

Presentation at
ICRIER's Financial Sector Seminar
5th February 2008, 12.30pm



Microfinance in India: What do we know?

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Presentation Outline

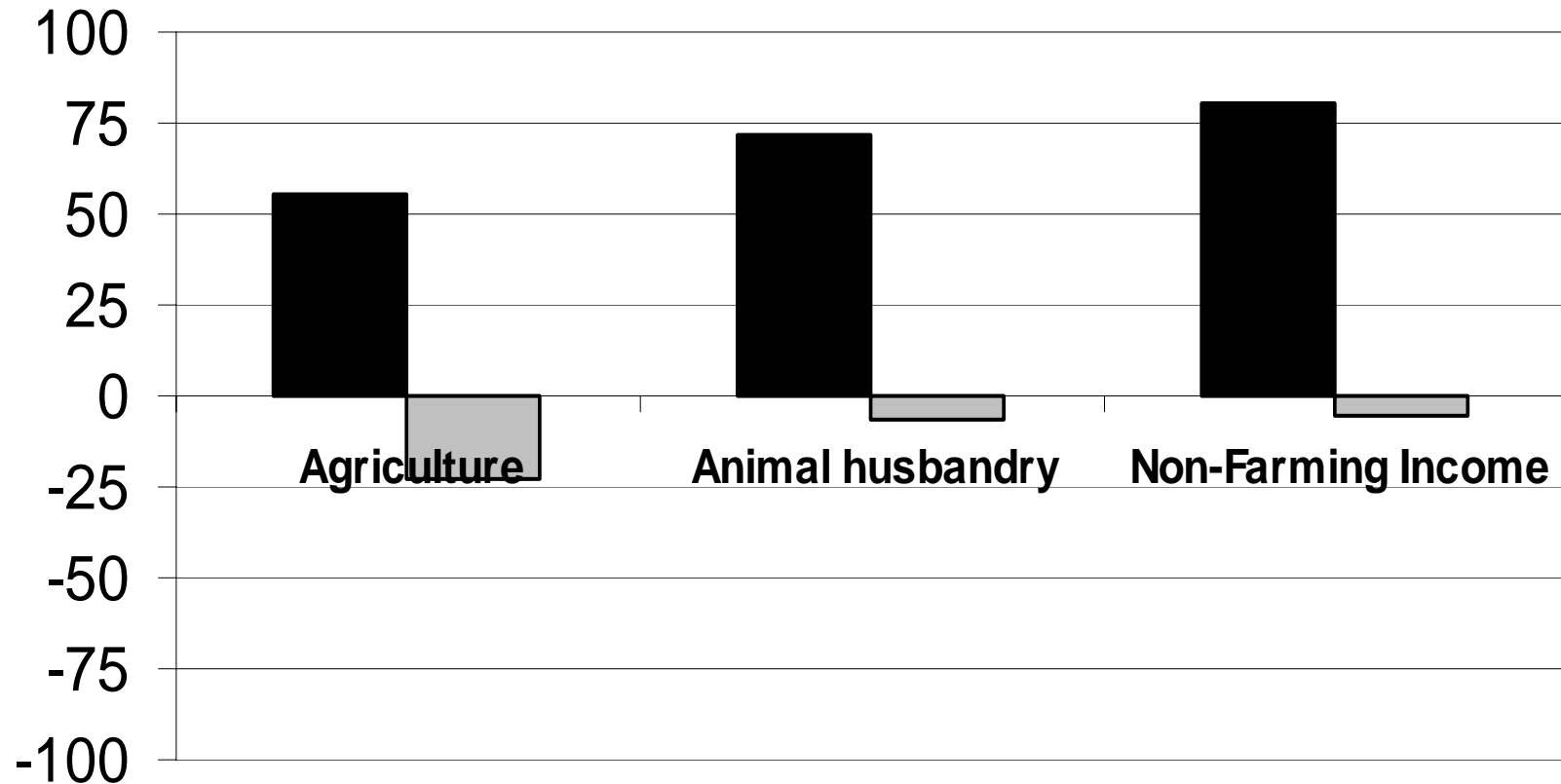


- 1 Microfinance Sector** – overview over trends of gross loan portfolio and customer volumes and impact
- 2 Microfinance providers** – what are their profiles, how will they change?
- 3 Way forward**
 - Properties and range of current and future Microfinance products

Along with increased income, microfinance clients have diversified their income sources, assets and loan-purposes (investments).

