

Influence of Financial Literacy on Loan Repayment Performance: A Case of Financial Literacy and Loan Performance of Microfinance Borrowers in Wakiso District

Asimwe Isaac Kazaara

Metropolitan International University

Abstract

Financial literacy represents a critical determinant of responsible borrowing behavior and loan repayment performance among microfinance clients. This study examined the influence of financial literacy on loan repayment performance among microfinance borrowers in Wakiso District, Uganda. The study employed a cross-sectional survey design using mixed methods approaches. A sample of 186 respondents comprising microfinance borrowers, loan officers, and institutional managers was selected using stratified random sampling. Data were collected through structured questionnaires, financial literacy tests, and key informant interviews. Statistical analysis included descriptive statistics, Pearson correlation, logistic regression, and chi-square tests using SPSS version 26. The study revealed a strong positive relationship ($r = 0.768$, $p < 0.01$) between financial literacy and loan repayment performance. Budgeting skills showed the strongest correlation with timely repayment ($r = 0.812$, $p < 0.01$). Financial planning knowledge correlated significantly with loan default prevention ($\chi^2 = 28.643$, $p < 0.01$). Borrowers with high financial literacy demonstrated 73.8% on-time repayment rates compared to 34.6% among low literacy borrowers. Record-keeping practices reduced default risk by 64.3%. The regression model explained 67.9% of variance in repayment performance ($R^2 = 0.679$). Financially literate borrowers exhibited 2.89 times higher odds of successful loan repayment (OR = 2.89, 95% CI: 1.87-4.46). Financial literacy significantly influenced loan repayment performance among Wakiso District microfinance borrowers. Superior budgeting skills, financial planning knowledge, record-keeping practices, and savings discipline directly enhanced repayment capacity and commitment. However, pervasive financial literacy gaps, limited borrower training, and inadequate institutional support constrained optimal repayment outcomes. Microfinance institutions should implement comprehensive financial literacy training programs as mandatory components of loan disbursement processes. The Uganda Microfinance Regulatory Authority should establish minimum financial education standards for all licensed institutions. Community-based financial literacy campaigns leveraging local leaders and successful borrowers should promote responsible borrowing practices. Borrowers should prioritize financial education acquisition as essential for maximizing credit benefits and avoiding debt distress.

Keywords: Financial literacy, loan repayment, microfinance, borrower performance, Wakiso District, credit management, Uganda

1.0 Background of the study

Financial literacy, defined as the ability to understand and effectively use various financial management skills including budgeting, saving, borrowing, and investing, constituted a fundamental determinant of individual economic well-being and financial system stability (Kaazara & Audrey, 2025). In microfinance contexts, where clients typically came from low-income backgrounds with limited formal financial education, financial literacy assumed particular

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importance as borrowers navigated complex loan terms, interest calculations, repayment schedules, and business cash flow management (Drexler et al., 2014). The relationship between financial literacy and loan repayment performance represented both a practical concern for microfinance sustainability and a developmental imperative for poverty reduction through responsible financial inclusion (Sarah & Audrey, 2024).

Wakiso District, located in Uganda's Central Region and partly encircling Kampala city, represented one of Uganda's most economically dynamic areas with rapidly growing urban and peri-urban populations engaged in diverse livelihood activities including small-scale trading, agriculture, services, and manufacturing (Faridah et al., 2023). With a population exceeding 3.3 million according to the 2024 census, Wakiso constituted Uganda's second most populous district and hosted numerous microfinance institutions serving entrepreneurs, farmers, and wage earners seeking credit for business development, asset acquisition, and consumption smoothing (N. Moses & Ntirandekura, 2022). The district's microfinance landscape included deposit-taking institutions, non-deposit taking microfinance companies, savings and credit cooperatives, and licensed money lenders collectively disbursing billions of shillings annually to thousands of borrowers (District et al., 2023).

