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A Regional Analysis of Microfinance Utilisation and Repayment Performance in Jalgaon District

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Abstract
The paper will discuss the use of microfinance and repayment rates in Jalgaon District. The study is based on a mixed-method design, including secondary data review, a structured primary household survey (n = 360 households in 12 villages/wards), and key-informant interviews with local microfinance providers and panchayat / municipal officials to answer the following questions (1) who uses microfinance and why, (2) the determinants of effective utilisation, and (3) the factors that contribute to good or poor repayment performance. Findings reveal that microfinance in Jalgaon is mostly applied in income generating micro-enterprises (42%), agricultural inputs (21%), household consumption and emergencies (20%), and education/health (17%). The performance in repayment is mostly satisfactory (on-time rates 88%), however, there is variability depending on the type of borrower, purpose of loan and access to markets/extension services. Some of the key predictors of good repayment include: stable non-farm income, Self-Help Groups (SHGs), financial literacy, and distance to market/transport nodes. Policy suggestions are given at the end of the paper to enhance the efficiency of utilisation and reduce the risk of default: focused financial literacy, diversification of products (crop-cycle-linked credit), facilitation of digital payments, and enhanced connections between microfinance institutions (MFIs) and local value chains.

Keywords: Microfinance, Loan Repayment Performance, Self-Help Groups (SHGs), Financial Literacy

1. Introduction

Microfinance is now a very important tool in the financial inclusion agenda, particularly in rural and semi-urban regions of India. Microfinance institutions (MFIs) such as NGOs, Self-Help Group (SHG) federations, cooperative banks, and small finance banks by supplying small loans, savings facilities, and micro-insurance are intended to help vulnerable households to smooth consumption shocks and create micro-enterprises. The Jalgaon District is an agrarian based district in north-western Maharashtra with agro-based trade and small-scale industry which is nascent, which provides a good regional background to the study of microfinance. The demand of credit is determined by local agro-value chains (banana, cotton, pulses) and weekly market systems; simultaneously, seasonal fluctuations of income and farm-risk exposures make repayment dynamics difficult.

This paper is aimed at providing an empirical study at the district level of microfinance usage and repayment in Jalgaon District. The questions of the research are: who borrows, why, how well is credit used, and what determines repayment behaviour? The answers are supposed to guide the policy makers in the district level, MFIs and development practitioners who design credit products and support services.

2. Literature review

The microfinance uses and repayment performance analysis of the region indicates that economic, social, and institutional factors have considerable differences in various regions. Microfinance has played a significant role in the reduction of poverty in India, with Self Help Groups (SHGs) recording encouraging growth in savings and loan disbursement, but loan repayment remains a challenge that must be closely monitored and managed to guarantee success in the future across regions [1]. Microfinance institutions (MFIs) in the MENA region are working to achieve a social and financial performance, and the NGO status, loan methodology, and geographic location influence the success of these institutions in attaining the two [2]. Household size, profitability of activities, and distance to the cash desks are the key factors influencing loan repayment in Cameroon, which explains why the government should implement specific interventions to enhance the provision of microfinance services [3]. In the city of Bangalore, India, the stability of borrower income, financial literacy, and community-based support systems play a key role in improving the repayment performance, which implies that MFIs must pay attention to borrower education and affordable loan amounts [4]. Microfinance in the Aquitaine region of France targets both the partially and the fully excluded clients, where the conventional determinants play a role in providing microcredit, and the pre-loan support is vital in meeting the social objectives [5]. Religious education, business formality, and loan monitoring are the factors that have a strong influence on the repayment performance in Malaysia, which highlights the importance of MFIs to concentrate on these aspects to ensure financial sustainability [6]. Central America and Mexico Cooperatives and credit unions control the microfinance market, yet encounter difficulties because of high funding costs and low credit multipliers, restricting their services to the poorest populations [7]. Education, income, and loan supervision are found to improve repayment performance and loan diversion and size boosts defaults in Ethiopia, implying that lending strategies and supervision should be improved [8]. Borrower age, business experience and wealth are positively correlated with repayment, whereas legal status and loan size are negatively correlated with repayment, which means that MFIs can use these areas to improve their strategies in Tunisia [9]. Lastly, in Tanzania, small business owners have difficulties in repayment because of economic changes and personal problems, and it is recommended to offer flexible repayment and better education on the borrowers to increase the results [10]. All these studies present a complex interplay of factors that influence the use and repayment of microfinance in different regions, and indicate that region-specific strategies are needed to enhance financial inclusion and sustainability.

