



Microfinance Index of Market Outreach and Saturation

Uttar Pradesh

Supplement to India Feb 2018

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Uttar Pradesh is India's most populated state and also one of the poorest. The level of credit penetration in the state – including microfinance – is also below the expected demand, so that the state as a whole is underserved, with a MIMOSA score of 2. However, there is evidence of elevated levels of multiple borrowing among microfinance clients, as well as concerns about coercive collections practices.

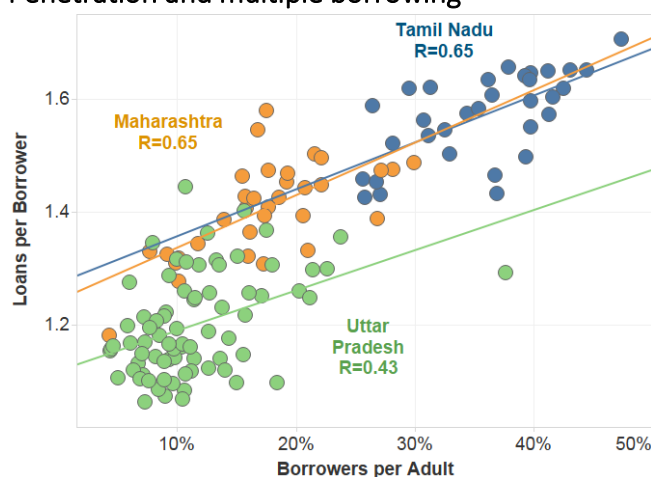
There is a great deal of variation in credit penetration levels within the state, with some western districts being significantly saturated and one (Gautam Buddha Nagar, a suburb of Delhi) even receiving the highest MIMOSA score of 6. Indeed, the districts in close proximity to Delhi show the highest lending concentration. However, 51 out of the state's 75 districts, accounting for 72% of its adult population, remain underserved. The majority of those, with 44% of the state's population receive the lowest MIMOSA score of 1, implying a deeply underserved market.¹

Multiple borrowing. This level of low penetration contrasts strongly with the 2016 IFMR study of overindebtedness in selected areas – a region with the lowest possible MIMOSA score of one.² This difference leads down to a particularly interesting analysis path.

First, let's get technical issues out of the way. The IFMR study relies on data for MFI borrowers only, whereas MIMOSA uses the entire borrowing population. That explains the sizeable difference in share of borrowers with 3+ loans: 8.99% in the IFMR study versus 4.2% in the MIMOSA figures. That naturally leads to the important question of why MFI borrowers appear to be more likely to have multiple loans than the broader population. But before we tackle that, let's explore another very surprising feature in the Uttar Pradesh data.

In most of the countries studied by MIMOSA, loan penetration – how many adults have loans – is the single strongest determinant of multiple borrowing. This is equally true in India, at least at the state level, and also at

Penetration and multiple borrowing



Source: CRIF High Mark, MIMOSA calculations

the district level in Tamil Nadu and Maharashtra. However, this relationship is far weaker in Uttar Pradesh, where penetration is a strong, but not the primary factor driving multiple borrowing, correlated only at 43% level. In other MIMOSA market assessments where such decoupling was present, the resulting findings pointed to aspects of the market that had an important and sometimes critical impact on market saturation and overindebtedness risks.³

Indeed, though it's somewhat harder to quantify, it appears that in Uttar Pradesh geography is the more important factor driving multiple borrowing than penetration. Below we provide two district-level maps for the

¹ A number of districts in Uttar Pradesh were created or altered following the 2011 census, and for these no reliable demographic data is available to calculate capacity, and thus the MIMOSA score. However, all but one of these have relatively low penetration levels that would put saturated at or below the expected demand level. The sole exception is Hapur district, which is moderately penetrated and would likely score as moderately saturated (score of 4) or above.

