11(2026): November 2026
https://doi.org/10.70572/7q4e2h50
Original article

Table 5: Response Rate

Category of respondents	Instrument	Targeted	Responded	Response rate (%)
Managers	Interview guide	6	6	100.0
Credit department staff	Questionnaire	64	62	96.9
Accounts department staff	Questionnaire	43	42	97.7
Total		**113**	**110**	**97.3**

Source: Primary data (2026).

Table 5 shows that all 6 managers (100%) were interviewed, 62 of the 64 credit department staff (96.9%) and 42 of the 43 accounts department staff (97.7%) returned completed questionnaires. In total, 110 of the 113 targeted respondents (104 staff and 6 managers) took part in the study, an overall response rate of 97.3%. Mugenda and Mugenda (2003) consider a response rate of 70% and above to be very good for analysis and reporting; the response rate achieved was therefore adequate for drawing conclusions about the selected microfinance institutions. The high response rate was attributed to the researcher's personal delivery and follow-up of the questionnaires and to the support of the management of the institutions.

Background characteristics of respondents

Table 6: Background Characteristics of Questionnaire Respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	56	53.8
	Female	48	46.2
Age (years)	20–29	31	29.8
	30–39	44	42.3
	40–49	22	21.2
	50+	7	6.7
Education	Certificate	9	8.7
	Diploma	34	32.7
	Bachelor's degree	54	51.9
	Postgraduate	7	6.7
Work experience	Under 2 years	14	13.5
	2–5 years	38	36.5
	6–10 years	36	34.6
	Over 10 years	16	15.4
Department	Credit	62	59.6
	Accounts	42	40.4
Institution	MFI 1	18	17.3
	MFI 2	16	15.4
	MFI 3	17	16.3
	MFI 4	17	16.3
	MFI 5	18	17.3
	MFI 6	18	17.3

Source: Primary data (2026); n = 104 for each variable.

https://doi.org/10.70572/7q4e2h50
Original article

The results in Table 6 show that 53.8% of the respondents were male and 46.2% were female, which indicates a fair gender balance among the staff of the microfinance institutions and suggests that the views collected were not dominated by one gender. Most respondents (42.3%) were aged 30-39 years, followed by those aged 20-29 years (29.8%), 40-49 years (21.2%), and 50 years and above (6.7%). The staff were therefore mainly young and middle-aged adults who were active in field-based credit work.

On education, more than half of the respondents (51.9%) held a bachelor's degree, 32.7% held a diploma, 8.7% held a certificate, and 6.7% held a postgraduate qualification. This shows that the respondents were sufficiently educated to understand the questionnaire items and the credit concepts on which they were asked. On work experience, 36.5% had worked for 2-5 years, 34.6% for 6-10 years, 15.4% for over 10 years, and 13.5% for under 2 years. Thus, 86.5% of the respondents had worked for at least two years and had observed loan portfolio management practices and loan performance in their institutions over time, which made them knowledgeable respondents for the period covered by the study.

Credit department staff made up 59.6% of the respondents and accounts department staff 40.4%, in line with the sampling design. The respondents were also spread fairly evenly across the six institutions (15.4%–17.3% each), so that no single institution dominated the findings. The six managers who were interviewed had between four and nine years of experience in their positions (an average of 6.5 years), which meant that they were well placed to explain the trends in loan performance in their institutions.

Loan Performance in the Selected Microfinance Institutions

Table 7: Respondents' Views on Loan Performance

Code	Statement	SD f (%)	D f (%)	N f (%)	A f (%)	SA f (%)	Mean	Std. Dev.	Interp.
LP1	Our loan repayment rate is above 90%	24 (23.1)	36 (34.6)	20 (19.2)	18 (17.3)	6 (5.8)	2.48	1.19	Low
LP2	Portfolio at risk (>30 days) is within the acceptable level (<10%)	28 (26.9)	38 (36.5)	18 (17.3)	15 (14.4)	5 (4.8)	2.34	1.16	Low
LP3	Non-performing loans have declined over the last three years	26 (25.0)	35 (33.7)	19 (18.3)	17 (16.3)	7 (6.7)	2.46	1.22	Low
LP4	Loan write-offs are minimal	18 (17.3)	33 (31.7)	25 (24.0)	22 (21.2)	6 (5.8)	2.66	1.16	Moderate
LP5	Portfolio performance supports our profitability and ability to lend	15 (14.4)	30 (28.8)	24 (23.1)	27 (26.0)	8 (7.7)	2.84	1.19	Moderate
	Overall mean						**2.56**	**0.84**	**Low**

Source: Primary data (2026); n = 104. SD = strongly disagree, D = disagree, N = neutral, A = agree, SA = strongly agree.

