Flexible Lending as An Inclusive Financial Innovation Tool to Expand Credit Outreach

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Abstract

Financial inclusion policies have traditionally focused on expanding access to credit. Even though, access alone does not ensure that borrowers can effectively utilise credit when repayment arrangements are not aligned with their income patterns. While previous studies have primarily examined the effects of repayment flexibility on borrower outcomes, limited evidence has examined about its contribution to credit outreach of cooperatives financial institutions. This study analyzes the adoption of flexible lending and its relationship with credit outreach in Koperasi Simpan Pinjam Credit Union Kridha Rahardja. Utilizing monthly administrative data from three branches covering January 2023 to May 2026, this study examines the trends of flexible lending adoption in loan disbursements and borrower participation. Differences in outreach performance across adoption levels are assessed using the Kruskal–Wallis rank-sum test. The findings clarify that flexible lending was progressively adopted across all branches although the intensity varied considerably. Moreover, higher intensity of flexible lending adoption was consistently associated with greater loan disbursements, whereas their association with borrower participation was comparatively weaker. These results suggest that repayment flexibility contributes more consistently to deepening the utilisation of institutional credit than to substantially expanding the borrower base.

Keywords: financial inclusion, repayment flexibility, financial innovation, credit outreach, credit union.

INTRODUCTION

Limited access to credit remains a major constraint on productive investment, entrepreneurial activities, business growth, and income generation among households and microenterprises, especially in developing countries (IMF Asia and Pacific Department, 2024; Bongomin *et al.*, 2025; International Trade Centre, 2025; Kumarasamy, Singh and Kaur, 2025). These concerns promotes the global financial inclusion agenda, which seeks to expand access to affordable and appropriate financial services for populations traditionally underserved by banks and other conventional financial institutions (Cordeiro, 2020). Even though, access expansion alone does not necessarily ensure meaningful financial inclusion (Nielsen *et al.*, 2026). A borrower may formally qualify for a loan but still be unable to utilise it effectively if the repayment arrangement is incompatible with the timing and variability of the borrower's income. This situation is common among seasonal farmers, small traders, and microentrepreneurs whose cash flows fluctuate considerably throughout the year. Conventional loan contracts, which require simultaneous repayment of principal and interest through regular instalments, may create liquidity pressures when borrowers experience temporary income shortages or shocks (Barboni, 2024). In this specific condition, the credit product is technically available, but practically inaccessible.

Standardised repayment schedules in conventional microcredit simplify portfolio management, facilitate monitoring, and strengthen repayment discipline. However, a growing body of literature argues that rigid repayment structures may be poorly suited to borrowers whose incomes are seasonal or

irregular. Frequent repayment obligations may discourage productive investment, increase transaction costs, and induce coping strategies such as asset sales, cross-borrowing, and reductions in household consumption (Young, 2020; Barboni, 2024; Sangwan, 2025) These concerns have stimulated growing interest in repayment flexibility as a means of better aligning loan contracts with borrowers' cash-flow patterns.

Recent empirical evidence increasingly supports the potential benefits of repayment flexibility for borrowers. Studies from India, Bangladesh, and Tanzania show that flexible repayment arrangements can improve loan take-up, investment decisions, enterprise performance, and repayment behaviour by reducing liquidity constraints and enabling borrowers to pursue higher-return investments, with a note that some studies provide contrast result regarding the relationship between flexible lending and individual loan repayment rate (Field *et al.*, 2013; Brune, Giné and Karlan, 2022; Battaglia, Gulesci and Madestam, 2024; Barboni and Agarwal, 2026; Czura, John and Spantig, 2026; Grohmann, Lenel and Herbold, 2026). Nevertheless, the literature remains predominantly borrower-centred. Much less is known about whether flexible lending also contributes to institutional credit outreach, particularly within cooperative financial institutions. Existing studies on credit unions have focused primarily on governance, financial performance, and institutional sustainability (Kusumajati, 2021; Sumarwan, Luke and Furneaux, 2021, 2022; Kusuma, Sumarwan and Kusumajati, 2022), while relatively little attention has been paid to financial product innovation as a strategy for expanding institutional credit outreach.

One practical response to this challenge has been the development of flexible lending products that modify conventional repayment arrangements to better match borrowers' cash-flow conditions. Koperasi Simpan Pinjam Credit Union Kridha Rahardja, an Indonesian credit union, in the end of 2022, introduced a lending product known as "*Pinjaman Sebrakan*" as a form of flexible lending. Unlike the institution's conventional loan products, which require borrowers to repay both principal and interest through periodic instalments, the flexible lending product allows borrowers to make regular interest payments while postponing principal repayment until loan maturity, which is limited to one year. The product was introduced to accommodate members with seasonal or irregular cashflows who experience difficulties meeting repayment schedules despite having viable economic activities. By reducing periodic repayment obligations, the institution expected the product to better accommodate members' financing needs while simultaneously expanding its lending outreach.

Against this backdrop, this study investigates whether the introduction of flexible lending is associated with greater institutional credit outreach by increasing lending activity and borrower participation in an Indonesian credit union. Unlike previous studies that examine repayment flexibility primarily through borrower-level outcomes, this study focuses on institution-level outreach. In doing so, it extends the discussion of repayment flexibility from individual borrower welfare to institutional financial inclusion and highlights borrower-centred financial product design as a complementary pathway to inclusive finance.

