

POLITICAL GOVERNANCE AND LOAN REPAYMENT PERFORMANCE IN RAJASTHAN'S MICROFINANCE SECTOR

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ABSTRACT

Microfinance has become a significant means of increasing financial inclusion for the poor who may find it hard to access formal banking systems. While economic and social factors are considered an important context for microfinance participation, the influence of political governance in influencing the impact of microfinance on repayment performance, including the rate of repayment, needs to be further studied at a regional level. In this study, political governance is studied in the context of the microfinance sector in Rajasthan, focusing specifically on the impact that it has on microfinance outcomes for borrowers and the conditions of loan repayment. The study primarily relies on survey data collected from 600 households in Rajasthan, and includes factors such as economic, social and political aspects of the microfinance participation and performance. Political governance is defined in terms of quality of local governance, government policy and programmes implementation, and the perceived political environment in which microfinance operates. The findings from the underlying study show that the overall microfinance outcome (r) was positively related with the political factors at the 0.001 significance level. Multiple regression analysis also reveals that the overall microfinance outcome is significantly and positively associated with political factors ($B = 0.258$, $\beta = 0.270$, $p < 0.001$) apart from economic and social factors. The findings indicate that institutional and governance conditions are a part of the institutional environment in which microfinance programmes operate. The authors believe that clear policy implementation, good local governance and conducive institutional structures can play a role to add to the stability of the microfinance environment. The numerical results presented are to be interpreted as evidence of the overall microfinance outcome, given that the available reported analysis does not break down the dependent variable, repayment performance.

They outline some of the key challenges and risks that have been observed in the context of political governance, as well as with respect to financial inclusion, local governance, and microfinance institutions and loan repayment in Rajasthan.

1. INTRODUCTION

Microfinance is recognized as an effective mechanism of financial inclusion, through which the low-income households are able to access small-scale financial services, which may not be available through the conventional banking institutions. Households engaged in small businesses, farming, keeping livestock and other sources of income are provided credit and other financial intermediation by the microfinance institutions (MFIs), self-help groups (SHGs), non-governmental organisations (NGOs) and other financial intermediaries.

In the context of microfinance, Rajasthan is important due to certain characteristics such as the rural population, socio-economic diversity and the unique institutional and community arrangements. Household cash flows are often reliant on agriculture and seasonal work, informal businesses and employment, with household cash flows being sensitive to changes in employment, markets, and local economic activity. This can have effects on demand for microfinance services and borrowers' capacity to repay such loans.

It is not possible, however, to measure the performance of microfinance programmes in the narrow economic terms alone. Social environments, community engagement and institutional factors may also affect how borrowers engage with MFIs and meet their financial responsibilities. Political governance is a specific factor of interest here, as microfinance is influenced by and part of a regulatory and administrative framework that is defined by government policies, and local institutions and public programmes.

Political governance in the context of microfinance refers to the overall quality of local governance, the extent of the implementation of government schemes, institutional support, regulatory clarity and the perceived level of political influence on programme implementation. Good governance can provide an enabling context for the distribution of financial services that is transparent and commensurate with the need of the borrowers for institutional support. On the other hand, poor implementation or too much political pressure can induce uncertainty for the MFIs and borrowers.

This research is part of a broader study that explored the economic, social and political factors affecting the availability and effectiveness of microfinance in Rajasthan. It notably singled out governance quality, government programme implementation and political interference as the political dimensions relevant.

This larger theme is narrowed down to the relationship between political governance and loan repayment performance in the present paper. It therefore aims to make a contribution to the understanding in which institutional conditions that surround microfinance might impact the sustainability and effectiveness of lending programmes in Rajasthan.

2. REVIEW OF LITERATURE

Dwivedi, R. & Kabra, A. (2019). Title of paper is “Micro Finance in Rajasthan Accessing Customer Perception & Satisfaction at Dholpur.” This study is about understanding evolution process of microfinance and investigates the users' perception and satisfaction towards microfinance. The study will focus on the awareness level of microfinance. This study will throw light on the awareness level of the people with respect to the various schemes under microfinance. It will explain the various services and schemes in microfinance and the provisions these schemes have for alleviating urban poverty. The main goal is not only to find out the mechanism of microfinance in India but also to find out how this mechanism helps poor people to improve their living standards as income, savings, etc. Sample of the research project is based on the purposive sampling technique and respondents are from Dholpur, Rajasthan, India. The people who have been interviewed are already involved in microfinance activities. Therefore, the accuracy of the analysis heavily relies on the data provided by the people interviewed.