The results in Table 7 show that loan performance in the selected microfinance institutions was low, with an overall mean of 2.56 (SD = 0.84). Only 23.1% of the respondents agreed that their loan repayment rate was above 90%, while 57.7% disagreed (mean = 2.48). Similarly, only 19.2% agreed that portfolio at risk (PAR > 30 days) was within the acceptable level of below 10%, while 63.5% disagreed (mean = 2.34), the lowest-rated item. Only 23.1% agreed

AfroGlobal Perspectives
Vol. 3 No. 11(2026): November 2026
https://doi.org/10.70572/7q4e2h50
Original article

that non-performing loans had declined over the previous three years, while 58.7% disagreed (mean = 2.46). The items on write-offs (mean = 2.66) and on whether portfolio performance supported profitability and the ability to lend (mean = 2.84) were rated moderate, but in both cases more respondents disagreed than agreed. The standard deviations of between 1.16 and 1.22 show that, although views varied, the general opinion of staff was that loan performance was below the expected standard.

Documentary Findings on Loan Performance

Table 8: Portfolio Quality by Institution, 2022 and 2025

Institution	NPL ratio 2022 (%)	NPL ratio 2025 (%)	PAR > 30 days 2025 (%)	Repayment rate 2025 (%)	Write-offs 2025 (% of portfolio)
MFI 1	19	34	36	72	4.1
MFI 2	24	41	44	64	6.3
MFI 3	21	36	38	70	4.8
MFI 4	25	43	45	61	7.0
MFI 5	20	33	35	74	3.6
MFI 6	23	41	42	66	5.9
Average	**22**	**38**	**40**	**67.8**	**5.3**
Benchmark	< 10	< 10	< 10	> 90	–

Source: Documentary review of annual portfolio reports (2026).

Table 8 shows that loan performance in all six institutions was far below the industry benchmarks. The non-performing loan ratio rose in every institution between 2022 and 2025, and the average for the six institutions increased from 22% to 38%, almost four times the benchmark of 10%. In 2025, portfolio at risk above 30 days ranged from 35% (MFI 5) to 45% (MFI 4), with an average of 40%, which means that two out of every five shillings lent were at risk. The repayment rate ranged from 61% (MFI 4) to 74% (MFI 5), with an average of 67.8%, well below the benchmark of 90%. Write-offs in 2025 averaged 5.3% of the portfolio and were highest in MFI 4 (7.0%) and MFI 2 (6.3%). MFI 5 had the best indicators of the six, but even its performance was well outside the acceptable range.

Table 9: Trend in Average Portfolio Quality of the Six Institutions, 2022-2025

Indicator	2022	2023	2024	2025	Change 2022–2025
NPL ratio (%)	22.0	27.5	32.8	38.0	+16.0 points
Repayment rate (%)	84.0	78.5	72.6	67.8	−16.2 points

Source: Documentary review of annual portfolio reports (2026).

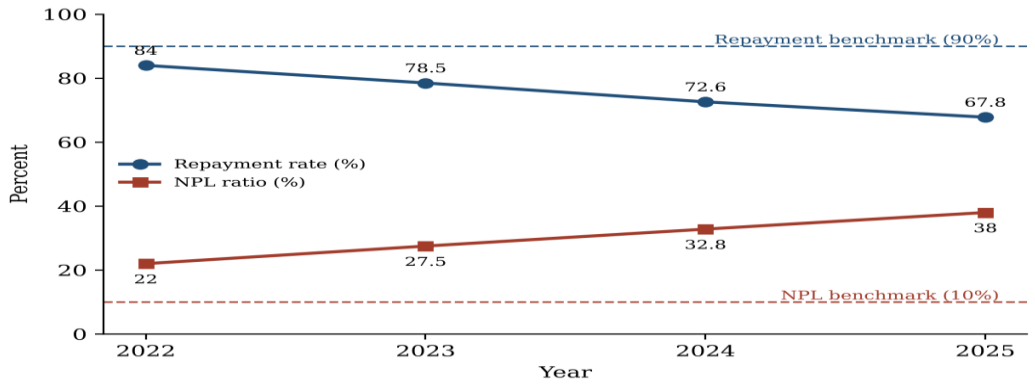


Figure 1: Trend in average NPL ratio and repayment rate of the six MFIs, 2022–2025
Source: Documentary review of annual portfolio reports (2026).

