

The Impact Of High Interest Rates On The Social Economic Development Of Communities of Microfinance Institutions. A Case Study Of Pride Micro-Finance, Nansana Branch

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Abstract

The study examined the impact of high interest rates charged by Pride Micro-Finance on the socio-economic development of communities in Nansana Branch, Uganda. The research adopted a mixed-methods approach, combining quantitative surveys of 150 borrowers and qualitative interviews with 15 key stakeholders. Results revealed that 68% of respondents reported difficulties in loan repayment due to high interest rates averaging 24-28% per annum. Statistical analysis showed a significant negative correlation ($r = -0.67$, $p < 0.01$) between interest rate levels and business profitability among borrowers. Additionally, 54% of clients indicated that high interest rates limited their ability to expand businesses, while 62% reported reduced household welfare expenditure to meet repayment obligations. The study concluded that while microfinance served as a vital financial inclusion tool, excessively high interest rates undermined the socio-economic advancement of beneficiary communities by constraining business growth, reducing disposable income, and increasing financial stress. The research recommended that Pride Micro-Finance review its interest rate structure, implement flexible repayment schemes, enhance financial literacy programs, and advocate for regulatory interventions to establish interest rate caps that balance institutional sustainability with community development objectives.

Keywords: Microfinance, interest rates, socio-economic development, Pride Micro-Finance, financial inclusion, community development

1.0 Background of the Study

Microfinance institutions emerged as critical instruments for financial inclusion and poverty alleviation in developing economies, particularly in Sub-Saharan Africa where access to formal banking services remained limited (Akankwasa et al., 2022). In Uganda, the microfinance sector experienced substantial growth since the 1990s, with institutions like Pride Micro-Finance playing pivotal roles in extending credit facilities to low-income households and small-scale entrepreneurs who were traditionally excluded from conventional banking systems (Ahumuza et al., 2025). Pride Micro-Finance, established in 1995 as a Tier III microfinance institution, expanded its operations across Uganda with the mission of empowering communities through accessible financial services (Akankwasa et al., 2022).

The Nansana Branch, located in Wakiso District within the greater Kampala metropolitan area, served a diverse clientele comprising small traders, artisans, agricultural producers, and micro-entrepreneurs (Ahumuza et al., 2025). The branch operated in a densely populated area characterized by high levels of informal economic activity, limited employment opportunities, and significant poverty levels (Julius & Matovu, 2025). Microfinance theoretically aimed

to catalyze socio-economic transformation by providing capital for income-generating activities, facilitating asset accumulation, enhancing household consumption, and promoting entrepreneurial development(Frank et al., 2023).

However, the sustainability model of microfinance institutions in Uganda necessitated the charging of interest rates substantially higher than those of commercial banks(Nancy & Prudence, 2024). Pride Micro-Finance's interest rates ranged between 24% and 28% per annum, reflecting operational costs, risk premiums, inflation adjustments, and profit margins(Ahumuza et al., 2025). These rates, while common in the microfinance sector, generated ongoing debates about their appropriateness and impact on intended beneficiaries(Alex & Moses, 2024). Critics argued that high interest rates potentially defeated the developmental purpose of microfinance by extracting excessive resources from already vulnerable communities, thereby perpetuating rather than alleviating poverty(Faridah et al., 2023).

The socio-economic development of communities encompassed multiple dimensions including income generation, employment creation, asset accumulation, improved living standards, educational attainment, healthcare access, and social capital formation(Derrick et al., 2023). The relationship between microfinance interest rates and these developmental outcomes remained inadequately understood in the Ugandan context, particularly at the community level(Alex & Devis, 2023). While microfinance institutions emphasized outreach and repayment rates as performance indicators, the actual developmental impact on borrowing communities required systematic investigation(Faith et al., 2023). This study therefore examined how Pride Micro-Finance's interest rate structure influenced the socio-economic trajectory of the Nansana community, providing evidence-based insights for policy formulation and institutional practice improvement(Brian et al., 2024).

2.0 Problem Statement

Despite the proliferation of microfinance institutions in Uganda and their purported developmental objectives, concerns persisted regarding the sustainability and appropriateness of interest rates charged to low-income borrowers(Ahumuza et al., 2025). Pride Micro-Finance's Nansana Branch served a predominantly poor community where borrowers engaged in marginal economic activities with limited profit margins(Winny et al., 2023). The interest rates of 24-28% per annum, while enabling institutional sustainability, potentially imposed unsustainable debt burdens on clients. Anecdotal evidence suggested that numerous borrowers struggled with repayment, resorted to multiple borrowing to service existing loans, reduced essential household expenditures, and failed to achieve meaningful business expansion(Edgar & Moses, 2023). The high cost of credit potentially undermined the socio-economic advancement that microfinance purported to facilitate(Gloria et al., 2023). However, systematic empirical evidence documenting the specific impacts of these interest rates on community development indicators remained scarce(Faith et al., 2023). This knowledge gap hindered informed policy-making and institutional reforms necessary to optimize microfinance's developmental contribution while maintaining operational viability.