Puri, E. (2014). Title of the paper is “Development and Innovations in the area of Microfinance in Rajasthan.” This study analyses the effects of microfinance initiatives on the empowerment of women in Rajasthan. It emphasises recent innovations and developments in microfinance that contribute to women's empowerment, as well as the associated obstacles, to facilitate the formulation of corrective actions in this area. The research determined that microfinance and many development initiatives have positively impacted women. They result in their socio-economic and political empowerment. Women constitute the fundamental support of the family. Their empowerment will foster economic and societal development and growth. Nonetheless, numerous issues and obstacles exist in the effective execution of diverse microfinance programs. New institutions should be established utilising an innovative and adaptable methodology, incorporating client engagement and gender mainstreaming.

This will facilitate the prevention of exploitation, eradicate discrimination, and empower individuals to realise their full potential.

Rao, S. S. & Singh, G. K. (2025). The title of the paper is “Role of Micro Finance in Economic Development of Tribal Sub Plan (TSP) Areas of Southern Rajasthan.” This study aimed to rigorously analyse the role of microfinance in fostering economic growth in the Tribal Sub-Plan (TSP) regions of Southern Rajasthan, an area marked by socio-economic underdevelopment, inadequate infrastructure, and a primarily tribal demographic. The research concentrated on assessing the accessibility, effects, and obstacles of microfinance institutions (MFIs), self-help groups (SHGs), and other associated activities in promoting financial inclusion and improving the livelihoods of tribal communities. The research findings unequivocally indicate that microfinance has exerted a beneficial and quantifiable influence on the economic growth of the examined regions. Access to microcredit and savings mechanisms has empowered tribal households to invest in income-generating Endeavour’s, including agriculture, animal husbandry, small enterprises, and cottage industries. Consequently, there has been a marked enhancement in household earnings, asset accumulation, and a decrease in dependence on informal moneylenders who frequently abuse susceptible borrowers.

Atahau and Hurut (2020), in their study “Rural Microfinance Sustainability: Does Local Wisdom Driven-Governance Work?” used purposive sampling with 148 research samples, analyzing data through ANOVA tests. The aim was to develop sustainable microfinance models and formulate policies for poverty alleviation in rural areas. Their findings revealed that governance plays a mediating role in microfinance sustainability, suggesting that MFIs must evolve from being purely social institutions to ones that integrate both economic and social goals. To ensure long-term sustainability, MFIs need to grow in size and strengthen their governance practices.

Sharma, B. (2019). Title of the paper is “Status of Micro Finance in Rajasthan: Problems and Prospectus.” The current study examines advancements in microfinance in Rajasthan, emphasising the SHG-Bank linkage model. The SBLP has changed the economy by bringing formal banking services to poor and needy people in rural areas, especially women. The SHG-Bank Linkage Programme is very appropriate for Rajasthan because there are so many rural bank branches. This paper seeks to examine the SHG movement in Rajasthan, which aids in poverty alleviation and women's empowerment, while also addressing the challenges and opportunities related to microfinance. The aim of this study is to assess the effects of the microfinance program in the state of Rajasthan. The study results demonstrated that the microfinance program is acknowledged as one of the most successful and rapidly expanding initiatives in Rajasthan state.

3. RESEARCH GAP

The existing research conducted on microfinance in Rajasthan has been mainly concerned with financial inclusion, satisfaction of customers, empowerment of women, reduction of poverty and economic development. While governance has been identified as an important institutional variable, further research is needed on the relationship between political governance and the performance of microfinance.

The underlying study explicitly refers to political factors that impact microfinance outcomes, namely local governance, government programme implementation and political interference.

This study fills the need for the following gap:

The need is to pay more attention to the role of political governance in establishing the environment, where effective and sustainable microfinance operations and repayment are possible, in the context of Rajasthan.

4. OBJECTIVES OF THE STUDY

1. To understand the importance of political governance in microfinance sector of Rajasthan.
2. To analyse the relationship between political factors and microfinance performance.
3. To analyse if there is any significant association between the governance related factors and the environment where loans are repaid.
4. To evaluate the relative contribution of politics, once the economic and social determinants are taken into account.
5. To recommend governance related solutions for sustainability and effectiveness of the microfinance programmes in Rajasthan.

HYPOTHESIS TESTING

Null Hypothesis (H_0)

In Rajasthan there is no significant relationship between political governance and the performance/repayment environment of microfinance.