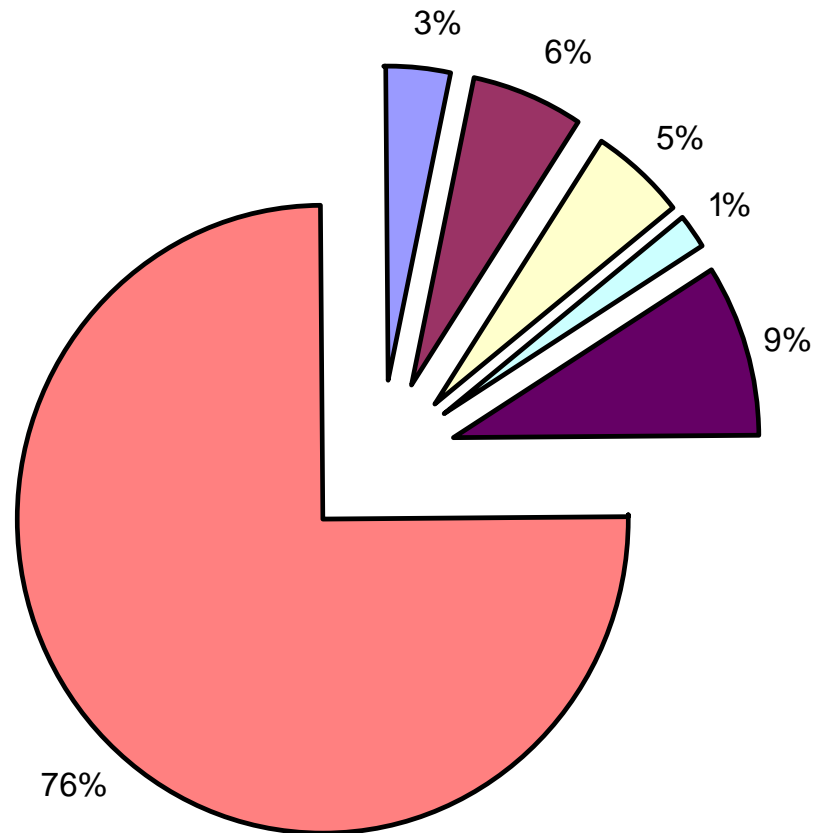


% of Clients who report **increased (+)** or **decreased (-)** income



1 mF Sector

