MARKETING IN NEPALESE MICROFINANCE INSTITUTIONS

- Nara Hari Dhakal[1]

"Financial viability is dependent on client satisfaction"

1. OVERVIEW

Microfinance communities began to identity themselves as a distinct development field in early 1980s, when their pioneering institutions - **Grameen Bank, Bank Rakyat Indonesia (BRI), and early ACCION International affiliates** - began to produce surprisingly positive results. These institutions demonstrated products and services delivery methodologies that reached the poor, generated high repayments, covered costs, and acquired significant scale. In cognizance to this success in micro lending, powerful changes are taking place in microfinance, setting stages for fundamental transformation, in the past few years. These changes are opening sheltered domain of microfinance, once donors and development organizations preserve, to broader financial marketplace. Ever since, microfinance communities have focused on building institutions to deliver these products and services and spreading microfinance around the world.

Outreach and ***sustainability*** are the two fundamental and critical objectives for microfinance institutions (MFIs). As defined by Christen et al[2], outreach is the ability to provide quality financial services to large number of people, especially very poor. Outreach is also an indicator of institution's social mission - to scale up and provide services to as many people as possible. Sustainability, in contrast, requires operating at a level of profitability that allows sustained service delivery without dependence on subsidized inputs.

Despite phenomenal changes and transformations in microfinance field, MFIs around the universe have experienced a decline in growth of new clients, active clients, amount loaned, and active loan portfolio during the last five years. Although at one time, a principal challenge to MFIs was accessing sufficient funds to lend in the microenterprise sector, this challenge has somehow been addressed other challenges are gradually evolving. Nevertheless, there has been continued increase in number of MFIs, both non-governmental and commercial, in many countries. An increase in number of MFIs entering in microfinance market has forced them to focus on (i) improving efficiency by retaining existing clients[3] (**client retention**) and (ii) identifying new clients interested to buy their financial services (**client expansion**). Both client retention and client expansion has been the reflection of MFIs' ability to successfully communicate their value added and differentiate their products to microenterpreneurs who have become increasingly "**sophisticated and discriminating clients**".

Needless to emphasize that microfinance is a service industry. MFIs deliver financial services - generally either savings and/or credit - for a fee to a client and amount of fees are dependent on client's satisfaction with that services. Definition of financial services, price for services and their ultimate success are a function, above all, of client who wants those services. Ultimately, microfinance should not be viewed as a commodity industry determined

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[2]Robert Peck Christen, Elisabeth Rhyne, and Robert Vogel, "**Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons from Successful Program**" USAID Program and Operations Assessment Report No. 10 (Washington D. C.: U.S. Agency for International Development, 1995).

[3]To remain competitive, a MFI must seek to reduce the operating cost in relation to the loan product revenue. The rate at which the institution remains its customers directly affects its operating ratio as repeat customers tend to have higher average loan balances.

strictly by price and volume, rather as a market determined by client's perceived value of service. This implies that marketing[4] has special significance in MFIs to provide sustainable microfinance services.

Until now, most MFIs have operated in a relatively noncompetitive environment, where market for financial services to microenterprises and low-income households contains only a few players, each having its own specific target clientele and high level of unmet demand. These institutions have confined their attention on refining lending methodology, building institutional capacity, maximizing outreach and increasing the size of loan portfolio to attain viability and sustainability.

Landscape of Nepalese microfinance sector has changed dramatically since 1990s'. Some institutions became formalized financial institutions, central bank indirectly involved serving traditional clientele by promoting Grameen replicators, and additional MFIs continue to enter in the microfinance market. Clients are more **sophisticated and discriminating** in terms of types of products and quality of services from MFIs. Such transformation necessitated MFIs focus on improving efficiency by retaining existing clients and identifying new clients interested in their products and services.

This paper attempts to assess state of marketing practices as they prevail among Nepalese MFIs and identify factors affecting MFIs' marketing plan. Information used in this report was obtained from various sources including telephonic interview conducted by the author with Chief Executive Officer (CEO) of the concerned MFIs on aspects of their marketing programs along with economic and competitive environment in which they undertake their micro lending operations. During study process, attempts were made to select MFIs representing different nature and kind of markets as well as their levels of maturities.

This paper is organized into six sections. After this introductory section, section two provides an overview of Nepalese microfinance sector. A definition of Nepalese MFIs under prevailing legal and regulatory framework is provided in section three while conceptual framework related to marketing in microfinance is discussed in section four. Section five analyses the state of practices on marketing among Nepalese MFIs. The paper winds up with summary of major finding and conclusions in section six.

2. NEPALESE MICROFINANCE SECTOR

Under Nepalese microfinance circumstances, government's attempt to promote microfinance services dates back 1975[5]. Government recognized microfinance as official poverty alleviation programme only in Sixth Plan (1980/81-1984/85). Various programmes to ensure poor, particularly poor women and disadvantaged groups', access to financial services from organized sector are designed and implemented during that period. Government, semi-government, and non-governmental organizations are involved in providing financial services then after. The sector gained further momentum after the restoration of democracy in 1991 with the establishment and promotion of Grameen Bikas Bank (GBBs) and other form of MFIs.

Despite floriferous growth in microfinance sector, performance of this sector is not encouraging. Rural Credit Review Survey (1994) indicates that less than 10 percent households borrow from formal sector and pin-pointed that there exist substantial unmet

[4]Marketing for a MFI is an analytical tool to study and know its clients. This addresses questions of clear identification of institution's clients along with their number, target market and market share. Further, marketing should also focus on identifying clients' need and help in defining appropriate products to meet those needs in addition to assisting product and institution positioning in clients' minds in contrast to competition through outreach and promotional campaigns.

[5]This coincides with commencement of design and implementation of Small Farmer's Development Programme (SFDP) under Agricultural Development Bank, Nepal (ADB/N).

demand for credit and such unmet demand is more in the hills and the mountains compared to the Terai. Though there are large numbers of MFIs, there is virtual absence of equality. Especially MFIs in remote hills and mountain are in disadvantaged situation[6] compared to the one in the accessible hills and the Terai.

Overall structure of Nepalese microfinance sector is depicted in Figure 1. It is evident that Nepalese microfinance sector can be classified into two based on institutions involved such as government initiated model and semi-formal sector. A discussion on each of these sub-sectors follows hereunder.

