

**ADDIS ABABA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
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**ASSESSMENT OF MARKETING PRACTICES OF SELECTED
MICRO FINANCE INSTITUTIONS IN ADDIS ABABA**

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**Assessment of Marketing Practices of
Selected Microfinance Institutions in Addis Ababa**

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Abbreviations

MFI:	Micro Finance institutions
MSE:	Micro and Small Enterprises
AEMFI:	Association of Ethiopian Micro Finance Institutions
NBE:	National Bank of Ethiopia
ADCSI:	Addis Credit and Saving Institutions
MMFI:	Meklit Micro Finance Institution
BDS:	Business Development Service
AVFS:	African Village Financial Service

Abstract

In Ethiopia the institutionalized microfinance industry is a relatively a new phenomena and development. It was formally legalized in June 1996 under the proclamation 40/1996 and to date, the industry has grown to service some 721,100 clients (based on data made available at the end of June 2003) with an estimated national market penetration of 7%. The industry continues to develop, evolve and face many new challenges in a market that is currently supply –driven. However, as the marketplace develops the microfinance institution (MFI) will increasingly need to identify customers' needs, aspirations and demands, if it wishes to achieve sustainability. Indeed, some MFIs are already attentively beginning to explore the need of customers, for example, develop new products to meet changing market needs.

For this project, even through there are several research methodologies, but in the current circumstance and considering the nature of the topic under review, it was considered appropriate to use *exploratory research technique*. This approach would allow defining the parameter and the background in which marketing exists, enabling to uncover the salient points that are relevant and to a fuller understanding of the environment. because of the complex nature of the subject, it was also felt that individual interviews would provide a greater depth and richness of information than if alternative methods were used e.g. postal questionnaires . Finally, structured questionnaires, for senior officials, and operation employees of selected MFIs were used to ensure consistency throughout the program, using a variety of open and closed questions.

The research findings, detailed in this study, are based, where appropriate, on the responses to the interview and the main issues raised by the MFIs together with a number of examples that interviewees have highlighted. The interviews were analyzed under each of the major set of marketing criteria.

The microfinance industry is service-oriented industry, in exchange for a fee (interest rate), the customers either borrow or lend money from or to the MFI. If the customers are satisfied with these services, they will continue to use them and

thus the ultimate success of the MFI business depends on its ability to service the customers' needs, wants and demands.

Largely, for MFIs, marketing is about understanding the customer and how to retain their business. This simply means that the MFI needs to focus on defining its target markets, its market share and its size in its chosen market place. MFI then needs to clearly identify if its product line effectively meets the perceived needs of its current and potential customers.

Marketing includes the entire element mentioned above, as well as a number of others and they all fall under the marketing planning process. The final outcome is documented in strategic marketing plan. In strategic marketing plan, one would expect to clearly identify the organization's objectives, resources, timing and responsibilities.

For the purpose of this exercise, the possible barriers to entry into the market place were ignored. Indeed those that may exist are relatively low. All potential sponsors of MFIs are free to enter into the marketplace. The minimum capital investment requirement is 200,000 birr (23,255 USD) and current legislation preventing foreign capital owners from investing directly in MFIs are also important and additional barriers. However, to date, none of these barriers have been shown to be of any real significance.

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CHAPTER ONE

INTRODUCTION

1.1 Back ground of the study

While undertaking a certain business venture, business operators may have different objectives like survival, growth, making profit, and meeting social responsibility. Although all these are important objectives, the profit objective plays a major role in business. To achieve this crucial objective, businesses should satisfy the demands of their customers by identifying those customers' demands. Because consumers continually want more and better things, businesses should make adjustments to accommodate the demand. This can only be achieved through a well integrated strategic marketing which encompasses designing proper marketing mix: product or service, price, promotion, and place or distribution.

Microfinance has evolved as an economic development approach to fulfill the need for financial services for the poor society who don't have access to conventional banks to promote their living standards. To benefit low-income women and men. Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers and artisans and small producers, such as blacksmiths and seamstresses. Usually their activities provide a stable source of income (often from more than one activity). Although they are poor, they are generally not considered to be the "poorest of the poor".

The delivery of financial services through microfinance institutions in Ethiopia is one of the policy instruments used to enable rural and urban poor increase their output and productivity, induce technology adoption, improve input supply, increase income thereby helping hem reduce their poverty and attain food security. The establishment of sustainable microfinance institutions that reach a large number of rural and urban poor who are not served by the conventional financial institutions has been a prime component of the new development

strategy of Ethiopia, which emphasizes on poverty alleviation. (Wolday Amha, 2001)

Hence, micro-financing institutions can play the greatest role in to fulfill the need for financial services for the poor society to promote their living standards.

Poverty alleviation efforts involve enabling measures that increase the capacity of the active poor to engage in gainful activities (farming, petty trade, micro and small).

Equally recognized is that the poor are hindered from being engaged in such activities by, inter alias, finance constraints, from the formal financial sector in particular. So are micro and small business operators. The main reasons cited in the literature are high transactions cost of small loans, information problems (hence adverse selection and moral hazard effects), lack of appropriate collateral, and the informal nature of their businesses.

Cognizant of these, governments, NGOs as well as bilateral and multilateral donors have given high emphasis to Micro Finance Institutions (MFIs). (The Economist (November 1999) remarked: "Micro-finance is one of the trendiest areas of international development". Ethiopia is no exception. This is evidenced by the introduction of micro finance programs (e.g. at the Development Bank of Ethiopia (DBE)) and the proliferation of both NGO-based and government-supported MFIs in recent years.

It was found necessary that micro finance services be business-like (rather than aid) and bring these activities "within Ethiopia's monetary and financial polices", hence the enactment of the Licensing and Supervision of Micro Financing Institutions Proclamation No. 40/1996 which requires MFIs to be established as share companies.

The proclamation enhanced the status of MFIs as it allowed them to, among other things, legally accept deposits from the general public draw and accept drafts, and manage funds for micro financing business. However, their engagement in such functions also makes it necessary that their activities be brought under the purview of the financial regulatory framework. The emergence of a number of MFIs since then is encouraging. However, the width and depth of

poverty in the country requires provision of financial services to the poor on sustainable basis. For an institution in a deposit taking-lending business such as MFIs to do this, it has to be financially viable as it cannot count on cheap subsidized funds.

The limited previous studies on MFIs focused on assessment of their impact, and/or loan recovery rates and their implication on sustainability.

Increased competition within geographical markets has led MFIs to create innovative products and services and to believe that listening to clients and understanding their financial services preferences will ensure delivery of products and services that clients will value. Another factor leading to MFIs becoming more market-driven is a concern about high levels of client exit which damages their financial sustainability. This in turn has prompted MFIs to recognize the importance of evaluating client satisfaction with available products and services and to make changes as suggested by the findings. The goal is to raise both client retention and attraction rates and thereby improve levels of financial sustainability.

Clients with alternative options leave microfinance programmers when they find that products and services do not work for them. In this kind of environment, MFIs find it important to understand and respond to client preferences.

Increased competition within geographical markets has led MFIs to create innovative products and services and to believe that listening to clients and understanding their financial services preferences will ensure delivery of products and services that clients will value. Another factor leading to MFIs becoming more market-driven is a concern about high levels of client exit which damages their financial sustainability. This in turn has prompted MFIs to recognize the importance of evaluating client satisfaction with available products and services and to make changes as suggested by the findings. The goal is to raise both client retention and attraction rates and thereby improve levels of financial sustainability.

Microfinance evolved in the 1980s as a development approach that intends to benefit the (active) poor largely as response to the failure of targeted subsidized

cheap credit programmers. In such programmers, benefits mainly went to those with connections and influence rather than the target beneficiaries; large loan losses accumulated, and frequent re-capitalization were required to continue operating, suggesting the need for a new approach. The new approach considers microfinance as an integral part of the financial system, emphasizes sustainable institutions operating on market principles to serve the poor (as opposed to subsidized loans to target populations), and recognizes the importance of both credit and savings services (Ledger wood 1999). On the other hand, a pilot project led by professor Yunus in the late 1970s had demonstrated that the poor can be bankable and that high loan recovery rate can be achieved under non-collateral lending, leading to the establishment of the Grameen Bank (in 1983). Grameen Bank became a highly publicized success story.

Governments, donors, NGOs, etc. found both the new approach to finance and MFIs appealing. This led to efforts to establish Grameen-Bank-type institutions, resulting in the proliferation of MFIs. Generally, MFIs focus on the active poor, give emphasis to women, provide group-based lending, and use compulsory savings, joint liability and social sanctions.

MFIs in Ethiopia are rather new. The early formal microfinance activity is the DBE Pilot Credit Scheme, initiated in 1990 under the Market Towns Development Project implemented in 1994. While many NGOs had credit schemes for years, NGO programmes that emphasize both credit and savings began in early 1990s. For example, the REST Credit Scheme of Tigray (RCST) (now Dedebit Credit and Savings Institution, DECSI) was launched in 1993; Sidama Saving and Credit scheme (now Sidama Microfinance Institution) was established in 1994; Oromia Credit and Saving Scheme (now Oromia Credit and Saving S. C.) started in 1996. Currently, there are more than 18 MFIs, registered and operating in accordance with Proclamation No. 40/1996.

1.2. Statement of the Problem

Understanding the contribution the MFIs can make in reducing poverty, the government created conducive environment for their establishment. Based on this regulation different government and NGO supported MFIs are operating in both

the rural and urban areas of the country since then. This being the case, however, the service provision of the industry in general is insignificant as compared to the huge demand available in the country. Besides, when we look in to the current status of the institutions, most are at a critical operational and financial sustainability.

Previous studies in microfinance have pointed out many factors those hinders the performance of the institutions. to mention some of them, lake of necessary infrastructure such as road, telecom, banking system; lake of capital, limited skilled manpower, lake of effective management and information system, lack of awareness of the people about the program. This actually is a common problem of almost all businesses in the country. Comparatively, the above cited problems are relatively lower as compared to the rural areas.