REGIONAL SPREAD OF SHG BANK LINKAGE



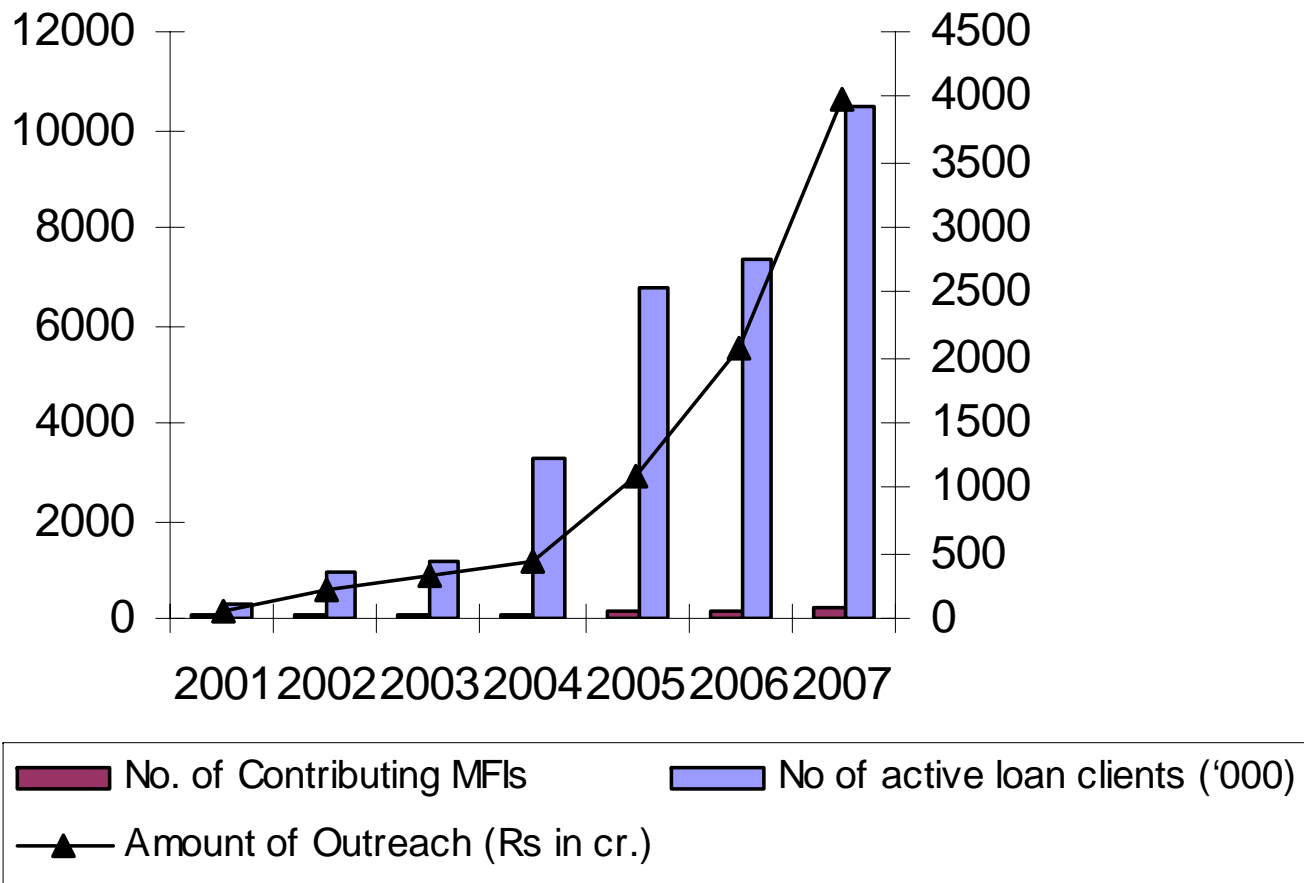
1 mF Sector

Supply of Microfinance (March, 2007)