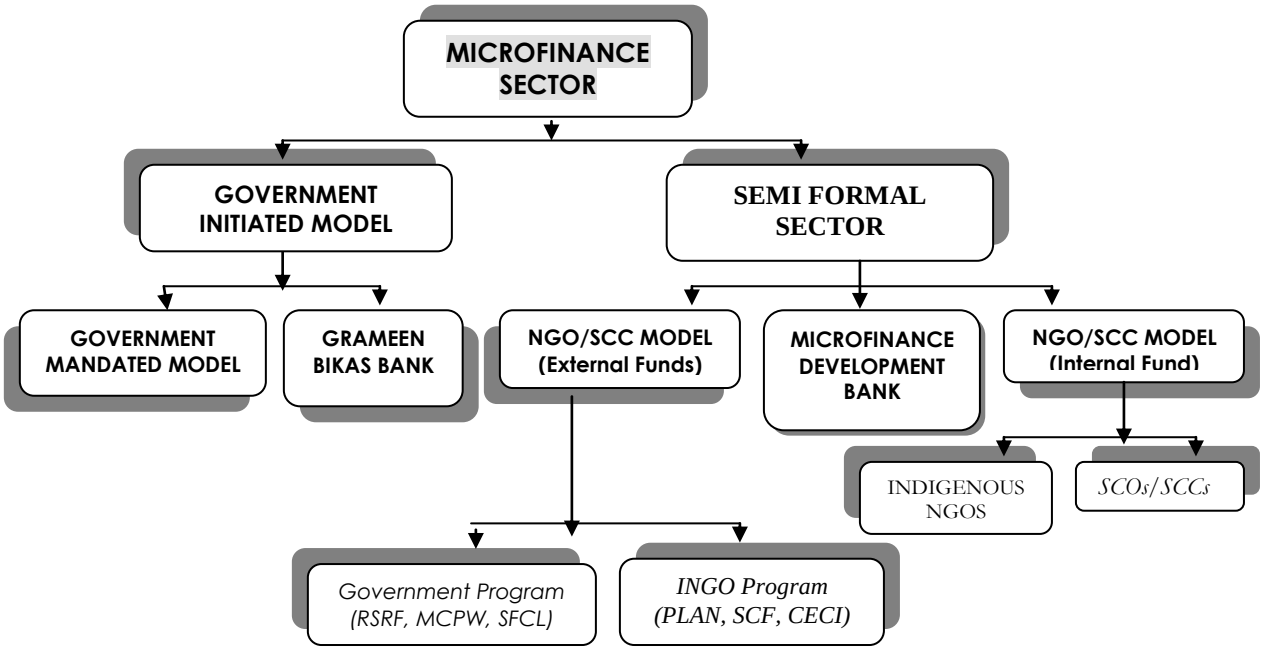


Figure 1: Microfinance Sector in Nepal

Government Initiated Microfinance Programs

Government initiated microfinance initiatives relates to various microfinance programs implemented in Nepal under government's involvement. Based on modality and approach adopted, government-initiated microfinance programs implemented in Nepal can be broadly grouped into two as under.

- **Government-mandated models**: These include the model implemented through commercial banks and government line agencies. The initiatives so far include the establishment of Rural Microfinance Development Center (RMDC[7]) and implementation of the programs like Jagriti (Women Empowerment Program), Bishwor with the Poor, Intensive Banking Program (IBP), Small Farmer Development Program, and Production Credit for Rural (PCRW). Government has established and implemented these programs with the ultimate goal of poverty alleviation.
- **Grameen Bikas Bank**: Grameen bank model was developed in Bangaledesh and were replicated in Nepal through Five Grameen Bikash Banks (GBBs) by the government in over 24 districts of the country since 1991.

The Semi-Formal Sector

[6]Small loan sizes, small savings base and higher delivery costs, lack business linkages with higher levels financial institutions and access to prudential regulation and supervision are the characteristics of Nepalese MFIs in hills and mountains.

[7]Rural Microfinance Development Center (RMDC) an apex institution to provide wholesale loan to Nepalese MFIs established in 1999 focus on providing lending services to its client MFIs at rate sufficient to cover cost incurred for financial intermediation. Establishment of RMDC has opened new impetus in Nepalese microfinance sector. Basically RMDC expect its partner MFIs to know details about their clients, target market and market share. It anticipates that partner MFIs will identify needs of client and helps to define appropriate products to meet such needs.

Semi-formal financial sector[8] provides microfinance services through NGOs, SCCs and microfinance development banks (MDBs). A discussion on microfinance programs implemented as semi-formal microfinance sector follows hereunder.

- **NGO/SCC model-external funds**: Substantial number of NGOs and SCCs provide microfinance services using external funds provided by government and/or INGOs.

  Government Sector Program
  Rural Self Reliance Fund (RSRF) executed by Nepal Rastra Bank (NRB), Microcredit Project for Women (MCPW) executed by NRB and Department of Women Development (DWD), Institution Development Program (IDP) of ADBN to federate small farmers' group into Small Farmers' Cooperative Limited (SFCL) are the example of government microfinance programs under semi-formal sector.

  INGO Sector Program
  INGOs supports to local NGOs/SCCs to enable them provide microfinance services to their clients. They assist them by providing (i) revolving funds for onlending, (ii) grants to cover operating costs including staff and administration expenses, rent and transportation, (iii) matching funds whereby INGO match (or provides a multiple of) the amount of saving collected by NGO/SCC from its members and (iv) technical assistance including program development, group formation, staff and client training, and financial management. Action Aid, CECI-Nepal, PLAN-International, Save the Children Federation, US, PACT-Nepal, etc. are the INGOs involved to support Nepalese microfinance movement.

- **Indigenous NGO/SCC models-internal funds:** Several thousand indigenous saving and credit groups exist in Nepal, most of which emerged in last five years. They are generally small, unregistered organizations owned and managed by local village members. In these institutions, decision-making is highly participatory and democratic. Generally there is few or no paid staff and funds for onlending usually come from group savings. Despite their ability to achieve financial sustainability, as they grow, their institutional viability becomes questionable due to leadership crisis, lack of ability to hire full-time employee(s), lack of capital funds, weak management system and lack of basic physical facilities.