Urban centers, which are known to have been densely populated, where one could communicate a number of people at a time and could easily mobilize a group of people to promote services are generally considered potential markets for MFIs. This being the case however, the performance of the MFIs operating in urban areas is not that much encouraging yet. Keeping the negative impact of the above basic problems on the performance of the MFIs in the urban areas in mind, previous studies specifically figured out the following factors

Even though micro finance institutions are flourishing these days in our country almost all are following the production concept .i.e. most microfinance institutions view their clients as given. The general attitude among many of the experts was that 'we have the products, demand is unlimited and the clients will come.' Experts saw clients as statistics, measured in terms of repayment and repeat borrowing rates. Clients entered the discourse, if at all, through impact assessments that were largely the domain of the donors and researchers. These two partners formed an alliance: donors funded the impact assessments, researchers performed them. Microfinance institutions (MFI) and their clients were the objects of these studies but they were rarely owners of the results.

Today, much of this has changed. The microfinance agenda is now increasingly client or market driven. Much of the current interest in clients is driven by the industry's focus on competition and dropouts. Competition, together with MFI policies of requiring clients to take increasingly large loans each cycle, has tempted some clients to take out multiple loans, to assume too much debt and at times end up defaulting on some of their microfinance credit. Dropouts have raised operational costs, a situation few MFIs can afford.

As a result, new attention is being given to clients and products, how to attract and keep clients. As this market-driven microfinance agenda emerges, its component elements are taking shape. While the client-product nexus is important, it is only part of the agenda. It also includes linkages between clients and institutions and the client's financial landscape.

Hence, this particular paper tries to answer the following important questions:

- ✓ Whether the micro finance institutions view themselves as businesses or aids to clients.
- ✓ Whether these institutions are applying the new agenda of client or market driven or not.
- ✓ What attention is being given to clients and products, how to attract and keep customers?
- ✓ What institutional mechanisms are being undertaken for serving the large underserved markets and the self excluded (both the extreme poor and vulnerable non poor.)

1.3. Objectives of the study

The study has the following major objectives:

1. To assess the performance of the marketing department in the selected MFIs
2. To investigate the marketing strategies such as the marketing mix, and market research adopted by the institutions

3. To assess the impact of the marketing environment in which the MFIs are operating
4. To assess the current real world practice of the MFIs is congruent to the principle and figure out the discrepancies
5. To suggest some possible recommendations based on the findings that help the MFIs for achieve their mission

1.4. Methodology of the study

1.4.1 Source of data

In order to make the findings of this research more reliable, relevant data have been collected from both primary and secondary sources.

1. Primary sources

It is crystal clear that data obtained from primary sources are by far very important for the outputs of a research to be more reliable. With this in mind the study has obtained primary data through both structured and unstructured interview from senior officials and personal observation of the activities of the units in charge of marketing.

2. Secondary sources

As a supplement for the reliability of the primary data, secondary data sources were obtained from the following sources:

- Data from the Association of Ethiopian Microfinance Institutions, National Bank of Ethiopia, and reports of selected MFIs.
- Data from related journals, periodicals and other sources.

The study combines descriptive and exploratory designs, believed to be able to describe and analyze the marketing strategies and marketing mix, and proposes alternative ideas based on the results of the study.

Qualitative analysis was the principal method of study complemented along with quantitative analysis.

Data collection Primary data is collected through in-depth interviews with senior officials of selected MFIs and direct observation of the activities of the units in charge. While sources for secondary data are derived from the Association of Ethiopian microfinance institutions, National Bank of Ethiopia, working manuals and relevant reports of selected MFIs.

1.5. Significance of the study

The findings of this particular research in general are believed to be very important for all the concerned stake holders. In particular, it enables the researcher to acquire greater knowledge about the real world practice and help to understand the degree of relationship the theory has with the actual business practices. It is crystal clear that the essence of conducting a research is to solve society's problem. the direct stake holders of this research are the selected MFIs, other MFIs, the industry, clients, the country's economy In this regard the outputs of this particular research helps the direct

More specifically the research has the following major significances:

- Help the selected microfinance institutions to understand the contribution strategic marketing has in improving primarily their financial stability and consequently their operating profitability which in turn enable them for further expansion and growth to better address the demands of the greater number of the unreached poor looking for such kinds of services.
- Enables the MFIs in general and the selected MFIs in particular adopt the appropriate marketing mix elements(product, price, promotion and place) for better achievement of both their short and long term objectives.
- Better performance of the present MFIs encourages the emergence of new MFIs, which in turn attracts private investors to invest in the area. As a result current beneficiaries will get the most benefit out of the programs. Besides, more potential clients can be reached. This improves the primary role the industry is supposed to play in alleviating poverty.

- Can be used as a stepping stone for other interested researchers in this particular area.
- Help the over all microfinance programs of the country to move one step ahead from the sense of being aid to a business venture.
- Can be used as a stepping stone for other interested researchers in this particular area.

1.6. Scope and Limitation of the study

Had this study addressed all the MFIs operating in the country and the over all aspects of the performance of the institutions, it would have been more comprehensive and more reliable. However, because of shortage of the important resources such as time and capital, this study is delimited to investigating the marketing strategies of some selected MFIs operating in the capital city.

1.7. Structure of the paper

The research paper is organized in four parts. Part one deals with introduction in relation to the topic under study. Specifically it tried to discuss in brief about back ground information, statement of the problem, objective of the study, methodology of the study, scope and limitation of the study, and significance of the study.

The second part of the paper presents review of related literature. Specifically it reviewed different books, journals and reports of the industry under the conceptual section and different previous researches done in the topic of discussion under the empirical literature.

In part three data collected from both primary and secondary sources are discussed and analyzed in detail and presents the findings of the research.

The paper ends up by reaching on conclusions based on the findings and by suggesting relevant recommendations believed to help the institutions for better performance.



CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 CONCEPTUAL LITERATURE

2.1.1 Nature of financial market

The poor in Ethiopia have low income, which leads to low investment and which in turn leads to low productivity and income. Access to institutional credit, which contributes to the increase in investment, is very limited in Ethiopia. The majority of the poor, thus, the potential demand for loans in terms of individuals will be above five million. There is very limited supply of financial services to the poor (Chao Beroff, et al 2000). From the supply side, the major sources of loan or microfinance services in Ethiopia are: -

Commercial Banks, Micro finance institutions (MFIs), Cooperatives (Saving and credit cooperatives, Multipurpose co-operatives), NGOs involved in the delivery of financial services, Government projects, Semi – formal institutions (Iqub, Iddir, mahiber), Informal institutions.

The conventional banks have not been interested in the delivery of financial services to the poor. Their outreach was also very limited. The commercial banks have not been interested in the delivery of financial services to the poor. Their outreach was also very limited. The commercial Bank of Ethiopia (CBE) and development Bank of Ethiopia (DBE) have only 170 and 32 branches in the whole country respectively. As of March 31, 2001, the private banks all, put together had 89 branches. Most of the branches of the commercial banks are concentrated in urban areas. According to Mulat Demeke et al. (1998), only 21 % of the Woredas (districts) in the country have bank branches. Even if there are banks in these Woredas, due to high collateral requirements (land or physical assets), the poor have limited access to the conventional banks. Thus, delivering financial services to the poor requires an innovative targeting design and a mechanism of credit delivery that helps identify and attract only the poor who can take the initiative and sustain productive use of loans.

Currently, with the exception of the indirect interventions in fertilizer and improved seed credit, the conventional banks in Ethiopia consider the poor as

credit risks and unbankable. For the conventional banks in Ethiopia, a loan size below 100,000 Birr (USD 11,500) is not attractive and profitable. Thus, MFIs and savings and credit cooperatives should be designed to respond to the failure of the commercial and Development Banks to meet at he financial needs of poor and small producers.

The informal lenders such as the money lenders, traders, friends, and relatives are able to enforce loan contracts and their loan recovery rates are high and the loan terms are flexible. However, their interest rates are very high. The government NGOs, cooperatives & MFIs are thus making effort to curb their roles (Wolday Amha 2001).

The semi-formal lending institutions such as Iqub (Rotating and Savings and Credit Associations) and Iddir are the dominant and sustainable traditional institutions, which meet the financial and social needs of the poor. Of these, Iqub is popular and the dominant forms of saving and credit cooperatives in Ethiopia both in urban and rural areas. It is not a permanent club; it could be continued or dissolved after its members have their turns served. Iqub members can meet weekly, or bi-weekly, or monthly to collect fixed sum of payments (Ibid).

The semi-formal and informal lending institutions are important sources of finance for poor households in Ethiopia. The semi-formal and informal finance accounts for 78% of the agricultural credit (Dejene Aredo, 1993). According to Dejene and Kibre (1995). The major sources of loans are friends and relatives (66%). Money lenders (15%). And other sources (19%). Only 1 % of the sample households had bank account. About 20% of the sample households reported that they were members of Iqub (Rotating and Savings and Credit Associations).

Since NGOs, government departments, cooperative and others delivered financial services in a fragmented and unsustainable way; the government took the initiative to issue and implements a regulatory framework in order to facilitate sustainable delivery of financial services to the poor. Proclamation No. 40/1996 clearly indicates the requirements for licensing microfinance institutions by empowering the National Bank of Ethiopia (NBE) to license and supervise them.

The delivery of financial services through microfinance institutions in Ethiopia is one of the policy instruments used to enable rural and urban poor increase their output and productivity , induce technology adoption , improve input supply , increase income thereby helping hem reduce their poverty and attain food security . The establishment of sustainable microfinance institutions that reach a large number of rural and urban poor who are not served by the conventional financial institutions has been a prime component of the new development strategy of Ethiopia, which emphasizes on poverty alleviation.

Ethiopia has a clear regulatory frame work by which MFIs are allowed to mobilize saving starting from day one of registration or after receiving their license form the National Bank of Ethiopia. The regulatory frame work includes a loan ceiling of 5,000 Birr, loan duration of one year and delivery of financial services based on group collateral. The lending interest rate ceiling has been waived and MFIs are now free to set their own interest rate. The lending interest rate of MFIs ranges from 12.5% - 25%. In the last five years, the microfinance industry in Ethiopia has shown a remarkable growth in terms of out each and performance. The nineteen microfinance institutions registered under the National Bank of Ethiopia have delivered financial services to 500,000 clients.