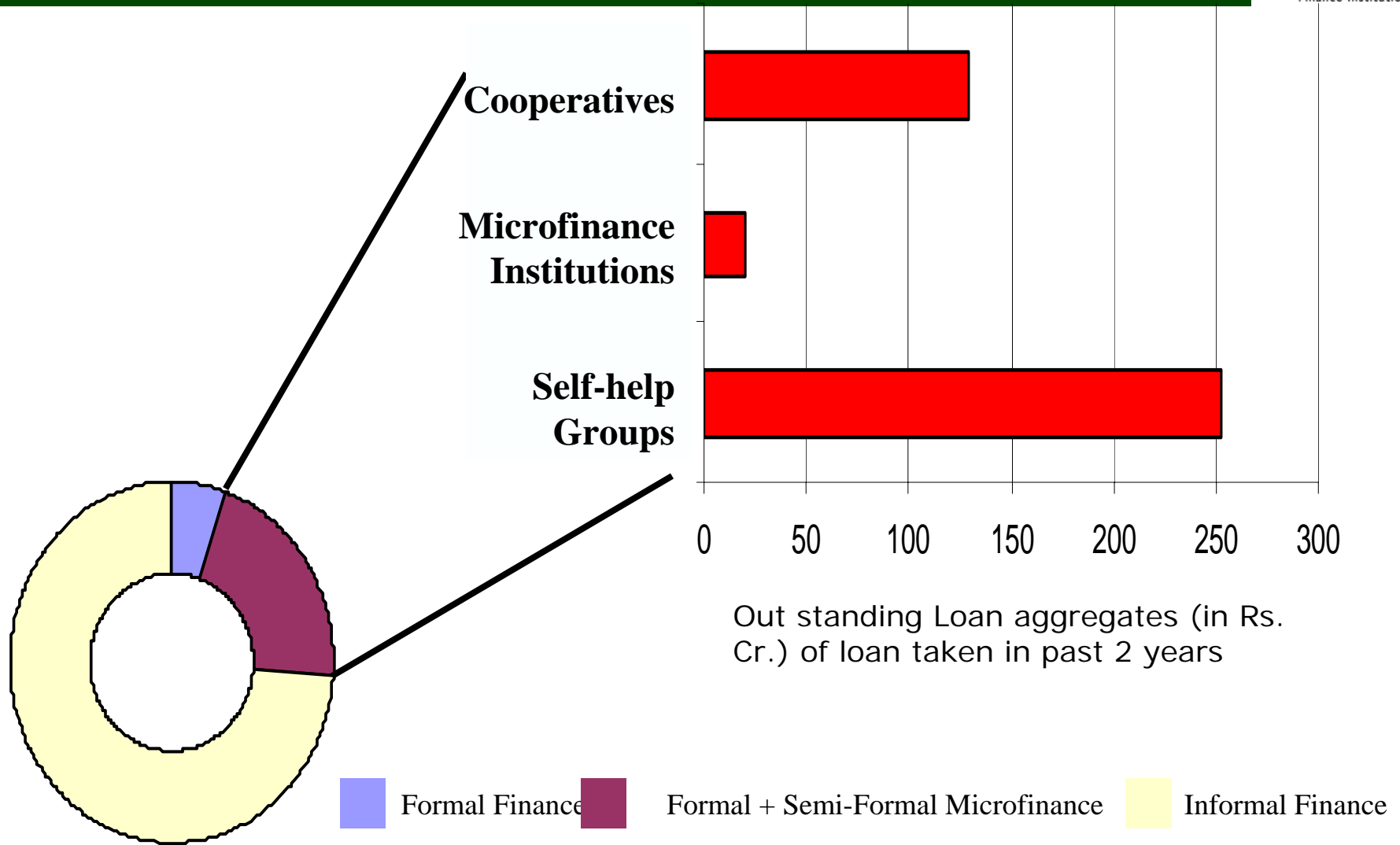


Mf Channel	No. of active loan clients (lakhs)	Amount of outstanding loan portfolio (Rs. Cr.)
Self-Help-Groups (SHG)-bank linkage	64	7,081.50(64)
Microfinance Institutions (mFIs)	104.94	3,987.10(36)
Total	168.94	11,068.60

184 Sa-Dhan-member-MFIs serve over 1m clients

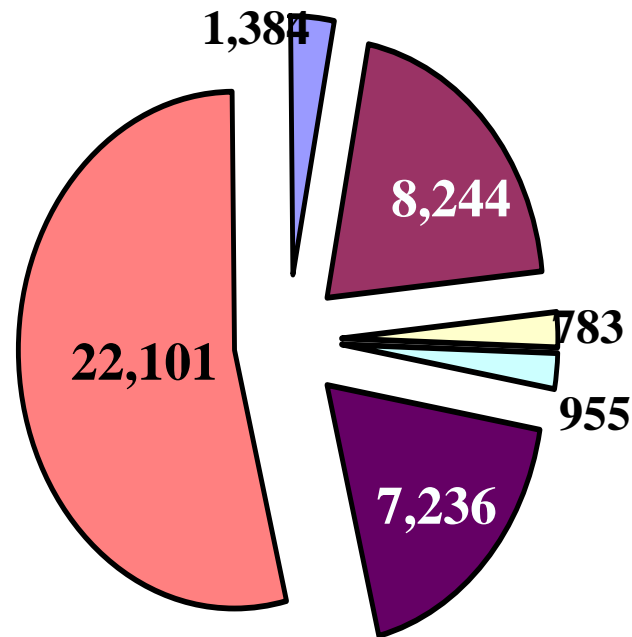


Yet, the lion's share of financial services is – still! – sourced from informal providers.