3.0 Research Objective

To assess the effect of high interest rates on socio-economic development among Pride Micro-Finance borrowers.

4.0 Methodology

This study employed a descriptive cross-sectional research design utilizing mixed-methods approaches to comprehensively investigate the relationship between interest rates and socio-economic outcomes(Jallow, Abiodun, Weke, et al., 2022). The target population comprised active borrowers of Pride Micro-Finance Nansana Branch who had maintained loan accounts for at least twelve months, ensuring adequate experience with the institution's lending terms. Using systematic random sampling, 150 borrowers were selected from a sampling frame of 680 active clients, providing a representative sample with 95% confidence level and 5% margin of error(Jallow, Abiodun, Weke, et al., 2022).

Data collection employed three primary instruments. Structured questionnaires containing both closed and open-ended questions gathered quantitative data on demographic characteristics, loan utilization, business performance, household welfare indicators, and perceptions of interest rate impacts(Jallow, Abiodun, & Weke, 2022). Semi-structured interviews with 15 key informants including branch management, loan officers, and community leaders provided qualitative insights into institutional practices and community-level effects(Faith et al., 2023). Additionally, secondary data from Pride Micro-Finance records provided information on interest rate structures, loan disbursement patterns, and repayment performance.

Quantitative data analysis utilized the Statistical Package for Social Sciences (SPSS) version 25(Nelson et al., 2022). Descriptive statistics including frequencies, percentages, means, and standard deviations characterized sample attributes and key variables. Inferential statistics including Pearson correlation analysis examined relationships between interest rates and development indicators, while regression analysis determined the predictive power of interest rates on business profitability and household welfare(Ahumuza et al., 2025). Qualitative data underwent thematic analysis, with interview transcripts coded to identify recurring themes, patterns, and divergent perspectives. The research adhered to ethical principles including obtaining informed consent from participants, ensuring confidentiality and anonymity, securing institutional permission from Pride Micro-Finance, and maintaining objectivity in data collection and analysis(Ahumuza et al., 2025). Limitations included potential response bias from borrowers concerned about institutional repercussions, recall challenges regarding financial data, and the cross-sectional design's inability to establish definitive causality. Nevertheless, triangulation of multiple data sources enhanced the validity and reliability of findings.

5.0 Results and Discussion

5.1 Demographic Characteristics of Respondents

Table 1: Demographic Profile of Respondents (N=150)

Characteristic	Category	Frequency	Percentage
Gender	Male	58	38.7%
	Female	92	61.3%

Age Group	20-30 years	34	22.7%
	31-40 years	67	44.6%
	41-50 years	38	25.3%
	Above 50 years	11	7.4%
Education Level	Primary	45	30.0%
	Secondary	78	52.0%
	Tertiary	27	18.0%
Business Type	Retail Trade	62	41.3%
	Agriculture	28	18.7%
	Services	35	23.3%
	Manufacturing	25	16.7%

Source: Primary Data, 2025

The demographic analysis revealed that the majority of Pride Micro-Finance borrowers in Nansana were female (61.3%), reflecting global microfinance trends that prioritized women's financial inclusion. The predominant age bracket was 31-40 years (44.6%), representing economically active individuals with family responsibilities. Educational attainment showed that 52% possessed secondary education, indicating moderate literacy levels that facilitated financial product comprehension but potentially limited business sophistication. Retail trade dominated business activities (41.3%), characterized by low barriers to entry but intense competition and thin profit margins. This demographic profile illustrated a vulnerable population segment seeking economic advancement through microfinance but facing structural constraints that magnified interest rate sensitivity.