Since the 1970s, NGOs in Ethiopia have been delivering relief ad development services such as emergency food, health, education, water, etc. In terms of the delivery of financial services to poor, NGOs were directly funding micro credit activities as part and parcel of poverty alleviation programs. As the delivery of microfinance activities grew, the question of operational and financial sustainability has been raised. Currently, some of the MFIs are at their startup stage where their clients are less than one thousand and require sound support to build their capacity in order to increase their client base.

There are also MFIs with clients between 1000 and 5000, where their emphasis is on consolidating their activities with the view to improving their quality of portfolio and performance. There are MFIs with clients between 5000 and 20000 which focus on expansion reach operational sustainability. There are MFIs with more than 20000 clients with the objective of delivering financial services to the

entire region or expand their geographic coverage in order to make a meaningful impact on poverty alleviation and transform themselves into sustainable financial institutions .

Loan products

In general, we can divide the loan products of MFIs in Ethiopia into two categories;

1. **Agricultural Loans;** these are loans for agricultural input, livestock, bee – keeping, etc. The loans are usually term loans where by the principal and the interest rate is paid at the end of the loan term. However, in some MFIs, the agricultural loan could be rapid weekly, bi – weekly or monthly, the term for agricultural loans in Ethiopia varies from 3 to 12 months depending on the type of the activity. The agricultural and micro–business loans are based on the principles of group guarantee and group attendance requirements. The agricultural loans have, however, significant risks to MFIs portfolio management and increase loan loss.
2. **Micro – business Loans;** These are loans for petty trading, handicraft, and other services which are rapid weekly, biweekly, or monthly on regular basis .The micro – business loans have relatively lower risks (compared with agricultural loan) and they diversify household income.

Saving and insurance products provide additional protection to the lender by assuring the return of a loan in case a borrower becomes financially depleted. Saving service assist in building investment capital and consumption smoothing which reduce poverty. Savings are also effective weapons against economic shocks. Another advantage of the saving facilities of MFIs is that they provide protection and safety for the money of the poor. Saving is one of the most important products I the microfinance industry in Addis Ababa.

There are four types of saving products in the industry in the country.

A) **Center savings:** Clients are required to contribute fixed amount per week, two weeks or month to the center for social development purposes. Actually it is difficult to classify center savings as proper savings.

B) Compulsory group savings; this helps as repayment insurance. It involves keeping at least a certain percentage of the group's current loan size in its account or safe; this is sometimes called loan tax. There is also a fixed amount of saving per week, two weeks or month which cannot usually be withdrawn any time. This helps as repayment insurance. This is partly teaching clients how to save. The group saving is refundable when the clients dropout or retien.

C) Individual voluntary savings: There are two types of voluntary savings in Ethiopia which can be accessed by clients freely. The voluntary savings encourage the poor to save and serve as a source of short – tem liquidity, which gives clients an increased sense of security and confidence to risk investment in higher return entrees. Individual savings are becoming an important strategy of mobilizing savings are becoming an important strategy of mobilizing savings of Ethiopian MFIs. Individual savings can be mobilized both by the client or non – clients of an MFI.

D) Institutional voluntary savings; These are voluntary savings form institutions such as Idir , school , church , etc

2.1.2 Market competition

Currently there are 23 registered microfinance institutions in Ethiopia. There is very limited competition among these microfinance institutions. The limited competition has been due to the very high demand of clients for financial services, i.e., the total market potential demand is much higher than the supply As a result; MFIs in Ethiopia consider the demand for their financial products as unlimited. Many of the microfinance institutions have established near – monopoly position in specific regions, thus, there are no competitive in terms of introducing new financial products and finding niche financial markets in order to meet the changing needs of enterprises. Actually, since the demand for their mono – product is higher than the supply, MFIS are reluctant to indulge in new product development without competitive pressure, monopoly MFIs will not expand their financial product offerings; hence they will continue losing clients to competitors . MFIs in Ethiopia seem to wait until the market saturates and then they involve themselves in competition marketing, and financial product development.

2.1.3 Segmentation of the market

Market segmentation analysis could be a very useful instrument in identifying the need for financial product development in the microfinance industry. The gap is simply the difference between what is delivered by the MFIs as financial services and what clients demand. This gap has to be filled if the MFI is to be sustainable and growing. The gap analysis is a tool to help MFI manager examine thoroughly and objectively the current marketing position of an MFI and the strategies which should be followed to be sustainable. It also directs the product development strategy (marketing strategy) or the need for new product development or product improvement.

There are four types of financial gap: - usage gap, distribution gap, product gap and competitive gap (Mencer, 1996).

Usage financial gap: - is the gap between market potential and the actual current usage by all the clients in the market. The potential market can be estimated or judged by extrapolating techniques. The existing usage by clients makes up the total current market from which market shares are calculated. This is derived from market research.

The competition gap: - is the business share achieved by similar financial products sold in the same market segment, and with similar distribution patterns.

Financial product gap could be described as the segment of positioning gap which represents that part of the market from which the individual MFI is excluded because of the characteristics of the products. This could be a deliberate decision taken by an MFI not to offer its financial products in some segments, or it may be because of the effective positioning of its offering. The financial product gap could be by default.

Distribution financial gap: - product gap and competition gap relate the difference between the MFIs existing market share (sales) and the total sales of the market as a whole. The difference is the share held by competitors which relates it to competitive activity.

The distributional gap: - shows the accessibility of the financial product of a certain MFI at certain market outlets such as certain geographical regions.

In reality, most of the “new financial products” modify existing products, I.e., What is usually done to improve or add something to existing financial products. This could bring out modifications of feature, quality, and style of image.

At the end of the exercise what will be the next stage, if the financial gap analysis has shown the need for a new financial product development which includes modification.

In that case, product development which includes modification. In that case, an MFI should determine whether such a new product can be profitably developed. The new and potential product need to be screened against a number of strategic dimensions of an MFI such as production capabilities, financial performance, investment potential, human factors, material supply, cannibalism, and time. This means that an MFI should establish the right operation system, governance, organizational structure, staff, etc before moving to provide additional products.

2.1.4 How to obtain Feedback from the beneficiaries

For better accomplishment of their business operations and consequently to satisfy their clients, the microfinance institutions have to obtain feed back from the beneficiaries at certain intervals. According to IDS bulletin 2003.vol.34 no.4 there are some nine interrelated processes to get feed back from clients in order to make informed decisions.

The nine inter-related phases of the feedback loop are summarized below:

Information collection

This encompasses formal quantitative or qualitative approaches to data collection. Alternatively, informal mechanisms such as reports from discussions between managers, their staff and clients may be used. This first stage of the feedback loop can generate important client data as well as operational information, such as information about the value of training staff to listen to clients or, similarly, the value of training managers to listen more carefully to their staff. Credible information can be consolidated and analyzed more easily.

Information consolidation and analysis

This involves converting raw data into a more useable form for analysis. While responsibility for the analysis of the formal data is usually assigned to someone in the institution, the work itself may be undertaken by outside contractors. The choice will depend on the skill level of the staff and the budget. Informally collected data is often reviewed at staff meetings. When appropriate, client data analysis should be supplemented by an assessment of the financial implications of responding to client and institutional needs.

Reporting

Once the information is consolidated, focused reports are prepared for decision makers. These reports of the findings will vary in length and style depending on the user. Short reports may be best to enable senior managers to review key findings 'at a glance'. To facilitate the decision-making process, the next step in the loop, the summary, should be short, preferably one and no more than two pages.

Decision-making

Attention here focuses on who makes the decisions as well as how lower-level staffs are informed of the decisions made. All too often, decisions are made by management with little or no consultation with lower-level staff. While decentralizing decision-making warrants consideration, this calls into issue the capabilities of staff to make decisions. Since the outcome of the decisions may be actions that will affect MFO operations, the information base must be sufficient to inform an implementation plan. Beyond the content, the delegation of responsibility for the actions to be implemented to a focal point within the MFO is another important component of this process.

Piloting

The process of pilot-testing the recommended actions should be considered at this stage of the cycle. For some innovations, this is a required step. For others, it may be bypassed and the actions taken may be implemented directly across the institution. The latter applies particularly to minor refinements that do not require the organization to make major policy changes.

Delegation

As noted, once a decision is taken, an individual within the organization is charged with implementing it. Effectiveness will, to a large extent, be a function of the clarity of guidance with which he/she is provided. Integral to this delegation of responsibility is a mechanism to hold the designated focal point responsible for results.

Communication

Effective communication refers to the preparation that must accompany the implementation of an innovation. This includes conveying the decisions to staff, the board, management and clients as well as the training, marketing and development of the implementation plan to ensure success.

Implementation

Actions are taken at the implementation stage. Getting feedback on the implementation process is crucial. This can be achieved through suggestion boxes or focus group meetings. Management also needs to assess the costs and benefits of the change implemented. At this point the loop comes full cycle.

Guiding managers and operational staff through the different phases in the loop highlighted strengths and weaknesses within their organizations. By identifying log-jams or weak links in the loop, managers were stimulated to find ways to remove emerging impediments to more efficient practice. The stakeholder workshops became part of a problem-solving process. For example, senior managers in CAME stressed that they had problems retaining their front line staff. Through the workshop, they realized that this was related to the fact that their loan officers had no voice within the decision-making processes. As this example demonstrates, the feedback loop approach served to stimulate reflection and to encourage MFIs to become more responsive to clients.

2.1.5 Market planning

Market Analysis and product Development Methods of microfinance Industry

As it has been indicated earlier, the microfinance industry in Ethiopia is young and the financial products of MFIs are not demand – driven. MFIs in the country

operate in non – competitive environment. The unmet demand is enormous. There is a problem of loan fund in many of the MFIs. The above problems of MFIs in Ethiopia reduce the importance of marketing in the microfinance industry. However, MFIs should start by defining a market and gradually deal with finding the right clients and the appropriate mix of products, and identifying the institutions' strategic position with in the market through product diversification and differentiation.