The remainder of this paper is organised as follows. Section 2 presents the research context, data and methods. Section 3 reports the empirical findings, while section 4 concludes. The last section discusses policy implication.

RESEARCH METHODOLOGY

This study employs a descriptive longitudinal research design to examine the adoption of flexible lending and its relationship with credit outreach within CU Kridha Rahardja. This study does not seek to establish causal relationships. Instead, it

provides institution-level evidence on how the flexible lending product has been adopted over time and how its adoption corresponds with changes in lending activity and borrower participation.

The empirical analysis is based on administrative records obtained from CU Kridha Rahardja, a credit union operating in Indonesia. The dataset covers the period from January 2023 to May 2026 and includes monthly observations from the institution's three operational branches, resulting in approximately 123 branch-month observations.

The data of this study were sourced from the credit union's internal lending and membership management report. Monthly branch-level records provide loan disbursements and borrower participation for both, flexible and conventional lending products. The branch serves as the unit of analysis so that enables the study to compare patterns of flexible lending adoption and credit outreach across branches, then further to examine the institution's overall lending experience.

Two conceptual dimensions, namely flexible lending adoption and credit outreach, are the main variables analyzed in this study. Flexible lending adoption reflects the extent to which the flexible lending product has been utilised within each branch. This variable is measured using four indicators: the value of flexible loan disbursements, the share of flexible loan disbursements in total lending, the number of members receiving flexible loans, and the share of flexible borrowers in the institution's total borrower base. These proxies capture the scale of product adoption and its contribution to the institution's lending activities.

Credit outreach represents two complementary dimensions: lending activity and borrower participation. Lending activity is measured by the total value of loan disbursements. In comparison to outstanding loans, loan disbursement is chosen as it represents the flow of credit extended during a given period and therefore provides a more direct measure of current lending activity and outreach. Meanwhile, borrower participation is measured by the total number of members receiving loans during each observation period. These indicators inform the extent to which the institution expands the provision of credit and reaches a broader member base.

Table 1. The measurement of variables

Concept	Indicator	Measurement
Flexible Lending Adoption	Flexible loan disbursement	Monthly value (IDR)
	Flexible loan disbursement share	Flexible loan disbursement / Total loan disbursement (%)
	Members receiving flexible loans	Number of borrowers
	Flexible borrower share	Flexible borrowers / Total borrowers (%)
Credit Outreach	Total loan disbursement	Monthly value (IDR)
	Total borrowers	Number of borrowers receiving loans

Source: The author.

The analysis is performed in two complementary stages. First, the study explains the evolution of flexible lending adoption across the institution's three branches. The analysis describes trends in flexible loan disbursements and borrowers together with the share of flexible lending in total loan disbursements and total borrowers. These trends are compared across branches to identifiy the similarities and differences in some aspects (e.g. pace, magnitude, and consistency of product adoption). This provides a comprehensive picture of flexible lending dynamics.

Later, the study tests whether different intensity of flexible lending adoption are associated with credit outreach performances. We used branch-month data of the share of flexible loan disbursements in total loan disbursements as the basis for analysis. Firstky, we classified into four quartiles (Q1–Q4). For analytical purposes, these quartiles are subsequently grouped into three adoption

levels, with Q1 representing low adoption, Q2 and Q3 representing medium adoption, and Q4 representing high adoption. The average total loan disbursements and the average number of borrowing members are then compared across these three adoption levels to examine whether branch-month observations characterised by higher levels of flexible lending adoption also exhibit broader institutional credit outreach. To complement the descriptive comparison, the Kruskal–Wallis rank-sum test is employed to assess whether differences in credit outreach across the adoption groups are statistically significant. The analysis is intended to identify institutional patterns of association rather than to estimate the causal effect of flexible lending adoption.

RESULTS AND DISCUSSION

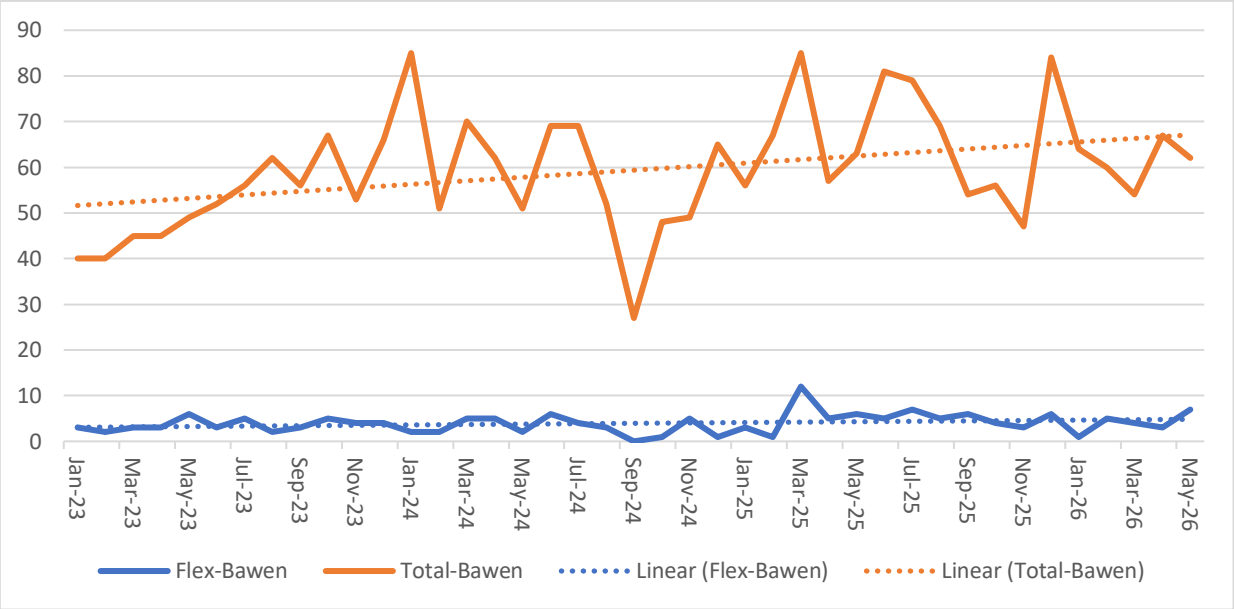
The evolution of flexible lending adoption across branches