AfroGlobal Perspectives
Vol. 3 No. 11(2026): November 2026
https://doi.org/10.70572/7q4e2h50
Original article

Table 9 and Figure 1 show a steady deterioration in loan performance over the four years. The average NPL ratio increased every year, from 22% in 2022 to 27.5% in 2023, 32.8% in 2024, and 38% in 2025, while the average repayment rate fell from 84% in 2022 to 78.5%, 72.6%, and finally 67.8% in 2025. The gap between actual performance and the benchmarks therefore widened each year. These documentary findings confirm the questionnaire findings that loan performance was low and had not improved, and they agree with the figures reported by the Wobulenzi Town Council Commercial Office (2025).

Interview Findings on Loan Performance

The managers' accounts were consistent with the questionnaire and documentary findings. All six managers reported that loan performance in their institutions had worsened over the period. One manager stated that the portfolio at risk above 30 days had reached "over a third of the book" and attributed this mainly to the irregular incomes of farmers. Another manager reported that the highest default was among clients linked to government programmes. The manager whose institution was described as the best performer among the six explained that, despite having the strongest appraisal and recovery procedures, its non-performing loans were still rising. Another manager reported that the institution had the highest NPL ratio of the six and linked it to low borrower literacy and the diversion of loans to school fees, while another said that borrowers treated loans as "free money", especially under political programmes. These views show that the decline in loan performance was widespread across the institutions and not confined to one or two of them.

Interview Findings on Loan Appraisal

The interviews revealed that appraisal was formally in place in all six institutions but was weakly applied. One manager explained that his institution used a five-Cs checklist and credit reference bureau checks, but admitted that there was pressure to disburse loans quickly in order to meet targets. Another manager reported that group loans were often approved on the group's reputation without individual cash-flow checks. The manager of the institution with the strongest appraisal system said that a field visit report was mandatory before disbursement, but that the institution still had only three credit officers for over 1,500 clients. In another institution, the credit department was understaffed, and appraisal was described as being "done in a hurry at month-end".

Two managers pointed to the difficulty of assessing repayment capacity. One said that the institution made good use of the credit reference bureau but could not reliably verify the informal incomes of borrowers, while another observed that collateral was overemphasised while repayment capacity was under-assessed. The emerging theme was that time pressure, informal incomes, staff shortages and an overemphasis on collateral undermined the quality of appraisal, which agrees with the moderate ratings given by staff on cash-flow verification, matching of loan size to capacity, and officer capacity.

Documentary Findings on Loan Appraisal

To verify whether appraisal steps were actually carried out, 120 loan files (20 per institution) were reviewed.

Table 10: Appraisal Evidence in Loan Files

Item checked	Files with evidence (f)	Percentage (%)
Complete application form	106	88.3
Guarantor details complete	85	70.8
Credit reference bureau check on file	73	60.8
Collateral valuation	70	58.3
Income/cash-flow verification	65	54.2
Instalment consistent with repayment capacity	59	49.2
Pre-disbursement site visit report	56	46.7

Source: Documentary review of loan files (2026); n = 120 files (20 per institution).

Table 10 shows that the documentation of appraisal was incomplete. While 88.3% of the files had a complete application form and 70.8% had complete guarantor details, only 60.8% contained evidence of a credit reference bureau check and 58.3% contained a collateral valuation. The steps that test repayment capacity were the least documented: income or cash-flow verification was found in 54.2% of the files, an instalment consistent with the borrower's repayment

capacity in 49.2%, and a pre-disbursement site visit report in only 46.7%. Thus, more than half of the loans reviewed were disbursed without documented evidence of a site visit or of an instalment matched to repayment capacity.

These findings also show a gap between what staff reported and what the records showed. For example, 70.2% of the respondents agreed that credit reference bureau checks were done for all applicants, yet evidence of such checks was found in only 60.8% of the files. This suggests that appraisal procedures were applied less consistently in practice than staff perceived, which supports the managers' view that appraisal was weakly applied.