- **Microfinance Development Banks:** In Nepal after the enactment of the development bank act 2052, MDBs are gradually emerging. Most of MDBs possess experience on microfinance operation as a NGO for 3 to 10 years. Some of the MDBs that are active in Nepalese microfinance sector are: Nirdhan Uthan Bank (NUB), DEPROSC Bikas Bank (DBB), Chhimaki Bikas Bank (CBB), Sabalamban Bikas Bank (SBB) and Sana Kisan Bikas Bank (SKBB). Mostly, Nepalese MDBs are implementing microfinance program using lending methodology developed by Grameen Bank of Bangladesh with or without modifications.

3. NEPALESE MICROFINANCE INSTITUTIONS

Under Nepalese legal and regulatory framework, broadly there are two boarder legal options for any promoters to develop and/or facilitate the emergence of MFIs. These options revolve around the following.

- *Community based organization* - includes either SCCs emerged under cooperative act 2048 or NGOs established under society registration act 2034 and obtaining license to work as financial intermediary under Financial Intermediary Act 2055.
- *Capita based organization* - includes development financial institutions established under development bank act 2052 and registered as a company.

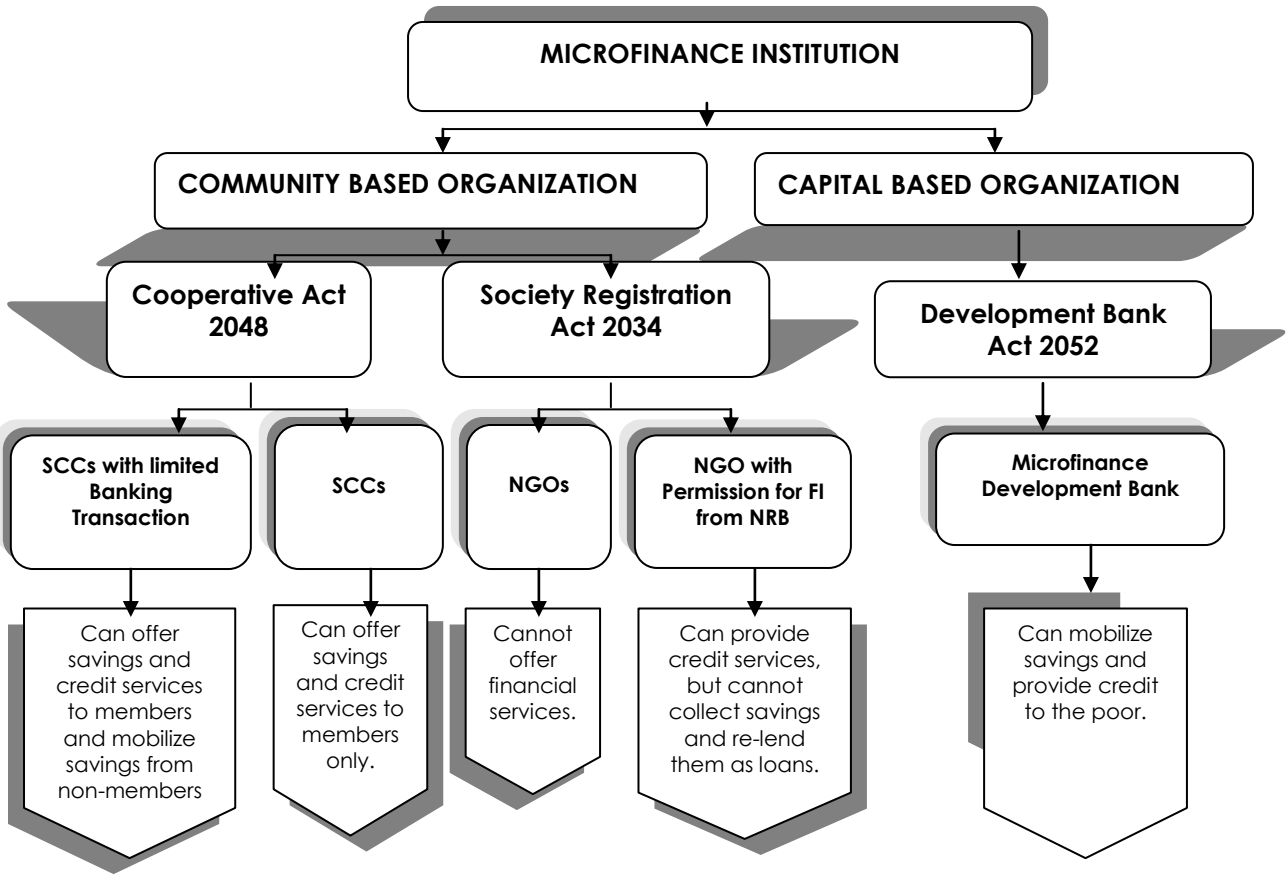
[8]The semi-formal sector is described as such because NGOs and SCCs are sometimes registered entities but are neither regulated nor supervised as the formal sector institutions.

Followings are the major acts and rules that influence structure, conduct and performance in Nepalese microfinance sector.

- Financial intermediary act, 2055
- Financial intermediary rules, 2056
- Cooperative act 2048
- Cooperative rules, 2049
- Development bank act 2052

Figure 2 provides information on legal options for developing or graduating local institutions (self-help group and NGOs) into MFIs under available legal and regulatory framework in Nepalese microfinance sector.

Figure 2: Legal Options for Developing Micro Finance Institution in Nepal



Thus, in view of the legal and regulatory framework influencing Nepalese microfinance sector and institutions that operate, Nepalese MFIs are the following.

- Microfinance Development Banks
  - Nirdhan Uthan Bank, Ltd.
  - Rural Microfinance Development Center,
  - DEPROSC Development Bank
  - Chhimak Bikas Bank Ltd.
  - Swabalamban Bikas Bank Ltd.
  - Sana Kisan Bikas Bank Ltd.
- Grameen Bikas Banks
  - Purbanchal Grameen Bikas Bank Ltd.
  - Madhayamanchal Grameen Bikas Bank Ltd.
  - Paschimanchal Grameen Bikas Bank Ltd.
  - Madhaya Paschimanchal Grameen Bikas Bank Ltd.
  - Sudur Paschimanchal Grameen Bikas Bank Ltd.