Across the three branches, flexible lending exhibited a common pattern of gradual adoption, although the pace and intensity of adoption differed substantially. From the borrower perspective, all branches recorded positive long-term trends in both the number and proportion of members utilising flexible lending, indicating that the product was progressively accepted by a larger share of borrowing members over time (***Graph 1 to 3***).

What important to notice is the fact that Wedi branch consistently recorded the highest proportion of flexible borrowers in comparison to otner branches (flexible lending accounts for 15–30% of total borrowers during much of the observation period and exceeding 30% in several months) (***Graph 4***). Yogyakarta suggests a relatively rapid diffusion of the product although operating within a comparatively stable borrower base. In contrast, Bawen branch, which maintained the largest overall borrower base accounts low proportion of members utilising flexible lending (below 10%). These obeservations indicate that branch size is not the only determinants of the intensity of product adoption.

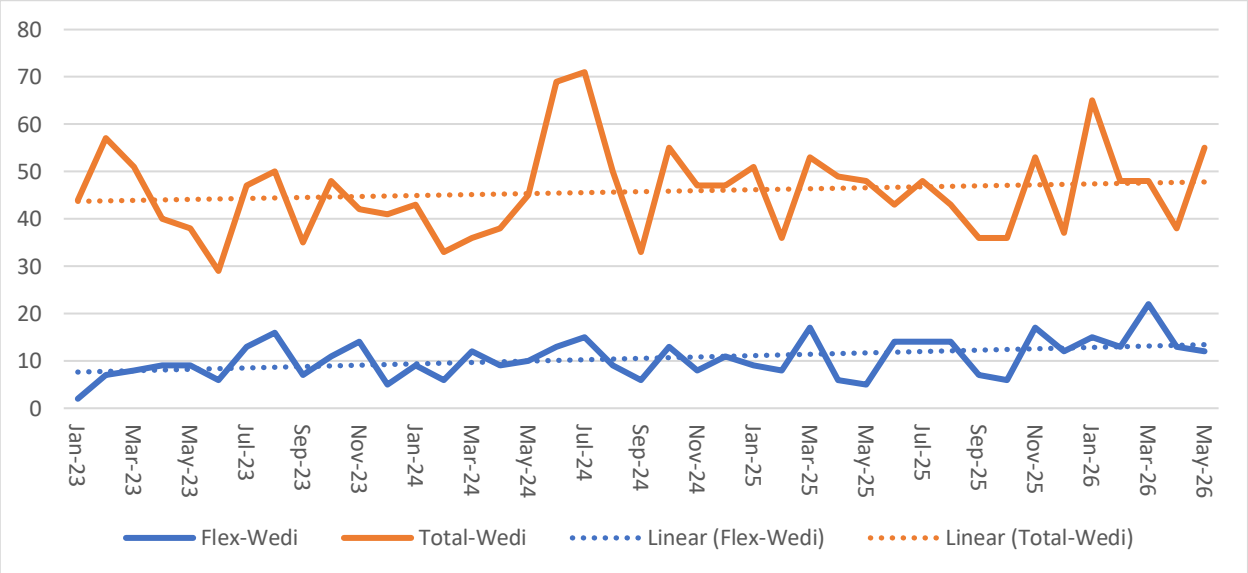
A similar pattern emerged from the lending activity indicators. The value of flexible loan disbursed increased over time alongside the institution's overall lending activities across all branches (**Graph 5 to 7**). It suggests that flexible lending became progressively integrated into branch lending portfolios. Again, Wedi branch consistently recorded the highest share of flexible loan disbursements (flexible lending accounts for approximately 15–30% of total lending in most months and exceeding 30% of total loan disbursements during several periods (**Graph 8**). Yogyakarta also exhibited a steady increase in flexible lending share, reflecting a gradual strengthening of the product within the branch's lending portfolio. And again, Bawen maintained the lowest flexible lending share.

The borrower-based and lending-based indicators present a consistent picture of flexible lending adoption. Branches with higher proportions of members using flexible lending tended to allocate a larger share of their loan disbursements through the product, while branches with lower borrower participation likewise exhibited lower ones. The findings also demonstrate that product adoption was not simply a function of branch size. Although Bawen operated the largest lending portfolio, it recorded the lowest level of flexible lending adoption, whereas Wedi achieved the highest adoption despite a smaller lending scale. These results suggest that differences in flexible lending adoption are more consistent with branch-level lending dynamics, member demand, and institutional implementation of the product. This heterogeneity provides the basis for the subsequent analysis, which examines whether different levels of flexible lending adoption are associated with broader institutional credit outreach.



