



Outreach of Microfinance Finance Institutions in four focus states

(A Consolidated report on analysis of MFIs outreach in Bihar, Odisha, M.P., and
U.P.)

Poorest States Inclusive Growth (PSIG) Programme

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Abstract

Funded by Department for International Development (DFID), UK, Poorest State Inclusive Growth (PSIG) programme is being implemented by SIDBI. The programme aims to enhance the income and employment opportunities of poor women and men in 8 low income States by enabling them to participate and benefit from wider economic growth in India. The purpose of the programme is to improve income, and reduce vulnerability, of poor people and small producers, by expanding their access to finance. ACCESS-ASSIST works as a secretariat to implement policy advocacy component of the programme in the state of Bihar, M.P., Odisha, and U.P.

Between January and March 2014 four assessment studies were conducted by High Mark Credit Information Services under PSIG programme. The studies analyzed the outreach of MFIs in the four focus states viz. Odisha, Bihar, Madhya Pradesh and Uttar Pradesh. The following summary is based on the outreach reports and seeks to highlight the present micro finance scenario. With a focus on inter as well as intra state analysis the study tries to formulate a few relevant findings under the same context. It presents a list of the most attractive regions which hold huge scope for the development of the sector. Concluded by a few recommendations the study serves as a consolidated summary of MFI outreach across the PSIG states.

1. Background

The purpose of the PSIG programme is to enhance income and reduce vulnerability of economically underprivileged populations by facilitating their access to finance and markets through the creation of enabling structures for participation and outreach.

The four states covered under the programme, even though have significant area cover and population, at the same time are lagging far behind in terms of the socio-economic parameters such as sex-ratio, overall literacy, poverty levels, access to financial services, etc.

For instance Madhya Pradesh has a Human Development Index (HDI) value of 0.375 (2011), which is well below the national average. Having 35.65% of its population living below the poverty line MP also consists of 28 classified poorest districts in the country. Odisha being a huge repository of natural resources with a long coastline, lacks the necessary infrastructure support and governance mechanisms to develop on the requisites. Human development parameters measure poorly in the state of Odisha with a HDI value of 0.362 (2011), which is well below the national average. Uttar Pradesh does not represent a strikingly different picture altogether. With 29.4% of its population (5.9 crore) living below the poverty line, UP comprises about 35 districts which are classified under the poorest districts in the country. Similarly in Bihar, 33.74% of the population is below the poverty line with equally degrading social development parameters in terms of literacy, gender empowerment, etc. Further factors like

presence of high density of tribal populations, lack of technology based resources and significant presence of red corridors in some of the states have proved to be highly detrimental for the overall socio-economic development.

Concentration of economic activity in these four states is also lower as compared to the national average. Lower economic activity is further caused due to limited access to financial services in the given states. In Madhya Pradesh and Odisha for instance, around 46.40% and 45.04% households respectively, have direct banking relationship as against 58.70% being the national average. UP has only 16083 bank branches out of a total of 1.2lakh bank branches nationally, which is even lower in Bihar counting to only 4860 branches. Penetration of the existing institutions is further hindered by factors like low levels of literacy, lack of awareness, inefficient governance, etc.

The overall socio-economic parameters of the four states seem to reinforce the fact that serious measures need to be taken with a focus on economic/financial avenues to achieve a sustained rate of development. It is therefore important to recognize the role of Microfinance Institutions (MFIs) in providing financial services to the unbanked population. Accordingly, to assess the outreach of MFIs and impact of microfinance services provided by them, four assessment studies were conducted between January and March 2014 by High Mark Credit Information Services under PSIG. Individual state study report assesses the outreach of MFIs highlighting the trends in microfinance performance, analysis of credit quality and areas of concern in lending etc. In addition, MFIs' compliance to Code of Conduct is also studied in the reports.

2. Analysis

Trends in MFI lending

Although, it is widely recognized that access to financial services is best served through mainstream banking institutions; the role of Microfinance Institutions (MFIs) in providing financial services to the unbanked population is now being acknowledged. In the four PSIG focus states, MFIs have opened about 2,935 branches and are serving more than 83 lakh clients by providing credit and other financial services (MFIN Micrometer May 2015). Many MFIs registered as NBFCs have taken the role of BCs to enlarge their scope and scale of operations. However, a large part of the population still has limited or no access to or ability to use financial services in these states.

I. Geographical Penetration of MFIs

At the onset of the study, it is important to review the presence of MFIs in the four states. The following table represents the total number of MFIs along with the major organizations operating in each of the four states.

Table 1: MFIs operating in each State

Particular	Odisha	Bihar	M.P.	U.P.
Number of MFIs	23	21	37	22
MFIs with HQ in State	13	7	5	5
Major MFIs	Annapurna , Gram-Utthan, SMCS, Adhikar, Bandhan, SKS, Ujjivan	Cashpor, Bandhan, Sarvodaya Nano	SKS, Share, Spandana, Basix	Cashpor, SKS, Satin, Mimoza, Utkarsh

M.P. has the maximum number of MFIs operating within the state followed by Odisha, U.P & Bihar. High Mark data shows that microfinance activities are carried out in all 50 districts of the state. This may be due to reasons such as low political interference, significant improvement in road network, availability of field agents for servicing deeper geographies and ‘Blue Ocean strategy’¹ adopted by MFI’s in search of newer borrowers. On the other hand, lack of educational and infrastructural services in Bihar resulted in weak microcredit outreach by MFIs. According to Sa-Dhan, only 43 of the 75 districts in Uttar Pradesh actually witness any MFI activity. There are 17 districts amongst the poorest in India, where no MFI is currently operating. This points out to the available scope of MFI expansion in the state.

Further the spread of microfinance operations in the four states was found to be concentrated in only a few *taluks*, except in the case of Odisha.

Table 2: Concentration of MFIs across the States

State	No. of districts with MFI activity/ Total No. of districts	Concentration
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¹ Blue Ocean Strategy: It is about doing business where there is no competitor. It is about creating new markets not dividing up existing ones. Align whole systems of a company’s activities in pursuit of differentiation and on low cost.

Odisha	20 / 30	Top 20 taluks constitute only 30% of the total borrowers ²
Bihar	26 / 38	46% of the borrowers belong to 6 districts
M.P.	50 / 50	70% of the borrowers are from 15 districts
U.P.	43 / 75	30 taluks constitute 50% of the total borrowers

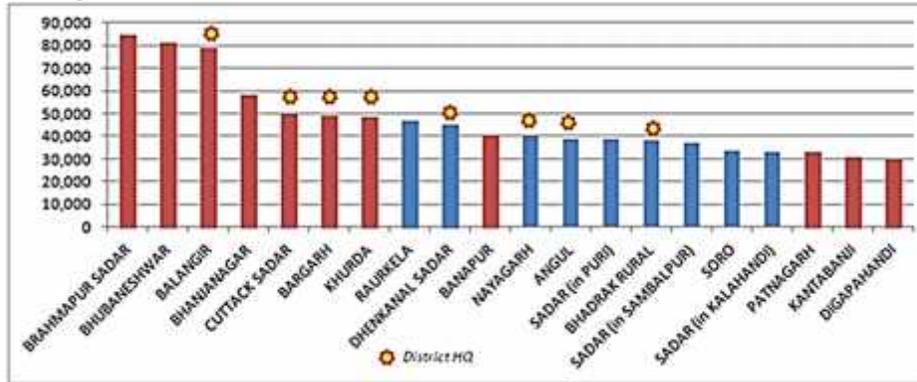
In Bihar, Patna has the highest number of borrowers followed by Saran, Muzaffarpur, Vaishali, Begusarai and Rohtas. These 5 districts comprised 46% of total borrowers in the state while the least borrowers were the districts of Arra, Khagaria, Kaimur, Banka and Gaya. Kaimur has the highest number of operating MFIs followed by Patna, Vaishali, Muzaffarpur, Bhojpur and Saran.