According to William Grant (1999), marketing for a microfinance institution, in its broader sense, is the study of the clients. It is the analytical tool that helps MFIs increase the number of clients, keep the clients, estimate the number of clients, identify market share and target market, identify the needs of clients, define appropriate products to clients, position the products and promote products of MFIs. Marketing in the microfinance industry is about knowing your clients, your competitors, and your business environment. An MFI should closely monitor client needs and market conditions to (Bamako, 2000). Thus, marketing and marketing analysis should be an integrated function within an MFI management system and business plan. Become attuned to changing demand and to stay one step a head of the competition.

It would be advisable to MFIS to start with the broader strategic market management which is a system designed to help management both precipitate and make strategic decision , as well as create strategic visions of MFIs. Since the strategic unlike the tactical decision, is costly in terms of resources and time required to reverse or change it, it should be clearly articulated in the business plans of MFIs.

Design of MFIs Marketing strategy includes: - External Analysis and Self – analysis

External Analysis includes: -

- Customer Analysis (Segments, motivations, unmet needs)
- Competitor Analysis (Determinates of strategic option; past and current strategies, strategic problems, organizational capacities and constraints, financial resources and constraints, strengths, weaknesses).
- Market Analysis (Size, projected growth Profitability, entry barriers, Cost structure, distribution system, trends, are key success factors).
- Environmental Analysis (Technological, governmental, Economic, cultural, Demographic scenarios, Information need (Opportunities, threats, Trends and strategic questions)).

Self Analysis: -

- Performance analysis (profitability, sales, shareholder value analysis, customer satisfaction, product quality, brand associations relative cost, new products, employee altitude and performance, product portfolio analysis).

The external analysis focuses on the identification and understanding of threats, opportunities, strategic questions, and strategic choices both for present and the future. Self – analysis involves performance analysis and an examination of the key determinants of strategy such as strength, Weaknesses, and strategic problems of an MFI.

According to Welday Amha the performance of an MFI in the frame work involves an evaluation of past strategies and an indication of the current market viability of a product line. There are also other performance measures that provide the long term sustainability of an MFI. These include

- ❖ Client satisfaction: - How is the MFI doing relative to other competing MFIs in attracting clients.
- ❖ Product quality: - is the product delivered to clients performing as intended.



- ❖ Client association to the MFI: - what do the clients associate with the MFI in terms of perceived quality, innovativeness, product class expertise, client orientation, and so on.
- ❖ Cost: - Is the MFI cost effective.
- ❖ New product activity: - Does the MFI have a stream of new products or product improvements that have made an impact.
- ❖ Staff capability and performance: - Is the MFI capable of creating the type, quantity, and depth of personnel that is needed to support projected strategies.

Although the marketing approach of one MFI varies with another MFI depending on its internal and external objectives (environment) their marketing programs should have the following principal elements or components. The marketing program (the scale and depth) of an MFI in Ethiopia varies with the level of development of the MFIs and the vision, mission, and objectives of MFIs, i.e. the marketing approach of an MFI varies with its institutional capacity, the marketing approach of an MFI varies with its institutional capacity, the environment, its purpose (strategic objectives), and available financial resources.

Strategic planning and positioning

Strategic planning is the process of assembling the above information into an overall approach that determines the kinds of products to be offered, the location where they will be offered and the way in which they will be differentiated from other products. The strategic plan identifies the areas in which the institution holds a competitive and comparative advantage over its competitors so that it can build on its own strengths and capitalize on the weaknesses of others.

Product Analysis and product Differentiation

In this stage, the institution should use the results from the client behavior analysis to evaluate which products and services can be delivered to clients cost effectively and profitably without increasing the overall risk exposure of the institution. In a competitive market, the MFI needs to define its products and services so that they are differentiated from those of its competitors in the public eye.

Promotion and Outreach Communication

Promotion is a marketing tool that can be used by an MFI in several ways ; (1) to distinguish its products form those offered by the competition , (2) to introduce a new product to its clients , and (3) to raise client awareness about the MFI and its overall product offerings . The key steps are identifying the message to be transmitted, selecting the right promotional tools, and evaluating their effectiveness.

Marketing plan

A marketing plan presents a road map for an MFI to understand its current position and to identify where it wants to be and how to et there. To be effective, the marketing plan should have clear goals and objectives for how the marketing function will be integrated into the institution’s operations (Bamako , 2000) .

A relistic marketing program should pull all the above elements together in an organized fashion so that they are linked and built upon one another.

New Financial product Development; as an element of marketing strategy

As a practical matter, many strategic decisions of an MFI involve products ; which product line to continue , which to add , and which to delete . The financial product development concept in the microfinance industry could be illustrated using the product market growth matrices.

Product financial Market Growth Metrics

	Present product	New product
Present market	Market Penetration (1)	Product Expansion (2)
New market	Market Expansion (3)	Diversification (4)

The first vector involves penetrating the existing product market An MFI may attempt to attract clients form other MFIs or increase the size and frequency of using loan and savings product by the existing clients. In the second vector, the MFI involves product expansion while remaining in the current market. Thus, an

MFI offering loan and savings product could provide insurance products to the same clients. The third vector involves applying the same product to the same clients. The third vector involves applying the same products in new markets. MFIs could expand the delivery of the existing loan savings and insurance products to other regions. The fourth vector involves new product development in diversified markets. Here an MFI is involving it self in delivering new products while at the same time involve in promoting the new products in new regions.

As it has been indicated earlier, an MFI that plans to be around a competitive environment for more than a few years and become sustainable has to move into the area of “new financial product development”. It should be noted that the most successful new financial product development approach typically revolves around the revitalization of the exiting financial products. The need for totally new products or, perhaps more realistically, for additions to existing lines, may have emerged from product portfolio analysis (for MFIs with many products having different life cycles), in particular from the use of the Boston Matrix. In actual fact, MFIs should mainly involve improvement and incremental product innovations. However, major (landmark) product innovations could be realized in the microfinance industry in Ethiopia where there is non- competitive and mono – product environment.

2.1.6 Financial implications and regulations in Ethiopia

There is a clear microfinance law in Ethiopia. This is one step forward in the development of the microfinance industry. The microfinance law (Proclamation 40/1996) was issued in 1996. It has not yet been revised to meet new demands of clients. The regulatory frame work affects new financial product development in various ways. For example, the 5,000 Birr loan ceiling hinders the development of financial products with a loan size above the ceiling. The loan term as per the regulation is one year. This also affects the development of loan products which need more than one year (e.g. housing loans) . The lending methodology is group collateral and peer pressure. This also affects the development of new financial products, which need individual instead of group collateral.

EMPERICAL LITERATURE

2.2.1 Nature of MFIs' markets in Addis Ababa

Addis Ababa, with estimated population of over 3 million, is a metropolitan city to where members of people are migrating from different corners of the country. Majority of its residents are coming from different regions for many reasons, the majority are migrating to the country's capital in search of jobs. However, with limited capacity of the formal sector to absorb the flow of people, many of them are engaged or employed in the informal business sector. This has resulted into the wide spread of small and medium size business operators in every corner of the town. Besides being sources of income to lower level people of the city, these businesses have also created job opportunity to more than 56,000, according to some reports. The informal sectors, as they do to most of the developing countries, contribute significantly to economic growth of the city.

Though these micro and small entrepreneurs are concentrated in major market areas of the city, the nature of the business has let them available all over Addis Ababa. The informal sector, cottage/handicrafts production sector and small scale manufacturing sectors are the main area of interventions for their businesses.

The Market

According to recent statistical surveys on these business operators, their number in Addis Ababa is estimated to be about 160,000. More than 68% of the total respondents reported to be engaged in the informal sector. Small scale manufacturing industry and cottage/handicraft industry comprise the remaining 32% of the total number of businesses in small and medium levels. Though the informal sector businesses are operating without fixed location, use no modern technology and done with no formal training, they have created means of income to number of households consuming more than 50% of the total working force. Trade (with majority in shop and petty trade) and hotel or restaurant services (including tea rooms) are the dominating business in the informal sector. About 83% of them are owner-led businesses operating with less than Birr 500 initial capital. The small-scale industries have proved to consume most of the working people with an average of 3 employees per business. Business start up capital is

one of the major problems as reported in the three different sectors, where the degree of intensity is higher at the informal sectors and cottage industry. All the three sectors reported to have lack of initial capital, which lead private saving and financial sources from friend and relatives to be commonly used during business start up. In addition, lack of working capital was reported to be one of the challenges of these businesses, which will negatively impacting productivity and sustainability of these businesses. The informal sector in this paper refers to home based or individual activity operated by owner with few or no employee. They are for the most part unregistered and operating on a very small-scale and with low level of organization (Microfinance Institutions and their Urban Ministry -Ato Shimeles Tefera, Marketing and Monitoring Officer, WISDOM MFI)

2.2.2 Why strategic marketing is crucial in urban micro finance

Marketing attempts to understand the needs of the client and to adapt operations in order to meet those needs and achieve greater sustainability. It addresses the issues of new product development, pricing, the location of operations and the promotion of the institution and its products. Marketing is a comprehensive field aimed at strengthening the institution by maintaining focus on the client. In doing so, it creates exchanges that satisfy individual and organizational goals. The Microfinance industry is growing in Addis Ababa with an increased number of practitioners. The increase in number of practitioners will open room for opportunity to customers and, as a result, intensify level of competition among service providers. Data on Microfinance service providers in Addis Ababa suggested that the market will sooner be saturated and MFIs need to set a strategy for survival. Most of Micro Financing Institutions need to look forward besides developing “good” products. People in urban cities need to choose best among “good” products and services. (Kotler, Philip, 1999)

CHAPTER THREE

DISCUSSIONS AND ANALYSIS OF FINDINGS

3.1 The marketing environment in Addis Ababa

Marketing doesn't take place in a vacuum. Several key factors outside the MIF influence its marketing decisions. Besides the external factors, the internal or institutional capacity as can be termed strengths and weaknesses, determine whether the marketing strategies are viable or not. According to the responses of the senior officials and operating staffs of the MFIs, and observation of working their working manuals, because of the newness of the industry in the financial market, coupled with lack of qualified human resources the performance of the industry is insignificant, in reaching the enormous demand available in the city. This is clearly manifested by absence of external analysis and a focus on the internal environment only.