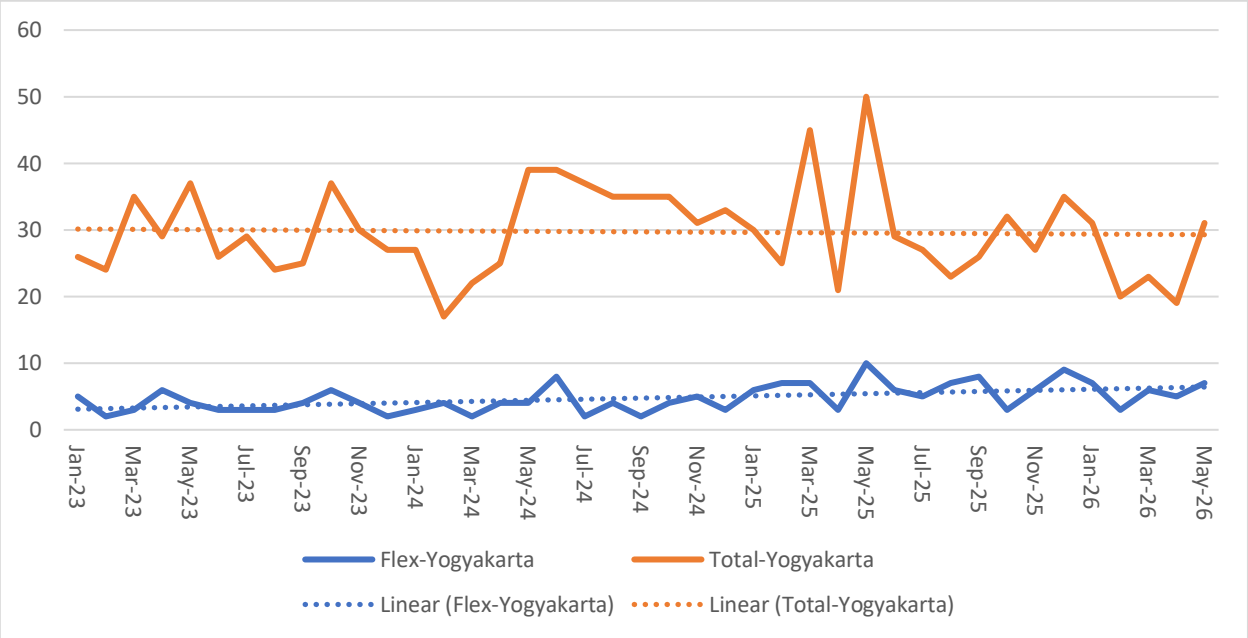
Graph 1. Trend Flexibel vs Total Borrowers, Branch Bawen

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



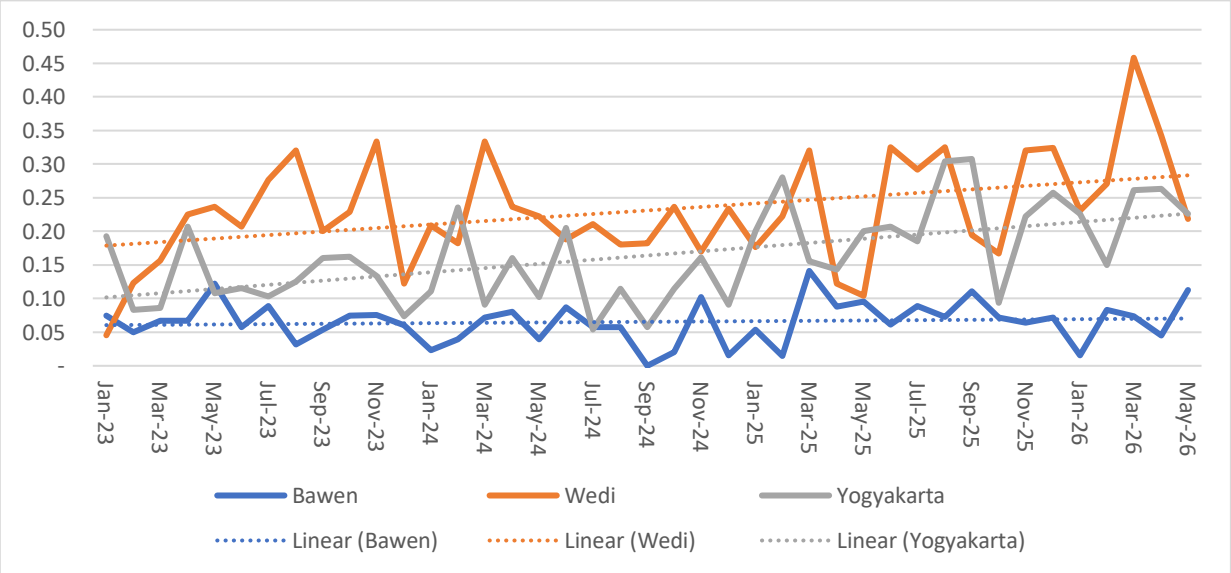
Graph 2. Trend Flexibel vs Total Borrowers, Branch Wedi