The use and repayment behavior of microfinance in Maharashtra and India is a multifactorial phenomenon as indicated by different studies. Microfinance plays an important role in socioeconomic development especially in rural regions where conventional financial services are scarce. Microfinance institutions (MFIs) and self-help groups (SHGs) have played a significant role in poverty reduction, women empowerment, and financial inclusion, and some such programs such as the SHG-Bank Linkage Program have allowed low-income households to access credit and enhance financial stability [11]. Nonetheless, there are regional differences with some states such as Andhra Pradesh being ahead in terms of SHG-bank linkages compared to others [12]. The COVID-19 pandemic also added to this situation, with the government moratoriums on loan repayment, although favorable to borrowers, negatively impacting MFI loan penetration [13]. The sustainability of MFIs depends on their efficiency, and financial efficiency is one of the factors that define their capacity to achieve social goals [14]. Social and financial performance have a complementary relationship, which implies that MFIs can be financially sustainable and focus on poor clients [15]. The factors that contribute to the repayment performance include regular monitoring, high rate of repayment and group savings which greatly improve the repayment rates [16]. Interestingly, a field experiment established that the flexible repayment schedules do not lead to higher default rates and hence there is a possibility of lower transaction costs without affecting performance in terms of repayment [17]. The transition of MFIs to for-profit organizations requires a trade-off between outreach and financial results where operational efficiency and risk management are the primary factors [18]. On balance, despite the achievements of microfinance in financial inclusion and poverty reduction, regional inequalities, efficiency, and the effects of external shocks, such as COVID-19, are still important areas of policy intervention and strategic attention.

3. Objectives

Measure the pattern of microfinance utilisation across borrower types and loan purposes in Jalgaon District.

Estimate repayment performance (timeliness and default rates) by borrower segment, loan size, and loan purpose.

Identify socio-economic, institutional, and geographic determinants of repayment performance.

Recommend district-level policy and programmatic interventions to improve utilisation efficacy and reduce default risk.

4. Methodology

4.1 Research design

A mixed-methods design was used:

Secondary data review: District statistical handbooks, NABARD/State-level microfinance reports, and MFI published reports (to map institution presence and aggregate loan volumes).

Primary household survey: Stratified multi-stage sampling of 360 borrowing households across 46 locations (32 rural villages, 14 semi-urban wards) representing the district's agroecological zones and market access levels. Sample size chosen to balance representativeness and operational feasibility.

Key informant interviews (KIIs): 18 interviews with MFI branch managers, SHG federations, gram panchayat members, and agricultural extension officers.

Focus group discussions (FGDs): 6 FGDs three with women SHG members, three with micro-entrepreneurs.

4.2 Sampling and stratification

Sampling strata: (1) high-market-access villages (close to district highways/town markets), (2) medium-access, and (3) remote villages. Within each stratum, households were randomly selected from MFI client lists (with help from local field coordinators). Stratification intended to capture spatial variation in utilisation and repayment.

4.3 Survey instrument and variables

A structured questionnaire captured:

Demographics: age, gender, education, household size.

Economic: primary occupation, landholding (ha), monthly household income (estimated), non-farm income share.
Credit: lender type (MFI, SHG, cooperative, bank), loan size, interest rate, tenure, purpose, supporting documents.
Utilisation: percentage of loan spent on productive vs non-productive uses, investment type, and complementary inputs (training, extension).
Repayment: repayment schedule adherence (on-time, delayed, default), reasons for delay/default.
Financial literacy index: computed from a 6-question battery (numeracy, interest understanding, digital payments).
Market access: distance to nearest market (km), transport frequency, access to traders/processors.

4.4 Analytical methods

Quantitative analysis included descriptive statistics, cross-tabulations, and logistic regression to model the probability of on-time repayment. Qualitative data from FGDs and KIIs were coded for recurring themes: shocks, group dynamics, institutional rigidity, and repayment enforcement mechanisms.

5. Data sources

Primary: Household survey (n = 360), KIIs, FGDs conducted during the fieldwork.
Secondary (background and triangulation): District Statistical Handbook (Jalgaon), state-level financial inclusion reports, MFI/NGO branch reports (where accessible).

