



Microfinance Index of Market Outreach and Saturation

Tamil Nadu

Supplement to India Feb 2018

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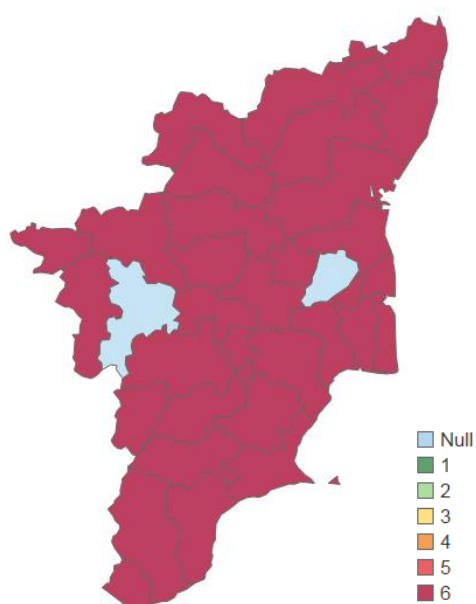
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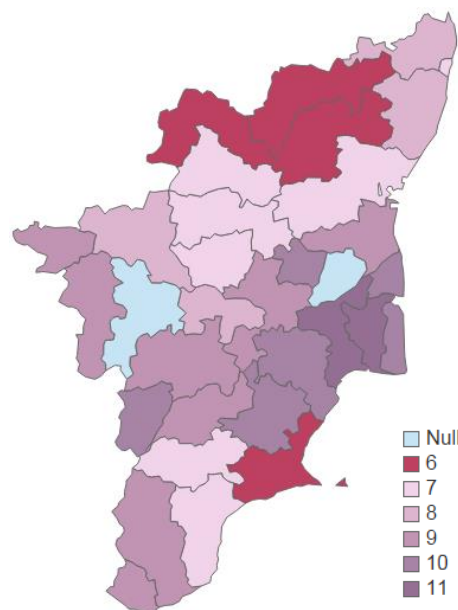
Summary. Tamil Nadu is one of India's wealthiest and economically dynamic states. It also has the highest level of credit penetration in the country, receiving a score of 6 – denoting a highly saturated market. Indeed, the saturation level in parts of Tamil Nadu are the highest of any markets thus far assessed by the MIMOSA project. In addition, levels of multiple borrowing and competition are the highest or near highest in India. On the other hand, there is no evidence of widespread overindebtedness or serious concerns voiced about debt on the part of target clients, and the sector successfully weathered a major shock in the form of demonetization. Given these mixed signals, more research targeted at understanding the situation is advised. Until then, our guidance is to proceed with caution.

Penetration. Every district in Tamil Nadu that had available demographic to calculate capacity received a score of 6. The map appears entirely uniform – no other MIMOSA assessment to-date produced a similar result. That does not mean that saturation levels are uniform. If we were to extend the 6-point scale to accommodate the levels seen in the state, one would readily see the variation. Districts in the north are least saturated (MIMOSA score of 6), whereas the districts of Thanjavur and Tiruvarur in the center-east would have to go up to 11 to properly measure their over-capacity.¹

MIMOSA Scores



MIMOSA scores expanded



Source: CRIF High Mark, MIMOSA calculations

Note that Tamil Nadu has a number of factors – high HDI and exceptionally high population density – that result in loan capacity estimates at the top of the range in India. But even setting aside the MIMOSA model and simply looking at the raw penetration figures shows seemingly absurd levels. In 7 of the state's 32 districts, with a combined population of 16 million, 4 out of 10 of adults have at least one loan. To put this in context, out of the 734 observations in the MIMOSA database, representing 8 countries and hundreds of provinces over different points in time, not a single one has reached this level.² Yet in Tamil Nadu, there's the hardly comprehensible example of Thanjavur, where the penetration rate reaches 47.4% active borrowers per adult.

Penetration levels and MIMOSA scores like these give serious pause. But they're not the final word. A foundational philosophy for the MIMOSA project is to avoid simple answers drawn from single models. Instead, we look at a

¹ See user guide below for a full explanation of the MIMOSA scoring system.