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



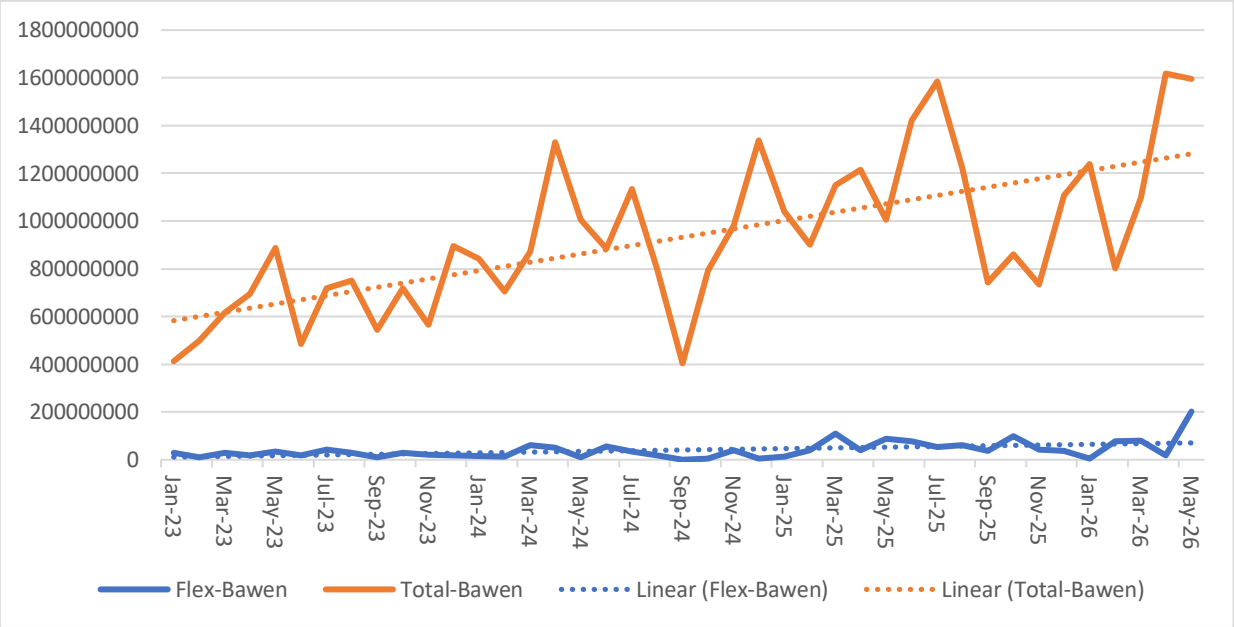
Graph 3. Trend Flexibel vs Total Borrowers, Branch Yogyakarta

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



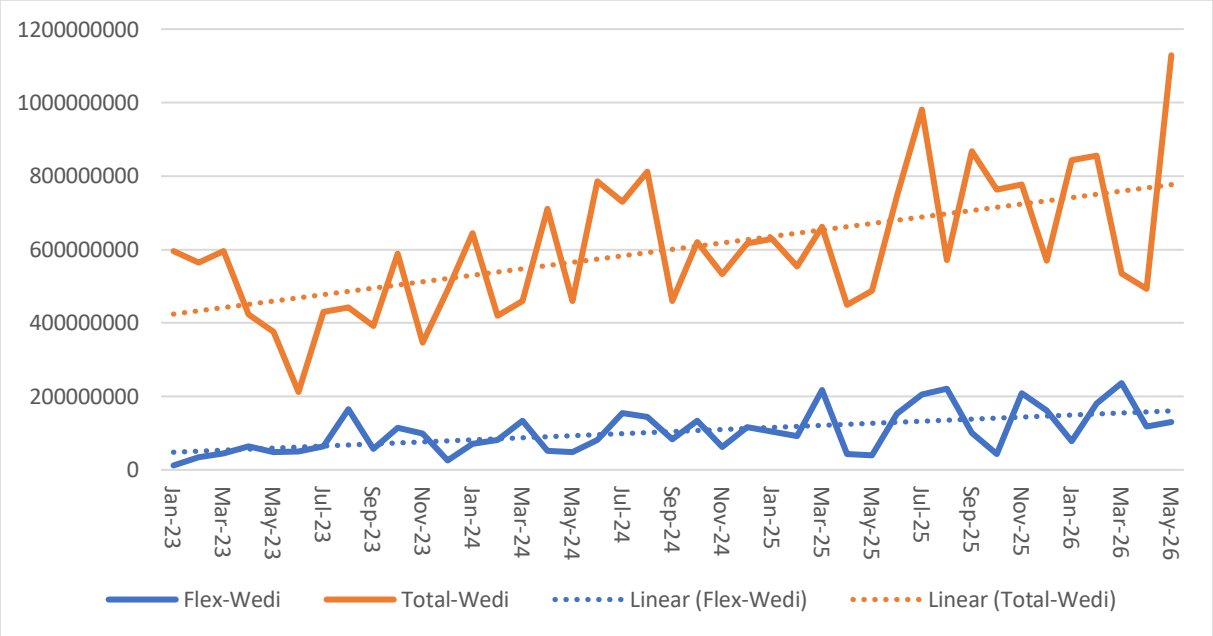
Graph 4. Ratio of Flexible to Total Borrowers

