Commercialization of Microfinance in Bangladesh Perspective

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Introduction

The emergence of the microfinance industry in Bangladesh presents a tremendous opportunity to extend financial services to the vast majority of the poor people. Indeed, about 50% of a 128 million population are reckoned to live below the poverty line. Ironically, commercial banks in the country typically serve no more than sixteen percent of the population. The remaining populace historically does not have access to formal financial services, yet this non-traditional market is enormous. In the last twenty years or so, the NGO-MFIs have greatly modified the Grameen Bank's methodology and devised appropriate financial service technologies to serve the poor people. Among them, a few organizations demonstrated splendid success and have become known worldwide.

Market, Products and Prices

The microfinance industry in Bangladesh consists of NGOs, cooperatives, public sector programs and the Grameen Bank. The country is now teeming with more than 1000 microfinance NGOs. Each and every NGO has taken up microfinance as a core activity. The NGO led market consists of segmented markets and is seemingly characterized with monopolistic competition with a few large actors having preponderance. In essence, these are captive markets as the buyers of services remain in the domain of a particular NGO and find it difficult to exercise their free choices due to methodological reasons. Many people maintain that there is a need to review whether microfinance programs should be separated from other development programs and conducted independently. Again, if we critically look at the supply side, we see that the donors’ grant money is on the wane. Banks are moving at snail's pace though a little bit faster than in the past. PKSF being a major funding agency does not also find it easy sailing with the small NGO-MFIs. In fact, the savers deposit is playing a considerable role in augmenting the volume of credit. It is proven that the poor people are willing to save more and are indeed saving in a number of ways. But what has been lacking as of now, is the opportunity to allow the microclients to save in a way that will help them to meet their current needs and at the same time to save for tomorrow. Savings is growing over time and clearly there is a huge savings potential. But the clients need quality saving services and dependable organizations to save with. On the other hand, demand for money to provide as credit is also increasing. Against this backdrop, many
NGO-MFIs having been mature, will eventually feel the need to enter the formal financial system to fund their growth and provide diversified financial services as demanded by their target markets. The NGOs are now in a state of uncertainty in the absence of a regulation and fear to take any new risk of providing the needed services. A microfinance friendly regulation is, therefore, required to facilitate these services.

Available statistical data up to December 1999 posit that, currently all microfinance programs cover 100% poor households, representing about 13 million in the country. The NGOs have saved Tk. 6,922 million and have loans outstanding of Tk 18,692 million. The Bangladesh Rural Development Board (BRDB) and the Ministry of Youth sponsored programs have outstanding loans of Tk 2,337 million. The Grameen Bank clients have accumulated savings of Tk 9,676 million and have outstanding loans of Tk 13,724 million. While the aggregate picture shows that microsavings constitutes 3% of the total sectoral savings and microcredit contributes to 6% of total sectoral advances made in the financial sector. It is gathered that huge overlapping is occurring, particularly among the big microfinance NGOs as well as the Grameen Bank. Overlapping is said to occur, when an NGO client receives loan from more than one source. No one really knows its extent. There are a number of factors why it occurs. Inadequacy of loans is learnt to be a significant factor that compels a client to go beyond the periphery of an institution for hunting larger loans. Who is to blame? Have we ever seriously thought over this issue? In fact, none should be blamed. One of the reasons may mean that the financial needs of the clients and the capacity of the creditors is a mismatch and is, therefore, resulting in a gap. Overlapping, therefore, may have inflated the outreach figure so high. In reality, the coverage of poor households will be much less.