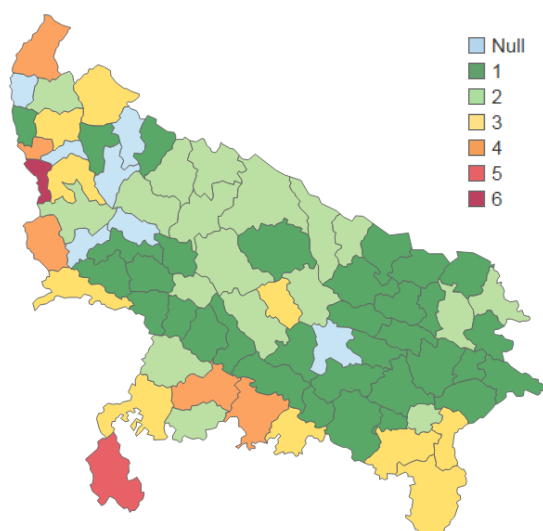
² Study on the drivers of Over-indebtedness of Microfinance Borrowers in India: An In-depth Investigation of Saturated Areas; IFMR Nov 2016

³ In Kyrgyzstan, this decoupling emerged following implantation of regulations on multiple lending. In Cambodia, recognizing this decoupling spurred an investigation and a subsequent project that substantially changed the monitoring and oversight of the country's MFIs.

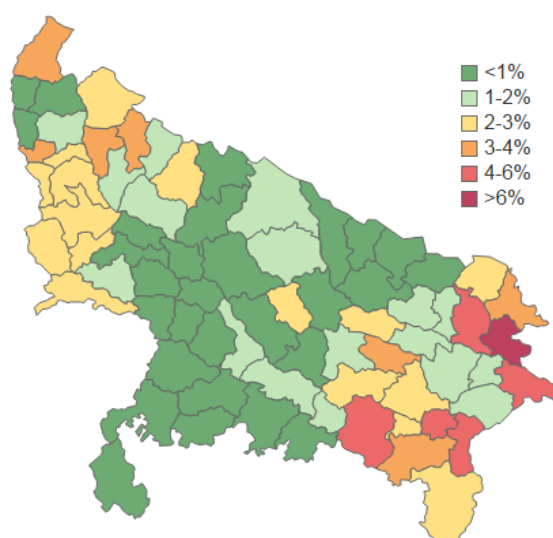
state: one measuring MIMOSA scores (which are driven mainly by penetration) and another measuring multiple borrowing rates.

While lending is concentrated in the western part of the state, especially in the area adjoining Delhi and the southwestern district of Lalitpur, multiple borrowing is more prevalent along the eastern border, especially in the area around Deoria as well as around Allahabad and Varanasi. Indeed, these eastern districts are the only ones in the state to have more than 4% of borrowers holding 3+ loans, despite the fact that most of them have low or at best moderate penetration levels, with MIMOSA scores that imply underserved markets.

MIMOSA Scores



% Borrowers with 3+ loans



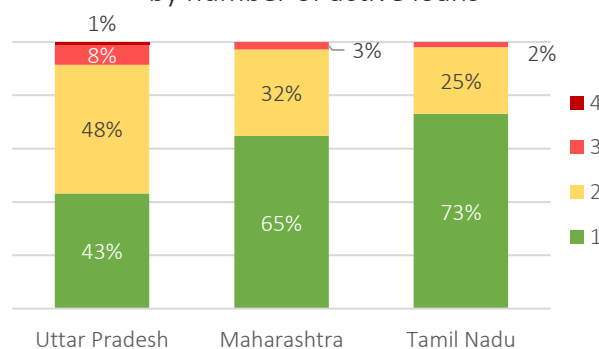
Source: CRIF High Mark, MIMOSA calculations

Besides geography a number of other factors may also play a role. First, let's return to the initial observation that microfinance borrowers in the state appear to be more likely to have multiple loans than the general population.

While we do not have multiple borrowing data for MFI clients specifically, the MIMOSA field survey indirectly supports the findings of the IFMR study. The field survey interviewed random individuals who meet the criteria of likely microfinance clients.⁴ When asked how many loans they have (among those who had at least one), respondents in Uttar Pradesh were nearly twice as likely to say that they had 2 loans compared to those in Tamil Nadu (48% vs. 25%, respectively), and the difference was even more stark for 3 or more loans (8% vs. 2%). Moreover, the highest level in the three sites surveyed in Uttar Pradesh was in Varanasi, where 78% of all interviewees who were borrowers had at least 2 loans, and 15% had 3 or more. These were almost all MFI loans, with only a handful of banks (Bandhan is defined as an MFI for the purposes of this report).