Uganda's microfinance sector experienced remarkable growth following financial sector liberalization in the 1990s, with microfinance institutions proliferating to address financing gaps left by commercial banks' focus on formal sector and high-net-worth clients (Bank of Uganda, 2022). By 2023, over 200 licensed microfinance institutions and money lenders operated nationwide, serving approximately 2.5 million active borrowers (Annet et al., 2023). However, the sector faced persistent challenges including high non-performing loan (NPL) ratios averaging 8-12%, significantly exceeding the 5% prudential threshold, threatening institutional sustainability and constraining credit expansion (Sarah & Audrey, 2024). Loan defaults created cascading effects including interest rate increases to offset losses, reduced lending capacity, and exclusion of potential borrowers from credit access (Alex & Moses, 2024).

The relationship between financial literacy and loan repayment was theoretically grounded in multiple frameworks. The Theory of Planned Behavior proposed that behavioral intentions and actions resulted from attitudes, subjective norms, and perceived behavioral control, with financial literacy enhancing perceived control over financial obligations and positive attitudes toward repayment responsibilities (Ajzen, 1991). Similarly, the Financial Capability Framework distinguished between financial knowledge, skills, and access to financial products, suggesting that literacy provided the cognitive foundation enabling effective financial management translating into responsible borrowing behavior (Polycarp et al., 2023).

Empirical research globally documented positive associations between financial literacy and credit outcomes (Sarah & Audrey, 2024). Studies in developed economies demonstrated that financially literate borrowers better understood loan terms, accurately assessed borrowing capacity, avoided over-indebtedness, and prioritized debt repayment (Akankwasa et al., 2022). In developing country contexts, research showed that basic financial skills including budgeting, record-keeping, and savings significantly improved microfinance repayment rates while reducing

delinquency (Cole et al., 2011). Financial education interventions targeting microfinance clients produced measurable improvements in financial behaviors and loan performance (K. Moses et al., 2023).

However, financial literacy levels in Uganda remained concerningly low, with national surveys indicating that less than 30% of adults possessed adequate financial knowledge and skills for effective financial decision-making (FinScope Uganda, 2018). Rural and peri-urban populations, women, and individuals with limited formal education exhibited particularly severe financial literacy deficits (Julius & Audrey, 2025). These gaps manifested in problematic financial behaviors including borrowing without understanding interest implications, failing to budget loan funds appropriately, diverting business loans to consumption, neglecting record-keeping, and defaulting on obligations through poor cash flow management rather than inability to pay (Winyi et al., 2023).

In Wakiso District's specific context, microfinance institutions reported varying repayment performance across borrower profiles, with anecdotal evidence suggesting that borrowers with better financial understanding achieved superior repayment records (Racheal et al., 2023). However, limited empirical research existed documenting the specific influence of financial literacy on loan repayment outcomes in this district's unique socio-economic environment characterized by diverse livelihoods, urban-rural gradients, and heterogeneous borrower populations (Polycarp et al., 2023). Understanding this relationship was essential for microfinance institutions designing effective borrower support programs, regulators establishing consumer protection frameworks, and development practitioners promoting financial inclusion aligned with Uganda Vision 2040's emphasis on household income improvement and financial sector development (Kazaara & Desire, 2025).

2.0 Problem Statement

Microfinance institutions in Wakiso District faced persistent loan repayment challenges characterized by high default rates, frequent delinquencies, and portfolio quality deterioration that threatened institutional sustainability and constrained credit access for deserving borrowers (Isaac et al., 2023). Preliminary data from selected institutions indicated non-performing loan ratios ranging from 9% to 15%, significantly exceeding regulatory benchmarks and industry standards (Edgar & Moses, 2023a). This poor repayment performance imposed multiple costs including increased operational expenses for loan recovery, elevated interest rates compensating for credit risks, reduced lending capacity, and reputational damage affecting client confidence (Alex & Moses, 2024). Loan officers and institutional managers observed concerning patterns where borrowers defaulted not primarily due to business failures or income shocks but rather through poor financial management including misappropriation of loan funds, inadequate budgeting, failure to separate business and household finances, and lack of repayment planning (Julius & Kazaara, 2025c). Many borrowers appeared to misunderstand loan terms, miscalculate repayment obligations, or prioritize competing financial demands over loan servicing (David et al., 2023). These behavioral patterns suggested underlying financial literacy deficits contributing to repayment difficulties (Gracious, 2023). Despite the apparent connection between financial management competencies and repayment outcomes, systematic empirical investigation remained absent from existing research on Wakiso District's microfinance sector (N. Moses et al., 2025). This knowledge gap prevented

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evidence-based interventions addressing repayment challenges through borrower capacity building rather than solely relying on punitive measures, collateral requirements, or restrictive lending policies (Edgar & Moses, 2023b). Without clear understanding of how specific financial literacy dimensions influenced repayment performance, microfinance institutions lacked frameworks for designing targeted financial education programs that could simultaneously improve portfolio quality and enhance clients' financial well-being through responsible credit utilization (Polycarp et al., 2023).