Albeit, there are no remarkable promotional measures for boosting microfinance, efforts are seen ever stronger than in the past in mobilizing local resources by bringing in various savings and credit products. The savings products of NGOs now include daily savings, mandatory savings, voluntary savings, forced savings, contractual savings, and time deposits. The NGOs are also trying to become more responsive to the demand for credit facilities. Over time, the credit products have been diversified. Today there exists more than 15 credit products including daily credit, leasing loans, housing loans etc. Normally, the loan ranges from Tk 1000 -15,000 for one year. The average loan size is Tk 3500 ($70). Organizations providing loans above Tk 3000 is very few. Only a handful of organizations can adequately support the real needs of their clients. The clients opine that the money that is given as credit falls far short of the actual need. This means that the market can absorb more. Microfinance is supposed to play an upbeat role by undertaking various income generating activities. Field experience, however, suggests that 30-40% of loans given for income generating activities are not
used for actual purposes rather than these were used for consumption needs. It transpires that microfinance tends to play the role of traditional financial service instead of being an effective tool of poverty alleviation. This may be substantiated by the findings of a recent study (a sample of 1798 households) that 1% of the population can lift itself from poverty each year through microfinance programs. Insurance product is also available in the market that appears in various names and has different modes of applications. Technicalities in designing the product are not taken into account. Mere rule of thumb is being used in premium setting. It covers mostly the risk factor due to death of a client. In some cases, livestock is insured and claims are partly met for the death of animals. According to a sample of 524 NGOs surveyed, 15% NGOs have some kind of insurance practices.

Again, the NGO-MFIs practically do not determine product costing judiciously be it savings, credit or insurance. They just set the prices on the basis of on-going prices and practices without looking at its cost of operations, cost of fund and other germane factors. Statistical data shows that about 52% NGOs provide interest on savings @ 6-7%, which is a little less than the commercial banks do. There are, however, a few who provide more. There are also some, who promise to provide interest on normal savings, if the clients do not withdraw money before a specified period of time. But if they do, they are denied any interest. The loans carry interest @ 11-15% in flat method. About 81% NGOs apply this method. Some experts uphold the view that loans to the informal sector require interest rates at least 7-10% higher than the standard commercial rates, as they think the cost of operations to be higher due to inherent nature of microfinance program.

Clients of many NGO-MFIs are heard to grumble that they seize poor people’s savings in the name of insurance, risk fund, levy, group fund etc, which are scarcely refunded. According to the clients, this practice is not wholesome as it goes contrary to their interest. As a matter of fact, there seems to have a strong necessity for reversing the practice and making it customer-oriented to cater to their needs. A general feeling, among many, is also that these tiny clients’ innocence and indigence should not be taken as advantage in raising fund. This circumstance suggests that customer service indeed should be the motto of all NGO-MFIs and therefore underscores the necessity to maintain the probity of this service in the industry. Given the present circumstances, what is imperative is that the market has to be expanded in terms of business volume by bringing a larger number of people within its fold through competitive services. Mere increase in the number of NGO-MFIs will only bring about throat-cut competition among them, which will plausibly lead to sharing of the limited market. This may not be, however, a desirable situation. As microfinance industry in the country is growing and evolving, new issues are constantly coming to the fore. The role of marketing in microfinance institutions is one such vital issue that had been ignored.
hitherto. While the focus of so many institutions has always been to give loans and get them back, very little circumspect effort has been put into this subject.

Social Mission and Commercial Strategy

NGO-MFIs in Bangladesh are not professionally very cost-conscious and hardly cast their eyes on the matter. Financial data of these organizations are not readily available as these are seldom produced and analyzed. They tend to remain within the bounds of social objectives - a kind of complacence, which is being seen among many. In fact, NGO-MFIs have both social mission and commercial motive. For a microfinance program each complements the other. Social mission assumes that more and more poor people should be covered and continuity of the service should be maintained through plough back of the recovered fund. The commercial sector producing goods and services has also socio-economic mission (in terms of employment generation, contribution to GDP and export earnings) as well as commercial objectives. They too are working for the welfare of the people satisfying their needs regardless of who are rich or who are poor. Social mission of NGO-MFIs also means, they will go to the doorstep of the poor people with appropriate financial services with a view to eradicating poverty. While doing these, they will have to pursue commercial strategy meaning covering full cost recovery with a desired capitalization. Indeed, the NGO-MFIs should follow the aforesaid two things by striking a balance for having the desired outreach and sustainability. However, unless there is any fair competition, delivery of financial services will never improve and the needs of the poor clients will always remain unmet.