- Savings and Credit Cooperatives (about 1800)
- Small Farmers Cooperatives Ltd. (101 in total)
- Financial Intermediary NGOs
  - Nepal Grameen Bikas Samaj Kendra, Bhanutole, Biratnagar
  - Nepal Grameen Bikas Sanstha, Jamal, Kathmandu
  - Nepal Sikara Grameen Bikas Karayakram, Bhandara, Chitwan
  - Chartare Yuba Club, Baglung
  - Mahuli Samudiyak Bikas Kendra, Bagdhuwa, Saptari
  - Samuhik Yuba Club, Bardia
  - Samudiyak Mahila Bikas Kendra, Saptari
  - Grameen Samudiyako Lagi Yojana Pratabhuti Samuha, Nepal (PATRON), Dhankuta
  - Grameen Jagaran Manch, Mahendrapath, Dhankuta
  - Sarbodaya Grameen Bikas Sangh, Thelia, Saptari
  - Janagaran Manch, Rasuwa
  - Rastriya Shayak Tatha Samudiyak Bikas Sanstha, Kusma, Parbat
  - Dhauligiri Samiudiyak Shrot Bikas Kendra, Baglung
  - Nepal Batabaran Tatha Pradushan Unmulan UNESCO Club (Nepal), Gangabu, Nepal
  - Bikas Ko Lagi Sthaniiya Shayam Sebakharuko Prayas (Solve), Dhankuta
  - Nepal Mahila Udhami Sangh, Lalitpur
  - Mahila Adhikar Tatha Bikas Kendra, Kathmandu
  - Manushi, Kathmandu

On the basis of the classification presented above, Nepalese MFIs could be categorized into five as MDBs, GBBs, SCCs, SFCLs and FI-NGOs to analyze the state of marketing that prevails in Nepalese microfinance sector. Existing experiences indicates that possibilities of expanding frontier of microfinance are rather high through MDBs and GBBs, followed by FI-NGOs. In contract such possibilities are narrow (low) through SCCs/SFCLs due to their member-based nature and management.

4. MARKETING IN MICROFINANCE: CONCEPTUAL FRAMEWORK[9]

4.1 Marketing and Profitability in Microfinance Operation

MFI's goal towards achieving sustainability and profitability are considered to be the important driving forces that compel them to be clients driven. All microfinance practitioners, whether NGOs with a focus on poverty lending[10] or for-profit commercial institutions concerned with maximizing their return on investment, realize that existence of a strong and permanent institution is a must to ensure successful provision of microfinance services. In response to this realization, MFIs are providing increasing focus enhancing and strengthening their capacity.

In MFI, marketing efforts and success are identified to be critical for enhancing their profitability. Conceptually, factors driving profitability that can be addressed through marketing are both internal and external to MFIs. Table 1 provides the list of key determinants of profitability that should be addressed through marketing programs.

Profitability is always a function of revenue minus cost and marketing should always gear at increasing profitability. Unlike conventional cost control strategies, marketing should attempts towards placing more emphasis on increasing revenue rather than reducing operating costs. Thus, marketing is a revenue maximization approach and should be compared with cost.

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[9]For further details on concept of marketing in microfinance, please refer William Grant, "**Marketing in Microfinance Institutions: The State of Practices**" Development Alternatives, Inc. November 1999.

[10]Such institutions are usually concerned with client welfare rather than achieving financial sustainability from operations. To these institutions, marketing reflects a way to gain an understanding of their clients and is focused on assessing clients' needs' rather than analysis of the key profitability factors.

Table 1: Key Determinants of Profitability

Key Determinants of Profitability Driving Marketing Programs	
Internal to MFI	**External to MFI**
▪ Increased portfolio	▪ Competition
▪ Reduced client losses	▪ Economic conditions
▪ Repayment rates	▪ Changing regulations
	▪ External shocks

4.2 Major Elements in a Marketing Program

Most microfinance practitioners argue that marketing initiatives should be undertaken as a campaign and in a systematic manner. A marketing program must include seven elements depicted in Figure 3.