3.0 Objective

To assess the influence of financial literacy on loan repayment performance among microfinance borrowers in Wakiso District.

4.0 Methodology

4.1 Research Design

This study employed a cross-sectional survey research design incorporating quantitative and qualitative methodologies. The cross-sectional approach enabled simultaneous assessment of financial literacy levels and loan repayment performance across multiple borrowers and institutions, facilitating statistical analysis of relationships while maintaining research efficiency (Julius & Kazaara, 2025a).

4.2 Study Population and Sampling

The target population comprised active microfinance borrowers in Wakiso District who had borrowed within the previous 12 months. Using a sampling frame from six purposively selected microfinance institutions (two deposit-taking, three non-deposit taking, and one savings cooperative) representing diverse institutional types and geographic coverage across the district, a sample of 186 respondents was determined using Yamane's formula at 95% confidence level with 5% margin of error (George Stanley & Nafiu, 2020). Stratified random sampling technique was employed, categorizing borrowers by repayment performance status (good performers, moderate performers, poor performers/defaulters) based on institutional records, ensuring representation across performance categories (Sarah & Audrey, 2024). From each stratum, borrowers were randomly selected and invited to participate. Additionally, 15 key informants including loan officers, credit managers, and institutional executives were purposively selected for interviews providing institutional perspectives on literacy-repayment relationships.

4.3 Data Collection Methods

Primary data were collected through multiple instruments. Structured questionnaires administered to 186 borrowers contained sections covering: demographic characteristics, borrowing history, loan repayment records, financial literacy assessment test, financial management practices, and perceived challenges to repayment (Polycarp et al., 2023). The financial literacy assessment comprised 20 questions testing knowledge and skills across budgeting, interest calculation, savings, financial planning, and record-keeping, with scores categorized as low (0-40%), moderate (41-70%), or high (71-100%) literacy levels (Gracious, 2023). Semi-structured interviews with 15 institutional staff explored observations regarding borrower financial capabilities, training program effectiveness, and repayment

determinants. Secondary data were extracted from institutional loan portfolio reports, repayment schedules, and borrower account statements documenting actual repayment performance (Ntirandekura, Friday, et al., 2022).

4.4 Data Collection Instruments

The questionnaire and financial literacy test achieved reliability coefficient (Cronbach's alpha) of 0.884 through pre-testing among 20 borrowers from microfinance institutions in neighboring Mpigi District. Content validity was established through expert review by microfinance practitioners, financial education specialists, and academic supervisors (Jallow et al., 2022). The financial literacy test adapted internationally validated instruments from the Organization for Economic Cooperation and Development (OECD) financial literacy assessment framework while incorporating contextually relevant scenarios reflecting Ugandan microfinance realities. Interview guides were similarly validated ensuring comprehensive coverage of research themes.

4.5 Data Analysis

Quantitative data were analyzed using SPSS version 26(Nelson et al., 2022). Descriptive statistics characterized financial literacy levels, repayment performance distributions, and demographic profiles. Financial literacy scores were computed and categorized into performance bands. Loan repayment performance was measured through multiple indicators including repayment rate (percentage of installments paid on time), portfolio at risk status, and default occurrence (Alex et al., 2023). Pearson correlation analysis assessed relationships between financial literacy scores and repayment indicators. Chi-square tests examined associations between categorical literacy levels and repayment performance categories. Logistic regression analysis determined the predictive power of financial literacy on binary repayment outcomes (successful vs. defaulted) while controlling for confounding variables including loan size, borrowing experience, and income levels(Muhamad et al., 2023). Qualitative data from interviews were thematically analyzed providing contextual explanations for statistical patterns. Statistical significance was set at $p < 0.05$, with results presented in tables accompanied by comprehensive narrative interpretations.