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



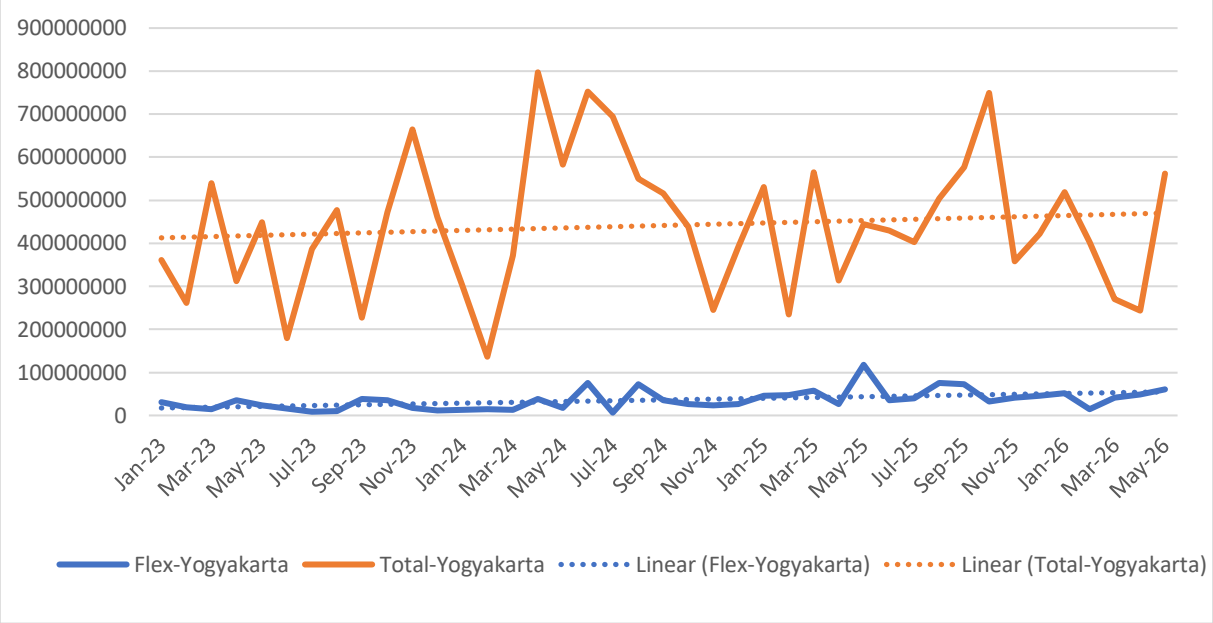
Graph 5. Trend Value of Flexibel vs Total Loans Disbursed, Branch Bawen

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



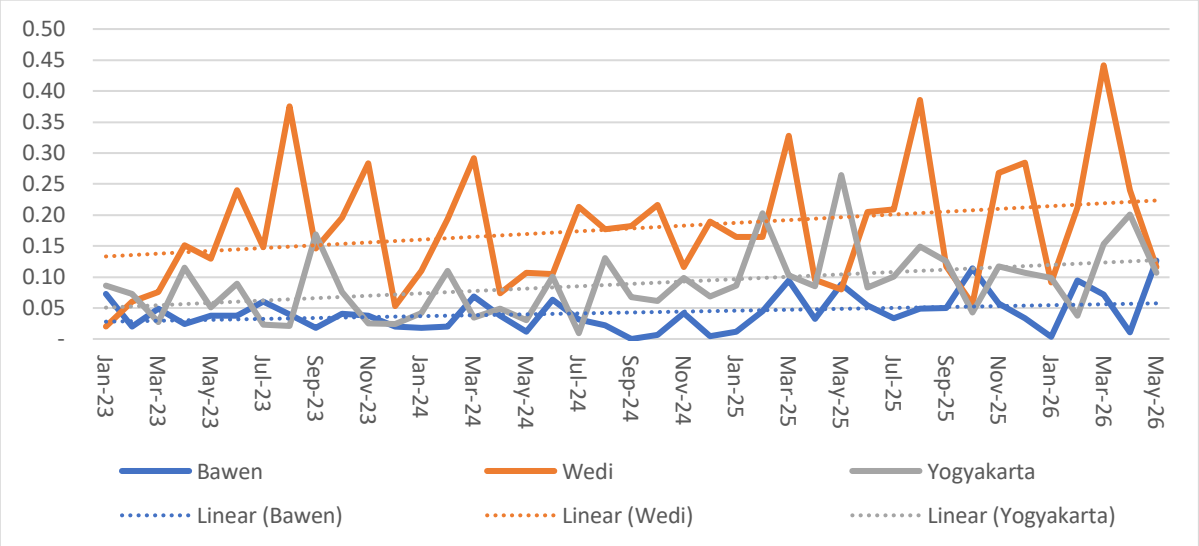
Graph 6. Trend Value of Flexibel vs Total Loans Disbursed, Branch Wedi

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



Graph 7. Trend Value of Flexibel vs Total Loans Disbursed, Branch Yogyakarta

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*



Graph 8. Ratio of Value of Flexible to Total Loans Disbursed

Source: *Monthly Consolidation Credit Report of Credit Union Kridha Rahardja, January 2023-May 2026 (processed by the author)*

Intensity of flexible lending adoption and credit outreach

To move beyond describing adoption patterns, the next analysis examines whether different levels of flexible lending adoption are associated with different institutional credit outreach profiles. Rather than comparing branches, the analysis groups all branch-month observations into four quartile-based adoption categories according to the share of flexible loan disbursements in total loan disbursements. This approach makes it possible to compare outreach outcomes across different levels of product adoption while utilising the full variation observed during the study period.