Moneylenders remain a stronghold of financial service provision

Aggregate Outstanding debt with Moneylender (Rs. Cr) 2007



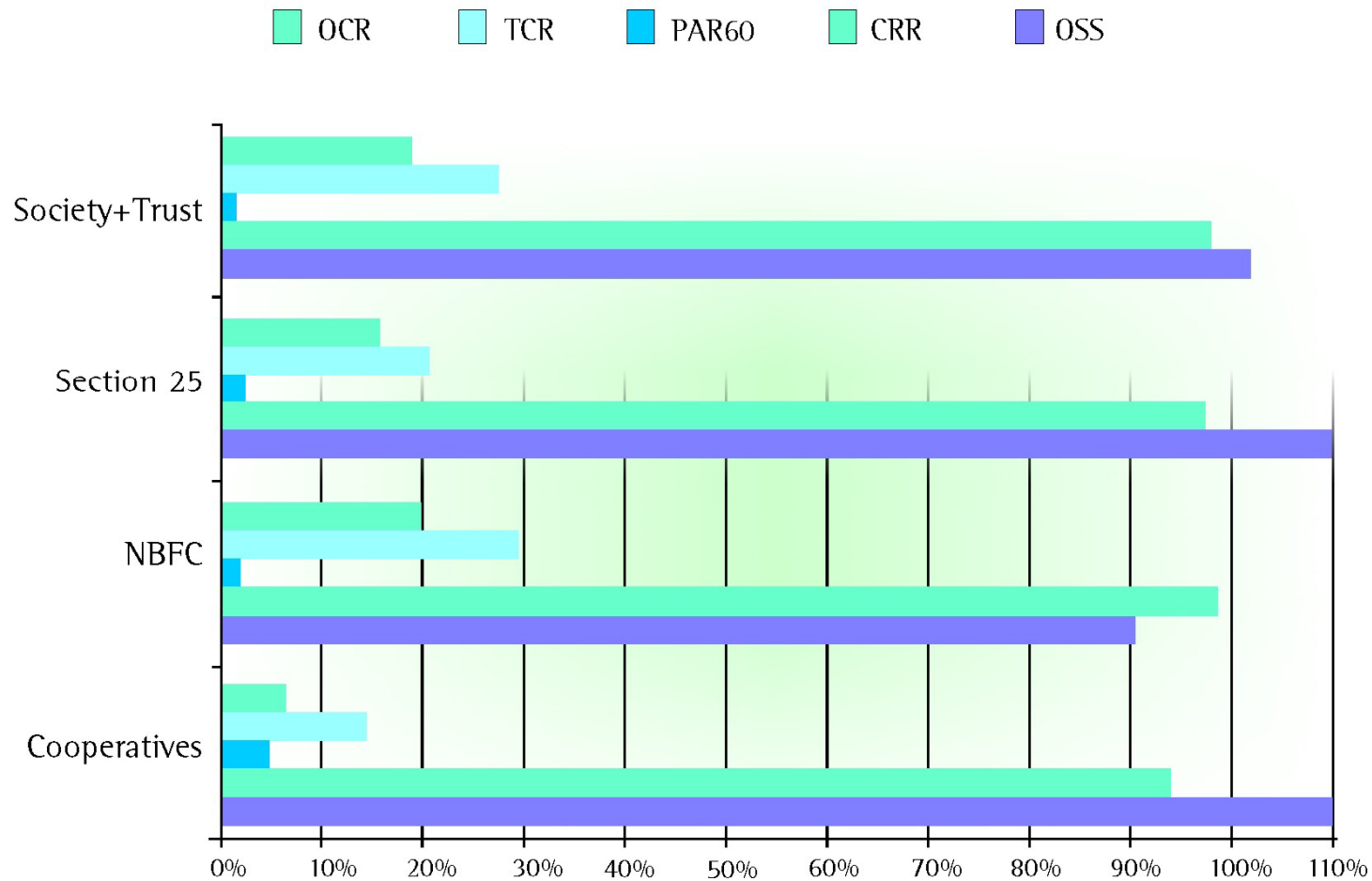
All India: 40703

■ North ■ Central ■ West ■ Northeast ■ East ■ South

Formal microfinance is provided under various legal formats – mutual benefit; not for profit; for profit