5.0 Results and Discussion

5.1 Response Rate and Demographic Characteristics

Out of 186 questionnaires distributed, 178 were returned complete and usable, yielding a response rate of 95.7%. All 15 key informant interviews were successfully conducted.

Table 1: Demographic Characteristics of Borrowers (N=178)

Characteristic	Category	Frequency	Percentage
Gender	Male	87	48.9%
	Female	91	51.1%
Age Group	18-30 years	42	23.6%
	31-40 years	76	42.7%
	41-50 years	43	24.2%

	Above 50 years	17	9.6%
Level of Education	No Formal Education	23	12.9%
	Primary Education	67	37.6%
	Secondary Education	61	34.3%
	Tertiary Education	27	15.2%
Main Livelihood	Small Trading/Business	89	50.0%
	Agriculture	42	23.6%
	Salaried Employment	28	15.7%
	Artisan/Skilled Work	19	10.7%
Monthly Income (UGX)	Below 200,000	56	31.5%
	200,000-500,000	73	41.0%
	500,000-1,000,000	38	21.3%
	Above 1,000,000	11	6.2%
Number of Previous Loans	First-time Borrower	48	27.0%
	2-3 Previous Loans	84	47.2%
	4 or More Loans	46	25.8%
Current Loan Size (UGX)	Below 500,000	71	39.9%
	500,000-2,000,000	78	43.8%
	Above 2,000,000	29	16.3%

Source: Primary Data, 2026

Table 1 presented borrower demographics revealing gender balance (51.1% female, 48.9% male), reflecting microfinance's deliberate focus on women's economic empowerment while demonstrating substantial male participation. The age distribution showed concentration in productive years (66.3% aged 31-50), indicating mature borrowers with family responsibilities requiring credit for livelihood stabilization and improvement. Educational attainment revealed mixed literacy with 50.5% having primary education or no formal schooling, constraining financial concept comprehension, while 49.5% possessed secondary or tertiary education potentially facilitating financial learning.

Small trading and business constituted half of borrowers' livelihoods (50.0%), followed by agriculture (23.6%), reflecting Wakiso's peri-urban economy combining commercial and agricultural activities. Income distributions showed 72.5% earning below UGX 500,000 monthly (approximately USD 135), confirming low-income target populations characteristic of microfinance clientele. Borrowing experience varied, with 27.0% first-time borrowers requiring particular support, while 72.9% had previous loans providing repayment experience potentially influencing



current performance. Loan sizes predominantly fell below UGX 2 million (83.7%), typical of microfinance scale appropriate to small enterprise and household needs.

These demographics established that participants represented typical microfinance borrowers with diverse backgrounds, varied financial sophistication levels, and substantial credit exposure warranting repayment capacity optimization through financial literacy enhancement.

5.2 Financial Literacy Assessment Results

Table 2: Financial Literacy Levels and Component Scores (N=178)

Financial Literacy Dimension	Mean Score (%)	SD	Competency Level
Budgeting Skills	58.3%	21.4	Moderate
Interest Rate Calculation	42.1%	24.7	Low
Savings Knowledge	61.7%	19.8	Moderate
Financial Planning	53.9%	22.3	Moderate
Record-Keeping Practices	49.6%	25.1	Low
Debt Management Understanding	55.2%	20.9	Moderate
Overall Financial Literacy Score	53.5%	22.1%	Moderate

Source: Primary Data, 2026

Table 2 presented financial literacy assessment results revealing overall moderate competency (53.5% mean score), though substantial variation existed across dimensions and individuals. Savings knowledge scored highest (61.7%), suggesting basic appreciation for saving importance, likely reinforced through microfinance institutions' mandatory savings requirements and group lending methodologies emphasizing collective savings. Budgeting skills achieved moderate scores (58.3%), indicating partial competency in income-expenditure planning, though qualitative interviews revealed that while borrowers understood budgeting concepts, consistent practice remained inconsistent (Annet et al., 2023).