Lastly, there may be yet another reason for the apparent disparity between overall penetration and

**Self-reported borrowing,
by number of active loans**



Source: MIMOSA field survey

⁴ The field survey was conducted by M-CRIL, whose staff is highly familiar with microfinance operations and well able to identify likely MFI clients. It was conducted in March 2017 in the districts of Ghaziabad, Saharanpur, and Varanasi

multiple borrowing by MFI clients. The eastern portions of the state are seen by some as having security concerns, leading MFIs to limit their operations to areas around cities, while avoiding the more remote rural villages. The resulting high competition among urban and peri-urban residents, with little activity outside could certainly create a scenario where a portion of the population has high levels of multiple borrowing and potentially overindebtedness, while the larger area continues to show an undeserved market. However, to assess this quantitatively would require geographic granularity that is currently beyond the scope of this study.

Competition. In most markets, high penetration (and high multiple borrowing levels) are usually accompanied by high levels of competition. In Uttar Pradesh, competition among MFIs may be elevated, but it is not especially remarkable. At 1038, its Herfindahl-Hirschman Index (HHI) score for MFIs in UP is higher (meaning less competition) than either Maharashtra (718) or Tamil Nadu (897), the two other states assessed during this phase of MIMOSA.⁵ This finding was likewise echoed during the field survey, which found significantly lower levels of competition reported by potential clients, with 27% of respondents in Uttar Pradesh reporting receiving loan sales pitches more than once per month, compared to 38% in Maharashtra and 47% in Tamil Nadu.

A third element of the MIMOSA study, a survey of MFIs conducted in February 2018, likewise finds Uttar Pradesh to be competitive, but still far less than Tamil Nadu, for example. Of those polled 36% cited Uttar Pradesh as among the top 3 most competitive markets, compared to 57% citing Tamil Nadu (Maharashtra also polled at 36%).

But competition can sometimes work in surprising ways. In the annals of microfinance crises, the example of Morocco in 2008-09 stands out. As a market, it was remarkably uncompetitive, with just 4 MFIs accounting for 90% of the market in the years leading up to the crisis. And yet that did not stop the largest two from engaging in a cut-throat battle for market share, leading to widespread multiple borrowing, and eventually the crisis itself. It is thus notable that in Uttar Pradesh, only a handful of MFIs are cited in the MIMOSA field surveys. In the Varanasi survey, just one MFI accounted for 40% of loans, and among the 31 interviewees there who had at least 2 loans, 26 (84%) had borrowed from this lender. High competition is not an absolute pre-requisite for multiple borrowing.

Overindebtedness. These three factors – low penetration, high incidence of multiple borrowing (especially among MFI clients), and unremarkable competition – nevertheless suggest that significant overindebtedness is indeed likely in parts of Uttar Pradesh. The example of Morocco is again instructive – the leading MFIs had targeted a relatively small population of likely borrowers, even as lending penetration was limited overall. Part of this was related to borrower views of debt, which both religious and social attitudes painted negatively. The minority of clients who were both willing borrowers and were suitable clients for the MFIs thus received more attention from lenders than they would have in a more traditional market dynamic.

It is possible that Uttar Pradesh, whose demographics feature significantly higher proportion of minority groups than the rest of India – with the attendant distrust that may prevail between clients and loan officers – may thus have a smaller number of potential borrowers than a model such as MIMOSA might estimate. If lending is thus concentrated among this narrower segment, overindebtedness would be more likely to occur.

Another important consideration is that the MFI Code of Conduct prohibits more than two concurrent loans. The presence of a sizeable contingent holding 3+ loans – nearly all from MFIs – thus implies that the Code is not being consistently followed. This may be due to borrowers using tactics, such as false IDs, to subvert the credit verification process. It may also be a result of poor controls within the MFI.

⁵ HHI index is a formulaic expression based on market shares of different competitors. For this exercise, we requested CRIF High Mark to calculate HHI for institutions defined as MFIs (see Special Discussion in India report), with market share expressed by number of active loans (not portfolio amount).

A common theme in overindebtedness studies (including IFMR's) is that both multiple borrowing and higher poverty tend to correlate with higher likelihood of overindebtedness. Uttar Pradesh has both, and thus, while the state may hold plenty of opportunity for growth, for MFIs serving the poor that growth should come with greater vigilance in assessing repayment capacity, and thus reducing the risk of overindebting clients.