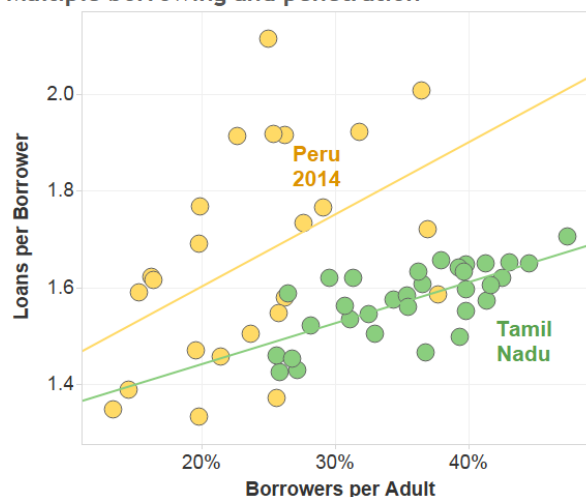
² The sole exception to this is Mumbai District, but we believe the figure to be erroneous. See the report on Maharashtra for more information.

preponderance of factors to try to understand the market and assess where on the its credit cycle it finds itself. So what do those other factors suggest?

Multiple borrowing. Despite the extremely high levels of saturation, other metrics are somewhat less dismal. Within the MIMOSA dataset, the most comparable market to Tamil Nadu is Peru, which is widely seen as one of the most competitive and saturated microfinance markets in the world. Based on the 2016 Peru MIMOSA report, the country has widespread multiple borrowing, but it nevertheless remains financially stable, even as it pushes a substantial number of clients into overindebtedness every year.

While there are a number of differences between Tamil Nadu and Peru, the one that stands out most is that Tamil Nadu has far lower levels of multiple borrowing, despite higher levels penetration. That in itself is not so surprising – although the relationship between penetration and multiple borrowing is strong in nearly all cases we’ve observed to-date, different markets tend to follow their own patterns. Though it is at the far end of the penetration spectrum, this relationship in Tamil Nadu nevertheless sits comfortably along the trajectory laid out by other parts of the country (except for Uttar Pradesh³).

Multiple borrowing and penetration



Thus, unlike with penetration, the multiple borrowing levels in the state are high, but not without precedent. And a number of those precedents come from stable, functioning markets. However, in the context of such high penetration, it’s worth exploring another element of this practice – multiple borrowing at the household level. The field survey in Tamil Nadu was specially modified to include questions on this point.⁴

Multiple borrowing at household level

		Number of own loans		
		1	2	3
Num of other brwrs in household	0	37%	5%	0%
	1	23%	17%	1%
	2	12%	3%	1%
	3	2%	0%	0%

Source: MIMOSA field survey, Tamil Nadu

The findings are revealing. Among borrowers, 59% reported at least one other member of the household who also had a loan. A significant number (22%) of those already holding multiple loans themselves still reported at least one other household member who was also a borrower. The practice is thus not only very common but can also multiply debt levels. After all, the other household members may themselves have multiple loans – we only asked whether they had at least one. And note again that all this is always

discussed in the context of formal sector lending – not private money lenders or loans from neighbors.

Multiple borrowing within the household can also exacerbate the practice of loan “cycling,” i.e. borrowing from one to repay another. 13% of borrowers stated that they had borrowed to help a household member to repay their loan. Most of this type of borrowing was from private money lenders, but nearly 40% was from either banks or MFIs.

³ See MIMOSA Uttar Pradesh Feb 2018

⁴ The field survey was conducted by M-CRIL in the districts of Vellore, Cudalore, and Thanjavur in January 2018. The sample consisted of 150 likely MFI clients.

In light of the very high level of penetration in Tamil Nadu and the widespread existence of multiple borrowing within the household, it would be sensible to expand credit checks to include other household members or use other means to be more focused on the entire household when assessing repayment capacity.