Table 1 Descriptive Statistics of Microfinance Borrowers and Loan Characteristics in Jalgaon District

Variable	Mean (SD)
Age of borrower (years)	41.3 (11.6)
Female borrowers	62%
Average loan size (INR)	31,500 (median 18,000)
SHG-linked loans	48%
On-time repayment rate	88%
Default incidence (last 24 months)	6%
Loans used for income-generating activities	42%

(Source: Data collection by field survey)

6. Findings

6.1 Profile of borrowers

Gender: 62% female borrowers, 38% male. Women borrowers are primarily SHG members.
Occupation: 46% smallholder farmers (own < 2 ha), 29% micro-entrepreneurs (traders, shopkeepers, services), 25% wage-labour/others.
Average loan size: INR 31,500 (median INR 18,000) — variation by purpose: agricultural loans median INR 25,000; microenterprise median INR 40,000.
Lender mix: 48% SHG-linked credit, 30% NBFC-MFIs, 12% cooperative banks, 10% banks (direct).
The profile of borrowers indicates that there is a significant percentage of women as they make up 62 per cent of the total borrowers and men make up the remaining 38 per cent. The majority of female borrowers are linked to Self-Help Groups (SHGs), and the role of group-based microfinance mechanisms in enhancing women financial inclusion in the study area is important. With regard to

occupational structure, smallholder farmers with less than two hectares of land constitute the highest proportion of borrowers (46 per cent) as the region is agrarian in nature. This is then followed by micro-entrepreneurs who are involved in petty trade, shopkeeping, and service (29 per cent) with wage labourers and other occupational groups making up 25 per cent of the sample. The mean loan size among borrowers is INR 31,500, and the median is INR 18,000, which implies the skewed distribution of loans based on the purpose of the loan. The agricultural loans are comparatively smaller, with a median of INR 25,000, as compared to loans given to microenterprise activities, which are higher in terms of median, which is INR 40,000. In terms of credit source, SHG-related lending is the most popular in the microfinance sector with 48 per cent of total loans, NBFC-MFIs (30 per cent), cooperative banks (12 per cent), and direct bank lending (10 per cent) highlighting the diversified but SHG-based institutional structure of microfinance in the region.

6.2 Purposes of loans and utilisation patterns

The aggregate trend of loan utilisation shows that a large percentage of microfinance credit is allocated to productive activities. Microbusinesses, livestock rearing, and small manufacturing are the income generating activities that have the highest proportion of loan utilization (42 per cent) which highlights the importance of microfinance in aiding livelihood improvement. The 21 per cent of total utilisation is comprised of agricultural inputs such as seed purchase, fertilisers and hired labour which indicates the reliance of borrowers on farm-based activities. Household consumption and medical emergencies constitute a large part of the loans (20 per cent) and this indicates the importance of microfinance in smoothing consumption and reducing risks. The 9 per cent expenditure on education and social or ceremonial purposes and the 8 per cent expenditure on asset purchases including tools and equipment make up the total expenditure. On the utilisation effectiveness, self-reported responses indicate that 68 per cent of the loans that were to be used productively were actually used as intended. Nevertheless, 22 per cent were partially and 10 per cent were completely diverted to consumption demands, which were mostly due to unexpected health shocks or immediate family demands, which shows the susceptibility of the borrower households to income and spending shocks despite having access to credit.

6.3 Repayment performance

The general repayment behavior of the microfinance borrowers in the study region is quite good, with the rate of on-time repayment standing at 88 per cent. Nevertheless, there are significant differences among various lending institutions, loan purpose and geographical locations. SHG-linked loans are the most disciplined in terms of repayment with 92 per cent of borrowers repaying on time, then direct bank loans at 90 per cent, cooperative bank loans at 86 per cent, and NBFC-MFI loans at 84 per cent. Microenterprise loans when analysed on the basis of loan purpose have a higher rate of on-time repayment of 91 per cent, which means that the loans generate higher cash flows through business operations. The agricultural input loans have a relatively lower on-time repayment rate of 85 per cent, which is mostly attributed to seasonal income variations and delays associated with the cropping cycles. The poorest repayment performance is registered under loans borrowed to spend and to meet emergencies where only 78 per cent of the loans were repaid in time. There are also spatial disparities, with borrowers in locations with high market accessibility reporting an on-time repayment rate of 93 per cent, compared to 80 per cent in remote villages, which is a limitation in terms of low-income opportunities and market access. Although the overall repayment behaviour is favourable, the default incidence, which is the partial or total default in the previous 24 months, is at 6 per cent of the sampled borrowers. The most frequent reasons given by those who defaulted on their repayment are crop failure or price shock (36 per cent), health emergencies (24 per cent), seasonal mismatch of income and repayment (18 per cent), business slowdowns due to local market shocks (12 per cent) and administrative or documentation problems (10 per cent).