Collections practices. The increased risk of overindebtedness in the state raises additional concerns about collections practices. And here, the field survey uncovered some concerning practices – 8% of respondents in the state cited the coercive technique of loan officers and other MFI staff sitting outside the defaulting client's home until she made her payment or using other techniques to undermine the client's social standing. More concerning still, 8% said that a group can forcibly sell the defaulting member's household assets in order either to settle their outstanding debt or at least the amount owed to the group. One respondent even recounted a situation where a group was resisting making the joint liability payment on behalf of a defaulter and asked the MFI to deal with the client individually. Instead, the loan officer himself suggested to the group that they should sell the defaulter's household assets and then repay the loan with the proceeds.

Of the three states surveyed, Uttar Pradesh was the only one where these types of collections practices were cited. We urge responsible MFIs as well as the Self Regulatory Organizations in charge of monitoring compliance with their Codes of Conduct to thus give special attention to Uttar Pradesh in insuring appropriate collections practices are followed in all circumstances.

Column no:	1	2	3	4	5	6	7	8
Region	Population (000s)	HDI	Population density (per km ²)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity	Borrowers with 3+ loans (%)
Uttar Pradesh	218,511	0.555	907	2	14.1	11.8	-2.3	2.3
Allahabad District	6,518	0.558	1,191	1	15.9	10.8	-5.1	4.2
Azamgarh District	5,049	0.526	>1200	1	15.4	8.5	-6.9	1.6
Lucknow District	5,018	0.629	>1200	3	17.4	17.5	0.1	2.9
Kanpur Nagar	5,001	0.632	>1200	1	17.4	11.4	-6.0	1.4
Jaunpur District	4,895	0.539	>1200	1	15.6	11.5	-4.1	2.9
Sitapur District	4,893	0.500	853	1	12.7	8.2	-4.5	1.5
Bareilly District	4,883	0.518	1,187	2	15.2	12.8	-2.4	2.7
Gorakhpur District	4,851	0.560	>1200	2	16.0	12.5	-3.5	4.9
Agra District	4,791	0.604	1,187	3	16.8	18.0	1.2	2.8
Hardoi District	4,474	0.496	748	2	11.9	9.7	-2.3	0.6
Kheri	4,389	0.527	573	2	11.4	9.7	-1.7	1.3
Budaun District	4,060	0.447	786	2	11.3	11.1	-0.2	1.5
Bijnor District	4,029	0.570	885	3	14.2	16.1	1.8	3.0
Varanasi District	4,027	0.590	>1200	2	16.6	15.7	-0.9	5.2
Aligarh	4,018	0.557	1,103	2	15.4	13.8	-1.6	2.5
Ghazipur District	3,962	0.554	1,175	1	15.8	10.0	-5.8	1.8
Kushinagar	3,894	0.491	>1200	2	14.7	11.9	-2.9	3.9
Bulandshahr District	3,826	0.585	849	3	14.3	17.1	2.9	2.9
Bahraich, District	3,804	0.428	727	2	10.5	7.6	-2.9	0.7
Saharanpur District	3,788	0.600	1,029	4	15.7	22.7	7.0	3.9
Meerut District	3,770	0.612	>1200	3	17.0	20.3	3.3	1.9
Gonda District	3,753	0.464	939	1	12.6	8.9	-3.6	0.8
Rae Bareli District	3,723	0.508	809	1	12.6	4.6	-7.9	0.9
Ghaziabad District	3,634	0.638	>1200	4	17.5	23.8	6.3	3.3
Bara banki	3,563	0.515	811	2	12.7	10.7	-2.0	0.9
Ballia District	3,525	0.565	1,184	1	16.0	8.0	-8.1	4.3
Pratapgarh District	3,471	0.513	935	1	13.5	5.9	-7.6	2.1
Moradabad District	3,419	0.512				9.3		3.6
Unnao District	3,402	0.524	747	2	12.5	11.4	-1.0	0.9
Deoria District	3,389	0.526	>1200	1	15.4	10.7	-4.7	6.9
Shahjahanpur District	3,283	0.499	749	2	12.0	9.3	-2.7	0.7
Muzaffarnagar District	3,044	0.577	1,034	2	15.3	14.4	-0.9	0.9
Mahrajganj	2,915	0.477	989	1	13.1	7.2	-5.9	2.5
Fatehpur District	2,879	0.518	694	1	12.0	6.1	-5.9	1.3
Siddharthnagar	2,792	0.456	966	1	12.6	4.4	-8.2	0.8
Mathura District	2,780	0.599	834	4	14.4	21.2	6.8	2.3
Firozabad District	2,730	0.571	1,136	1	15.8	10.5	-5.4	1.5
Mirzapur District	2,728	0.538	620	3	11.9	13.6	1.6	3.6
Faizabad District	2,699	0.539	1,155	1	15.3	8.2	-7.1	2.1
Basti District	2,691	0.478	1,003	1	13.2	7.1	-6.2	1.1