Competition. As is often the case in regions with high credit penetration, Tamil Nadu stands out as a particularly competitive state. Its Herfindahl–Hirschman Index (HHI) for MFIs stands at 897 – second only to Maharashtra among the major states. Likewise in the MIMOSA field survey, Tamil Nadu emerged as substantially more competitive than either Uttar Pradesh, with 47% of interviewees stating that they receive 2 or more loan offers in a typical month, and 17% putting the frequency at 3 or more.

Even more interesting is the breadth of competition in the state. Tamil Nadu stands at the forefront of the intermingling of market segments – banking and microfinance – that had previously been almost completely separate. We discuss this issue in detail in the companion India report (see Special Discussion: Mixing the credit biryani).

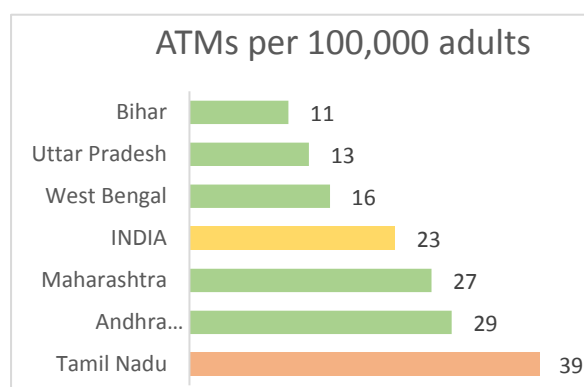
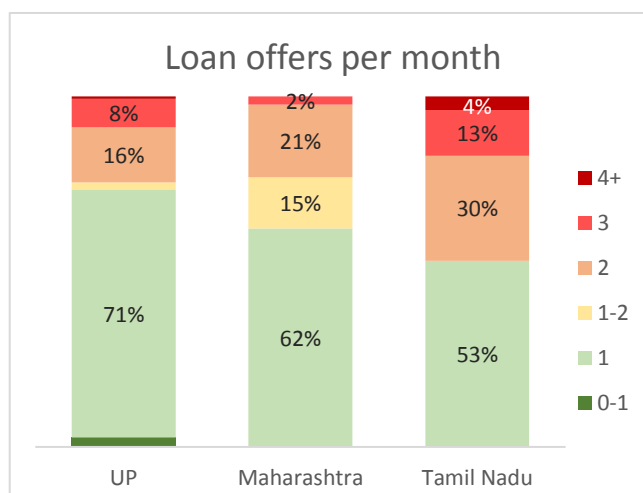
In light of the extremely high penetration levels and the presence of multiple lending at both individual and household levels, Tamil Nadu would benefit greatly from better monitoring of lending practices and also from broadening the principles in the MFI Code of Conduct to cover institutions currently not subject to such requirements. When the same clients see MFIs and banks as all potential sources of loans, it's incumbent on both those institutions, their investors and regulators to likewise take a broader view of the market. The most dangerous development would be to go down the path of rules that create regulatory gaps that can – and inevitably will – be exploited by aggressive institutions.

Collections practices. When polling typical collections practices that borrowers would expect in the case of non-payment, Tamil Nadu yielded surprisingly few cases that raised concerns. Only three respondents mentioned that loan officers might prolong the group meetings to pressure a client to pay. The rest simply suggested that MFIs would enforce liability via the group (often described as for up to 2-3 payments) or pursue the guarantor for payment. There were no cases of the type of abusive or deeply coercive behavior that was described in Uttar Pradesh.

Tamil Nadu also had several individuals (7.7%) who said they'd tap their savings if they had difficulty making payments. The level was similar in Uttar Pradesh, but in that case, the context was savings generated either through compulsory or group-motivated savings that were accumulated as part of the loan payment process.

Responses in Tamil Nadu suggested that the savings were independent of the loan, though we did not capture whether these were formal bank accounts or other (including informal) savings vehicles.