Graph 3.3: Performance 2007, by legal status

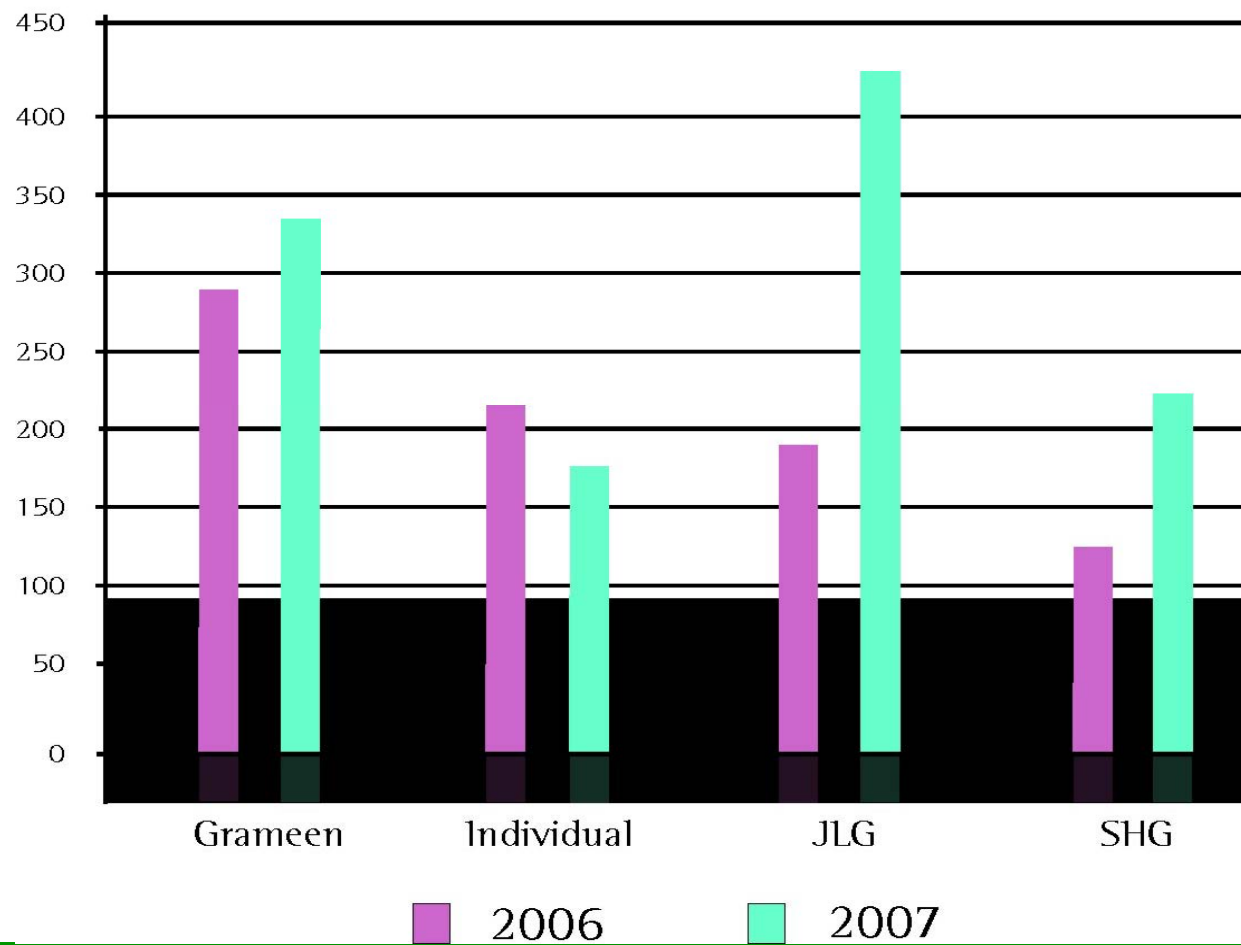


2 mF Providers