Although all the 50 districts of M.P. show microfinance activity, borrowers are concentrated in one third of the districts i.e. 70% of the borrowers are from 15 districts (key taluks of Indore, Jabalpur, Huzur, Ujjain, and Devas). In U.P. also the top 30 taluks constitute 50% of the total borrowers.

Microfinance operations are largely prevalent in 20 out of the total 30 districts in Odisha. In those 20, more than 70% of the borrowers belong to 12 districts viz. Ganjam, Khorda, Bargarh, Cuttack, Balangir, Baleswar, Kalahandi, Mayurbhanj, Sundergarh, Dhenkanal, Sambalpur and Angul. Unlike the other three states, in Odisha the concentration of borrowers only in a few selected taluks is the relatively low. The top 20 taluks constitute only 30% of the total borrowers. Amongst the top 5 districts, maximum concentration was observed in Balangir, where 3 taluks contribute to 85% of all borrowers. Moreover lending is not concentrated in the district headquarters, for example in Ganjam, which has the maximum unique borrowers in Odisha, the district headquarters Chhatrapur has only 3% borrowers. A figure depicting the existing trend in Odisha is presented below for reference.

² Found to be the only state among four with relatively less concentration of borrowers in a small number of taluks

Figure 1: Concentration of MFI activities across the districts in Odisha



II. Borrowers & Active Borrowers

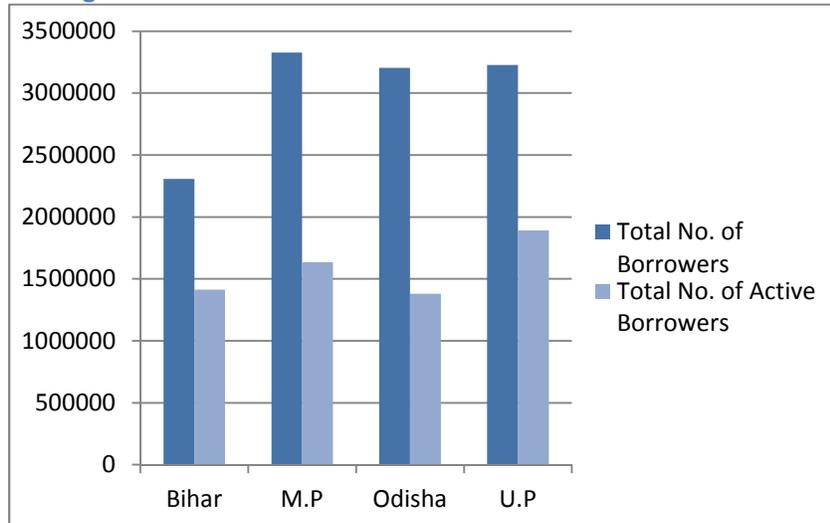
The following table represents data in terms of the total number of borrowers in each state followed by the active percentage of clients against that. It further presents data in terms of first time borrowers in 2013 across all the four states. Some analysis of the vintage data provided by High mark has also been provided in term of the total number of active borrowers across the locations over the last four years.

Table 3: State wise data- No. of borrowers, Active borrowers, first time borrows, vintage data

State	Bihar	MP	Odisha	UP
Total No. of Borrowers in 2014	23.08 lakhs	33.27lakh	32.02lakh	32.26lakh
Active Borrowers in 2014	14.14 lakh (61%)	16.33 lakh (49%)	13.79 lakh (43%)	18.92 lakh (58%)
First Time Borrowers added in 2013	2.6 lakh	4 lakh	4.8 lakh	6 lakh
Active Borrowers Since 2009-2013	8 lakh	7 lakh	8 lakh	10.6 lakh

According to the data, MP has the highest number of total borrowers, closely followed by Odisha and UP, with Bihar having the lowest. -

Figure 2: Total no. of borrows & active borrowers across states



Post the Andhra crisis, 2011 saw the maximum number of borrower exits in all 4 states. But since then, the states have been on their path to recovery with declining rates borrower exit. UP and Bihar have shown rapid rates in their recovery of active borrowers, closely followed by MP and then Odisha.

III. Ticket Size and Loan Portfolio

Ticket size refers to the average amount of loans being availed by the clients while the loan portfolio refers to the total amount already disbursed among the borrowers. The following table provides data in terms of the average ticket size and loan portfolio of the four states.

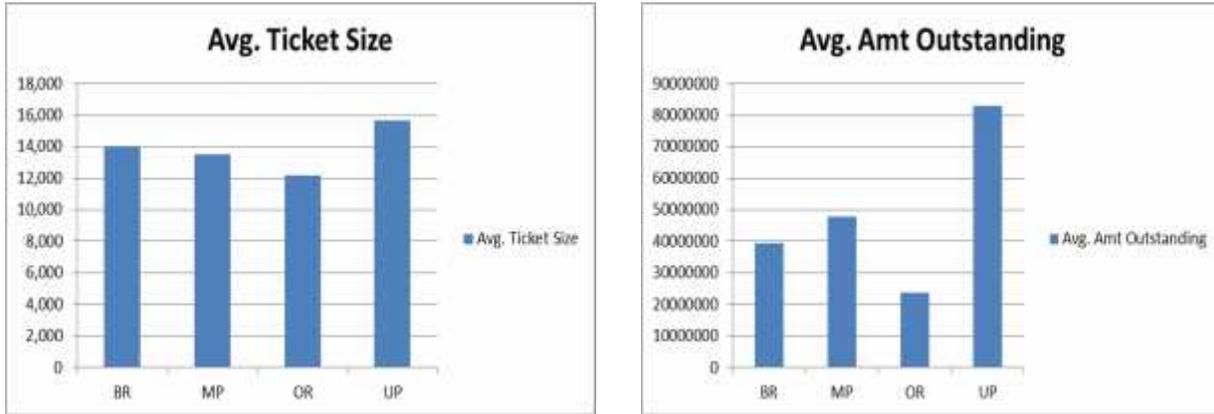
Table 4: Average Ticket Size & Avg. Loan Outstanding across states

States	Bihar	M.P	Odisha	U.P
Avg. Loan Outstanding*	3.9 cr	4.7cr	2.3cr	8.2cr
Avg. Ticket Size*	Rs13,980	Rs 13,538	Rs 12,165	Rs 15,639

(*As per March 2014 data)

The average ticket size ranges from the lowest in Odisha at Rs. 12,165 to the highest in U.P Rs. 15,639. On the positive note, the average ticket size was improved in 2013 across all the states. U.P. has the highest outstanding portfolio of MFIs i.e. Rs 2,127 crore with 27.4 lakh borrowers (March 2014). The other three states are far away from achieving loan portfolio of Rs 2,000 crore in spite of a large borrower base.