Financial sector. Irrespective of the types of savings the respondents were referring to, the very high development of the financial sector generally is an important factor in Tamil Nadu. As demonstrated in the research behind the original MIMOSA model (2013), the presence of a strong sector, especially the widespread use of savings accounts, is a major contributor to credit



capacity. Unfortunately, the number of savings accounts is difficult to find consistently, especially given the presence of high levels of dormant accounts. However, we do have access to a somewhat related proxy – the number of ATMs. And on this metric, Tamil Nadu is far ahead of other major Indian states, 70% above the national average.

In an environment with many active savers, the capacity for credit penetration is significantly increased. While it's difficult to judge the scale of the impact from widespread use of savings accounts, it must be incorporated in any analysis of the state's credit penetration.

Overindebtedness. Given the levels of penetration, multiple borrowing and competition, one would expect overindebtedness issues to be widely present in Tamil Nadu, or at least more so than in other states. Yet evidence of significantly higher rates of overindebtedness in the state did not come across in the field survey. A somewhat larger portion of respondents in Tamil Nadu (50%) reported having trouble making loan payments than in either Maharashtra or Uttar Pradesh (both at 36%). However, Maharashtra had a higher level of respondents citing more serious struggles than Tamil Nadu.

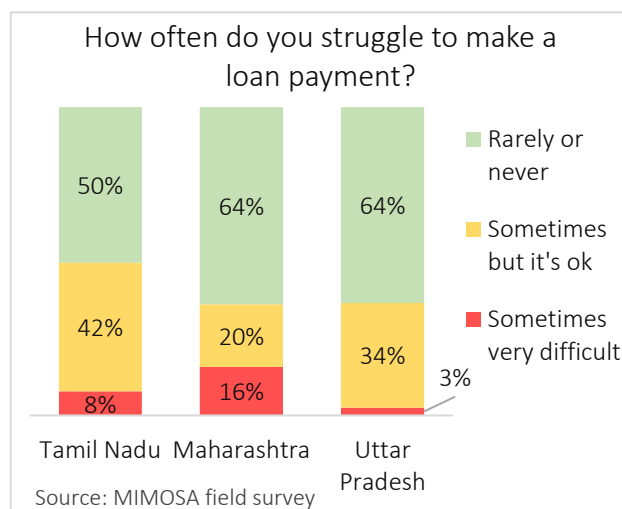
Nor was there much evidence of clients taking extreme measures when struggling with repayment. By far the most common response was to borrow from family or neighbors. Tamil Nadu also stood out by a significant number of respondents saying they'd tap savings when having trouble meeting a loan repayment. Only one mentioned borrowing from a moneylender and none from an MFI or bank in such circumstances. Evidence of struggle was greater in the other states.

Questions in the focus group portion of the survey likewise didn't capture much concern about debt generally. Of the 10 focus groups held, only one came to the consensus view that there was too much credit available. The rest were split roughly equally between those who viewed the amount of credit as sufficient and those who felt more/larger loans should be available.

Finally, what stands out most is the general tone of responses in Tamil Nadu. Complaints were relatively few. There was no real resistance or fear speaking about credit – in stark contrast to Peru, for example, where discussing credit was a challenge and where denying having borrowing is a common response in surveys. The absence of such responses speaks as much as what the interviewees actually said.

Finally, one should consider the factor that most analyses of overindebtedness tackle first (and rarely go beyond it): loan repayment rates. In the MIMOSA project, we typically ignore this factor. After all, the evidence from past crises is incontrovertible – repayments can appear deceptively good even on the eve of crisis (and no, not only in crises sparked by political interference). But in the current market in India, we have a strong reason to consider repayments: the sudden shock of demonetization was ideal for sparking repayment crises and pricking large credit bubbles. As it happens, repayment levels in Tamil Nadu returned relatively quickly to normal levels, recording some of the best performance in the country. That does not automatically disprove the contention that the market is over-saturated, but it is an important factor to consider.

The data in Tamil Nadu thus leaves us with many questions. Its level of saturation is extremely high, by any measure. Multiple borrowing is likewise high, with the added element of multiple loans at the household level. Competition is high and will only continue to heat up as MFIs enter into increasing competition with banks. On



the other hand, the field survey did not raise significant warning flags regarding direct evidence of overindebtedness – such as struggles in making repayments or loan-cycling – even as it confirmed the indirect factors, such as multiple borrowing and competition. The rapid recovery of the market following demonetization meant that this large external shock did not set off the market downturn that it might have.