5.2 Interest Rate Impact on Business Performance

Table 2: Impact of Interest Rates on Business Outcomes (N=150)

Indicator	Response	Frequency	Percentage
Difficulty in Loan Repayment	Yes	102	68.0%
	No	48	32.0%
Business Expansion Achieved	Yes	48	32.0%
	No	81	54.0%
	Partial	21	14.0%
Profit Margin Change	Increased	33	22.0%
	Decreased	84	56.0%
	Unchanged	33	22.0%
Multiple Borrowing	Yes	71	47.3%

	No	79	52.7%
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Source: Primary Data, 2025

Table 2 was interpreted to show that interest rates had a notable influence on business outcomes among the respondents. It was established that a majority of the businesses (68.0%) experienced difficulty in loan repayment, indicating that prevailing interest rates placed a significant financial burden on borrowers, while a smaller proportion (32.0%) did not face such challenges. Regarding business expansion, it was found that more than half of the businesses had not achieved expansion, suggesting that high interest rates constrained growth opportunities (Akankwasa et al., 2022). Only about one-third of the respondents reported having achieved business expansion, while a smaller fraction indicated partial expansion, implying limited growth under the prevailing lending conditions (Ramadhan et al., 2023). In terms of profit margins, it was established that most businesses experienced a decline in profits, demonstrating that interest rate pressures adversely affected business profitability. A smaller proportion of firms reported increased profit margins, while an equal share indicated no change, suggesting that only a few businesses were able to withstand the effects of high borrowing costs.

Table 3: Correlation Between Interest Rates and Business Performance

Variable	Correlation Coefficient (r)	Significance (p)
Interest Rate vs. Business Profitability	-0.67	0.001
Interest Rate vs. Business Expansion	-0.58	0.003
Interest Rate vs. Employment Creation	-0.51	0.008

The empirical findings demonstrated substantial negative impacts of high interest rates on business performance among Pride Micro-Finance borrowers. A concerning 68% of respondents experienced difficulties meeting repayment obligations, indicating that loan servicing costs exceeded comfortable proportions of business revenues (Nelson et al., 2023). The strong negative correlation ($r = -0.67$, $p < 0.01$) between interest rates and business profitability suggested that higher interest expenses directly eroded entrepreneurial gains, leaving minimal retained earnings for business reinvestment or household consumption improvement.

Business expansion, a critical indicator of economic development, remained elusive for 54% of borrowers, with only 32% achieving growth objectives. The negative correlation ($r = -0.58$, $p < 0.01$) between interest rates and expansion capacity indicated that debt servicing obligations consumed resources that could otherwise finance inventory increases, equipment purchases, or market diversification. Qualitative interviews revealed that borrowers frequently prioritized loan repayment over business development to avoid penalties and maintain future borrowing eligibility, creating a cycle where microfinance access failed to translate into sustainable enterprise growth.

The finding that 56% of respondents experienced decreased profit margins was particularly troubling, as it suggested that microfinance loans, rather than enhancing income generation capacity, actually diminished economic returns. This counterintuitive outcome reflected the reality that businesses with marginal profitability could not absorb interest

costs of 24-28% annually without experiencing net income deterioration. Multiple borrowing by 47.3% of clients further illustrated financial stress, as borrowers sought additional credit from alternative sources to service existing Pride Micro-Finance obligations, potentially deepening debt traps rather than facilitating development.

5.3 Impact on Household Socio-Economic Welfare

Table 4: Household Welfare Indicators (N=150)

Welfare Indicator	Improved	Unchanged	Deteriorated
Food Security	41 (27.3%)	45 (30.0%)	64 (42.7%)
Healthcare Access	38 (25.3%)	52 (34.7%)	60 (40.0%)
Children's Education	55 (36.7%)	49 (32.7%)	46 (30.6%)
Housing Conditions	32 (21.3%)	78 (52.0%)	40 (26.7%)
Household Assets	45 (30.0%)	63 (42.0%)	42 (28.0%)

Source: Primary Data, 2025

The household welfare data revealed mixed but predominantly concerning patterns regarding socio-economic development outcomes. Food security, the most fundamental welfare indicator, deteriorated for 42.7% of borrowing households, suggesting that loan repayment obligations competed directly with essential consumption expenditures. Only 27.3% reported improvements, indicating that for the majority, microfinance access did not enhance nutritional security. Qualitative data corroborated these findings, with borrowers describing reduced meal frequency, dietary quality compromises, and increased household tensions related to resource allocation between debt servicing and family needs.

Healthcare access similarly showed negative trends, with 40% experiencing deteriorated access while only 25.3% reported improvements. This pattern reflected difficult trade-offs where families postponed medical treatment, relied on lower-quality health services, or incurred additional debts to address health emergencies while maintaining loan repayments. The opportunity cost of high interest payments manifested in foregone preventive care and delayed interventions for chronic conditions, potentially generating longer-term health and economic consequences.