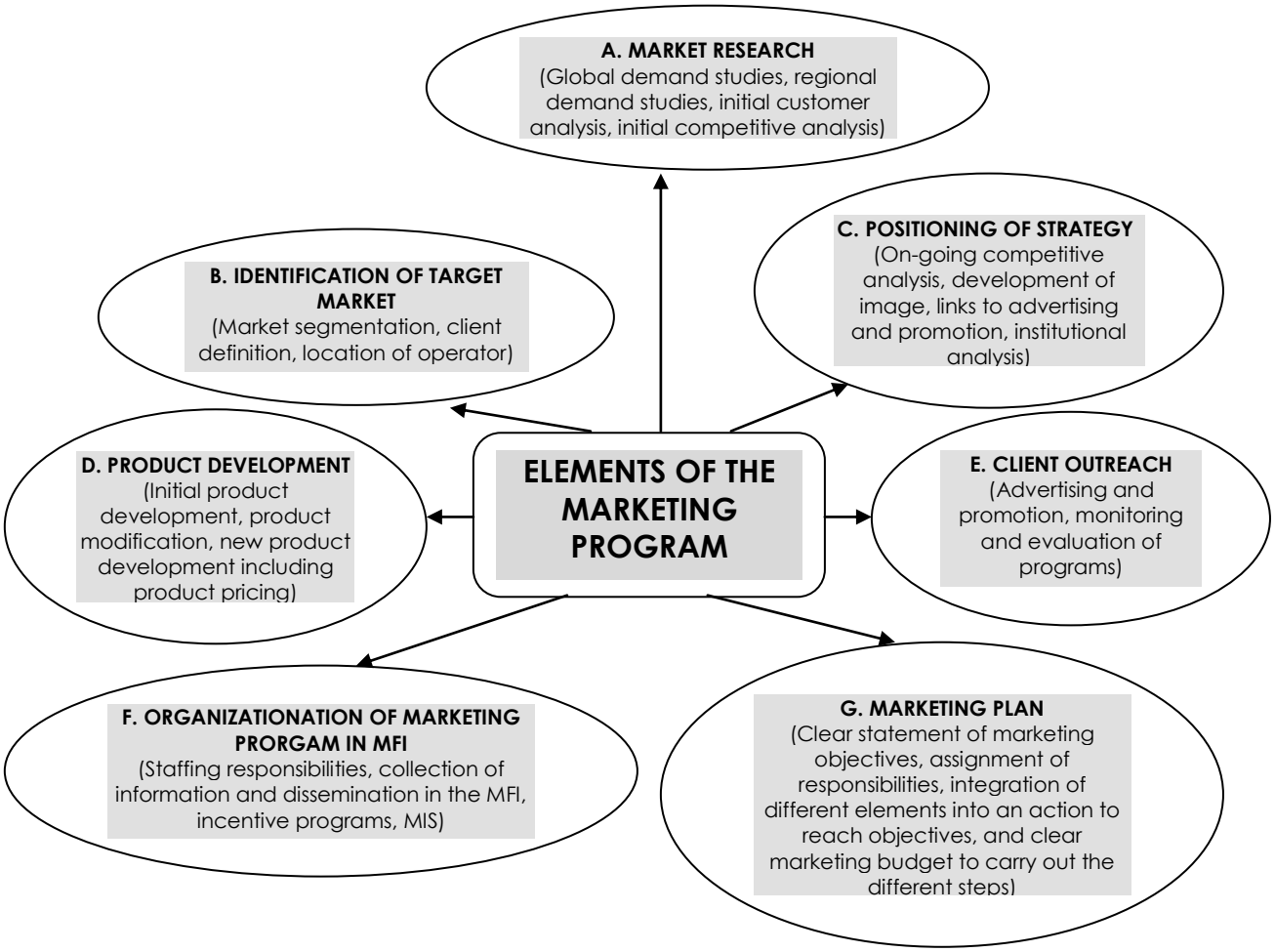

Figure 3: Elements of the Marketing Program

Although each of the above elements are parts and parcels of successful marketing programs, scale and depth to which an institution implements these components depends on environment in which it operates, its level of institutional development, and its strategic objectives. For instance, institutions that have been in market for a while but have experienced slower portfolio growth in recent years because of new entrants will have a different marketing approach than institutions that operate in unsaturated markets where potential for expansion is high.

4.3 Basic Consideration for Framing Marketing Plan in Micro-finance

Different factors influence the nature of marketing within a MFI. For analytical simplicity, these factors can be conveniently grouped as either environmental (external) or institutional (internal) in nature. Ultimately, level of marketing programs is determined and shaped by combination of these two sets of factors. Figure 4 presents these factors in a summary form.

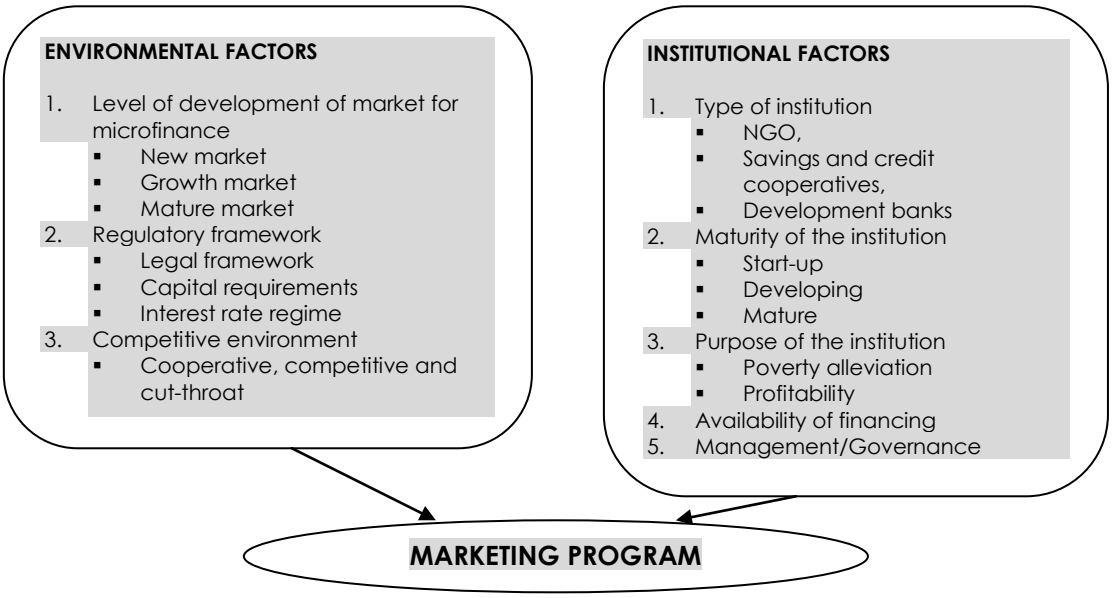

Figure 4: Basic Consideration for Framing Marketing Plan in Micro-finance

Environmental Factors
Many external factors determine the environment within which MFI operates and often dictate the need and the structure of marketing program. The most important of these are: level of development of market for microfinance; nature of legal and regulatory environment governing MFIs; and products and services that MFI can provide; and level and nature of competition from other financial institutions.

Institutional Factors
The nature and characteristics of the institutions play an important role in shaping nature of the marketing programs within MFIs. There exists wide array of legal structures for MFIs with varied stated goals and target audiences (which is often related to their organizational culture), they can be at different levels of maturity and development with different financial resources. These factors have an important impact on nature and type of marketing programs, regardless of external environment.

5. MARKETING IN NEPALESE MICROFINANCE INSTITUTIONS: STATE OF PRACTICES

In order to analyze the state of marketing practice in Nepalese MFIs, marketing strategy adopted by some selected MFIs were reviewed through discussions with Chief Executive Officer (CEO) of selected MFIs[11] in addition to field survey in some of their working areas. This section presents findings of this review. For the sake of simplicity on documentation and analysis, findings of the assessment are presented under following five marketing issues as they relate to marketing in these MFIs.

[11]The MFIs considered for study are five GBBs, four private MDBs (NUB, DBB, SBB, SKBB), four SFCLs and four SCCs.

- Quantifying and segmenting the market,
- Client orientation on products and services,
- Product development and testing,
- Environment analysis, and
- Promotion of products and services.