Commercialization of Microfinance

In view of the foregoing, strategic emphasis should be given on commercialization by the NGO-MFIs. In fact, the article attempts to focus on the issues of microfinance NGOs. The term "commercialization" in the microfinance industry of Bangladesh is relatively a nascent idea and has understandably wide ramifications. This concept is also gradually gaining ground in some other developing countries of the world. Chiefly, it tends to treat the poor as clients rather than as beneficiaries. It conceives the microfinance market not as segmented markets but as the integral of part of the country's total monetary system. It takes into view of healthy competition through product differentiation that encompasses the practice of marketing by launching new products. On the other hand, grant money that has zero cost, is not perceived favorably by many small potential organizations in the country as it distorts market competition. Anyway, microfinance is considered as a business and there is every justification to look at it from commercial angle. Notably, forty percent of a large sample of 533 NGO-MFIs
surveyed recently shows that they have received grants from various donors for operating microfinance programs. Of the aforesaid figure, about thirty five percent has also received concessionary loans. There may be a commonality, however, between the grants and soft loans recipients. This advantage of grants and soft loans received by a segment of organizations may put the majority NGOs in a precarious position in pricing their loans. As a result, maximum number of NGOs will enjoy a very thin spread, if the grants and soft loan culture continues. Under the circumstances, the donors should ponder to review their policy of providing grants. The donors may rather come up with alternative ways of financing. This will consequently invigorate commercialization and help expand the microfinance market. This commercial approach also argues for the delivery of services at a scale and cost commensurate with the needs and ability of the market for which it is intended. People are indeed willing to pay full cost for a service they value. This is the universal text of value in market-based economy.

**Market Competition**

The present chemistry of microfinance technology reveals that it is poised for a transformation. The fact is amply manifest in the evolving microcredit theme, product diversification, overlapping, huge uncalled for consumption loans, individual loans, enterprise loans, savings collection from non-members and highest frequency of prevailing interest rates. All these are clear syndromes, which tell us that the situation is moving somewhere. The system does not any longer like to follow the traditional discipline. On the contrary, microfinance practitioners are not seemingly prepared for commercialization but the situation is pushing them towards it, beyond their knowledge. There is no alternative to commercialization as it is the crux of competition. Competition here refers to the vying for market share among the financial intermediaries that are targeting a market comprising customers having similar needs or wants. Meeting customers' needs is not always sufficient to perform well in the market. Other competitors may be competing for the same customers with need satisfying marketing programs. Clearly, to be successful, the organization's marketing strategy must meet the customers' requirements. But a marketing strategy must also meet another, often more difficult challenge. The organization must effectively position itself against competition within the industry. Thus the essence of planning a marketing strategy is to find ways of effectively positioning one's organization against competition in the mindset of the customers. This, in other words, is to build an edge against the competition. In fact, the effectiveness of marketing programs depends on the reaction of both customers and competitors. Understanding of one's customers is not always enough. Knowing one's competitors is critical to effective marketing planning. An organization should constantly compare its products, prices, promotion and channeling of services with its close competitors.
As things stand today, microfinance NGOs seem to be driven by mere social commitment to combat poverty and generally they overlook the necessity to develop a progressive financial sector. Their philosophy seems to be deeply rooted in traditions of social mobilization. Despite this fact, the scale and performance of the microfinance sector is slowly approaching the banking system. It therefore necessitates these institutions to be looked at in a more market-oriented perspective. Everybody knows that banks charge interest on declining method, which generates an interest amount, almost half, compared to the flat method applied by the NGO-MFIs for their microclients. Nevertheless, if the banks become more enthusiastic in lending to the microclients directly (a possibility that cannot be ruled out) through a superior methodology, then the cutting edge of the NGOs may be lost. The bankers after all will not require much time to acquire mastery over microfinance, if they really choose to do so. Compared to many places in the world, our banks are lagging behind. In fact, the banks have certain advantages as well. They are regulated institutions. Many have extensive physical infrastructure from which to expand and reach out to a substantial number of microfinance clients. Banks have well established internal controls and administrative and accounting systems to track large number of transactions. Bank ownership structures that include private capital tend to encourage sound governance structures, cost-effectiveness and profitability, all of which will lead to sustainability. Banks can rely on their resources of funds, deposits and equity capital and do not have to depend on scarce and volatile donor resources. They can offer a complete line of products, which are in principle attractive to a microfinance clientele. There is no doubt that the coming days ahead will be tough days for survival, unless prepared beforehand to face the reality. The NGO-MFIs will henceforth have to bear in mind that they will not merely compete with themselves but also with other significant actors in the whole industry. None should be afraid of competition. Competitiveness is a pre-requisite to remain in business. Competitors can be a resource rather than a threat; an NGO-MFI can adapt and/or improve on a competitor's product. Macro level economic factors viz. high inflation, demographic trends as for instance urbanization, environment factors such as natural disasters, and technology change can also create a demand for new products.