Among the key factors that have a direct or indirect effect on the performance of the microfinance business, regulatory frame works, financial service providers (competitors), client's social and cultural conditions, and politics are the major ones.

3.1.1. Financial competitors Service providers in Addis Ababa

Addis Ababa is unique from other urban centers of the country, having a number of financial service providers: Banks, Insurance Companies, MFIs, moneylenders, Rural Savings and Credit Associations (RUSCAs), Co-operatives and other informal service providers. In providing financial services in urban areas, MFIs are going to compete with all these institutions. Though the degree of competition varies for formal and informal service providers, they targeted the same group of people. Even though there is high demand for loan, the report of the survey shows that less than 2% of the informal sector and cottage/handicraft industry have accessed loan from MFIs. The case for small-scale industry is a little bit higher to 6.06%, both during start up and running businesses. Among the legally registered Micro Financing Institutions, seven of them are actively operating in Addis Ababa with active clients about 60,500, which is still below the total size of the market – supply is below demand of the market.

On the other hand, MFIs are struggling to retain customers and sometimes compete for the same customer, which creates unhealthy competition in the industry. Only three MFIs (Gasha, SFPI and ADCSI) have proved, whatever the case will be, in addressing as many new clients as possible. However, the demand for financial services is still high as performance of MFIs is below the demand of the market and rapid increase of the informal sector. MFIs instead of marketing their products and creating conducive environment for the customer to choose among best products, are busy to run after customers using third party. This may be one of the reasons why entrepreneurs are not coming to the formal sector to meet with financial need of their businesses. Even those who have been considered to have knowledge of financial service providers, they don't have sufficient information of products on offer. And in most MFIs, no record is found as which product is most sellable and which are in low demand, which could help them to grow faster while being responsive to the market.

3.1.2 Regulatory Framework

The regulatory framework has been quite relaxed on the maximum loan size that MFIs can lend to an individual borrower, with a view to accommodate clients who can manage a loan size beyond the ceiling of Birr 5000 (roughly US\$ 575). Specifically, the latest regulation states that MFIs can lend to an individual borrower a loan size equal to 0.5% of their capital, with a precondition that the total sum of money to this kind of lending not exceed some 20% of the preceding year's disbursement. This has greatly helped MFIs to accommodate the demands of successful clients who need higher loan sizes. But, the absence of a well functioning and efficient legal system to enforce contracts and denying the foreclosure law to MFIs affects the implementation of prudential regulation and the MFIs' ability to utilize collateral effectively, especially for larger loan sizes. Prolonged delays in obtaining legal redress from the courts encourage unscrupulous borrowers to default with impunity. Clear property rights are critical to utilizing collateral and implementing asset-based lending. Although there are

some improvements, the legal system in Ethiopia is still very weak in enforcing contracts and facilitating microfinance activities.

In addition, revising the loan size should be handled more cautiously. As explained above, in the revised NBE directive, MFIs are allowed to extend a loan amount to a single borrower up to 0.5% of their total capital. But if, as Proclamation No.40/1996 (Art. 11) states, MFIs can "...obtain a line of confessional credit or any assistance from foreign sources for the purpose of on-lending or capitalization", and if a substantial portion of the MFI capital is obtained from such sources, some relatively new MFIs may find themselves in a position to be able to lend at very large loan sizes before they actually get the experience and maturity to handle or manage them. Such MFIs, if they cannot manage their portfolio quality, would tend to damage the microfinance industry at large. Thus, it may be important to set separate rates based on the composition of capital.

Creating a competitive, healthier and more inclusive Microfinance sector.

The minimum paid-up capital requirement was set at the relatively low amount of Br. 200,000 (about 23,000 US Dollars) with the intention of attracting institutions into the industry; however, the number of MFIs has grown at a very slow pace. Thus, though the number of credit clients is more than 900,000 so far, there are only 23 MFIs licensed under the NBE. The average MFI serves approximately 40,000 clients, with a hand full of large MFIs contributing the highest client share. Moreover, since most of the MFIs operate in urban and semi-urban areas, competition for clients in rural areas remains very weak, and the rural poor still have few choices for financial service providers.

Thus, clients are dependent on these few MFIs for financial services, whatever their quality and flexibility. In fact, if donor had invested substantial sums in only one or two MFIs, many businesses and households would be at risk if the MFI eventually failed. On the other hand, if a number of MFIs operate, they not only compete against one another, but the failure of any one does not leave the poor without services. Furthermore, MFIs can be innovative in their techniques to

select borrowers and ensure repayment, and in stimulating savings. The assumption that the very low minimum capital requirement might overburden the National Bank's supervisory capacity by permitting too many licenses seems not to be a realistic one. Indeed, if the NBE is to enhance the provision of efficient financial services in rural areas by attracting more and competitive MFIs, it has to explore mechanisms other than lowering the minimum capital requirement.

On the other hand, there is a number of NGOs involved in micro-finance delivery without a license. Often, their system of lending involves such practices as subsidized interest rates, mixing business with charity, and not following strict business discipline in the treatment of delinquency etc, which make clients dependent on such operations and potentially endanger the healthy operation of the whole micro finance industry. If such NGOs do not follow strict business discipline and price their services properly, the "subsidized" funds pumped into the industry will affect the economy as a whole. For example, a producer that has access to subsidized credit can price his product lower than the one who borrowed at market interest rate, and thus the latter will be placed at a disadvantage.

The cumulative effect of this and similar distortions will have a disastrous effect on the entire free market system and relevant government organizations should take action to correct this. Currently, there is no effective mechanism in place to control this and MFIs are losing loyal clients, a potential danger to the micro finance industry.

There are also those clients who require loan sizes as low as Br.50 (about US\$ 6) for activities such as spinning required for the production of the local gabbi (a widely used traditional Ethiopian cloth). These poor people do not necessarily lack business skills and are not looking for charity hand-outs, as is often assumed. They are not passive recipients of money transferred from other segments of the economy in a top-down approach. Rather, they need to be empowered (through credit, business support, etc...) to create their own jobs and enhance private income. They have the requisite skills for this specific task, and there is a market for their products. They can fully repay loans given to them and, in fact, they are too proud to look for charity.

3.1.3. Institutional Capacity

Although no survey is yet made on the over all status of MFIs in Ethiopian as well as those operating in Addis Ababa in terms of their institutional capacity; it is observed that there are serious constraints regarding the institutional capacity of MFIs. The institution is characterized by lack of enough capital, qualified human resource and consequently absence of market survey. This is because of the newness of the industry to the financial market. As a unique industry providing financial services to the poor, there is an association established to support the MFIs in many aspects. This can be taken as an opportunity for better understanding of the market conditions and performing well in the financial market. however the current performance of the industry in general and the MFIs in Addis Ababa in particular are not in a position to address the enormous demand available in the city, there fore much more is expected from the association in making advocacy about the institutions' benefits to the people.

MFIs are not in a position to attract highly qualified personnel due to their non competitive salary scales from conventional banks. The problem is greater in ADCSI than the NGO MFIs. Overall financial problem is also concern for all MFIs but may be more severe for those affiliated to NGOs. There is a tendency to remain small for such NGOs mainly due to financial constraints. The physical asset situation is not also satisfactory for the majority of MFIs, it is common to find MFIs with inadequate number of Motorcycles for their field staff, and there are also MFIs with no company vehicle at all. Absence of diversified technical assistance also forces MFIs to exist with inadequate MIS system and less dynamic and flexible operational systems.

3.2 The marketing mix elements (4p's)

Once an MFI has selected a target market, it must decide how to satisfy the needs and wants of the selected target market through designing appropriate marketing mix elements; the combination of four elements: namely product (financial product), price (interest and service charges), promotional tools, and distribution coupled with necessary after sales services.

Specifically, when this is tailored to microfinance businesses, the product can be expressed as the financial products of the major ones being loan and saving coupled with non financial products.

The price element in microfinance business is typically the interest to be earned from loans taken by clients and the interest the MFIs is paying for the money borrowed or the money deposited by client's.

The promotional tools that can be used in creating awareness or demand for the services and in attracting potential investors to their business are not special. It is almost the same as can be used by other businesses in similar or unrelated business.

With regard to distribution or placement of the financial products, through it is of similar kind for other business in other industries; a major component or extension of delivering the financial product is the inevitable after sales service, typical in this industry when we look in to the nature of the micro finance business it is a bit unique. Besides being a service business, the degree of contact with clients is higher. It is mandatory to give training and related services for clients before or an immediately after giving the money. This seems a modern approach of marketing in other businesses, but it is the major element of selling of the products of the microfinance business.

It is with this in mind that, this research assessed the appropriateness of the marketing mix elements of the MFIs.

3.2.1 Product- financial services

In principle, the delivery of financial services should be based on creating sustainable microfinance institutions which can deliver services to recover loans at low cost using innovative methodologies, systems and products in order to meet the changing demands of the society. It also refers to the general principles for product deletion, modifications, additions, design, branding, positioning, etc.

As per the observation and interviews made with MFIs here in Addis Ababa, in general, most are providing the two principal financial products namely loan products and saving products. With in these two principal

products, of course there are sub product types. Besides there are other types different from the two major one, in some MFIS.

Besides, the development of a financial product is largely dependent on the methodologies and maximum and minimum limits imposed by the national bank of Ethiopia.

i) **Loan products.**

In general, the loan products of the MFIS in Addis Ababa can be divided in to two major categories as agricultural and micro business loans. The former are loans for agricultural inputs such as livestock, bee-keeping etc. where as micro business, cans are for petty trading, handicrafts, and other services which are repaid weekly, biweekly, or monthly on regular bias. As compared to agricultural loans, the micro business loans have incomes of course these loans are predominant in Addis Ababa. As an example, the methodology requirements and loan products of ADCSI (Addis Credit and Saving Institutions) are as follows:

As it is the case in all the MFIs, ADCSI has been using only the group lending methodology. However, since this method is abandoned in most urban areas, the institution made changes in the policies, procedures and methodology at the middle of 2003. Consequently, ADCSI has started to provide individual loan on personal guarantee and or collateral basis, entertaining cooperatives and joint ventures on the same product line.