Figure 3: Average Ticket Size and Loan Outstanding

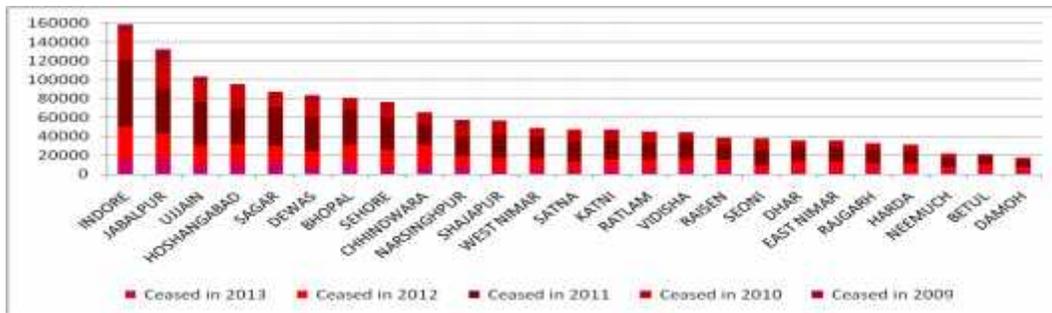


Similarly, U.P exhibits the highest amount of loan portfolio as compared to the other three states. With the highest number of active borrowers and highest loan ticket size, the average outstanding sums up to around Rs. 8.2 cr in U.P.

IV. Client Exit

Client Exit basically refers to the number of people who have exited or have ceased their credit transactions in a particular period. An increase in the client exit figures is obviously a deterrent for the growth of MFIs in the region.

Figure 4: Borrowers exit over the years in MP



MFIs in MP have since mid-2000 tried to bridge the existing gap in access to finance. During 2005 – 2010, several start-up MFIs started operations in the north-south corridor bordering western MP. However, it was towards the end of this period that several non-MP based MFIs who had started operations in the state (Sagar, Raisen, Rajgarh), exited their business. It is likely that this withdrawal by the MFIs caused several borrowers across the state (including large MFI districts such as Jabalpur, Indore, Ujjain, Hoshangabad to cease borrowings from MFI.

In Odisha too, only 38% i.e. about 10.9lakh borrowers were active in the year 2013. In the districts of Bargarh, Ganjam, Rayagada, Khorda, Koraput, Nayagarh and Kalahandi, more than 65% of borrowers have turned inactive.

Figure 5: Active & Inactive borrowers by districts in Odisha

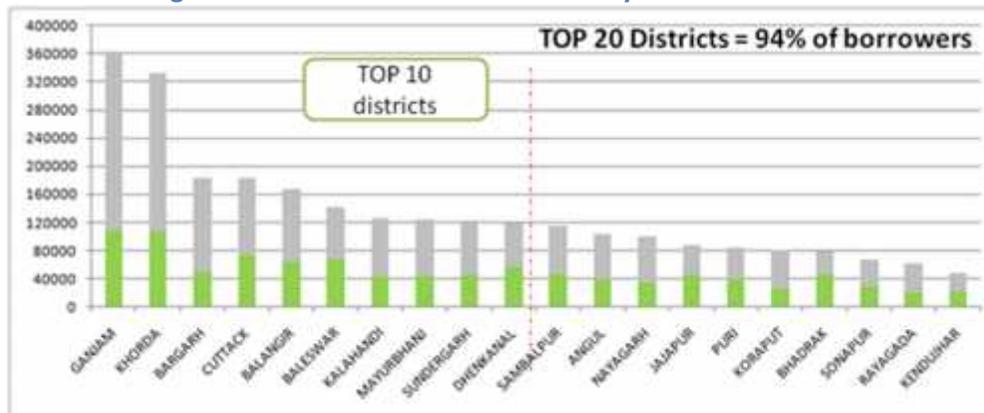
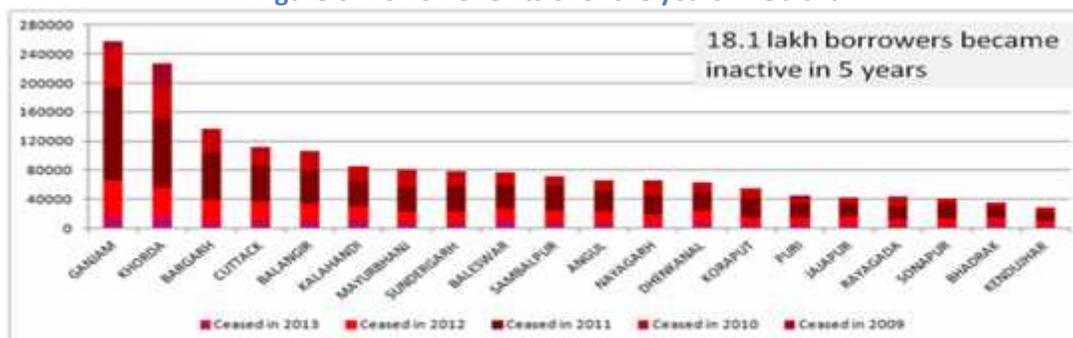


Figure 6: Borrower exits over the years in Odisha



This large exit of borrowers from the system in Odisha can be explained by factors like, natural disasters, the Andhra Pradesh crisis, heightened Naxal activity etc. 2011 was an especially bad year when almost all the river systems i.e. Mahanadi, Brahmani, Baitarani, Subarnarekha, Budhabalang and their tributaries flooded simultaneously affecting almost 30 lakh people. Certain areas like Malkangiri, Ganjam, Koraput, Gajapati, Rayagada, Mayurbhanj, Sundargarh, Deogarh, Kandhamal also fall in the “Red Corridor”, comprising of areas with heightened Naxal activity. Another significant cause would have been the collapse of a lot of Andhra Pradesh based MFI institutions.

However all four states experienced a drop in client exits in 2012 and 2013. Possible reasons for the stemming of outflow of borrowers and enhancement in new borrowers across the four states in recent years could be the significant Improvements in disaster management & governance infrastructure. Expansion of business outside the traditionally strong areas by MFI’s (southern parts of India) could also be a reason.

3. MFI & Social Indicators

Micro finance initiatives formally focus on women population to promote empowerment avenues through micro credit disbursal and enterprise development. Economically active women or working women in the age group of 15-59, therefore form an important segment of potential borrowers for MFIs.

Data indicates that the penetration of microfinance amongst Economically Active Female Population (EAFP) across all the states is miniscule. Around 47.27% of MP's working female population is economically active for at least 3 months in a year out of which only 10% is covered by MFIs. Even though districts such as Rewa, Satna, Dhar, Gwalior, West Nimar, Morena have a high population of economically active women (as per 2011 census), the current client penetration of MFIs in these districts is low. Indore district has over 9 lakh economically active population, but has just 11% coverage of this segment. (Annexure-1)

Similarly in Bihar the rate of penetration of MFIs amongst EAFP is extremely low with an average of less than 2% across the 38 districts. Districts such as Saran, Vaishali, Buxar, etc. have around 8% reach in the same category. Despite the fact that in 2013 some of the most penetrated districts registered impressive increase in the numbers of new borrowers entering the system, the addition of borrowers amongst economically active females was negligible

U.P. and Odisha do not seem to present a strikingly different picture. In U.P. the average MFI penetration among EAFP is less than 2%. While the level of female literacy is high (e.g. Ghaziabad has a literacy rate of over 81%), only 7% penetration amongst the active female population is concerning. Some of the districts with comparatively higher rate of penetration include Varanasi, Mirzapur, Saharanpur, etc. with an average of around 10-12% reach among EAFP.