Children's education presented relatively better outcomes, with 36.7% reporting improvements compared to 30.6% experiencing deterioration. This suggested that borrowers prioritized educational investments despite financial pressures, recognizing education's transformative potential. However, the substantial proportion experiencing negative impacts indicated that for many households, interest rate burdens forced reductions in educational expenditures including withdrawals from school, shifts to lower-quality institutions, or elimination of supplementary educational resources. Housing conditions and asset accumulation showed predominantly stagnant patterns, with 52% and 42% respectively reporting no changes, indicating that microfinance participation neither facilitated nor dramatically impeded these longer-term welfare dimensions, though substantial minorities experienced deterioration.

6.0 Conclusions

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This study conclusively demonstrated that high interest rates charged by Pride Micro-Finance Nansana Branch significantly constrained the socio-economic development of borrowing communities. The research established strong negative correlations between interest rate levels and key development indicators including business profitability, expansion capacity, and household welfare. The finding that 68% of borrowers struggled with repayment and 56% experienced declining profit margins revealed fundamental tensions between institutional sustainability models and developmental objectives. High interest rates effectively transferred wealth from vulnerable communities to the microfinance institution rather than facilitating capital accumulation and economic advancement among borrowers. The deterioration in food security and healthcare access for substantial borrower proportions indicated that microfinance, rather than promoting development, potentially exacerbated vulnerability for certain client segments. The prevalence of multiple borrowing and reduced household welfare expenditures illustrated unsustainable debt dynamics where credit access created financial stress rather than opportunity. While microfinance provided valuable financial inclusion, the interest rate structure undermined its poverty alleviation potential by extracting excessive resources from already marginal economic activities.

The study concluded that the current interest rate regime represented a significant barrier to meaningful socio-economic transformation in the Nansana community. Sustainable development required financial services that genuinely enhanced productive capacity and living standards rather than merely providing temporary liquidity at unsustainable costs. The findings challenged the assumption that any financial access necessarily promoted development, demonstrating instead that inappropriate pricing could negate positive impacts of credit availability.

7.0 Recommendations

7.1 For Pride Micro-Finance

The institution should undertake comprehensive interest rate restructuring to establish pricing that balanced operational sustainability with developmental impact. This could involve implementing tiered interest rate systems where rates decreased for repeat borrowers with strong repayment records, creating incentives for responsible borrowing while rewarding client loyalty. Pride Micro-Finance should enhance operational efficiency to reduce costs that necessitated high interest rates, including streamlining loan processing procedures, adopting digital technologies for transaction management, and optimizing branch networks. The institution should develop flexible repayment schedules aligned with borrowers' cash flow patterns, particularly for agricultural clients facing seasonal income variations, reducing repayment pressure and default risks.

7.2 For Borrowers and Community Organizations

Borrowers should strengthen financial literacy and business management capabilities through participation in training programs offered by Pride Micro-Finance or partner organizations. Communities should establish borrower associations that provided peer support, facilitated collective bargaining for better loan terms, and created platforms for sharing business strategies and market information. Borrowers should carefully assess debt servicing capacity

before accepting loans, develop realistic business plans that accounted for interest costs, and avoid multiple borrowing that increased overall indebtedness. Community-based savings groups could complement microfinance by mobilizing local resources at lower or zero interest rates, reducing dependence on formal institutions for all financial needs.

7.3 For Regulatory Authorities

The Bank of Uganda should consider implementing interest rate caps or guidelines specifically for microfinance institutions to prevent exploitative pricing while preserving sector viability. Regulatory frameworks should mandate transparency in interest rate disclosure, ensuring borrowers fully understood total borrowing costs including all fees and charges. Authorities should strengthen consumer protection mechanisms enabling borrowers to report grievances, seek redress for unfair practices, and access independent arbitration for disputes. Regular monitoring and evaluation systems should assess microfinance sector developmental impacts beyond financial performance metrics, incorporating socio-economic outcomes into institutional licensing and supervision criteria.

7.4 For Policy Makers and Development Partners

Government should explore subsidized credit guarantee schemes or wholesale funding facilities that enabled microfinance institutions to access cheaper capital, facilitating lower retail interest rates without compromising institutional sustainability. Development partners should support research and innovation in alternative microfinance models including solidarity lending, asset-backed financing, and digital platforms that reduced operational costs. Policy frameworks should promote linkages between microfinance and business development services, ensuring borrowers received technical assistance alongside financial services to enhance productive capacity and loan absorption. Comprehensive financial inclusion strategies should emphasize quality alongside quantity of access, recognizing that inappropriate financial services could harm rather than help intended beneficiaries.

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