To further examine the relationship between flexible lending adoption and institutional credit outreach, branch-month observations were first classified into four groups based on the quartile distribution of the share of flexible loan disbursements in total loan disbursements. Observations with values less than or equal to the first quartile (3.8%) were classified as Q1, those above the third quartile (13.8%) as Q4, while observations between the first and third quartiles (Q2 and Q3) were combined to represent the medium-adoption group. This classification provides three adoption levels (low, medium, and high), which were subsequently used to compare institutional credit outreach indicators.

Table 2. Kruskal–Wallis Test of Credit Outreach across Flexible Lending Adoption Intensity

Credit outreach indicator	χ^2 statistic	df	p-value
Total Borrowers	5.769*	2	0.0559
Total Loan Disbursements	11.121***	2	0.0038

Notes: *The Kruskal–Wallis rank-sum test compares credit outreach indicators across three levels of flexible lending adoption (Low, Medium, and High). *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$.*

These findings inform that relationship between flexible lending adoption and institutional credit outreach is not uniform across outreach dimensions. While greater adoption of flexible lending is strongly associated with higher lending activity, its association with borrower participation is comparatively weaker. One possible interpretation is that flexible lending primarily facilitates deeper utilisation of credit among existing members rather than substantially increasing the number of borrowing members. By offering repayment arrangements that better match borrowers' cash-flow conditions, the product may encourage members to borrow larger amounts or make greater use of available credit without necessarily attracting a substantially larger borrower base. These findings provide descriptive evidence that repayment flexibility contributes more consistently to the depth of institutional lending than to the breadth of borrower participation.

Discussion

The existing literature on repayment flexibility has been predominantly organised around a borrower-centred question: what does flexible repayment design do for borrowers? Field et al. (2013) demonstrated that grace periods enable borrowers to pursue higher-return investments by postponing the liquidity drain of early repayment obligations. Barboni (2024) identified the principal mechanisms through which repayment flexibility may reduce effective credit constraints, distinguishing between grace periods that delay the onset of repayment and repayment holidays that temporarily suspend obligations during periods of adverse cash-flow shocks. Young (2020) documented the transaction cost implications of frequent repayment schedules, while Sangwan (2025) drew attention to the welfare consequences—including asset liquidation and cross-borrowing—that rigid repayment obligations may impose on borrowers with volatile

incomes. This body of work has established a coherent and compelling theoretical account of why repayment flexibility matters for borrowers.

What the borrower-centred literature has not systematically examined, however, is what repayment flexibility does for institutional credit outreach—and, by extension, what the adoption of flexible lending products implies about the mechanisms through which financial product innovation shapes financial inclusion at the institutional level. The present study addresses this gap not by contradicting the existing literature but by shifting the analytical vantage point from the borrower to the institution, and from the welfare effects of individual loan contracts to the outreach patterns associated with product-level innovation within a cooperative financial organisation.

The central empirical finding of this study is an asymmetry between two dimensions of credit outreach. Total loan disbursements differ significantly across branches grouped by flexible lending adoption intensity, with higher adoption consistently associated with greater lending activity ($p = 0.0038$). Borrower participation, by contrast, differs only marginally across the same groups ($p = 0.0559$). This pattern is not incidental. It suggests that flexible lending, as introduced within CU Kridha Rahardja, operates primarily through a depth-enhancement mechanism rather than a breadth-expansion mechanism.

Depth, in the context of this study, refers to the intensity and effectiveness with which existing members utilise institutional credit—the extent to which available lending products enable borrowers to engage with the institution's credit services in ways that are genuinely compatible with their economic circumstances. Breadth refers to the expansion of the borrower base itself—the number of members who participate in formal credit relationships with the institution. The distinction matters because the financial inclusion literature has tended to treat these two dimensions as naturally linked: the implicit assumption is that better product design draws in borrowers who were previously deterred by poorly aligned repayment structures, thereby expanding both the depth and breadth of inclusion simultaneously.

The empirical evidence from CU Kridha Rahardja complicates this assumption in a theoretically productive way. The findings are consistent with the interpretation that financial product innovation may first deepen the utilisation of credit among existing borrowers before substantially expanding the borrower base. Members who were already engaged with the institution's lending activities appear to respond to the availability of flexible lending by borrowing more intensively (utilising the product in ways that reflect a better alignment between repayment structure and their cash-flow realities). The marginal effect on borrower participation, by contrast, suggests that the product has not primarily functioned as a mechanism for drawing previously reluctant or excluded members into active credit relationships. This sequential pattern, in which depth effects precede breadth effects, is not a contradiction of the existing literature. Rather, it reveals an institutional mechanism that borrower-level studies, by their very design, cannot observe.