Column no:	1	2	3	4	5	6	7	8
Region	Population (000s)	HDI	Population density (per km ²)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity	Borrowers with 3+ loans (%)
Sultanpur District	2,646	0.523	937	1	13.7	6.0	-7.7	3.6
Ambedkar Nagar	2,623	0.542	1,118	1	15.2	7.7	-7.5	1.9
Rampur District	2,554	0.478	1,081	1	13.7	9.1	-4.6	1.5
Mau	2,412	0.574	>1200	1	16.3	8.9	-7.4	1.9
Balrampur District	2,350	0.435	703	1	10.5	6.9	-3.6	0.2
Pilibhit District	2,228	0.522	606	2	11.5	9.8	-1.7	0.5
Jhansi District	2,188	0.604	436	3	12.0	15.6	3.6	0.7
Chandauli District	2,135	0.571	841	3	14.0	15.1	1.1	4.6
Farrukhabad District	2,064	0.561	947	1	14.5	10.4	-4.0	0.2
Sonbhadra	2,037	0.546	296	3	10.0	13.3	3.3	2.5
Mainpuri District	2,020	0.572	733	1	13.3	9.0	-4.3	0.2
Jyotiba Phule Nagar	2,011	0.556	896	1	14.0	10.0	-4.1	3.8
Banda District	1,968	0.530	447	4	10.7	15.0	4.3	0.1
Kanpur Dehat	1,963	0.590	651	1	13.1	7.1	-6.0	0.3
Etah District	1,926	0.521	793	1	12.7	8.9	-3.8	0.3
Sambhal District	1,886					10.4		1.4
Sant Kabir Nagar	1,875	0.466	1,140	1	13.9	4.4	-9.5	1.1
Gautam Buddha Nagar	1,831	0.682	>1200	6	18.4	37.6	19.3	2.3
Jalaun District	1,827	0.589	401	2	11.5	11.2	-0.3	0.1
Kannauj District	1,813	0.569	868	2	14.1	10.6	-3.5	0.2
Kaushambi	1,746	0.506	983	1	13.6	7.3	-6.3	1.4
Etawah District	1,727	0.592	748	1	13.8	6.3	-7.5	0.4
Mahamaya Nagar	1,712		932			15.8		2.5
Sant Ravidas Nagar	1,700	0.554	>1200	1	15.9	10.6	-5.3	2.9
Kanshiram Nagar	1,573		806			8.4		0.1
Auraiya District	1,501	0.590	746	1	13.7	5.1	-8.7	0.2
Amethi District	1,500					9.4		1.0
Hapur District	1,463					21.4		2.9
Baghpat District	1,424	0.621	1,080	1	16.4	12.6	-3.8	0.6
Lalitpur District	1,332	0.519	265	5	9.3	18.4	9.1	0.1
Shamli District	1,275		1,199			13.6		0.4
Shrawasti	1,219	0.401	744	2	10.1	7.3	-2.8	0.1
Hamirpur District	1,207	0.552	301	4	10.2	14.0	3.9	0.1
Chitrakoot	1,083	0.574	337	3	10.8	12.6	1.8	0.7
Mahoba District	958	0.553	306	2	10.2	6.7	-3.5	0.1

Source: 1) India 2011 Census, UNDP; 2) India Planning Commission; UNDP; Uttar Pradesh Human Development Report 2008
3) Ministry of Statistics and Programme Implementation; 4-5, 7) MIMOSA; 6, 8) CRIF High Mark