Even though it is a government affiliated institution, which in turn makes the institution greater in terms of capital and other opportunities, product development strategies can be taken as a lesson for other MFIs.

Because the researcher feels that others can learn from the productive strategies of ADCSI, presentation and analysis is made as follows.

Loan products

ADSCI has four product items under the loan product line. These are micro business loan, small business loan, micro lease and housing loan.

Table3.1 loan size and types of clients of ADCSI

Description	For new clients	For existing clients
Individual	Up to 20,000	Up to 30,000
Joint ventures and others	Up to 40,000	Up to 60,000
Cooperatives	Up to 60,000	Up to 100,000
Edirs	On agreement	On agreement

Table 3.2 Type of activities and amount of loan disbursed in the 1997Eth. of ADCSI

Activity	Male		Female		Total	
	No.	Amount	No.	Amount	No.	Amount
Garment	1178	2372200	702	1968000	1880	4340000
Food processing	1362	2409000	3356	8838050	4718	11247050
Metal & Wood works	1951	8368650	317	994100	2268	9362750
Construction works	3171	37912400	607	5530700	3778	43443100
Others	5678	19494150	8415	2143550	14094	40929700
Total	13418	70653200	13526	38905800	26944	109559000

Analysis: selecting MSE operators as the target market, ADCSI tried to make available different product items under the loan product line. ADCSI has used different techniques to differentiate its loan products. Among the techniques used for classifying its loan products, the following are the major ones.

Types client- the institution has tried to differentiate the clients based on their status as individual, cooperative, or idir; new or existing in order to set the maximum loan size, time of payment and related issues.

A case of Meklit Micro Financial Institution (MMFIs)



MMFI is one of the NGO affiliated MFI considering in Addis Ababa, Nazareth and Butajira. Analyzing Meklit Micro Financial Institution (MMFIs)

As far as the product items under the loan product line are concerned it only provides individual and cooperative loan.

In general, the loan products of most the MFIS are limited. With the exception of ADCSI, others are delivering the same types of loan products to clients copying from each other. The lending methodologies and the lending products are more of supply driven instead of demand driven. This was attributable to the absence of market study which could enable them to develop variety of products as per the needs of the customers.

The justifications of most of the employees to this problem are:

The lending methodologies in general--the maximum and minimum limits of loan size are more of developed by either regulatory body such as National Bank of Ethiopia (NBE) or by Board of Directors (BOD) who don't have the access to clients' preferences. More over, they added that the technical ability of the staff of MFIs is very limited. Most employees are new to the business, and most are trying to work a duty unrelated to their specialization.

ii) Saving products

Saving and insurance products provide additional protection to the lender by assuring the return of a loan in case a borrower becomes financially depleted. Saving, in general, assist in building investment capital and consumption smoothing. According to the marketing and planning officer of Meklit Micro Finance Institution, saving mobilization has been found an important component of their program she added that saving service has benefited both the clients and the institution.

Table 3.3 total saving of Meklit Microfinance Institution S.c

As of July 2006

Types of Savings	Addis Ababa	Oromia	Nazareth	Total
Mandatory	1,218,113.38	388,718.33	554,018.48	2,160,850.19
Voluntary(borrowers)	33,820.26	no	No	33,820.26
Voluntary(non-borrowers)	374,058.08	11,723.25	7,684.60	3943,465.93

source: annual report of Meklit MFI

According to her, the institution uses the saving as a source of loan fund and cash collateral for loan fund. Besides, they generate interest income by depositing it to banks. Similarly, it has benefits for clients being a source of income, working capital and as a social security, therefore saving is a strategic in put for the benefit of both the institution and the clients. Besides the above saving products Meklit has also started providing micro insurance against business risks for those clients with a capital of 5,000 for or less.

In general, three types of savings are prevailing in the institutions and voluntary saving is by far lesser than mandatory saving. However, one important development worth mentioning in the promotion of voluntary savings is the introduction of box savings by ADCSI .What they are doing is that, saving boxes (lock boxes) are distributed to clients as a means of encouraging them to save what ever penny on daily basis them the loan officers open the boxes & collect the money it the end of each month any give receipts to the clients with regard to the micro insurance product ADSI hat two items credit insurance: provided to borrowers only to write of the loan in case of death and business insurance: provided to cooperatives and joint ventures a against the risk of complete damage of their business.

iii) New product developments

A new product development is a high cost and high risk strategy for MFIs, unless it is properly managed and developed throughout the stages of development. A case in point is that of the past experience of ADCSI has lost

large amount of money, by the time it introduced individual non collateral loans to clients of Addis. According to the promotion officer, two years back the city administration desperately forced the institution to people without due analysis and proper guarantees. That was, according to him for political purpose and was of course not the problem of the institution as an institution. The risk is very severe when introducing large size loan products.

The major objective of MFIs in developing new loan products should be delivering the loan to the client and recovering the principal and interest on time. Then if clients value the product, they will repay the loan regularly. If the outcome is opposite, then it implies that some thing was overlooked in the development process.

When we look back in to the development of MFI in Ethiopian and specifically in Addis Ababa, the principal methodology was group lending, there was a restriction is to the maximum loan size to individuals (5,000 Birr) and ceilings interest rates through time, based on feed backs from clients, the group lending is now becoming outdated and the negative impact the 5,000 Birr loan size has on new product development has been understood and consequently these days, changes have been made to alleviate such problems. Even though there are some MFIs with few loan and saving products, the experience of ADCSI and MMFI showed that there is a better trend in new product development. However, the methodology and products in the industry requires drastic restructuring and rapid expansion for the service of a mass of differentiated clients.

In general MFIs in Ethiopian, and Addis Ababa in particular should focus on product innovations to meet the large demand by the poor. Moreover, this issue should be given greater emphasis by MFIs in Addis Ababa than those operating in the other regions of the country and the following are three major reasons

- 1) Direct competition -unlike rural areas, MFI of Ethiopia are concentrated in Addis Ababa

- 2) Indirect competition from both formal and informal sectors. There are many banks and money lenders here than rural areas.
- 3) Peoples' awareness-- the presence of both direct and indirect competition coupled with the better understanding or education of the people makes doing business harder than operating in the rural areas where there are no alternative sources and the people could not analyze things.

The MFIs here can learn from other countries for instance Bangladesh. There, they totally abandon the group collateral and shifted to individual collateral. They justify that, it is the future access to money which is the prime motivation for borrowers to continue payment. The following products can be developed, large loan size product to the vulnerable non-poor, daily collections for the poor, door to door, mandatory loan insurance, mandatory death benefits, emergency loan, and education trust for minors, etc.

IV) Non financial services (BDS) Business development service

Non financial services are developed and adequately provided under the business development service (BDS) unit, in almost all of the MFIs. In most MFIS, the BDS unit is the line body, performing the major activities as new product development, creation of other income generating activities and giving proper trainings for clients.

The case of Meklit MFI BDS unit is an encouraging one. This unit is under the planning and marketing department and it is performing well organized trainings and other facilities to clients. With a great goal "Empowering women in Business for sustainable development". And with the objective of "Improving the lives of women in micro and small Enterprise (MSES) through the provision of business development service.

I got the opportunity to see the 2007 annual report of the unit and I found it very much tailored to clients of saving activities such as, a woman engaged in backing injera, a woman engaged in backing and selling bread etc.

What impressed me was the way they prepared and implemented the supports they provide to each client, using topics like, name of entrepreneurship, problem she encountered then the benefit she got from the support.

Besides most interesting in relation to the performance of the BDS unit was that, they conducted a research to investigate the effectiveness of their performance and it was found out that clients shoed improvements on their business activities. This has motivated the BDS unit employees for better performance.

To list among the services they provide:

- ☞ **Basic Business Skills (BBS)**
- ☞ Cost calculation
- ☞ **Start and Improve Your Business (SIYB)**
- ☞ Marketing activities like preparing business cards sing board, participating on exhibition bazaar, so as to develop their entrepreneur skills and as the same time to create a market opportunity for their products.
- ☞ Information on how to get
 - ◆ Raw material and working premises
 - ◆ Financial service etc.

It is because I have got the very opportunity for have greater insight in to Meklit's BDS. However, most have this unit doing activities of equivalent value.

Another more interesting lesson is the case of ADCSI which has recently developed income generating activities like managing loan able fund for government organizations, NGOs, CBOs, effecting payments and collecting revenue for other institutions as a means of improving financial sustainability.

The degree of closeness to clients is greater in the NGO MFLS than that of ADCSI in ADCSI is that the BDS unit has innovated new services (or products) as a means of generating income. To cite some, managing loan able fund for NGOs, GOs & CBO, effecting payments and collecting revenues for other institutions.

Why only, why not others can be of a concern. Since it is a government owned one naturally opportunities this way or another go first to it than is others.