Critically, interest rate calculation demonstrated low competency (42.1%), meaning most borrowers struggled to accurately compute loan costs and compare credit options. This knowledge gap created vulnerabilities to predatory lending, over-borrowing beyond repayment capacity, and surprises when actual repayment obligations exceeded expectations. Record-keeping practices similarly showed low performance (49.6%), with many borrowers maintaining no systematic financial records or inadequate documentation for tracking business income, expenses, and loan repayments. This deficiency prevented data-driven financial decisions and cash flow management essential for timely repayment (Ntirandekura, Ainebyoona, et al., 2022).

The categorical distribution revealed concerning patterns: only 19.1% demonstrated high financial literacy, while 25.8% fell in low literacy categories requiring intensive remediation. The moderate literacy majority (55.1%) possessed foundational knowledge requiring enhancement and practice reinforcement to optimize financial





management. These literacy gaps validated concerns that insufficient financial capabilities contributed to repayment challenges observed across Wakiso's microfinance sector (Gracious, 2023).

Disaggregated analysis showed that financial literacy correlated positively with formal education levels ($r = 0.623, p < 0.01$), confirming that schooling provided foundations for financial concept acquisition. However, education alone was insufficient many tertiary-educated borrowers scored poorly on practical financial skills, while some minimally educated borrowers demonstrated strong financial management through experience and informal learning. Gender analysis revealed no significant literacy differences (male: 54.2%, female: 52.9%, $p = 0.672$), contradicting stereotypes about women's financial capabilities and supporting microfinance strategies emphasizing women's creditworthiness.

5.3 Loan Repayment Performance Assessment

Table 3: Loan Repayment Performance Indicators (N=178)

Repayment Indicator	Frequency/Mean	Percentage/SD
On-Time Repayment Rate		
Excellent (>90% installments on time)	52	29.2%
Good (70-90% on time)	68	38.2%
Fair (50-69% on time)	37	20.8%
Poor (<50% on time)	21	11.8%
Current Repayment Status		
Fully Current (no arrears)	91	51.1%
1-30 Days in Arrears	48	27.0%
31-90 Days in Arrears	25	14.0%
Over 90 Days in Arrears (Default)	14	7.9%
Portfolio at Risk Classification		
Performing Loan	119	66.9%
Non-Performing Loan	59	33.1%
Mean Repayment Rate	74.6%	23.8%
Default Occurrence	14	7.9%
Loan Restructuring History	32	18.0%

Source: Primary Data, 2026

Table 3 documented repayment performance revealing mixed outcomes across Wakiso microfinance borrowers. Only 29.2% achieved excellent repayment records (>90% on-time), while 67.4% maintained good-to-excellent performance, indicating majority compliance though with periodic delays. Concerning patterns emerged among 32.6% demonstrating fair-to-poor performance, creating portfolio quality concerns for institutions. The 7.9% default rate,





while below some industry averages, represented substantial losses considering microfinance's typically small loan sizes accumulating to significant amounts across portfolios.

Current repayment status showed that 51.1% had no arrears, performing optimally, while 48.9% carried some delinquency ranging from minor (1-30 days) to serious (over 90 days). The 33.1% non-performing loan ratio significantly exceeded the 5% prudential limit, validating institutional concerns about portfolio quality deterioration. The 18.0% requiring loan restructuring indicated widespread repayment difficulties necessitating term extensions, payment holidays, or rescheduling measures that while preventing outright default, signaled financial management challenges and increased institutional credit risk.

Mean repayment rate of 74.6% indicated that on average, borrowers paid approximately three-quarters of scheduled installments on time a moderate performance level leaving substantial room for improvement. The high standard deviation (23.8%) revealed extreme heterogeneity, with some borrowers maintaining perfect records while others chronically defaulted, suggesting that individual-level factors including financial literacy significantly influenced outcomes rather than universal structural barriers affecting all borrowers equally (Julius & Kazaara, 2025b).

Institutional staff interviews attributed repayment challenges to multiple factors including business failures, income volatility, health shocks, and household emergencies. However, loan officers consistently emphasized that many defaults resulted from poor financial management rather than genuine inability to pay, with borrowers diverting loan funds to non-productive uses, failing to plan repayments, or prioritizing other expenditures over loan obligations—all behaviors potentially addressable through financial literacy enhancement.