Alternative Hypothesis (H_1)

In Rajasthan, there is a significant association between the political governance and performance of microfinance/loan repayment environment.

6. RESEARCH METHODOLOGY

6.1 Research Design

The study is a descriptive-explanatory research. How quantitative analysis is applied to the research framework is to look at the relationships between economic, social and political factors and the outcomes of microfinance.

The analytical scope of this paper is limited to political governance and its linkages with the performance of microfinance and outcomes related to repayment.

6.2 Population and Sample

The survey is held with 600 households as the underlying population. The study involved some 400 microfinance clients and 200 microfinance non-clients. A multistage sampling design was suggested to be carried out at district level, village ward or urban ward level and household level.

6.3 Data Collection

Information on economic, social and political conditions and microfinance outcomes were collected using a structured questionnaire. The indicators were divided into political indicators (governance quality, access to government programmes and perceived political interference) and microfinance outcomes (loan uptake, repayment and satisfaction).

6.4 Variables

Independent Variable:

Political Governance

The political governance construct encompasses aspects like:

The quality and effectiveness of local governance structures and practices.

The effectiveness of the implementation of government policy.

To access government programmes.

- Institutional support
- Perceived political interference

Dependent Variable:

Performance of microfinance: such as repayment outcomes.

6.5 Statistical Tools

The study used the following method:

- Descriptive statistics
- Pearson correlation analysis
- Regression analysis

7. DATA ANALYSIS AND RESULTS

7.1 Reliability Test

Table 1: Reliability Test

Reliability Statistic	
Cronbach's Alpha	N of Items
0.879	28

Data Inference: It can see that Cronbach's alpha is 0.879, which indicates a high level of internal consistency for our scale with this specific sample.

7.1 Descriptive Statistics

Table 1: Descriptive analysis

Descriptive Statistics			
	Mean	Std. Deviation	N
Economic Factor	3.6890	.56057	600
Social Factor	3.8431	.53365	600
Political Factor	4.0907	.52494	600
Microfinance	4.1040	.50234	600

The political factor had a mean score of 4.0907 which is relatively high in terms of the political-governance dimension in the questionnaire. The average of the overall microfinance outcome was 4.1040.

7.2 Correlation Analysis

The Pearson correlation matrix reported shows that the overall microfinance outcome has a positive correlation with political factors, which is statistically significant.

The correlation between the political factors and the outcome of the microfinance was:

$$r = 0.436, p < 0.001, N = 600.$$

This suggests a moderate positive relationship between political factors and the overall microfinance performance.

So the underlying analysis gives evidence for the alternative hypothesis that such relationship exists.

However, it is crucial to differentiate this outcome from a repayment only outcome. The reported correlation matrix available does not contain a separate reported variable “Loan Repayment Performance” but “Microfinance”. Thus, the coefficient should not be displayed as a repayment correlation without any item level data or raw data.

7.3 Regression Analysis

Table 1: Results of Multiple Linear Regression Analysis Predicting Microfinance from Economic, Social, and Political Factors					
Predictor	Unstandardised Coefficients (B)	Standardized Coefficients (β)	Std. Error	t	p-value
Constant	1.476	—	0.158	9.368	< .001
Economic Factor	0.288	0.321	0.036	8.097	< .001
Social Factor	0.133	0.141	0.038	3.472	0.001
Political Factor	0.258	0.27	0.035	7.288	< .001
Note. $R^2 = .332$, Adjusted $R^2 = .329$, $F(396) = 98.71$, $p < .001$, Durbin-Watson = 1.91.					

Source: SPSS Output 22

The overall F-statistic was found to be statistically significant with $R^2 = 0.332$ and adjusted $R^2 = 0.329$.

Political ($B = 0.258$, $\beta = 0.270$, $p < 0.001$) was a positive and statistically significant coefficient. This means that, once the economic and social factors were controlled for, political factors were significantly associated with the overall microfinance outcome.

This means that the results are applicable in the context of loan repayment, as repayment is part of the set of microfinance outcomes as defined in the research framework. The regression does not, however, reveal that the coefficient of 0.270 is for repayment, in particular, attributed to political governance. If the repayment measure was to be found separately in a repayment-specific regression, then the measure would need to be extracted and analysed separately.

8. DISCUSSION

The results suggest that political governance is one of the key areas of the institutional context in which microfinance functions in Rajasthan. The positive correlation between the political factors and the overall microfinance outcome indicates that there was some relationship between the overall microfinance outcome and political-institutional conditions in terms of respondents' perceptions.