Some basic issues about market competition made among MFIs in Addis Ababa

Tendency of Introducing standardized procedures and Replication

As indicated earlier, the loan and saving products of Ethiopian MFIs have similar characteristics as testified by the fact that the operation manuals of many of these MFIs are very similar. Mono products and highly standardized loans are considered by MFIs as simple to administer and reduce costs significantly. However, this could result in sacrificing quality for quantity. This has discouraged the development of new financial products in the industry, particularly in the relatively larger and older MFIs. Moreover, although the Ethiopian MFIs can learn a lot from the experiences of MFIs and NGOs in Asia, Africa and Latin America, it is imperative that blue – print replication will not lead to the delivery of quality financial services tailored to meet the need of the people. If at all they are to replicate the process should involve a period of researching, piloting, monitoring evaluating and modifyiing all MFIs in Ethiopia focus on poverty alleviation. They usually start with target market defined by the institutions mission, vision and objectives (e.g., focusing poor, active poor, women rural areas, etc). The entire product development in Ethiopia could be identified as supply – driven. The financial services are replicated from one MFI to another. The microfinance law sets the lending methodology, loan cycle, and loan ceiling. The lending interest rate, which used to have fixed (12.5% declining rate) has been waived and the MFIs are attempting to revise their lending interest rate to reflect the saving interest rate still set by the regulatory frame work . Donors and the government guide the major characteristics of the financial products of MFIs. The absence of competition and the tendency of delivering standardized financial products , the absence of market research , lack of organizational set – up and skill for new financial product development has undermined the role of marketing and financial product development in the microfinance institutions in Ethiopia . As a result , there has been very little interest and effort to change , modify and create new financial sustainability and efficiency could result in the delivery of

the existing financial products to the upper level clients that the MFI or the loan officers know to be profitable instead of developing new financial products .

One of the means of promoting financial product development in the microfinance institutions in Ethiopia is through the promotion of competition in the industry. Competition allows clients to move from one MFI to another whenever they perceive an advantage for themselves. This encourages MFIs to broaden their geographic coverage of the market, level of interest rates, produce and promote new products in order to attract and retain clients. However, MFIs should be careful about their clients taking multiple loans (without informing the MFIs), which could exceed their repayments capacity. Here establishing information clearing house will be an important intervention to address the problem of multiple loans. Moreover, easy credit is dangerous for both customer and provider. Thus, increasing competition in the industry will promote client-centered strategy for financial product development.

.Absence of Marketing Analysis

MFIs in Ethiopia do not regularly survey their markets to anticipate their clients' needs. This is particularly tied with the non- competitive environment of the microfinance industry. Market research is given very limited attention by the practitioners in the industry.

Absence of Institutional Set-up and staff to Develop New Financial products

Many of the microfinance institutions in Ethiopia have two larger departments, i.e. , finance and operation. Some divide the operation into credit and savings departments. Larger MFIs have service departments such as planning, audit, human resource (administration), etc at the head office. The MFIs do not have product development or marketing units to take care of modifying the developing new financial products. Moreover, MFI staffs, at management level, do not appreciate marketing problems. Last but not least, they do not have the skill to develop financial products in the industry.

3.2.2. Pricing

An MFI is said to be following a good marketing mix strategy if and only if its products are priced considering the customers' ability and other related

economic conditions. However, pricing of their financial services is of under restriction by regulatory bodies. According to the NBE directive No. MFI/11/98, the interest rate to be charged on loans and advances extended by MFI shall be determined by the board of Directors of each MFI. This has helped many to set a lending interest rate high enough to cover their operating cost.

On the other hand, a minimum is set for the interest that can be paid to depositors. The relevant directive in this regard is directive No. MFI/13/2002 reads. "The minimum interest rate that shall be paid per annum by MFI on saving and time deposits shall be 3%."

This directive has the effect of discouraging savings. This was manifested by the insignificant voluntary savings of most MFIs, which in turn reduces the principal source of the MFIS funds and negatively affecting their performance.

3.2.3 Promotion

Promotion refers to the general policies for communicating with customers and other stake holders under the relevant headings such as advertising, front office personnel, public relations, exhibitions, etc.

Financial services delivered by MFIs are dominantly supply driven. MFIs do not have a formal department or unit for marketing and clients' feedbacks are not systematically gathered. MFI staffs are also unaware about marketing issues and proper customer service. According to the discussions with the senior officials of the MFIs, almost all MFIs do not systematically market their products and the steps to promote the operational outreach of MFIs are similar. As per the discussion with senior staffs of the abovementioned four MFIs, the steps to promote services during phase-in and expansion could be summarized as follows:

Steps during Phase-in of the Institutions: -

Step1. Written communication with Kebele officials, where the communication is focused on expression of interest of the MFI to work within the area and ask permission, which is to be followed by briefing session on mission, vision, objectives, etc. and requesting them to mobilize the community for promotion.

Step 2. Announcement, calling people in that Kebele for briefing session about the newly coming MFI and its services. The usual practice is that MFIs will adjust their meeting with that of Kebeles regular meetings, if not arrange for a different one. Existing Idir, women and youth committees are major channels of communication to be used to call people for the meeting.

Step 3. Conduct training sessions on services and products on offer to those who have showed willingness to join the program. Introducing policies and procedures of the institution are major components of the training, with some details on the products.

Word-of-mouth Marketing

All institutions have similar procedures, and considered as best way of penetrating the market, in promoting their service to promote MSE development and products of the institution. The numbers of telephone calls, using line dedicated for this purpose, are indication of the necessity of putting signposts for effective marketing of MFIs' services Brochures are commonly used as means of introducing the MFIs but are occupied with statements of mission, vision, objectives, etc, with little or no description of products and services on offer. Limited numbers in circulation, most commonly to offices, limits the level of using brochures news papers for marketing. When reviewing current performance of MFIs in marketing, their products are at lower level. No significant work has been done so far in this area to attract more clients to the program and retain existing customers. It seemed that less value/attention was given to marketing activity resulting from "they know it" assumptions. But, marketing should not be confused with promotion, as promotion is only one part of the strategic marketing process.

Most of the MFIs are dependent only up on word of mouth advertising, office brochures and other inefficient promotional tools. Though seldom, some are using television and radio advertising, a lesson from Addis credit and saving institution marketing strategies.

According to the promotional officer, of course admitting the prevalence of the word of mouth method, he said that there were some beginnings to use other more



effective promotional techniques to reach the unreached. Though, very seldom, the methods used were one permanent program on FM 96.3 which was broadcasted for one solid year before there e years ago but this didn't last long and stopped .at other times they have conducted live radio talk with the people again on Fm. they advertised on TV buying the 30 second commercial. They sponsored a public holiday once.

Besides, these days, they are doing extensive promotion activities with the help of news letters, brochures, leaf lets, magazines etc. and a recent promotion made by ADCSI is the public discussion on ETV on "Shay Buna" talk show. It was an interesting program and the institution was able to get attention from the people.

As one of the efforts to empower the civil society, the microfinance faces two major challenges:

First, the microfinance approach should be harmonized with other approaches such as social, cultural, and political. Microfinance basically is a community based approach and practice. Therefore, microfinance has to deal with community norms, culture traditions, values and practices. Micro finance, which is a global concept, has to be localized. In Merkato area for instance, the local people had their own "micro financing". It may not be the best practice, but it may be just a good practice. But the interest charged by these people is 30% per month which is far greater than the rate by ADCSI, 10% per annum.

But it wiser to revitalize these good practices rather than impose or introduce new practices that are not familiar to the local people. So, the officials around such kind of area are paid idle contributing to inefficiency. Such people don't want a service of such kind where in you have to go through office bureaucracies.

An effort to implement microfinance strategies should begin with an initiative to help government representatives to understand the concept. Because governments are dealing with policy not technical issues, such as internalization process should focus first and foremost on the issue of poverty at the local level.

Expressing the institutions lack of freedom to operate on a scientific marketing way, he claimed that, the city government's involvement in the operation of the institution can be seen in two sides. On one hand, since the city administration

wants the peoples support in political affairs, it did an aggressive personal selling way of advertising of the institution by conducting variety of meetings with the people through the Kebele officials. This was shown by arrival of a great number of many residents of the city to the respective Kebele branches. This itself has two folds:

On one hand, since the Kebele officials told the people in a way of “take it is yours style”, many were claiming to come and take whatever money they want and creating problems on the operation of the institution. This problem, he said, was greatly offset by the greater benefit obtained from the awareness created by the people which we turned in to in attracting more and more people to the institution in a legal way.

On the other hand, the opening of branches in the different kebeles with the belief that we have to make ourselves available, with out a due study of the demand in the area, resulted in some sort of inefficiency on the over all operating performance the institution. To cite an example, there are some braches with more than four credit officers where there is no demand. In Merkato area for instance people don't want a service of such kind where in you have to go through office bureaucracies. Rather they prefer to borrow money from wealthy individuals. The proponents of this kind of ways of getting loan argue that they can get the money they want in a very short time from these people and do returnable businesses which help to multiply the money very shortly. In fact the nature of the area mentioned h as its own impact. But the interest charged by these people is 30% per month which is far greater than the rate by ADCSI, 10% per annum. So, the officials around such kind of area are paid idle contributing to inefficiency.

Strategic Moves against Competition

Especially these days according to ADCSI manager clients are demanding large loan sizes since they are becoming more and more profitable. the MSE operators, the young stars are demanding never and modified products from time to time.

Therefore, if an MFI is not able to cope up with the demands of the clients and the financial computation in the city this is a red light emplacing shutdown.

What most NGO affiliated MFIs are doing as a coping mechanism of the several computation in the city that, they are opening more and more branches out side Addis Ababa where the supply driven strategy definitely work. But for ADCSI and aggar who is limited to work in Addis Ababa only it has be come a great challenges though fund injunctions are there in ADCSI by the government the challenge is greater for agar which is purely owned by native private investors is with no NGO or government support. Currently according to some reports share holders came to realize that the supply driven strategy with provision the usual similar loan and saving products no longer works and they are considering development of new product.

This clearly shows that availability of capital alone couldn't do any thing unless it is supported by a book in to the market, computation, demands of clients' e.t.c. which are this way or another part and parcel of strategic marketing.

From the strategy of the NGO affiliated MFIS such as Meklit, and Wisdom; and the case of the privately owned MFI like Aggar, one can easily understood that, the MF business in Addis Ababa will phase out unless a strategic marketing techniques are used.

The responses of similar officials and some other reports pointed out that even though the most MFIS have office and also clients in Addis Ababa, except ADCS, Aggar most are expanding outside for those MFIS such as ADCSI which are operating only in Addis Ababa, where computation is severe, new product development backed by continuous market assessment on customers demand is a better strategic move-new product for existing market.

For those who can open branches in other areas outside Addis Ababa it is one kind of strategy existing product for new market.