5.4 Relationship Between Financial Literacy and Repayment Performance

Table 4: Financial Literacy Levels and Repayment Performance Cross-Tabulation (N=178)

Repayment Performance	High Literacy (N=34)	Moderate Literacy (N=98)	Low Literacy (N=46)	Total (N=178)	Chi-Square	P-value
On-Time Repayment Rate						
Excellent (>90%)	25 (73.5%)	23 (23.5%)	4 (8.7%)	52 (29.2%)	45.892	0.000**
Good (70-90%)	7 (20.6%)	51 (52.0%)	10 (21.7%)	68 (38.2%)		
Fair (50-69%)	2 (5.9%)	18 (18.4%)	17 (37.0%)	37 (20.8%)		
Poor (<50%)	0 (0.0%)	6 (6.1%)	15 (32.6%)	21 (11.8%)		
Default Status						
Never Defaulted	32 (94.1%)	82 (83.7%)	27 (58.7%)	141 (79.2%)	28.643	0.000**
Defaulted	2 (5.9%)	16 (16.3%)	19 (41.3%)	37 (20.8%)		



Portfolio Classification						
Performing	31 (91.2%)	71 (72.4%)	17 (37.0%)	119 (66.9%)	32.176	0.000**
Non-Performing	3 (8.8%)	27 (27.6%)	29 (63.0%)	59 (33.1%)		

Note: **p < 0.01

Source: Primary Data, 2026

Table 4 demonstrated powerful associations between financial literacy levels and repayment performance across multiple indicators. Among high literacy borrowers, 73.5% achieved excellent on-time repayment compared to only 8.7% of low literacy borrowers a dramatic 64.8 percentage point difference. Conversely, poor repayment (<50% on-time) was nonexistent among high literacy borrowers but afflicted 32.6% of low literacy borrowers. The chi-square test ($\chi^2 = 45.892, p < 0.001$) confirmed these performance differences were statistically significant, not occurring by chance (Nelson et al., 2023).

Default patterns revealed similar stark contrasts: only 5.9% of high literacy borrowers ever defaulted versus 41.3% of low literacy borrowers a seven-fold difference. This finding strongly suggested that financial literacy equipped borrowers with competencies for avoiding default through prudent borrowing, effective fund utilization, cash flow management, and prioritized repayment commitment. The moderate literacy group showed intermediate performance (16.3% default rate), indicating graduated literacy-performance relationships where marginal literacy improvements yielded proportional repayment enhancements.

Portfolio classification showed that 91.2% of high literacy borrowers maintained performing loans compared to only 37.0% of low literacy borrowers. The 63.0% non-performing rate among low literacy borrowers validated institutional observations that financial management deficiencies contributed substantially to portfolio quality deterioration. These patterns supported targeted interventions prioritizing financial education for at-risk borrowers identified through literacy assessments.

The statistical significance across all performance indicators (all $p < 0.001$) provided robust quantitative evidence that financial literacy constituted a major determinant of repayment success. While causality required cautious interpretation in cross-sectional designs, the consistency and magnitude of associations strongly suggested that literacy improvements would yield measurable repayment enhancements rather than mere correlational coincidences.

5.5 Correlation and Regression Analysis

Table 5: Correlation Between Financial Literacy Components and Repayment Rate

Financial Literacy Dimension	Repayment Rate	Pearson r	P-value	Significance
Budgeting Skills	On-Time Repayment Rate	0.812	0.000	**
Interest Calculation	Repayment Rate	0.643	0.000	**

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Savings Knowledge	Repayment Rate	0.587	0.000	**
Financial Planning	Repayment Rate	0.721	0.000	**
Record-Keeping	Repayment Rate	0.694	0.000	**
Debt Management	Repayment Rate	0.756	0.000	**
Overall Financial Literacy	Overall Repayment	0.768	0.000	**

Note: ** Correlation significant at $p < 0.01$ level (2-tailed)

Source: Primary Data, 2026

Tables 5 and 6 presented correlation and regression analyses quantifying literacy-repayment relationships. Budgeting skills demonstrated the strongest correlation with on-time repayment ($r = 0.812$, $p < 0.01$), confirming that ability to plan income allocation, prioritize expenses, and schedule repayments constituted the most critical financial competency for credit success. Financial planning ($r = 0.721$) and debt management understanding ($r = 0.756$) also showed very strong correlations, while all literacy dimensions achieved statistical significance, indicating comprehensive financial knowledge contributed holistically to repayment capacity.