These regression results further confirm this link. After the economic and social factors were added to the model the statistical significance of the political factors remained. The standardised coefficient of 0.270 suggests that political factors had some explanatory power for the overall measurement of microfinance.

This may be because good governance enhances the delivery of government-backed financial inclusion initiatives, can foster coordination within the institutions and provide increased clarity for the MFIs and borrowers. The underlying study also suggests that better governance and good policy implementation can help increase the spread of microfinance and better results.

A stable institutional environment might be important from the point of view of repayment because borrowers' relationships with financial institutions are not necessarily independent.

Government programs, institutional support and local administrative systems can influence the credit environment in which borrower's access and use credit.

In parallel, the economic and social contexts have a strong relationship with repayment performance. The standardised coefficient of the regression analysis showed that the economic factors had the highest value ($\beta = 0.321$), followed by the political factors ($\beta = 0.270$) and the social factors ($\beta = 0.141$).

Governance therefore should not be seen as the only factor that underpins repayment but as part of the multidimensional microfinance environment.

9. FINDINGS

The key conclusions of the research are:

Broadly the political governance is significantly correlated with the overall microfinance outcome in the State of Rajasthan.

Political factors has a positive correlation with microfinance outcomes ($r = 0.436$, $p < 0.001$).

In the multiple regression model, the political factors are statistically significant ($\beta = 0.270$; $p < 0.001$).

The overall regression model accounts for about 33.2% of the variance of the broader microfinance outcome.

The political factors also result in a significant contribution to the reported model, with economic factors being the biggest contributor in terms of their standardised coefficient.

Evidence has demonstrated the importance of governance and institutional factors for the performance of microfinance.

The current reported data does not lend itself to drawing a numerical conclusion on the size of the effect of political governance on the performance of the loan repayment specifically.

10. POLICY AND MANAGERIAL IMPLICATIONS

10.1 Strengthening Local Governance

Local administrative institutions have the potential to contribute more to the facilitation of coordination between government programmes, MFIs and the beneficiary community.

10.2 Transparent Policy Implementation

Government initiatives to promote financial-inclusion and poverty alleviation policies should be carried out in a transparent and well-communicated manner. If the procedures are clear, uncertainty can be minimised for both the borrowers and the MFIs.

10.3 Reducing Political Interference

Consistency of institutions is a requirement for the microfinance programmes. Political interference that may be perceived in the process of beneficiary selection, lending procedures or recovery measures could lead to uncertainty and should be avoided to the extent possible, with support from transparent institutional arrangements.

10.4 Improving Institutional Coordination

Improved coordination among MFIs, SHGs, financial inclusion programmes and the local government institutions can assist borrowers to get financial services and support.

10.5 Repayment-Oriented Support

Beyond the administrative layer, financial literacy, livelihood support and borrower education are also important considerations as repayment capacity is also shaped by the economic situation of households; and the interventions of the governor are needed in addition to these.

CONCLUSION

The study puts the spotlight on the role of political governance in the microfinance ecosystem in Rajasthan. The empirical findings from the underlying data indicate that political factors have a significant positive association with the overall microfinance outcome. Economic and social variables have been included in the regression model, but political factors continue to play an important role.

These results suggest that, in addition to the financial dimensions of microfinance loans or the economic abilities of borrowers, the institutional context in which microfinance programmes are implemented also matters for microfinance performance.

Enhancing local governance, creating more accountability for implementation of government programmes and improving institutional coordination can be an important part of an appropriate sustainable microfinance framework for Rajasthan.

An important methodological difference, however, needs to be kept in mind. Current reported analysis is on overall microfinance outcomes and repayment is included among these outcomes. It does not separately estimate impact of political governance on loan repayment performance. A definite conclusion specific to each repayment, however, will need the original data from respondents and the development of a variable for the performance of the loan's repayments.

LIMITATION OF THE STUDY.

There are several limitations to the study.

First, the reported analysis merges several aspects of the microfinance performance as opposed to evaluating the loan repayment performance as a stand-alone dependent variable.

Second, the study was conducted on the basis of survey responses which reflect the viewpoints and experiences of the respondents.

Third, reported regression results do not prove that the regression variables are causal.

Fourthly, the analysis is only relevant to Rajasthan and cannot necessarily be extrapolated to other states where institutional and socio-economic settings are considerably different.

Last, borrower-level repayment indicators, such as repayment regularity, overdue installments, and the incidence of default/repayment ratio would be more precise for evaluating repayment performance.

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