Like the other states MFI penetration in Odisha's economically active female population is negligible. Sonapur being one of the few districts having a comparatively higher level of penetration has only 5% outreach among the economically active female population. It is however interesting to note that there appears very little correlation between female literacy & extent of micro-lending in Odisha as displayed in the supporting figures.(Annexure-1)

Low levels of MFIs penetration among working female populations could be linked to the prevailing literacy rates and relatively better access to formal banking channel among the group. However generalizing such an explanation may not be reasonable given the difference in each state's context. For example, Khorda in Odisha has the highest level of female literacy in the state along with a significant active borrower base. Nevertheless, such an analysis could

serve as a learning experience. The considerable percentage of working females in all the four states gives the microfinance sector enough opportunities and space for further expansion. (Annexure- 1)

4. Credit Quality

- **Performance - Loans at Risk (LAR) and Portfolio at Risk (PAR) parameters**

The following table gives consolidated information on the overall performance (both loan & portfolio) of all the four states.

Table 5: Portfolio Quality

Particular	Odisha	Bihar	M.P.	U.P.
Loans at Risk (LAR)	16.18%	NA	NA	1.93%
Portfolio at Risk (PAR)	13.53%	NA	NA	0.9%

The four focus states display a relatively positive performance on both Loans at Risk (LAR) and Portfolio at Risk (PAR) parameters. The variation among different district within each state is also not concerning.

For instance, amongst the top twenty states with outstanding MFI portfolio, while MP ranks 8th in terms of overall portfolio size, it ranks 13th in terms of 1-60 days delinquency rate. Barring certain *taluks* of Shajapur, Ujjain, Bhopal, Dewas, Sehore & Satna, the 30+ delinquency rates is less than 2% in the state. It is however observed that certain high delinquency zones are also areas where large number of loans was disbursed in 2013 (e.g. Taluks in Bhopal, Jabalpur, Indore, Satna, Sehore).

Odisha having LAR at 16.18% as against the national data of 19.69% and PAR at 13.53% against the national figure 25.41%, presents a relatively positive credit performance. Certain pockets like Mayurbhanj, Bargarh, Kalahandi have the average LAR greater than the national figure while areas like Baleswar, Nayagarh have PAR higher than national average.

Bihar has demonstrated a much better credit performance on both Loans at Risk (LAR) and Portfolio at Risk (PAR) parameters. Few districts such as Saran, Vaishali, Kishanganj, Araria have lower LAR & PAR as compared to the other districts making them less risky regions.

Similarly U.P. shows a positive performance report for both LAR & PAR. Having LAR at 1.93% as against the national data of 19.69% and PAR at 0.90% against the national figure 25.41%, the

state has a relatively positive credit performance. Barring certain regions in the state, most of the districts have a positive credit performance.

Compliance to Code of Conduct

According to available data, lenders are implementing adequate credit risk controls before lending to borrowers in all four states, as demonstrated by the low incidence of “noncompliance”.

Table 6: Compliance to Code of Conduct across states

Particular	Odisha	Bihar	M.P.	U.P.
Relationship with >2 lenders	2.54%	0.4%	1.03%	0.4%
Early follow-on loans (second loan with in 15days of previous one)	1.2%	0.8%	2.77%	NA

Although the states demonstrate an overall positive performance in terms of the compliance parameter, there are a few areas of concern in each state. Following can be seen as some of the ‘warning Signals’:

- Substantial number of borrowers in the *taluks* of Indore, Bhopal, and Ujjain are servicing more than 2 loans and are actively associated with more than 2 lenders, than anywhere else in MP; Shahdol, Mandla, Burhanpur, and Balaghat have higher compliance.
- 3 districts are above the state average in noncompliance in U.P. i.e. Varanasi, Saharanpur and Allahabad where there are borrowers with loans from 4 or more MFIs. Urban centres like Varanasi, Saharanpur, Allahabad and Ghaziabad have maximum number of people servicing loans from two or more lenders.
- Patna, Purnia, Bhojpur, and Gaya districts of Bihar have people availing loans from 2 or more lenders.
- In 7 districts of Odisha (Mayurbhanj, Puri, Cuttack, Dhenkanal, Khordha, Koraput, Sundergarh) clients are associated with more than 2 MFIs.

5. SWOT Analysis

SWOT analysis comprising the four focus states is given below. It gives us an understanding of the current trends, resources and opportunities present across the states.

Strengths 1. MFI compliant environment - Only 0.04% to around 2% of the active borrows are engaged in	Weaknesses 1. Agriculture dependent economy - Agriculture related risks can affect the credit system
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<p>more than two lenders across the four states</p> <p>2. Positive payment record of borrowers</p> <ul style="list-style-type: none"> - Only 0.08% to 2% of the active borrowers are provided a second loan within 15 days of the previous one 	<p>2. One of the Lowest Credit/Deposit Ratio in India</p> <ul style="list-style-type: none"> - Except UP other three focus states are far away from achieving 2,000 crore loan portfolio in spite of large number of borrowers -
<p>Opportunities</p> <p>1. Many high literacy and economically active pockets still underpenetrated</p> <ul style="list-style-type: none"> - For instance, large parts of Bihar are under penetrated. Saran, being an economically active pocket, has around only 12% of the active population exposed to micro credit. <p>2. Significant scope for addition of first time borrowers</p> <ul style="list-style-type: none"> - E.g. In UP around 32 districts are yet to be penetrated by the MFIs 	<p>Threats</p> <p>1. Slippages in credit appraisal by MFIs in quest for blue ocean sales</p> <ul style="list-style-type: none"> - Blue Ocean strategy adopted by MFIs in search of newer borrowers in fresh geographies while avoiding credit concentration amongst borrowers in highly penetrated geographies <p>2. Presence of significant Red Corridor- naxal activity (Bihar, Odisha)</p> <ul style="list-style-type: none"> - Large parts of Bihar and Orissa fall under the risk of Naxal activities making the regions highly volatile to carry out micro credit activities

6. Attractive Districts for Microfinance Penetration

Districts in each state are further reviewed in terms of their 'potential' parameter. This analysis would help identify the regions displaying growth opportunities for MFIs operating in the district. The potential of the districts is studied based on three aspects a) Penetration vs. Population b) Active loans per borrower c) Inactive Borrowers.

In Bihar for instance, large parts still seem to be underpenetrated. In Saran, which has the maximum number of active borrowers, only 12% of the economically active population have access to micro credit. In terms of loans per borrowers, 2013 saw fresh infusion of many new borrowers into the microfinance system. A very large set amongst these fresh borrowers can be considered for second loan and thus present growth opportunities. Further, a large chunk of borrowers who exited the Microfinance borrowing in 2011 were mainly from districts of Patna, Muzaffarpur, Begusarai, and Vaishali. This can serve as a potential lookout and exited borrowers can be brought back into the system. (Annexure 2)

In MP on the other hand, districts such as Rewa, Satna, Dhar, Gwalior, West Nimar, Morena have high population of economically active women population (as per 2011 census), but the

current client penetration for microfinance in these districts is sub-par. Indore district has over 9 lakh economically active population, but still has just 11% client penetration. Districts like Jabalpur, Hoshangabad, Sagar and Ujjain on the contrary have reasonably significant microfinance penetration. Many borrowers however exited the Microfinance borrowing in 2011 and 2012 mainly from districts like Indore, Bhopal, Chhindwara, Hoshangabad, Ujjain and Jabalpur. These exited borrowers can be brought back into the system to strengthen the outreach of MFIs. Further like Bihar, MP also saw fresh infusion of many new borrowers into the microfinance system in 2013. Districts of Balaghat, Betul, Chhattarpur, Dhar, Harda and Mandsaur have one loan per borrower and therefore are considered to have growth potentials for second loans. (Annexure-2)