Interview Findings on Loan Monitoring

The interviews identified monitoring as the weakest function of loan portfolio management, with five of the six managers describing serious weaknesses. One manager reported that officers visited only the larger loans and that follow-up was mostly done by phone. Another explained that the institution still used manual ledgers, so arrears were noticed late. One manager stated that there was no formal monitoring schedule in the institution, while another said that follow-up depended on the diligence of individual officers.

Even the institutions with better systems faced constraints. One manager said that the institution's computerised system sent SMS reminders to borrowers, but that shortages of fuel and motorcycles limited field visits. Another manager reported that the institution held monthly portfolio review meetings, but that loan-use checks were done only on a sample of borrowers. The emerging theme was that manual systems, lack of transport and facilitation, and heavy caseloads weakened monitoring, which agrees with the low rating given by staff to facilitation for follow-up.

Documentary Findings on Loan Monitoring

Table 11: Monitoring Evidence in Loan Files and Credit Committee Minutes

Item checked	Records reviewed (n)	With evidence (f)	Percentage (%)
Post-disbursement visit recorded within 3 months	120	51	42.5
Loan-use verification recorded	120	44	36.7
Pre-due or overdue reminder recorded	120	68	56.7
Committee minutes discussing arrears	36	25	69.4
Minutes with recovery resolutions followed up later	36	14	38.9
Institutions with computerised MIS and automated arrears alerts	6	3	50.0
Average caseload (active borrowers per credit officer)	–	245	Benchmark: 150–200

Source: Documentary review of loan files, committee minutes and registers (2026).

Table 11 shows that post-disbursement monitoring was poorly documented. Only 42.5% of the loan files had a record of a post-disbursement visit within three months, and only 36.7% had a record of loan-use verification. A pre-due or overdue reminder was recorded in 56.7% of the files, which is consistent with the questionnaire finding that reminders were the strongest aspect of monitoring. The credit committee minutes showed that arrears were discussed in 69.4% of the meetings, but the recovery resolutions made were followed up at later meetings in only 38.9% of the cases, which shows weak follow-through on monitoring decisions.

The documentary review further established that only three of the six institutions had a computerised management information system with automated arrears alerts. In addition, each credit officer managed an average of 245 active borrowers, well above the manageable range of 150-200 borrowers per officer. These findings explain why field visits and loan-use checks were infrequent and why arrears were detected late in some institutions.

Interview Findings on Loan Recovery Strategies

The interviews showed that recovery was slow and inconsistent in five of the six institutions. One manager explained that demand letters were issued only after 30 days and that the institution was reluctant to seize collateral for community reasons. Another manager stated that the institution relied on group guarantors, but that groups had become "a place to hide" for defaulters. In another institution, recovery was described as weak, with legal action taken in very few cases. One manager reported that

guarantors were called promptly, but that collateral consisted mostly of household items of low resale value, which limited what could be recovered.

Concerns were also raised about the misuse of rescheduling. One manager observed that rescheduling was used heavily, sometimes only to avoid classifying a loan as non-performing. In contrast, the manager of the institution with the best recovery practices explained that penalties were applied systematically and that rescheduling was reserved for borrowers with documented shocks. The emerging theme was that managers avoided legal action and seizure of collateral, that group guarantees had weakened (noted by three managers), and that rescheduling was sometimes used to hide rather than resolve arrears.

Documentary Findings on Loan Recovery Strategies

Table 12: Recovery Actions on Delinquent Accounts

Item checked	Accounts (f)	Percentage (%)
Guarantors contacted	47	52.2
Penalty applied according to policy	41	45.6
Demand notice issued within 30 days	39	43.3
Loan rescheduled	22	24.4
Fully recovered after action	18	20.0
Collateral seizure or legal action started	12	13.3
Written off	9	10.0
Average days from default to first documented follow-up	41 days	Policy: 7–14 days

Source: Documentary review of delinquent loan accounts (2026); n = 90 accounts (15 per institution).

Table 12 shows that recovery action on delinquent accounts was limited and slow. Guarantors had been contacted in only 52.2% of the delinquent accounts, penalties had been applied according to policy in 45.6%, and a demand notice had been issued within 30 days in only 43.3%. About a quarter of the accounts (24.4%) had been rescheduled, while collateral seizure or legal action had been started in only 13.3% of the cases. As a result, only 20.0% of the delinquent accounts had been fully recovered after action, while 10.0% had already been written off.