5.1 Quantifying and Segmenting the Market

Nepalese MFIs have gradually internalised the need to assume market research as an ongoing and regular process. This is especially visible among MDBs as they have commenced micro-lending activities only upon preparing comprehensive and perfect business plan. They have commenced market research with an overall demand study in their working areas to create an initial understanding of market and identify array of actors/competitors that are active there.

Overall market demand
Like most MFIs in the universe, conducting market research on entire microfinance market to assess overall market demand is rarely of interest to Nepalese MFIs. Often it is expensive and time consuming for MFIs to study whole market for microfinance representing entire nation.

Prior to their operation, almost all the MDBs and five GBBs have undertaken regional demand studies for their products and services using available secondary information and assessed nature and type of competitors' for their products and services; and target market; and market share. They have reproduced and used those information to prepare their own business plan. Most Nepalese MDBs have identified kinds of products that can work and regions that are more propitious and confined their area of operation in those areas. Unlike MDBs, operations of GBBs have been rather guided. In contrast, other MFIs like SCCs/SFCLs still feels that demand for financial services is greater than the supply of those services and yet does not feel that there is a need to conduct expensive demand analysis prior to micro lending. Similarly, financial intermediary NGOs (FI-NGOs) has localized operations and limits their attempt to quantify and segment market at local level adopting localized demand studies.

Localized demand studies
Both GBBs and MDBs undertake localized demand studies to determine specific client characteristics and carrying capacity of the region as they target placement of branches. This was one of the fundamental considerations while ADBN expanded SFDP as well as GBBs and MDBs opened new branches. When MFIs, especially MDBs and GBBs, carry out market demand studies, they tend to concentrate on key geographic areas where they might place a branch. They have accorded that identifying a viable location for a new branch of an MFI is critical to its success and financial sustainability.

In more mature markets like most Terai belts of Nepal where market regions are becoming saturated, MFIs are paying closer attention on **carrying capacity of the market** before moving into more marginal areas. When these MFIs contemplate opening branches in poor, sparsely populated rural areas, they focus on issues relevant to "**carrying capacity**" of the regions. GBBs, most MDBs like NUB, SBB and DBB and some FI-NGOs have developed fairly comprehensive market survey tools for determining whether a region can support a branch when it starts to open branch in more isolated and relatively poorer region. These include an analysis of competition: income levels; and opportunities for expansion. This aspect is rather guided by donors/externals among guided SCCs[12] and SFCLs.

[12]Both self-evolved and agency persuaded/guided SCCs are active in Nepalese microfinance sector.

Market segmentation
With the gradual maturity of institutions and their markets, MFIs have understood the need for more market analysis and better market segmentation with acquired capability to do so. After a few years of activity, MFIs possesses better historical data, allowing them to do more analysis and conduct more frequent marketing studies to understand clients. This helps them to typify their best clients and eliminate market segments that are un-profitable. This phenomenon is visible in the MDBs like NUB, SBB and DBB.

Commercial banks (NBL and RBB) and large development banks (ADBN) that are entering microfinance market through downscaling, in the past, undertake most careful market analysis and segment their clients through targeting while expanding their activities in particular geographical areas. There has been some set-back in this front in the recent years. Further market segmentation is stressed most by MDBs (NUB, SBB and DBB) in relatively matured markets.

ADBN (while escalating SFDP) and commercial banks (while expanding IBP and BWTP) have undertaken more market segmentation analysis, which tends to be operative in mature market and more competitive environment.

5.2 Client Orientation on Products and Services

Nepalese MFIs have gradually realized that consumer's orientation of their products and services to be a critical element for getting feedback on clients need and demand. Further, they have accorded due cognizance on the fact that financial viability depends on client satisfaction. In view of this, MFIs has accorded importance to feed back mechanism on assessing appropriateness of products and services offered to their clients. Therefore, MFIs have realized that their clients should be brought into their feedback channels and such feedback should form basis for decision-making on a wide range of issues.

MFIs are conscious of their clients and recognize significance of good client relations for success of their operation. They clearly believe that close attention to clients' needs and satisfaction is one of the preconditions for their continued existence in the sector. In order to assess this circumstance clearly, in what follows, two aspects (**clients contact or clients feed back and impact evaluation**) of assessing clients' satisfaction have been dealt-with.

Client contact/client feedback
MFIs (MDBs, GBBs and FI-NGOs) have used credit officers as principal point of contact and feedback from their clients. Credit officer are treated as the first source of information and mostly these institutions have stressed this point greatly. In the early years or while institution remained small, credit officers are the principal source of feedback in some MFIs like DBB and FI-NGOs.

A number of techniques have been used by the MFIs to generate feedback from the clients. Some of these techniques are monthly meetings with client's representatives, annual or semi-annual assemblies with their clients, regular credit officer's contact and weekly centre meting with borrowers. Mainly credit union type MFIs (SCCs/SFCLs) use annual general assembly as a forum to obtain feedback from clients who are also their shareholders. Generally, MFIs establish a lot of client contact prior to selecting site for opening new branch. Many MFIs, especially MDBs, commented on importance of locating branch close to clients to enhance outreach efforts and make institution clients friendly.

Impact evaluation
Impact evaluation as a means of client orientation on microfinance products and services varies across MFIs and at varied nature and form. SFDP and SFCL[13] that primarily focus on

[13]At times SFDP and SFCLs are the set up as donor projects.

poverty alleviation have a tendency to demonstrate impact of financial services on livelihood of their clients rather than obtain feedback from clients on nature and appropriateness of financial products and services offered. Concept of participatory self-evaluation is still new among MFIs and most microfinance programs, especially the one promoted by commercial banks (NBL and RBB) and commercial banks (ADBN) lack a system for regular client contract and these institutions undertake "**impact evaluations**" to satisfy need for information and learn about the effectiveness of their services from such exercises. Periodic staff meeting, public auditing, centre meeting, etc. are used as an impact evaluation mechanism by most MDBs, GBBs and some FI-NGOs.

5.3 Product Development and Testing

In principle MFIs offers financial services characterized by their products to their clients. They ought to pass through a range of product development stages including initial products, modifications of products, and development of new products. Key elements in product development are timing, size and terms of the products. This aspect is rather guided and least developed among most MFIs. In order to ensure complete assessment of the analysis on product development and testing, an assessment of aspects like development of initial product, development of additional new products and product pricing are discussed hereunder.