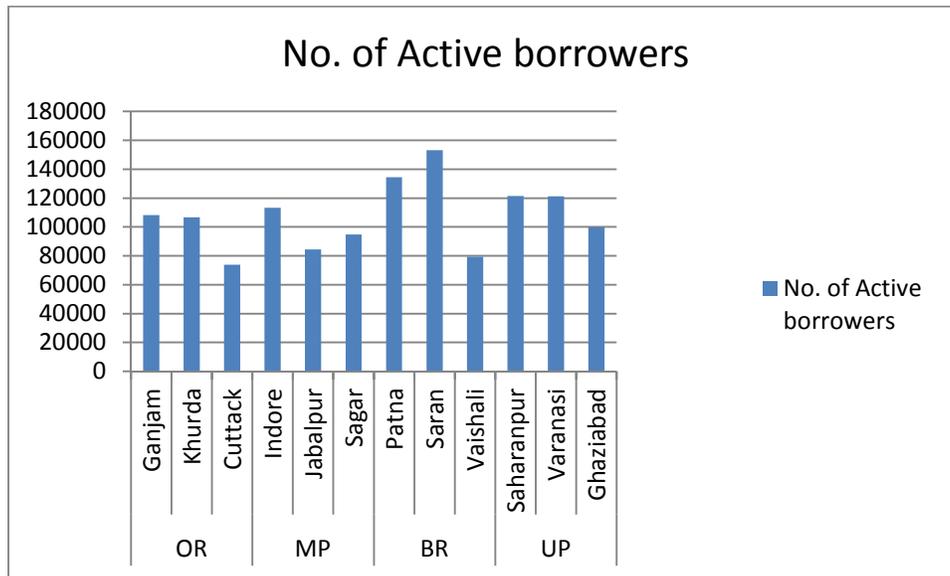
Large parts of Odisha are also underpenetrated by the MFIs operations. For e.g. even in Ganjam, which has the maximum number of active borrowers, only 10% of the economically active population have access to micro credit. Additionally, high literacy districts such as Jagatsinghpur, Kendrapara, Jharsuguda and Debagram have miniscule microfinance activity at present. These districts naturally show potential for increased penetration of MFI's. In Odisha also there was a fresh infusion of many new borrowers into the microfinance system in 2013. A very large set amongst these fresh borrowers can be considered for second loan and thus presents growth opportunities. Similarly borrowers who exited the system in 2011 mainly belonged to Ganjam, Khorda, Bargarh Cuttack and Balangir and can be brought back into the system.(Annexure-2)

Currently, in U.P a significant portion of around 32 districts is yet to be penetrated by MFIs. Further areas which are already penetrated by MFIs exhibit huge scope of improvement. For e.g. in Saharanpur, which has the maximum number of active borrowers, only 11% of the economically active population have access to micro credit. A large chunk of microfinance borrowers existed the system in 2011 mainly from districts like Saharanpur, Allahabad, Ghaziabad, Jaunpur and Varanasi, who can be brought back into the system through proper measures.(Annexure2)

Most attractive districts in terms of total number of active loan borrowers

The following figure depicts the total number of active borrowers across the top three districts from all the four focus states in the sequence of Odisha, Bihar, M.P and U.P. The total number of borrowers in Bihar is much lower than the other three states however, in terms of number of active borrowers Saran (Bihar) has the maximum count. Saran is followed by Patna (Bihar) with the second highest number of active loan borrowers across the locations. Saharanpur and Varanasi (U.P) seem to have almost an equal number of active loan borrowers making them the best regions in this context. These regions having a substantial number of active borrower population exhibit positive scope for second term loans as well.

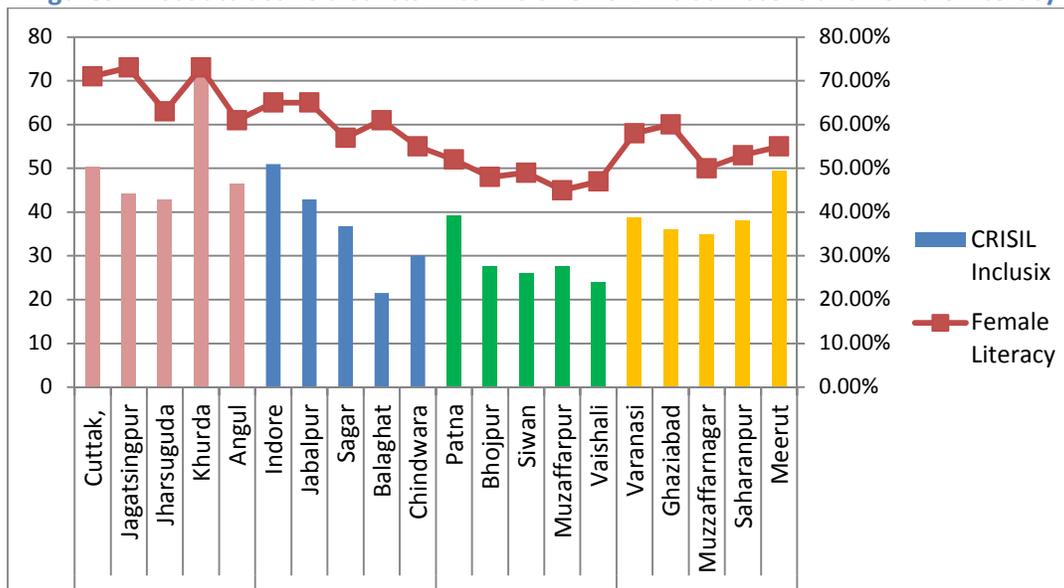
Figure 7: Most attractive districts in terms of total number of active loan borrowers



Most attractive districts in terms of Crisil Inlcusix score and Female literacy

The following figure presents the most attractive districts across the four focus states in terms of their inclusix score and percentage of female literacy. The CRISIL Inclusix score is a proprietary index developed by CRISIL to measure India’s progress on Financial Inclusion using data for formal banking channels. It is broadly based on three dimensions – branch penetration, deposit penetration and credit penetration. In Odisha, Khorda has the maximum Inclusix score as well as the highest percentage of female literacy (70%).

Figure9: Most attractive districts in terms of CRISIL Inclusix score and Female Literacy



In M.P, Indore has the best performance in terms of the Inclusix score and female literacy. Similarly in Bihar, Patna has the highest inclusix score, around 40 and has a female literacy of around 50%. In U.P however, even though Meerut displays the highest inclusix score of around 50, the female literacy rate is much higher in Ghaziabad touching almost 60%. Amongst the four focus states Khorda district in Odisha has the best performance in terms of both the Inclusix score as well as rate of female literacy, making it the most attractive district in terms of the given parameters.

7. Recommendations

1. Incentivize adoption of continuous portfolio monitoring mechanisms by MFIs so that “warning signals” can be detected sufficiently in advance

Adherence to MFI regulatory guidelines is important to ensure sustained and responsible growth of the sector and to avoid over-indebtedness crisis in future. The instances of non-compliance indicated in this study pertaining to (1) borrowers with more than two active loans and (2) follow-on loans within 15 days of closure of previous loan, should be addressed in order to avoid over-lending in certain pockets. Investors and lenders should incentivize close portfolio monitoring by MFIs and ensure compliance. Advocacy should be done to persuade some MFIs to move out of areas which have higher MFI presence and indications of saturation. In general, compliance to Code of Conduct and RBI guidelines for MFIs should be monitored closely through shared sector level data.