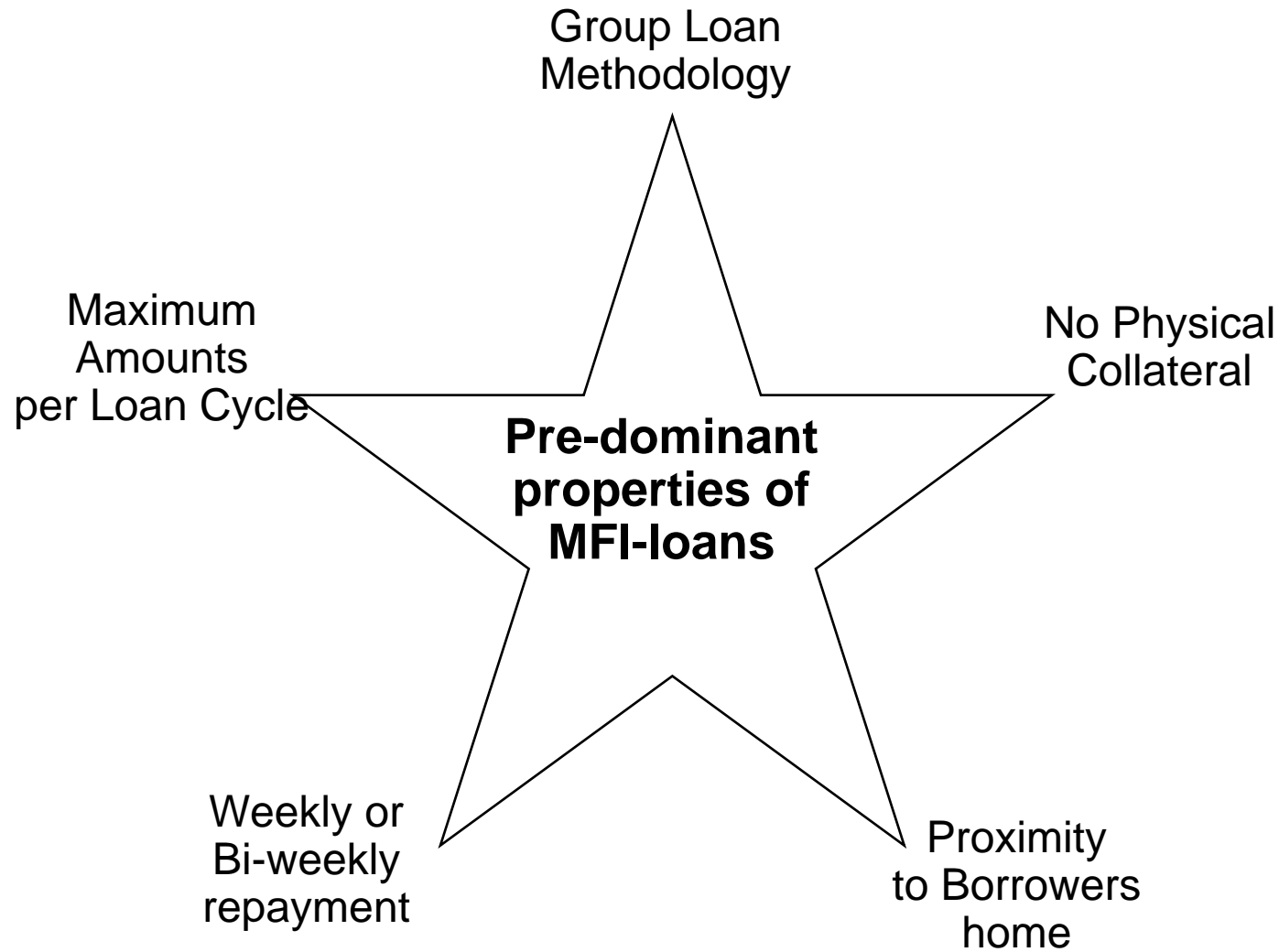
Sa-Dhan-members engage successfully in various lending models