Development of initial product
Under Nepalese micro-finance sector, developing initial financial products varies greatly based on nature of market and experience of personnel involved in the MFIs. Mostly SCCs/SFCLs and FI-NGOs have started their services with one-fixed products (on savings and credit) that fit with cultural background and value system in their working areas. Mostly initial product adopted by these MFIs are preconceived or copied from another part of world and modified to fit local environment, a lot of adjustments has been done in developing new products. Usually GBBs and MDBs like NUB, and SBB mentioned that there is nothing to learn about product development as the Grameen model adopted by them is proven for areas with high population density (usually in Terai belt) and there is no reason to change it.

Developing additional new products
MDBs generally develop new product to add to their product mix following feedback and demand from clients or competitive forces that push them to expand their markets. MDBs such as NUB and DBB have attempted to develop additional new product that suite the need of entrepreneurs developed under their micro lending initiatives. To cite with, these institutions have developed individual loan products for clients graduating out of group loan product. This development is the outcome in growth markets wherein existing clients' expressed desires for different services and compelled these MFIs to modify their existing loan products to better respond the market or facilitate introduction of new loan products. Other MFIs have also attempted towards developing additional new products. SCCs/SFCLs and FI-NGOs are rather slow on introducing additional new products in their system on the absence of required capacity and confidence.

Product pricing
Practice of product pricing based on estimated revenue required for MFIs to be operationally sustainable or profitable is yet new among Nepalese MFIs. Mainly, MFI has done product pricing using competitors' prices as reference. At the conceptual level, on the absence of real data on various features of microfinance markets, almost all the MFIs choose an interest rate that will cover their costs. These MFIs reassess their interest rates as they grow, mature and become more sustainable. As competition increases or when MFI understand their clients better, MFIs like MDBs (NUB and SBB) changed (increased) the price as a reaction to market environment, competition and cost recovery. Due to member based nature, most SCCs and few SFCLs price their product at higher side due to the fact that increased income

circulates among shareholders within SCCs/SFCL system. Pricing mechanism adopted by FI-NGOs is rather guided.

There exist differences on the ways prices of the financial products are calculated among MFIs. Usually three methods - declining, flat rate and up-front - of interest rate calculation prevails among them. This occasionally confuses clients in the same market. Nepalese MFIs quote their interest rate in many different ways and do not standardize. This is true among GBBs and MDBs who place some adjectives simultaneously with price. Further most MFIs (SCCs/SFCLs, FI-NGOs and GBBs) are not sure on whether the prevailing price is will cover their cost.

5.4 Environment Analysis

Nepalese MFIs undertake environment analysis at varying level and nature. These MFI confine environment analysis as simple tracking of existing level of competition and close scrutiny of the strengths and weakness of competing institutions, their products and institutional characteristics. MDBs and GBBs focus at determining its image among target clients and their positioning in financial market through a clear understanding of the nature of the market. In order to undertake environment analysis, practices on competitive analysis and market positioning strategies as they relate to MFIs are assessed.

Competitive Analysis
Nepalese MFIs undertake competitive analysis that varies across them depending on type, nature of the market; and number of competitors. It moves from an open sharing of information among MFIs and frequent division of market to extreme secrecy and cutthroat tactics.

The nature of the competition is important among MFIs and this is more pronounced among GBBs and MDBs. At times competition is beyond level paying field especially in Terai belts among GBBs and MDBs and encroachment issues is gradually emerging. Different kinds of institutions behave differently - some MFIs like NUB, DBB and SDB are more aggressive than others towards competitors. Though competition is lacking among SCCs/SFCLs because of clear differentiation of working areas, they ought to compete with other MFIs having working that coincides with their working areas.

Some MFIs try to differentiate their product and services adopting simplified lending methodology and setting price of their products and services below their competitors' price. Microfinance services provided by DBB adopting modified Grameen bank model at 18% interest rate on loan calculated on declining balance and 8% interest rate on savings is the example to cite with as strategy adopted by MFI to make them more competitive in the market. Another strategy adopted to overcome competition includes "**policy to refund back centre fund deducted while loan disbursement with interest after five years**". This policy prevails only in DBB and not among other Grameen Bank Replicators (GBRs).

Market Positioning Strategies
MFIs rarely thought well regarding market positioning in early stages of their development. Furthers, MFIs in less-competitive markets are not as concerned about positioning themselves in market place because they don't feel pressure to differentiate themselves from other MFIs. Only as competition becomes more direct and MFIs are forced to concentrate their efforts to establish themselves in the market need to clearly define their position in the sector arises.

MFIs surveyed use a wide range of characteristics to differentiate themselves from competition. Followings are the characteristics that MFIs highlight when positioning their institutions with respect to competition in prevailing market circumstances.

- Focusing on personalized client service,
- Offering broad range of financial products - individual as well as group loans,

- Offering more flexible access to credit,
- Easing process of obtaining guarantees,
- Focusing only on providing credit,
- Removing forced savings, centre fund, related built-in training and meetings,
- Adding non-financial products - attending to clients who want broader services than credit and minimal training including business development services and vocational skill training,
- Offering faster turnaround time on loans than the competitors,
- Relying on the outstanding reputation of the clients,
- Being the market leader - oldest and largest MFI in the country,
- Taking unique geographic position and
- Offering lowest interest rates.

Most MDBs (NUB, DBB and SBB) and all GBBs are highly concerned on market positioning strategies while this issue is rather irrelevant among SCCs/SFCLs (in view of their members based nature of operation) and FI-NGOs (in view of their limited geographical operation). In brief, mostly MFIs tend to position themselves through their "*institutional image*".

Promotional strategy is important for establishing market position among MFIs. Promotional strategies adopted by FI-NGOs and MDBs in new and growth markets focuses on generating demand and informing people of availability of micro-finance services, while in mature markets that exist in Terai belt, promotional strategies adopted by MFIs (GBBs and MDBs) tends to be an important part of establishing institutional position in the mind of the clients.

5.5 Promotion of Products and Services

Promotion strategy adopted by MFIs usually focus on disseminating messages about themselves with the objectives of getting new clients and creating awareness about them and their products. Strategy and mechanism adopted for promoting products and services varies across MFIs. An assessment on promotional tools used and cost effectiveness of such initiatives follows hereunder.