The review also found that the average time from default to the first documented follow-up was 41 days, compared with the 7-14 days required by the policies of most of the institutions. This confirms the questionnaire finding that overdue loans were not followed up promptly, and it shows that by the time recovery started, many loans had already moved into the PAR > 30 days category.

Discussion

The study found that loan performance in the selected microfinance institutions was low. The average non-performing loan ratio of the six institutions rose from 22% in 2022 to 38% in 2025, portfolio at risk above 30 days averaged 40% in 2025, and the average repayment rate fell from 84% to 67.8%, all far outside the benchmarks of below 10% for NPLs and above 90% for the repayment rate. These results are consistent with the deterioration reported by the Wobulenzi Town Council Commercial Office (2025) and the Wobulenzi Microfinance Institutions Union (2024), and they confirm the problem that motivated the study. They also fall far short of the standards that Tchakoute-Tchuigoua (2016) and the Bank of Uganda (2025) associate with a healthy and sustainable microfinance portfolio. The discussion below explains how each dimension of loan portfolio management relates to this poor performance.

Limitations

Comparable annual portfolio reports were available for all six institutions only for 2022-2025, so the trend analysis of portfolio quality covered these four years.

Three of the 107 questionnaires were not returned, although the response rate remained very high.

The study focused only on the staff of the six selected microfinance institutions in Wobulenzi Town Council, namely managers, credit department staff, and accounts department staff. It did not include borrowers, SACCOs, commercial banks, or other financial institutions.

Conclusion

Overall, loan portfolio management practices in the selected microfinance institutions existed on paper but were weakly applied, and this weak application explained a large part of the low and declining loan performance in Wobulenzi Town Council.

Recommendation

The management of the microfinance institutions should make a pre-disbursement site visit report and a documented cash-flow assessment mandatory for every individual loan, and should not approve loans without them.

https://doi.org/10.70572/7q4e2h50
Original article

Credit officers should set loan sizes and instalments according to the borrower's verified repayment capacity and seasonal income pattern rather than the value of collateral alone, for example by aligning instalments for farmers with harvest periods.

Group loans should be appraised at the level of individual members, with each member's business and repayment capacity assessed, rather than on the reputation of the group.

The institutions should provide regular training to credit officers on appraisal, especially on assessing informal incomes, and should review disbursement targets so that they do not encourage hurried appraisal at month-end.

Credit reference bureau checks should be carried out and filed for every applicant, and compliance should be checked through periodic internal audit of loan files.

The Microfinance Support Centre, Wobulenzi Town Council and the Microfinance Institutions Union should carry out borrower sensitisation and financial literacy programmes to correct the perception that government-supported loans are grants.

Political leaders and programme implementers should avoid interfering in the selection of beneficiaries and the recovery of loans under government-supported programmes.

The Bank of Uganda and the Microfinance Institutions Union should promote information sharing among lenders through the credit reference bureau to reduce multiple borrowing in the town council.

Areas for Further Research

The study was limited to the staff of microfinance institutions. Further research should examine borrower-related factors, such as financial literacy, income stability, and loan use, and how they affect loan repayment in Wobulenzi Town Council.

A similar study should be carried out in SACCOs and government-supported programmes such as Emyooga and the Parish Development Model, to establish how political influence affects loan performance.

Further research should examine the effect of digital loan monitoring and mobile money repayment on loan performance in rural microfinance institutions.

Since loan portfolio management explained 57.3% of the variation in loan performance, further research should investigate other factors, such as multiple borrowing and competition among lenders, that may explain the remaining variation.

Acknowledgement

First and foremost, I thank the Almighty God for the gift of life, good health, wisdom, and strength that enabled me to complete this study.

I am deeply grateful to my supervisor, Dr. Sendagi Muhammad, for his patient guidance, constructive criticism, and timely feedback at every stage of this research, from the proposal to the final dissertation. His encouragement and attention to detail greatly improved the quality of this work.

I extend my appreciation to the management and staff of the School of Graduate Studies and Research at Team University, and to all my lecturers in the Master of Science in Finance programme, for the knowledge and skills they imparted to me.