2. Promote growth in districts with higher female literacy

The overall analysis demonstrates that there lies a huge scope for the microfinance sector to grow and develop in areas with higher level of female literacy. Particular regions with higher female literacy rates are also the areas which are the least penetrated by microcredit activities. Under such situations, it is important to take adequate measures to ensure a greater coverage by the MFI sector. Targeting women in areas with high female literacy but low penetration may be prospective areas for MFIs to expand operations.

3. Expansion of MFI operations in under/unserved areas. Increasing access to MFI borrowing in newer districts.

MFIs should also be incentivized (by lenders and investors) to expand operations to areas which have very less or no MFI penetration, based on analysis available from credit bureau data. This study shows that 87% of all MFI borrowers in UP reside in 20 districts, while there is no MFI presence in 17 poor districts of the state. Cognizance of such data should be taken at the sector level and concerted steps taken jointly by stakeholders to harmonize geographical growth and

penetration. Penetration to difficult geographies should be supported through patient/grant based funding.

Annexure -1

Figure 1: Active Unique Borrowers as a percentage of economically active female population in M.P

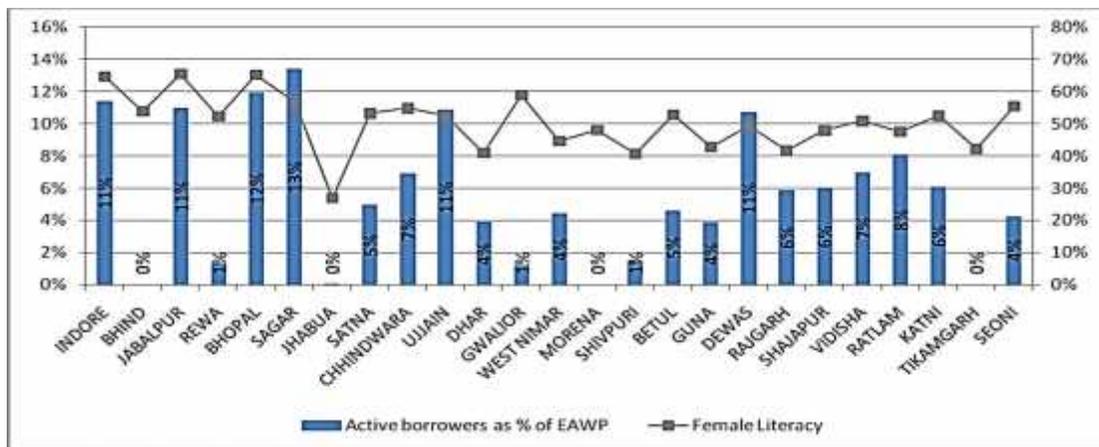


Figure 2: Increase in borrowers amongst Economically Active Females (2013) in U.P

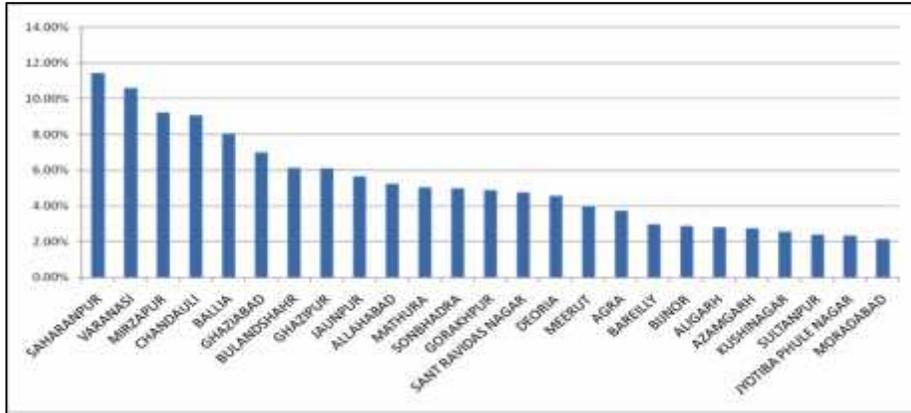


Figure 3: Active Unique Borrowers as a percentage of economically active female population in Bihar

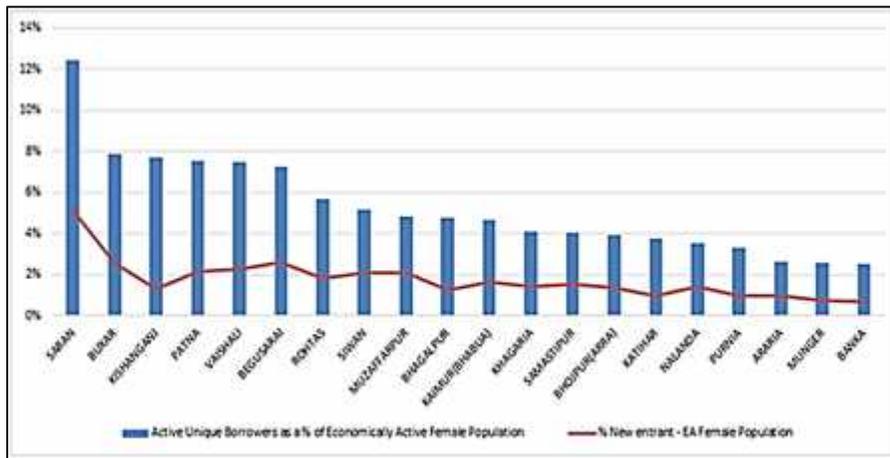
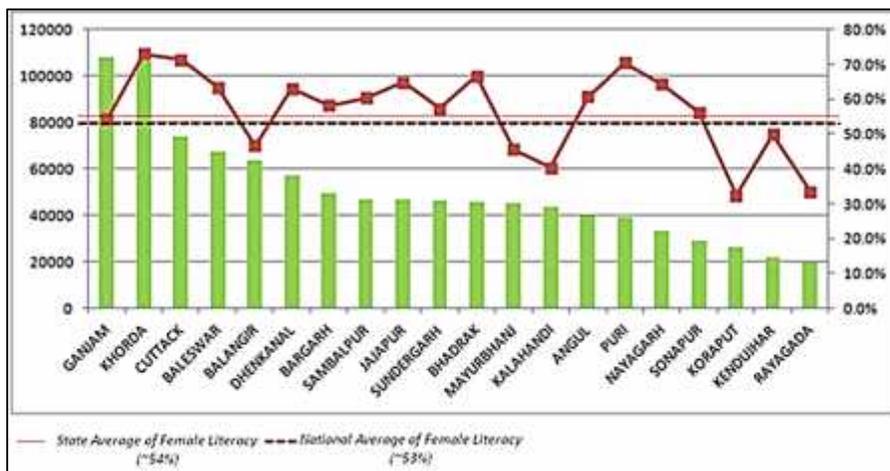