In light of this, we propose more research to better understand the lending climate in the state. A deeper study of borrowing practices, exploring the role of multiple loans, loan sizes, and a more granular view of competition would help. We do not know where in the credit cycle Tamil Nadu finds itself – the usual signs are sending mixed signals. However, finding the cliff edge shouldn't require driving off it at full speed. Until the mists clear, the wise will proceed with caution.

Region	Population (000s)	HDI	Population density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity	Borrowers with 3+ loans (%)
Tamil Nadu	78,899	0.683	607	6	14.6	35.5	20.9	5.2%
Chennai District	5,119	0.763	>1200	6	19.9	36.9	17.0	3.1%
Kancheepuram District	4,364	0.719	1,013	6	17.9	39.3	21.4	4.6%
Vellore District	4,296	0.667	706	6	14.9	25.8	10.9	3.5%
Thiruvallur District	4,074	0.712	1,147	6	18.6	36.8	18.2	4.6%
Salem District	3,806	0.677	725	6	15.2	33.0	17.7	5.0%
Coimbatore	3,798	0.717	818	6	16.6	41.7	25.1	6.4%
Viluppuram District	3,787	0.631	527	6	13.1	28.2	15.1	5.0%
Tirunelveli District	3,360	0.684	502	6	14.0	36.5	22.5	5.0%
Madurai	3,326	0.691	900	6	16.6	41.3	24.7	5.4%
Tiruchirappalli District	2,968	0.697	658	6	15.2	39.7	24.6	5.8%
Cuddalore District	2,844	0.662	767	6	15.2	39.6	24.4	7.6%
Tiruppur District	2,702		520			29.6		6.6%
Tiruvannamalai District	2,700	0.641	436	6	12.7	25.6	12.9	4.4%
Thanjavur District	2,628	0.670	755	6	15.3	47.4	32.1	8.7%
Erode District	2,471	0.671	422	6	13.2	34.4	21.2	5.4%
Dindigul District	2,364	0.653	390	6	12.7	35.4	22.7	5.2%
Virudhunagar District	2,125	0.687	496	6	14.0	31.1	17.1	5.0%
Krishnagiri	2,060	0.659	404	6	12.9	27.1	14.3	2.8%
Kanniyakumari	2,038	0.722	>1200	6	19.1	42.5	23.4	3.3%
Thoothukkudi District	1,901	0.713	401	6	13.9	31.3	17.5	4.2%
Namakkal District	1,882	0.679	553	6	14.2	30.7	16.5	5.4%
Pudukkottai District	1,770	0.656	380	6	12.6	39.3	26.6	6.1%
Nagapattinam District	1,765	0.691	730	6	15.5	41.2	25.7	7.5%
Dharmapuri District	1,644	0.627	362	6	12.0	26.8	14.8	1.4%
Sivaganga District	1,467	0.651	354	6	12.4	37.9	25.5	4.6%
Ramanathapuram District	1,463	0.655	350	6	12.4	26.4	14.0	2.5%
Thiruvarur District	1,387	0.660	583	6	14.0	44.5	30.4	8.2%
Theni District	1,360	0.645	473	6	13.0	39.7	26.7	6.1%
Karur District	1,177	0.698	406	6	13.6	32.5	18.9	4.0%
Ariyalur District	823		423			43.0		7.2%
The Nilgiris	804	0.682	315	6	12.7	36.2	23.5	4.7%
Perambalur District	617	0.625	353	6	11.9	39.7	27.9	3.2%

Source: 1) India 2011 Census, UNDP; 2) India Planning Commission; UNDP; extract from Tamil Nadu state document ~2014-15 (exact provenance unclear) 3) Ministry of Statistics and Programme Implementation; 4-5, 7) MIMOSA; 6, 8) CRIF High Mark