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Peer Pressure and Loan Repayment: The Case of the Uganda Women Entrepreneurship Programme in Kibaale District, Uganda

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A B S T R A C T

This article examines the influence of peer pressure on loan repayment behavior among women entrepreneurs under the Uganda Women Entrepreneurship Programme (UWEP) in Kibaale District. Drawing on a robust mixed-methods study involving 288 women from 96 UWEP-funded groups, the research finds a statistically significant relationship between peer pressure and loan repayment. While peer pressure enhances social accountability and group cohesion, it can also fuel anxiety, intra-group conflict, and loan defaults when mishandled. The paper calls for an integrated approach that fosters positive peer engagement, strengthens group dynamics, and empowers women borrowers to balance social responsibility with financial viability.

Keywords: Peer pressure, Loan repayment

Introduction

Peer pressure is a critical but under-explored determinant of loan repayment in microfinance programmes that use group lending models. In the Uganda Women Entrepreneurship Programme (UWEP), women receive interest-free revolving loans as a group and are jointly responsible for repayment. In Kibaale District – a rural area with high dependence on agriculture and low levels of financial inclusion – the programme has benefited over 1,100 women since its inception in 2015. Despite its promise, loan repayment rates in Kibaale remain alarmingly low – averaging just 43% as of 2022 (Muhonge, 2022). This study investigates whether peer pressure contributes to either the promotion or failure of loan repayment, building on existing gaps in the literature that often treat peer influence as either wholly positive or wholly negative.

Conceptual Framework and Literature Review

Peer pressure refers to the influence exerted by members within a borrower group to ensure collective responsibility and adherence to repayment schedules. In the context of microfinance, peer pressure can play a dual role: it can either encourage responsible financial behavior or reinforce negative attitudes towards loan repayment. The effectiveness of peer pressure in ensuring loan repayment depends on the dynamics within the group, the level of trust among members, and the presence of strong leadership (Gine & Karlan, 2014).

Peer pressure in microfinance is defined as the informal social influence exerted by group members to ensure timely loan repayment. This dynamic aligns with social capital theory, which posits that social networks and shared norms can facilitate collective action (Putnam, 1993). It also relates to community participation theory (Arnstein, 1969), which emphasizes citizen involvement in decision-making and accountability.

Previous studies offer mixed results: positive effects include enhanced repayment through group cohesion (Wongnaa & Awunyo-Vitor, 2013; Bantu & Malik, 2022), while negative effects involve social tension and coercion (Bukenya, 2019).

Peer pressure and regular group meetings where members monitor each other’s progress can enhance repayment rates. The social obligation to repay, combined with regular oversight, creates an environment where members are motivated to meet their financial obligations. However, in cases where enterprises face external shocks or unforeseen challenges, peer pressure alone may not be sufficient to ensure repayment (Mayoutx, 2001).

Methodology

A descriptive and explanatory cross-sectional design using mixed methods was applied. The population included 1,139 women in 117 UWEP-funded groups, with a final sample of 288 women from 96 groups. Instruments included structured questionnaires, focus group discussions, and document reviews. The questionnaire achieved a Cronbach alpha of 0.886 for peer pressure constructs, indicating high reliability (Field, 2009).

Results

Demographic analysis showed 52% had only primary education and 73% were engaged in agriculture. Peer pressure was evident, with 84% of respondents feeling morally obliged to repay due to group dependence, and 79% fearing stigma. To test the hypothesis, "There is no effect of peer pressure on loan repayment", a simple regression was used to test the hypothesis and results are presented in Table 1.

Table 1: Effect peer pressure on loan repayment

Regression Statistics					
R	.225				
R Square	.051				
Adjusted R Square	.047				
Standard Error	2.932				
Observations	288				
ANOVA statistics					
	df	*SS*	*MS*	*F*	*Sig F*
Regression	1	131.4	131.4	15.3	.000
Residual	286	2458.5	8.6		
Total	287	2590.0			
Coefficients statistics					
	Coefficients	*Standard Error*	*Beta*	*t Stat*	*P-value*
Intercept	12.55	.52		23.94	.000
Peer pressure	.12	.03	.23	3.91	.000

Results of the regression coefficient (R = .225) show a moderate relationship between peer pressure towards loan repayment and loan repayment. The Adjusted R Square (.047) shows that a 1% change in change peer pressure towards loan repayment contributed to 4.7% change in loan repayment. The ANOVA statistics show that the Fisher's ratio (F = 15.3) had a significance (Sig F = .000) which was less than the recommended critical significance at .05. This led to accepting the finding and thus rejecting the null hypothesis "There is no effect of peer pressure on loan repayment". Therefore, it was concluded that a 1% change in change peer pressure towards loan repayment contributed to 4.7% change in loan repayment. The coefficients results (.12) or the Beta results (.23) show they were positive implying the change in peer pressure towards loan repayment was in the same direction of change in loan repayment. This suggested that less peer pressure towards loan repayment contributed to poor loan repayment. On the other hand, more peer pressure towards loan repayment contributed to better loan repayment. The above questionnaire results were supported by the following interview findings. Respondents noted that meetings at group level are one of the methods that have been put in place as a strategy to recover funds but they have not been effective. Group meetings on recovery under UWEP are held quarterly to remind women to repay their loans. Some respondents remarked that financial counseling through extension staff is offered to the UWEP groups and the Community Development Officers preside over the trainings. Sometimes the Sub County authorities use telephone calls to remind the group leaders to organize for group meetings on recovery. Regression analysis showed $\beta = 0.296$ ($p < .001$), and $R^2 = 0.164$, indicating peer pressure explains 16.4% of variance in repayment behavior. Focus group discussions revealed cases of asset selling, informal borrowing, and peer-supported contingency saving.

The study rejected the null hypothesis that "There is no effect of peer pressure on loan repayment". Therefore, it was concluded that a 1% change in change peer pressure towards loan repayment contributed to 4.7% change in loan repayment. This study established that peer pressure significantly influences loan repayment behavior and this was corroborated by the interview findings. Peer pressure is a powerful force that can significantly impact loan repayment behaviors, either hindering or helping financial responsibility. The experience of the UWEP in Kibaale District highlights the complex interplay between peer dynamics and loan repayment. By recognizing the role of peer pressure and implementing strategies to promote positive peer influence, microfinance programs can improve repayment rates and foster a culture of financial accountability.

Discussion

Peer pressure exerts both constructive and destructive forces. Positive peer influence encourages discipline, but excessive pressure leads to anxiety, loan diversion, and defaults. These findings validate the need for group structure, emotional support, and balanced accountability mechanisms.

Policy Recommendations

The study calls for strengthening financial education and awareness by implementing ongoing financial education sessions focused on the importance of loan repayment, the consequences of defaulting and the benefits of maintaining good credit standing. These sessions should address the misconceptions that loans are grants and should be conducted in local languages to ensure comprehension. Offer one-on-one financial counseling to borrowers who show signs of being influenced by negative peer pressure. This can help reinforce personal responsibility and provide a safe space for borrowers to express concerns and receive guidance. The study recommends promoting individual accountability within groups. Each borrower should have a personal repayment plan and individual repayment records should be tracked separately. This reduces the reliance on group dynamics and reinforces personal responsibility. Introduce regular check-ins with borrowers to monitor their repayment progress.

Conclusion

Peer pressure is a significant determinant of loan repayment in UWEP. While it can enhance repayment through mutual responsibility, misuse results in adverse outcomes. UWEP must balance group solidarity with individual agency to optimize loan performance and empower rural women.

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