Figure 4: Active Borrowers & Female Literacy Rates in districts in Odisha



Annexure -2

Figure 2: MFI penetration as percentage of population in Bihar

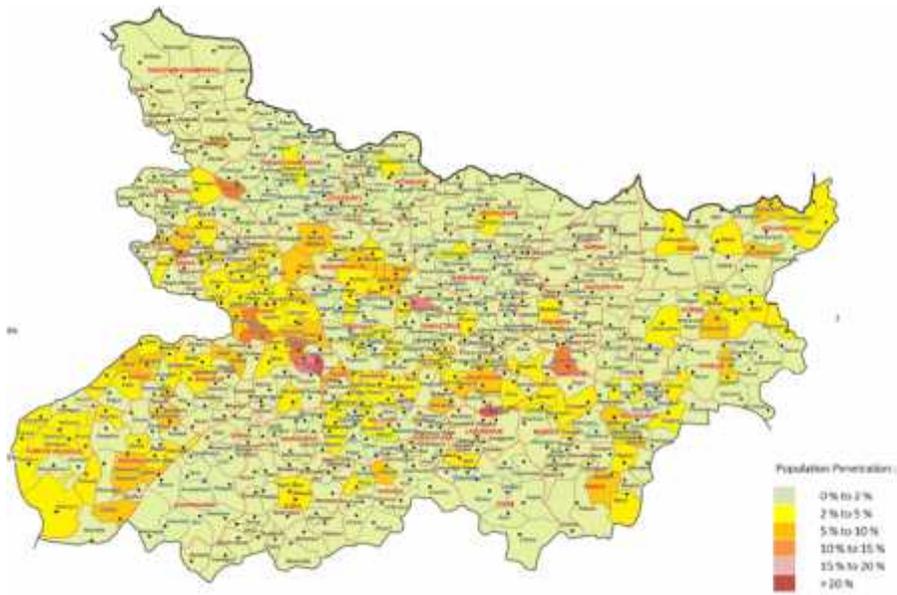


Figure 20: MFI activity measured via disbursements in Bihar

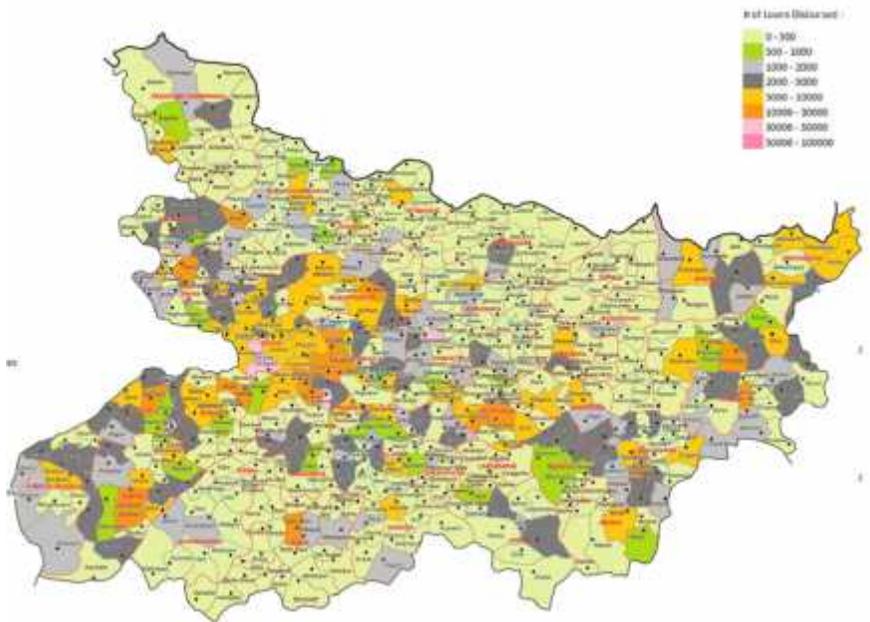


Figure 21: Identifying the Good zones and Bad Zones in Bihar

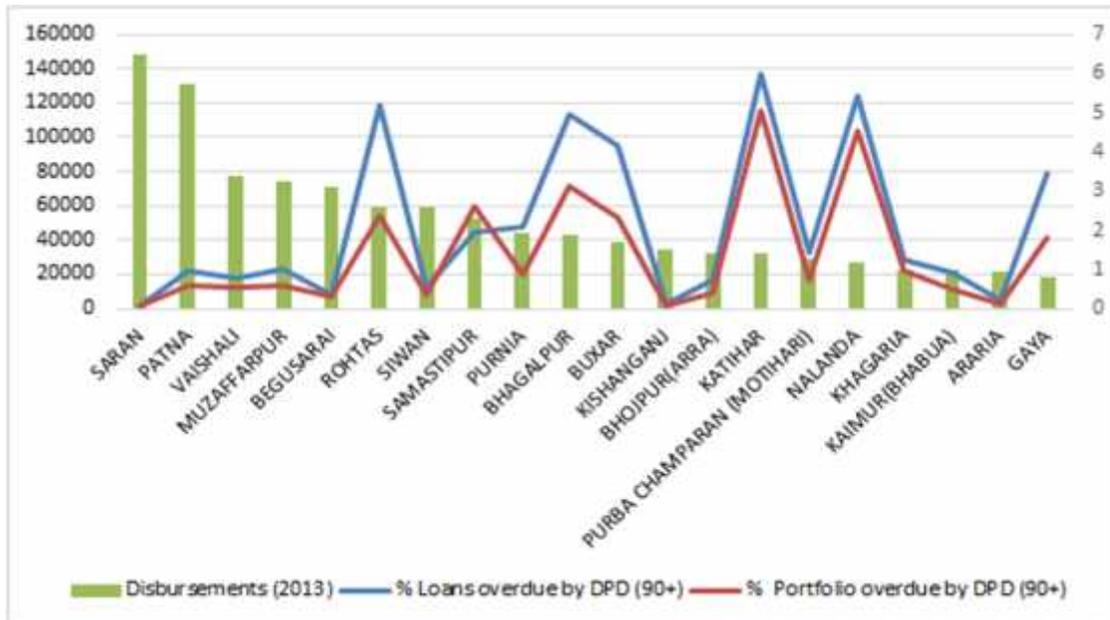


Figure 15: Potential vs Penetration (M.P)

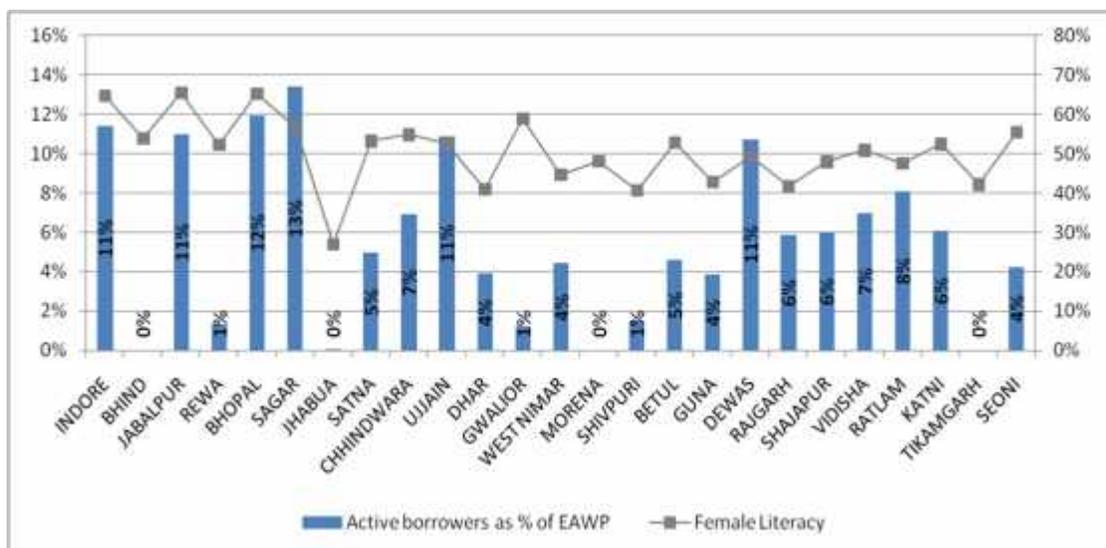


Figure 19: MFI penetration in Economically Active Females (Odisha)