This interpretation acquires additional theoretical coherence when the specific institutional context of credit unions is taken into account. Unlike commercial banks, which operate within open and competitive client markets, credit unions function within predefined membership boundaries. The population of potential borrowers is not the general public but the institution's existing membership, individuals who have already made a deliberate decision to affiliate with the cooperative and who share the economic characteristics and financial needs that the institution is designed to serve. Within this bounded institutional environment, the primary effect of product innovation is not to

attract new members from outside the institution but to deepen the financial relationship between the institution and members who are already formally affiliated with it.

This structural characteristic of cooperative finance helps explain why the breadth effects of flexible lending adoption may be more muted than the depth effects within this context. A member who was previously deterred from borrowing by the mismatch between standard repayment schedules and their irregular income streams does not, upon the introduction of flexible lending, become a new member. They become an active borrower within an existing membership relationship. The outreach effect is real and meaningful, but it manifests in borrowing intensity rather than membership expansion. For credit unions and other member-based financial institutions, this implies that the evaluation of product innovation's contribution to financial inclusion should incorporate depth measures—credit utilisation rates, loan volumes per borrower, and the alignment between product features and member financial profiles—alongside the borrower count metrics that dominate conventional outreach assessments.

The branch heterogeneity findings reinforce this interpretation. The evidence that adoption intensity varied considerably across branches, and that this variation was not explained by branch size, suggests that the depth-enhancement effects of flexible lending are not automatic consequences of product availability. They depend on institutional implementation quality, the responsiveness of branch staff to member needs, and the relational dynamics through which members learn about and develop confidence in new product offerings.

The experience of the Wedi branch illustrate how local institutional context may shape the diffusion of financial product innovation. Although Wedi is not the largest branch in terms of lending volume or borrower base, it consistently recorded the highest level of flexible lending adoption. One possible explanation lies in the branch's predominantly rural membership, many of whom are engaged in agriculture and therefore face seasonal and irregular cash flows. For these members, repayment flexibility is likely to better match income patterns than conventional instalment schedules. In addition, the branch serves a relatively compact geographical area, and interactions between staff and members are strengthened through regular cooperative and community activities. Such relational proximity may facilitate communication, trust, and the diffusion of new financial products. While these contextual factors are not directly examined in this study, they are consistent with the proposition that the success of financial product innovation depends not only on product characteristics but also on the institutional and local contexts through which innovations are introduced. Within a cooperative finance context, where member trust and relational embeddedness are central to institutional functioning, these dynamics may be particularly pronounced.

It is important to be explicit about what this study does not establish. The analysis cannot determine whether flexible lending improves the welfare of borrowers who utilise it—whether it enhances investment quality, supports consumption smoothing, improves repayment performance, or strengthens entrepreneurial outcomes. These are questions that require borrower-level data and, ideally, experimental or quasi-experimental research designs of the kind employed by Field et al. (2013). The present study complements rather than replicates that literature, contributing institution-level evidence on outreach patterns that borrower-level studies are not positioned to generate. The claim being advanced is precise and bounded: flexible lending, as implemented within CU Kridha Rahardja, is associated with outreach patterns consistent with depth-first financial inclusion, and this pattern is interpretable through the

institutional logic of cooperative finance in ways that extend the existing theoretical framework.

This contribution matters for the financial inclusion literature because it introduces a distinction, between the mechanisms through which product innovation deepens versus broadens inclusion, that has not been systematically theorised at the institutional level. Financial inclusion policy and scholarship have largely proceeded on the assumption that better product design and broader access are mutually reinforcing in a straightforward way. The evidence presented here suggests that the relationship is more sequential and contextually contingent than this assumption implies, and that understanding financial inclusion as a developmental objective requires attending not only to whether innovative products reach borrowers but to how, through what institutional mechanisms, and along which dimensions of inclusion their effects are most likely to first materialise.

CONCLUSION

This study shows that flexible lending contributes to institutional credit outreach, although not uniformly across its different dimensions. Higher levels of flexible lending adoption were consistently associated with greater lending activity, while their association with borrower participation was comparatively weaker. These findings suggest that repayment flexibility primarily deepens the utilisation of credit among existing members rather than substantially expanding the borrower base. In this sense, flexible lending appears to strengthen the intensity of financial inclusion before broadening its reach.

More broadly, the findings suggest that financial inclusion should not be understood solely as expanding access to credit, but also as ensuring that credit products are designed to match borrowers' economic realities. Flexible lending illustrates how borrower-centred financial product design can make formal credit more usable for members with irregular cash flows, complementing conventional strategies that focus primarily on expanding access. Accordingly, policies, regulatory frameworks, and institutional strategies that promote responsible financial product innovation alongside access expansion may be better positioned to achieve financial inclusion that is not only broader in coverage but also more meaningful in practice.

RECOMMENDATION

For credit unions and other cooperative financial institutions, these findings highlight the strategic importance of borrower-centred product innovation alongside conventional outreach expansion. The considerable variation in adoption across branches further suggests that successful product innovation depends not only on product design itself but also on effective implementation, staff engagement, and responsiveness to members' financing needs. At the policy level, regulators and national financial inclusion strategies may therefore benefit from complementing conventional access indicators with greater attention to the appropriateness and usability of financial products. Encouraging responsible financial product innovation within prudent regulatory frameworks may enable financial institutions to better align lending products with the economic realities of underserved borrowers, thereby making financial inclusion not only broader in access but also deeper in its practical value.

ACKNOWLEDGMENTS

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