I sincerely thank the management of the six microfinance institutions in Wobulenzi Town Council that allowed me to carry out this study, and the branch managers, credit officers, recovery officers, and accounts staff who spared their valuable time to respond to the questionnaires, take part in the interviews, and provide access to loan records. Without their cooperation, this study would not have been possible.

I am grateful to my classmates and friends for their moral support, ideas and companionship throughout the programme. Special thanks go to my family for their love, financial support, prayers and understanding during the many hours I spent away from them.

May God richly bless you all.

List of abbreviations

ANOVA	Analysis of Variance
CGAP	Consultative Group to Assist the Poor
CRB	Credit Reference Bureau
CVI	Content Validity Index
LPM	Loan Portfolio Management
MFI	Microfinance Institution
MFIs	Microfinance Institutions
MIS	Management Information System
NPL	Non-Performing Loan
NPLs	Non-Performing Loans
PAR	Portfolio at Risk
RUFI	Rural Finance Initiative
SACCOs	Savings and Credit Cooperative Organisations
SD	Standard Deviation / Strongly Disagree (in Likert tables)
SMS	Short Message Service
SPSS	Statistical Package for the Social Sciences
UGAFODE	Uganda Agency for Development

Source of funding

The study was not funded.

Conflict of interest

No conflict of interest declared.

Author contributions

AB: Conceptualization, Methodology, Investigation, Writing-original draft.
EB: Editing, Data curation, Formal analysis, Visualization.
MS: Writing-review, Supervision, Validation.
All authors: Approved the final version of the manuscript and agreed to be accountable for the work.

Data availability

Data are available upon request.

Informed consent

Written informed consent was obtained from all participants prior to their inclusion in the study. Participants were informed about the purpose of the study, procedures involved, potential risks and benefits, and their right to withdraw at any time without penalty.

Author biography

Abel Baguma is a researcher at the Department of Public Administration, Team University.
Edmond Bakashaba is a lecturer and research supervisor at Team University.
Dr. Muhammad Sendagi is a lecturer and research supervisor at the School of Graduate Studies and Research, Team University.

References

1. Altman, E. I. (1968). Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. The Journal of Finance, 23(4), 589-609. https://doi.org/10.1111/j.1540-6261.1968.tb00843.x
2. Bank of Uganda. (2023). Annual supervision report. Kampala, Uganda: Author.
3. Bank of Uganda. (2025). Annual supervision report on financial institutions. Kampala, Uganda: Author.
4. Beck, T., Senbet, L., & Simbanegavi, W. (2015). Financial inclusion and innovation in Africa: An overview. Journal of African Economies, 24(suppl_1), i3-i11. https://doi.org/10.1093/jae/eju031
5. Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2018). The microfinance business model: Enduring subsidy and modest profit. World Bank Economic Review, 32(2), 221-244. https://doi.org/10.1093/wber/lhx030
6. Krejcie, R. V., & Morgan, D. W. (1970). Determining sample size for research activities. Educational and Psychological Measurement, 30(3), 607-610. https://doi.org/10.1177/001316447003000308
7. Mersland, R., & Strøm, R. Ø. (2014). Microfinance: Costs, lending rates, and profitability. In Handbook of key global financial markets, institutions, and infrastructure. Amsterdam, Netherlands: Elsevier. https://doi.org/10.1016/B978-0-12-397873-8.00046-3
8. Microfinance Support Centre. (2024). Performance report on microfinance institutions in Uganda. Kampala, Uganda: Author.
9. Tchakoute-Tchuigoua, H. (2016). Loan portfolio quality and microfinance performance. Journal of Financial Stability.
10. Wobulenzi Microfinance Institutions Union. (2024). Annual performance report. Wobulenzi, Uganda: Author.
11. Wobulenzi Town Council. (2025). Commercial office monitoring and evaluation report on microfinance institutions. Wobulenzi, Uganda: Author.
12. World Bank. (2023). Financial inclusion and fintech development report. Washington, DC: World Bank.

AfroGlobal Perspectives
Vol. 3 No. 11(2026): November 2026
https://doi.org/10.70572/7q4e2h50
Original article

PUBLISHER DETAILS

AfroGlobal Press

AfroGlobal Press
Amplifying Voices Worldwide

Contact: +256 763 123 847
Email: afroglobalpress@gmail.com
Website: https://afroglobalpress.com
Address: Scholar's Summit, Nakigalala, East Africa