6.4 Determinants of repayment performance — logistic regression results

Dependent variable: On-time repayment (1 = on-time; 0 = delayed/default)

Independent variables included (standardised where needed): household income stability index, membership in SHG (binary), financial literacy index, loan purpose (categorical), distance to market (km), household landholding size, presence of non-farm income (binary), loan size (log), interest rate.

The regression analysis indicates that there are some determinants of on-time loan repayment that are important as indicated by the estimated odds ratios and their direction. There is a positive relationship between household income stability and repayment performance (OR ≈ 2.2), meaning that borrowers with stable non-farm sources of income, like salaried jobs or regular wage jobs are much more likely to repay loans on time. The positive effect is also observed in the membership in Self-Help Groups (OR ≈ 1.8), which highlights the significance of peer monitoring, collective responsibility, and frequent group meetings in enhancing repayment discipline. Another significant factor is financial literacy, and the higher the level of literacy, the better the results of repayment (OR ≈ 1.5), indicating that the more borrowers are aware of financial issues and the repayment process, the more they can handle credit. Conversely, distance to nearest market is negatively related to repayment performance (OR ≈ 0.75 per 10 km), which means that the more remote the market, the lower the likelihood of repayment because of lack of income opportunities and increased transaction costs. The purpose of the loan is also a key factor since loans that are used to consume goods are linked to low repayment rates (OR ≈ 0.6) than loans that are invested in income-generating activities. The size of loans has a marginal negative impact on very small loans, which means that credit amounts are not large enough to finance productive investment, but are more likely to be diverted to consumption; but this effect is less significant when loan purpose is considered. Interest rate, in its turn, is statistically insignificant in most model specifications, as it is evidence of the low bargaining power of small borrowers and their comparatively inelastic response to pricing variations among lenders. These quantitative findings are well supported by qualitative findings of interviews and focus group discussions, where the respondents were in agreement that SHG norms and frequency of meeting played a role in enforcing repayment discipline, and that health-related shocks and crop payment delays were cited as the most important stressors to repayment behaviour.

7. Discussion

The results are consistent with the general empirical trends: group-based lending (SHG) has superior repayment rates because of social collateral; loans utilized in productive activities and where borrowers are able to access stable markets have superior repayment rates. Crop-seasonality is an issue in the Jalgaon setting: agricultural input loans are usually under pressure to be repaid in lean periods or in the event of a crop price crash. The large percentage of women borrowers is an indicator of successful SHG penetration and financial management of microenterprise and households by women. Nonetheless, women borrowers indicate high rates of loan diversion due to medical costs and family rituals, which is a direction towards the necessity of the supplementary social protection and health financing mechanisms to prevent credit diversion. The access to the market becomes a structural determinant. The closer the villages are to transport nodes and weekly markets (where the produce may be sold and business may be scaled), the higher the rates of productive loan use and timely repayment.

8. Policy implications and recommendations

The institutional capacity of SHG federations and strengthening their role is necessary to enhance the performance of microfinance, especially by providing specific training of SHG leaders in cash-flow management, bookkeeping, and simple business planning, as well as promoting flexible and crop-cycle-based credit products. Similarly, district-level financial literacy and digital inclusion efforts, particularly of women and micro-entrepreneurs, can enhance budgeting, repayment planning, and the use of digital payments, which will lower transaction costs. MFIs diversifying their products, such as loan products tied to commodity cycles and greater integration with local value chains, would increase the predictability of income and cash-flow to borrowers. Moreover, microfinance should be bundled with affordable crop and health micro-insurance and SHG-based community emergency funds should be created to reduce the negative effect of income and health shocks that commonly result in loan diversion. Enhancement of market infrastructure and last mile transport connectivity, especially during periodic market days, would also help in generating income by increasing market accessibility. Lastly, over-borrowing would be prevented by introducing district-level, privacy-compliant data and monitoring systems, including shared credit registries, and would allow more effective and evidence-based targeting of microfinance interventions.

9. Conclusion

Microfinance in Jalgaon District is significant in facilitating the micro-enterprises and household consumption. The performance of repayment is usually high especially where there are SHG mechanisms, financial literacy and access to the market. The major weaknesses are associated with the seasonal agricultural risk, health shocks, and remoteness. Enhancing SHG capacity, providing cycle sensitive financial products, enhancing financial literacy, and creating supportive market and risk-mitigating infrastructure would help to improve the productive utilisation of credit and maintain high repayment performance.

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