Promotion Tools

MFIs use different tools to promote their products and services. Media, brochure, door to door visits; consultative meeting at different places, institution specific literature and special events etc. are some of the promotional initiatives undertaken by Nepalese MFIs. Level and intensity of promotional services varies across Nepalese MFIs. For instance, promotion tool adopted by SCCs/SFCLs is essentially members meeting and members' executive interaction while GBBs, MDBs, and FI-NGOs use of credit officers' who interface with potential clients and the word of mouth from one customer to the next, as a main promotion agent. RMDC distributes brochures and even conduct marketing workshop with their potential clients for promotion.

Developed MFIs like GBBs and MDBs use coordinated promotion programs to establish their position in the market and to differentiate themselves from competition. Mainly public relations and periodic consultation at client level assumes an excellent opportunity to position institution in eyes of clients relative to competition by trying in logos and highlighting institutional characteristics. This has been well understood and adopted by GBBs and most MDBs and FI-NGOs. Guided SCCs and SFCLs do not use promotional tools to establish their image; rather they focus at building strong ownership feeling among clients (who are also shareholders). Initially primary concern of SCCs/SFCLs and FI-NGOs lies at figuring on how to lend and get repaid and upon acquiring preliminary success, they begin to think more about their clients and client's needs.

Cost Effectiveness
In order to accord value to promotional initiatives undertaken, an assessment on the effectiveness of these mechanisms is required. MFIs have yet to introduce the mechanism to assess the cost effectiveness of their promotional initiatives. These MFIs has accorded promotional initiatives as part of their operational system and build-in in their daily operation. This is to imply that MFIs lack process to evaluate effectiveness of their promotional activities, even though they might be able to do so. So far none of the MFIs has ever attempted to measure the effectiveness of their promotional activities on increasing their profitability levels. This is mainly due to lack of mechanism that separates cost incurred during promotion management and such initiatives incorporated as a part of their operational system.

6. SUMMARY AND CONCLUSIONS

6.1 Summary of Major Findings

Marketing is not a new concept among Nepalese MFIs. Marketing programs adopted by these MFIs vary greatly depending on their nature and type. MDBs that started small as NGOs and have grown into their current positions through rigorous transformation and acquired the status of Development Banks have added marketing system as they proceed ahead, whereas development banks like SKBB, emerged out of downscaling of ADBN possess a more developed systems and outlets for marketing. Marketing system adopted by GBB varies as they undergo series of preparation prior to lending. Small MFIs like SCCs/SFCLs and FI-NGOs lack systematic marketing initiatives. In contract, marketing strategies adopted by RMDC exhibit the features of professional marketing initiatives.

Close scrutiny of the operational mechanism of Nepalese MFIs indicates that marketing efforts have evolve among them over time, with growth of institution and changing nature of the working areas in which they operate. Marketing efforts tend to start off minimally, while institutions are trying to pull together all of their management systems and to learn how to grow properly. Initially, the focus is just on promotion; a more complete marketing program encompassing other aspects of marketing usually comes later, if it exists at all. For many MFIs, marketing still equals promotional initiatives undertaken by staff during entry period. Primary concern of SCCs/SFCLs and FI-NGOs lies first at establishing themselves in existing microfinance market and marketing enters to their system then after.

Younger, less mature MFIs like some MDBs and FI-NGOs concentrate their marketing attempt on promotion rather than a more in-depth market research and devising marketing strategy. In most MFIs, marketing is confined at promotion as opposed to other aspects. As they are still young, they try to perfect their lending techniques and build demand for their services. They have the tendency to place branches in areas with greatest potential for finding sufficient number of clients that fit their target market.

MFIs coming out of development banking backgrounds like SKBB start with a different perspective on marketing. They bring a lot of marketing skills with them, but they still encounter a lot of issues related to market for microfinance. They have different marketing conditions than MDBs transforming out of NGOs (SDB, NUB and DDB). SKBB have ADBN's marketing systems included in their operation. RMDC possess perfect and professional marketing strategies while other MDBs, FI-NGOs and SCCs/SFCLs need to develop marketing system from scratch and often apply importance to them when there is an initial crisis.

In MDBs and FI-NGOs development of the marketing programs tends to be reactive, linked to concerns about profitability, while in GBBs and SFCLs, marketing problems commence in response to other problems such as low repayment rates that reflect their reduced profitability level. Developing a more in-depth marketing program tends to be a reactive effort among MFIs originating in response to shocks to profits (low repayment rates). Interest in collecting detailed information on clients and tracking their behavior usually happens after

MFIs encounters one or more problems that affect initially on profitability and ultimately on sustainability.

6.2 Conclusions

Nepalese MFI has yet to realize that marketing is about knowing client, competitor, and business environment in their working areas. For attaining sustainability, a MFI should closely monitor needs of their clients along with market conditions to become attuned with changing demand and to stay one step ahead of competition. Most MFIs lack professional understanding on various issues related to marketing.

Small MFIs like FI-NGOs and SCCs/SFCLs operate without adequate vision and their missions do not result on attaining ultimate goals. In order to attain viability and increase profitability through their operations, MFIs need to be proactive in collecting and analyzing marketing information. Further, they should tailor their efforts according to their strategic objective, capacity, and available financial resources.

Mostly MDBs and GBBs have used credit officer as a source of front-line contact with the clients and they are regarded as primary source of market information. Credit officer of most MFIs lack required skills and aptitude to perform these activities in an accurate and professional way. Making sure that credit officers are well suited to the assigned tasks is critical for overall success of the MFIs in marketing front.

Market analysis is most important for MFIs operating in completely new markets especially in remote hills and mountains; and relatively saturated markets including Terai belts and major urban centers. In developing markets, demand is great enough to generate profits that obscure other problems that marketing programs can solve. For this, MFI must have capability to analyze prevailing situation and frame their marketing campaigns accordingly. MFIs have yet to acquire such expertise.

MFIs have not accorded required level of consideration and attention on marketing. In view of the insights gained from other parts of the world, MFIs should take marketing as an integrated function in order to attain viability on micro lending. Under such circumstances, everyone from senior management to credit officers should take important role in the marketing system. This is especially true in case of FI-NGOs and SCCs/SFCLs with limited resources and lacking separate marketing department as well as dedicated marketing team.

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