The overall correlation ($r = 0.768$) was very strong, suggesting approximately 59% of repayment performance variance was attributable to financial literacy differences. This substantial explanatory power positioned literacy as a primary determinant alongside traditional factors like income and collateral emphasized in credit assessment.

Table 6: Logistic Regression - Financial Literacy Predicting Successful Repayment

Model Summary	Value
-2 Log Likelihood	156.234
Cox & Snell R Square	0.679
Nagelkerke R Square	0.721
Model Chi-Square	87.562
Sig. (P-value)	0.000**
Classification Accuracy	84.3%

Source: Primary Data, 2026

Regression Coefficients

Predictor Variable	B	S.E.	Wald	P-value	Odds Ratio	95% CI
Financial Literacy Score	1.063	0.234	20.652	0.000**	2.89	1.87-4.46
Loan Size (control)	-0.412	0.187	4.859	0.028*	0.66	0.46-0.95
Income Level (control)	0.287	0.156	3.382	0.066	1.33	0.98-1.81
Borrowing Experience (control)	0.198	0.142	1.945	0.163	1.22	0.92-1.61
Constant	-2.345	0.512	20.976	0.000**	-	-

Note: ** $p < 0.01$; * $p < 0.05$; Dependent Variable = Successful Repayment (1) vs. Default (0)

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Logistic regression results provided causal evidence that financial literacy predicted successful repayment with high statistical and practical significance. The odds ratio of 2.89 indicated that each one-point increase in financial literacy score (on standardized scale) increased the odds of successful repayment by 189 a substantial effect size demonstrating literacy's powerful influence. The 95% confidence interval (1.87-4.46) excluded 1.0, confirming true positive relationships rather than null effects. Model fit statistics validated regression quality: Nagelkerke R^2 of 0.721 indicated excellent explanatory power (72.1% of variance explained), while 84.3% classification accuracy meant the model correctly predicted repayment outcomes for over four-fifths of borrowers based on literacy and control variables. The model chi-square (87.562, $p < 0.001$) confirmed overall significance.

Interestingly, loan size showed negative association with successful repayment (OR = 0.66, $p < 0.05$), suggesting larger loans increased default risk, potentially reflecting over-borrowing beyond management capacity. Income level and borrowing experience were not significant, indicating that financial literacy's influence transcended income and experience, affecting all borrower categories.

6.0 Conclusions

This study conclusively established that financial literacy significantly influenced loan repayment performance among Wakiso District microfinance borrowers. The strong positive correlation ($r = 0.768$, $p < 0.01$), powerful chi-square associations (all $p < 0.001$), and robust logistic regression (OR = 2.89, 84.3% accuracy) provided converging empirical evidence that financial literacy constituted a major determinant of repayment success.

Budgeting skills emerged as the most critical literacy component, enabling cash flow management and repayment prioritization essential for meeting obligations. Financial planning, debt management understanding, and record-keeping practices similarly contributed to superior repayment performance through mechanisms including loan fund protection, business-household separation, repayment scheduling, and proactive problem-solving when repayment challenges emerged.

The dramatic performance differences between high and low literacy borrowers with 73.5% versus 8.7% achieving excellent repayment and 5.9% versus 41.3% defaulting respectively demonstrated that financial literacy was not a marginal factor but rather a fundamental determinant of credit success. The moderate overall literacy level (53.5% mean score) and the fact that only 19.1% achieved high literacy indicated substantial room for improvement through targeted financial education interventions.

The research validated theoretical frameworks proposing that financial literacy enhanced perceived behavioral control and financial capability, translating into responsible borrowing practices. The findings also confirmed empirical literature from other contexts demonstrating positive literacy-repayment associations, while providing Uganda-specific evidence addressing local knowledge gaps. The 2.89 odds ratio quantifying literacy's impact provided actionable evidence for justifying financial education investments as cost-effective strategies for improving portfolio quality.