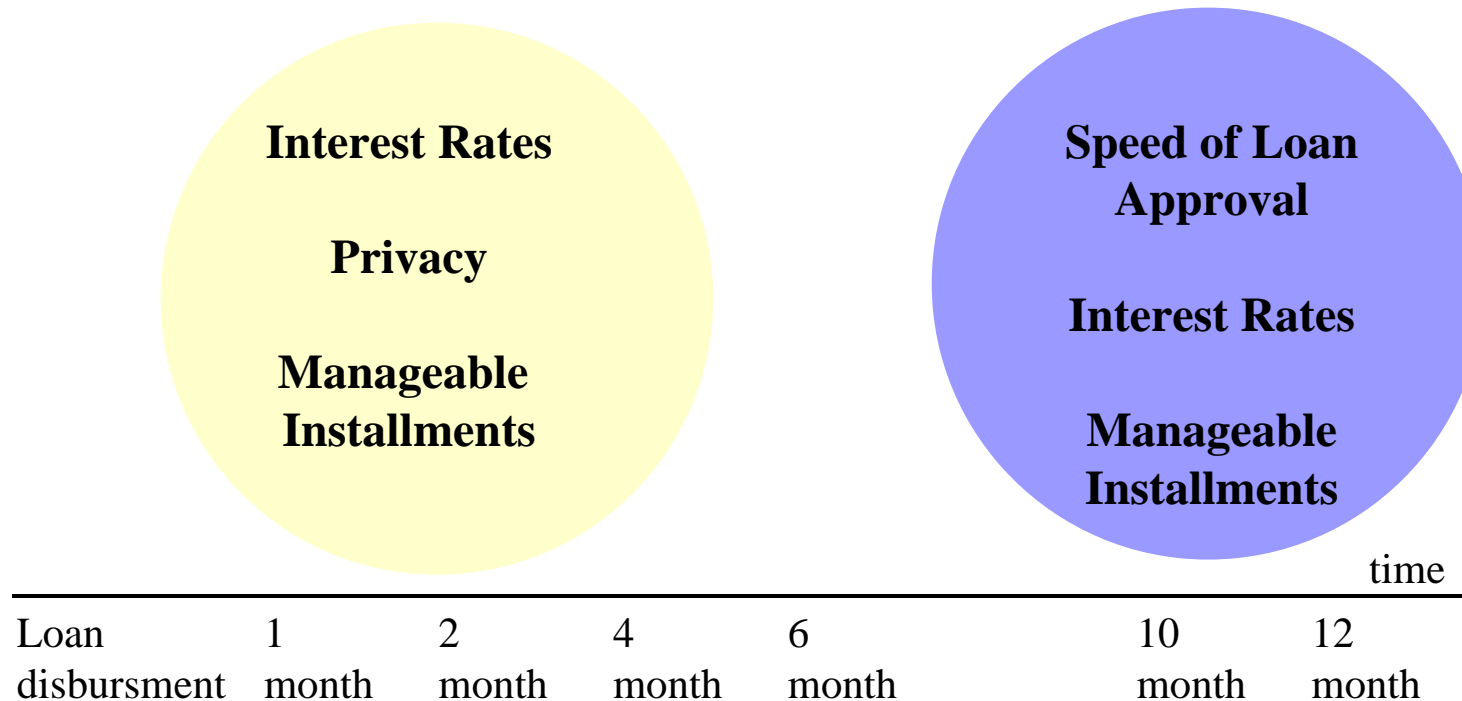
Graph 3.2: Productivity per credit officer



All lending models show a number of common characteristics



However, customer priorities challenge micro-credit features



Four considerations four shape and opportunities of microfinance

In principle, the group-lending contract provides a way to achieve efficient outcomes even when the lender remains ignorant or unable to effectively enforce contracts.

Our belief is that the future of microfinance rests in understanding alternative mechanisms, taking them apart, reconfiguring them, and, possibly, combining them with new, emerging ideas.

Progress could be made by experimenting with different mechanisms in a way that would allow researchers to properly infer causality-say, by using different methodologies in different, randomly chosen branches.

Beyond micro-credit



The demand for low-frequency saving can remain important-and this should inform the design of new savings products.

The new market too for remittances has yet to built up

The new pension products, which have been very popular in the first few years since their introduction in 2000, are a case in point.

The micro-credit experience also shows the importance of enterprise related linkages and strong institutions.

Regulation and Diversification are thus far more imperative when it comes to savings and insurance.

Way Forward

- Choice is accepting entrenched views or exploring new dimensions !!
- Framework within which we learn to understand household demand vis-à-vis investments in consumption and income generation.
- Investigation into understanding what it takes for these households to participate in financial markets; attributes of products, “lemons” etc.
- How do we build effectiveness, especially for the poorer, more sparsely populated regions, with poorer connectivity.
- How do we use subsidies and build sustainability in the massive roll-out of gov.sponsored programs
- Finally, the promise of technology, and infrastructure. How can it be realised?

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Thank you very much
for your attention

I am looking forward to answering any questions

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