**Market Share of Three Leading NGO-MFIs**

An analysis of some selected statistical data of last three years of three large NGO-MFIs viz. BRAC, Proshika and ASA reveal that BRAC and ASA have increased their market share (in terms of active membership) that rose from 36.6% in 1997 to 38.3% in 1999 and 12.4% in 1997 to 14.8% in 1999 respectively. While this figure has slightly fallen from 22.4% to 18.2% in case of Proshika. It is noticed that the market share (in terms of net savings) of BRAC has plummeted from 51.7% to 41.91% during this time. ASA also registered a slight fall from 21.3% to 18.3%. This means that BRAC and ASA
are both losing market share (net savings) despite an increase of membership. While this picture is a little bit different in respect of Proshika. It registered a slight rise from 9% in 1998 to 10.5% in 1999, which implies an increase in its market share. In terms of portfolio (the largest current asset), BRAC and Proshika both experienced decline from 38.5% to 36% and 21.9% to 19.7% from 1997 to 1999 respectively. While, ASA has slightly gained from 16.4% to 17.4% during this period. The performance reveals that both BRAC and Proshika are losing markets. This simple analysis tells us that performance of the three bigs has begun oscillating. In fine, BRAC is losing markets in savings as well as portfolio. Proshika is losing market in portfolio and making a slight gain in savings. ASA is losing market in savings and making a slight gain in portfolio. The picture shows that increase in membership did not have any bearing on the volume of savings and credit of these organizations. The absence of a marketing drive is indeed conspicuous from this little scenario.

Customers' Feedback and Analysis

Becoming more tuned and responsive to the client needs is a critical part of an NGO-MFI's methodological evolution, financial viability, institutional soundness and social impact. For these reasons, marketing research has to be pursued and new product ideas should be explored surveying customer needs, reacting to demands from clients, or actions taken by competitors. This is the basis of drawing a marketing plan and should be the way of serving the microclients. An NGO-MFI can harness new opportunities through signals from the market about customers, competitors and overall environment in which the NGO-MFI operates. Customers can voice their demand in the form of direct feedback to credit supervisors or field workers or during group meetings.

New Product Development and Testing

The poor people who are the customers should be treated well and perceived as king. By designing products to the evolving needs of clients, an organization can build client loyalty through customer service and thereby increase its profit. This means that the financial services offered by an MFI must be designed in response to the needs and capacities of the clientele. Terms and conditions of loan, savings and other products should respond to the particular needs of the client group. More importantly, products should be tested before launching in the market. Product testing is used to gauze the perception of the customers on the suitability of the new products. This practice is yet to be popular among the financial intermediaries in our country.

The Need for Marketing Audit
A financial intermediary may find that performance problems recur regularly. In fact, trying to deal with such problems bog down credit managers to the point where they neglect other important responsibilities. Realistically, marketing is one of the major areas, where rapid obsolescence of objectives, policies, strategies and programs is a constant possibility. Because of the rapid changes in the marketing environment, each organization needs to assess periodically its marketing effectiveness through a control instrument called marketing audit. Marketing audit is an in-depth assessment of marketing function. It is essentially an evaluation of where the service provider's marketing function stands at the present time.

Conclusion

The foregoing points suggest that real customer service through commercialization should be the bottom line for moving forward. In a competitive environment, customer satisfaction and commercialization should be the driving force for survival and growth. The microfinance regulation in the country is now underway, which will provide a legal basis and streamline the current and future MFI activities. To reap the benefits of commercialization, the clients should be allowed to exercise their free choices. They should be granted liberty to do their own financial management in order to increase their net worth. While, the financial intermediaries will require mandate for providing a wide range of financial operations. It is expected that the ensuing regulation will promote good governance and prudential management in NGO-MFIs, help protect depositors, improve access to finance, preserve the innovations and variety, integrate microfinance with formal financial system and pave the way for commercialization of microfinance sector.

Source: http://www.gdrc.org/icm/country/bangla-001.html