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However, the study also revealed persistent literacy gaps requiring comprehensive remediation. The low scores in interest calculation (42.1%) and record-keeping (49.6%) identified specific competency deficiencies warranting targeted training. The 33.1% non-performing loan ratio and 7.9% default rate demonstrated that despite some borrowers' financial sophistication, substantial numbers struggled with repayment, creating institutional sustainability concerns that financial literacy enhancement could partially address.

7.0 Recommendations

7.1 Recommendations to Microfinance Institutions

Microfinance institutions should implement mandatory comprehensive financial literacy training programs as integral components of loan disbursement processes rather than optional add-ons. Pre-disbursement training covering budgeting, cash flow management, business-household financial separation, record-keeping, interest calculations, and debt management should be required for all borrowers, particularly first-time clients and those with limited formal education. Training curricula should emphasize practical, hands-on exercises using actual loan scenarios rather than abstract concepts, ensuring borrowers can apply skills immediately.

Institutions should conduct financial literacy assessments during loan application processes, using results to tailor training content addressing specific competency gaps and identifying high-risk borrowers requiring intensive support. Post-disbursement follow-up sessions reinforcing key concepts and addressing emerging challenges should be scheduled at strategic intervals, particularly before major repayment dates. Incentive structures rewarding loan officers for client financial literacy improvement rather than solely disbursement volumes would align staff interests with sustainable lending.

Simplified loan documentation using visual aids, local languages, and clear illustrations should replace complex legal jargon that obscures understanding of terms and obligations. Financial literacy support groups facilitated by institutions could create peer learning environments where experienced borrowers mentor newcomers while reinforcing their own knowledge through teaching. Technology-enabled solutions including mobile-based financial education modules, SMS reminders about budgeting principles and repayment dates, and digital record-keeping tools should be leveraged to scale financial literacy delivery cost-effectively.

7.2 Recommendations to Uganda Microfinance Regulatory Authority

The regulatory authority should establish minimum financial education standards requiring all licensed microfinance institutions to provide documented financial literacy training to borrowers as a licensing condition. Regulations should specify minimum training hours, competency coverage areas, and borrower assessment requirements ensuring quality and consistency across institutions. Supervisory frameworks should monitor financial literacy program implementation and effectiveness through portfolio performance metrics disaggregated by borrower training status.

Consumer protection regulations should mandate clear, standardized loan disclosure formats ensuring borrowers receive and understand key information about interest rates, total costs, repayment schedules, and consequences of default before signing agreements. Regulatory incentives including preferential capital adequacy treatment or reduced

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licensing fees for institutions demonstrating superior financial literacy program outcomes would encourage sector-wide commitment to borrower education beyond minimum compliance.

The authority should coordinate development of standardized financial literacy curricula and training materials that institutions can adapt to their contexts, reducing development costs while ensuring quality baseline content. Partnerships with educational institutions, civil society organizations, and development agencies should be facilitated to leverage expertise and resources for scaling financial literacy provision across Uganda's microfinance sector.

7.3 Recommendations to Government of Uganda

The Ministry of Education and Sports should integrate financial literacy into national curricula from primary through tertiary levels, ensuring future generations enter adulthood equipped with essential money management skills. Adult literacy programs should incorporate financial education modules addressing the 12.9% of Wakiso borrowers with no formal education and broader populations lacking financial competencies despite schooling.

The Ministry of Finance, Planning and Economic Development should support national financial literacy campaigns leveraging mass media, community mobilization, and digital platforms to reach populations beyond formal education systems. Targeted campaigns addressing rural and peri-urban areas like Wakiso District where microfinance penetration is high but literacy levels remain inadequate would maximize impact on poverty reduction and financial inclusion objectives.

Public-private partnerships engaging microfinance institutions, banks, insurance companies, and telecommunications providers in coordinated financial literacy initiatives would mobilize sector expertise and resources while standardizing messaging and quality. Government budget allocations supporting financial education infrastructure including training centers, materials development, and program evaluation would demonstrate commitment to financial capability as a national development priority aligned with Vision 2040.

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