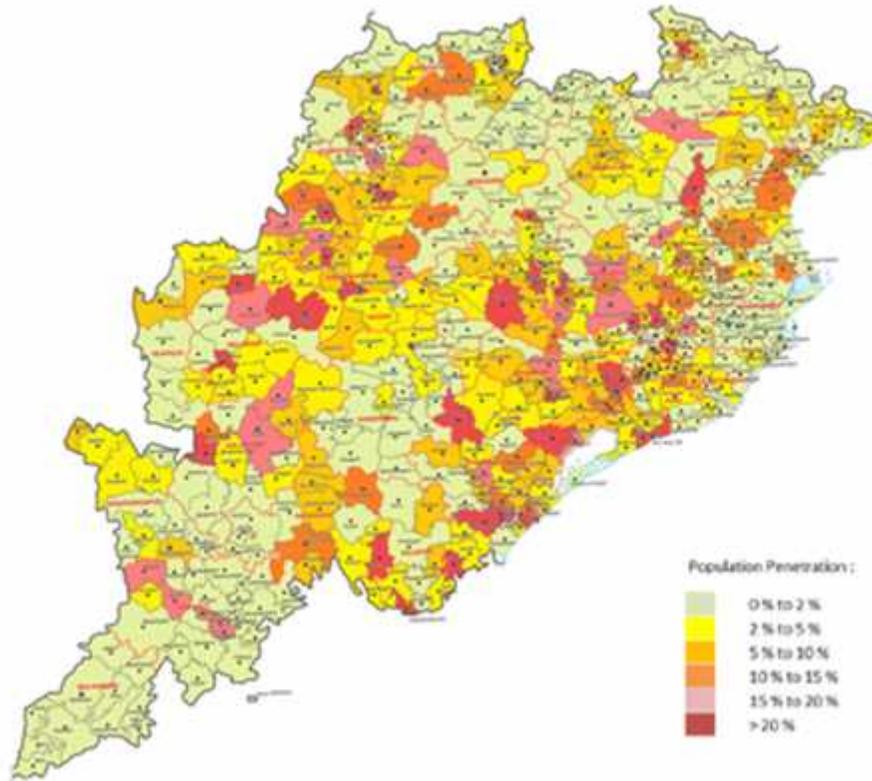


Figure 20: Active borrowers in districts with high female literacy(Odisha)

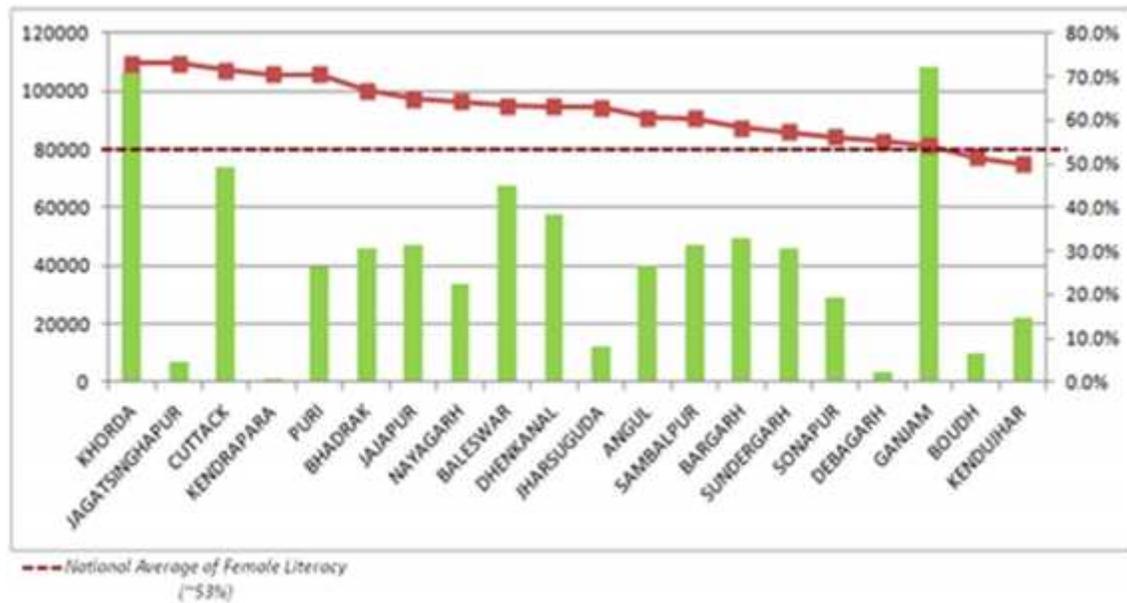


Figure 16: MFI penetration as percentage of population(U.P)

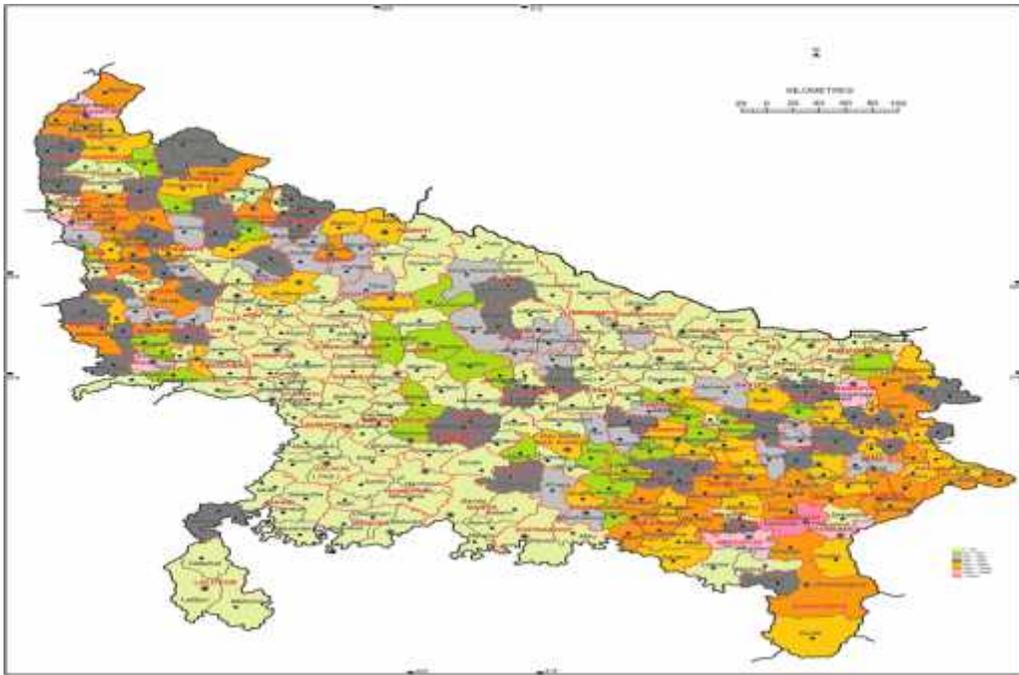


Figure 20: MFI activity measured via disbursements(U.P)