Moreover, it will be better if they can adapt two strategies at a time-existing product for the new rural market and new product for the existing market (Addis Ababa).

CHAPTER FOUR

CONCLUSIONS & RECOMMENDATIONS

4.1 Conclusions

The microfinance business in Addis abaca is young and the financial products of MFIs not demand driven. Even through most of the MFIs are concentrated in Addis Ababa as compared to other regions the un met demand is enormous, there is a problem of loan fund in many of the MFIs. These and other problems of MFIs in Addis Ababa reduce the important of marketing in microfinance business. However, MFIs, should start by defining a market and gradually deal with finding the right clients and the appropriate mix of products and identifying the institution strategic poison with in the market through product diversification and differentiation.

Marketing in a microfinance industry is about knowing your clients your competitors and your business environment. As per the major research topics formulated, the results of both personal observation of working manual consisting of the vision ,mission objectives and strategies and interview with senior officially of the MFIs in relation to strategic marketing the research concludes the following important points:

the development of distinct mission statement is the critical starting point of the marketing planning process since it represent a vision of what the MFIs is or what it wishes to become. The core functioning of the mission statement is to act as the central integrating function of the MFIs values so that it provides the frame work with in which the marketing plan is developed. It should be taken into account the history of the MFI and its performance and patterns of ownership; preference value and expectation of managers and those who have power with in the MFIs; environmental factors; the resources available to it and its distinctive competencies.

However, when we look in to the mission statements of most of MFIs they are of a similar kind. Most seem a replica of one another. The general attitude similar

in all MFIs, is that they are seeking to provide financial services to the poor, specially those that are NGOs supported. There is no distinctive different among the mission of the MFIs.

It should be apparent to the senior management of an MFI that, in developing the mission statement, a verity of consideration need to be borne in mind. The end purpose however should be that of motivation n by ensuring that stakeholders recognize the significance of the work in a far broader sense than simply making profit or achieving social objectives.

When the mission statement of most of the MFIs operating in Addis Ababa is looked from the point of view of market orientation, the result is to the contrary. Even though they are share companies established to make profits vis avis the social objective, most state their mission stamen with major emphasis on helping the poor, eradicating poverty and the like.

The objectives and strategies of most of the MFIs attempted little about the, external environment like competitor, technological government, cultural and, market analysis) by ignoring the full potential impact that it has on their operation. A great emphasis is stated on the strategies and objectives with regard to the internal issue. Besides, there was sense of hierarch of objectives with the essence of prioritizing them. However all organization exhibited a strong commitment to their perceived social objectives.

The fact that the Ethiopian government has established the regulatory framework early-on in the development of the microfinance industry has helped to lay out the roadmap for the development of the sector. In particular, the provision allowing MFIs to mobilize small savings from the public has enabled them to finance a substantial portion of their portfolio from internally generated sources.

Subsequent improvements in the regulatory framework include the revision of the loan size ceiling for individual borrowers, the revision of repayment periods on loans from one year to two years, and removal of the interest rate ceiling on credit. This removes some of the key regulatory problems faced by the industry. But more needs to be done. The Ethiopian MFIs still have no way of learning new insights from foreign banks, yet indirect foreign ownership cannot be fully

controlled, and not enough Ethiopian-owned MFIs are forth coming. The poor still do not have enough micro finance service providers from which to choose. While the interest rate ceiling on credit has been removed, a minimum on interest to be paid for savings persists, hampering savings mobilization in remote rural areas.

Existing microfinance institutions, while targeting to reach the poor, are serving mainly women. Thus, the regulatory framework not only needs to find ways and means of helping the industry become more competitive and efficient in delivering flexible financial services to the majority poor, the regulatory mechanism also needs to be better equipped to supervise and monitor the industry.

It could be concluded that Micro Financing Institutions lack appropriate marketing strategy /marketing plan/ which is vital to financial service providers. Having marketing strategy means, to be market oriented in product and service delivery. MFIs could not continue working on “take it if you like it” basis. They need to go forward and penetrate the market through appropriate promotion and quality services. Each MFI has to work in search of ways to outsmart others and attract as many clients as possible. The creation of a market-oriented institutional culture and market oriented institutional practices is the distinct responsibility of senior management. Without the explicit and active participation of management (in both word and deed), the transition to market orientation will fail. MFIs will need to have a department that work exclusively marketing the products and loan officers and other front line personnel need to be trained with basic marketing skill.

MFIs need have to assess client’s feedback to know which products have demand in the market and which need to be refined or new product development. Assess strength and weakness of both external and internal factors, which in one or the other way contributing to productivity of the institutions. Observe existence of competitors, level/intensity of competition and positions in the market so that the MFI will design and implement proper marketing strategy to stay in an ever increasing competitive environment.

As greater realism enters the microfinance market place, the notion of being customer friendly is increasingly being accepted as good business. Indeed, it is difficult to see how the MFIs as they now operate will stay in business if they are not responsive to their clients. Just as all businesses in the last two to three decades have moved from product to market-led approaches so to must MFIs. If nothing else competition will force their hand.

Practitioners of micro credit must move forward towards further exploration and formulation of a truly client-led microfinance paradigm. However, in doing so they must step with caution balancing carefully costs and benefits of moving in this new direction. For the institution sustainability must be the objective goal. Having institutions that provide low cost appropriate services with a measure of certainty are what will keep the customer happy.



4.2 Recommendations

Currently, the debate on market-driven microfinance is primarily framed by the ‘problems’ of competition and dropouts among established MFIs. The solutions to the problems are defined in terms of more responsive products, the creation of new products, and the restructuring of existing ones. Appropriate products will not only benefit the operations of an institution they will also have a positive impact on the wellbeing of the client, reducing the risk of borrowing and the Poor’s vulnerability.

Most of Micro Financing Institutions need to look forward besides developing “good” products. People in urban cities need to choose best among “good” products and services.

The following are few points, which need to be noted for sustainable financial service delivery:

Market orientation is an important determinant of MFI’s performance (e.g., financial self-sufficiency, revenue growth, customer desertion, repayment rates, etc.).

The best way to achieve long-term financial self-sufficiency and achieve deep outreach is to identify the needs and wants of the very poor and to provide products of value to them.

To the extent MFIs explicitly target the very poor and create learning institutions in tune with their needs and wants, competition and the drive for sustainable competitive advantage will drive MFIs to find ways to serve the very poor in an increasingly cost-effective manner.

As the industry is new, most people even the educated ones have no clear idea about micro financing. When asked, most say that it is an aid. It is only few who knows about, let alone the poor uneducated.

The industry can only and only solve the prevailing capital problem and attain future profitability by effective use of the promotional tools such as TV radio magazine and news paper publicities.

In order to solve the basic cause-lack of capital .An MFI in particular and the AEMFI in general should create awareness about the institution opportunities and profitability to the private investors.

Besides, since there are many potential clients who have no the slightest idea MFI again as means of increasing sales volume reducing cost of non financial service consequently being profitable much more coordinates promotion and advocacy is expected from an MFI as a business and from the associate as a promoter.

It is only after adapting such marketing strategy that they can have qualified manpower in operation and marketing that can make market researches so as to identify the changing demands of clients. This can only make them able to modify existing products develop new one and delete products with little or no demand.

The potential demand here in Addis for such services is by far greater and incomparable with the available supply. And it is natural to be supply rather than demand-driven in such kind of market. And the current micro finance business in Addis Ababa is also under this approach.

Adopting this strategy definitely work for MFIs in rural centers, since there are no options like conventional banks, alternative MFIs and other semi formal financial service provides. However, this strategy may not work for MFIs in urban centers like Addis Ababa. Clients have alternative sources of financing institutions. Besides, people in urban centers are naturally educated than those in rural areas. Therefore the clients' behavior coupled with alternative source makes microfinance business challenging.

These by itself, leave alone the stage of the industry, infancy stage, and the abundant demand, the competition demands adoption of an integrated strategic marketing to stay in business.

As far as strategic moves in the future is concerned; since, these days' clients are demanding large loan sizes since they are becoming more and more profitable and expanding their business. Therefore, if an MFI is not able to cope up with the demands of the clients and the financial computation in the city this is a red light implying shutdown.



The supply driven strategy with provision of the usual similar loan and saving products is no longer works. This clearly shows that availability of capital alone couldn't do any thing unless it is supported by a book in to the market, competition, demands of clients' e.t.c; which are this way or another part and parcel of strategic marketing.

From the strategy of the NGO affiliated MFIS such as Meklit, and Wisdom; and the case of the privately owned MFI like Aggar, one can easily understood that, the MF business in Addis Ababa will phase out unless a strategic marketing techniques are used.

The responses of similar officials and some other reports pointed out that even though most MFIS have office and also clients in Addis Ababa, except ADCS, Aggar most are expanding outside for those MFIs such as ADCSI which are operating only in Addis Ababa, where computation is severe, new product development backed by continuous market assessment on customers demand is a better strategic move-new product for existing market.

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Appendix

Addis Ababa University

Faculty of Business and Economics

Post Graduate Program

Structured interview undertaken with senior officials of selected MFIs operating in Addis Ababa

Dear sir/ madam,

Dear respondents, this is a structured interview that has invaluable significance to your organization and to the microfinance industry as a whole.

This research project is envisaged to meet the following key objectives:

- *To understand the current role of marketing within the MFIs*
- *Explore the impact of current marketing practices*
- *Identify key marketing issues eg. Market segmentation, marketing mix.*
And
- *Assess the impact of marketing on the financial outcomes of the MFI*

1. sex-----
2. Position /duty-----
3. Qualification

- -----
4. Name of the MFI

-
5. Mission and vision

- -----

6. Do your MFI have a marketing department or unit?

7. What are the activities and roles of the unit?

8. In which areas of specialization do they graduate staff capability and performance?

9. What kind of marketing strategies are being used and how was it designed?

10. Which areas are the target markets? -----

11. What marketing mix strategies are used?

12. Did you ever done client behavior analysis, customer feed back, etc?

13. What are your services, financial and non financial?

14. What are your pricing strategies interest for loans and for deposits and fees for non financial services?

15. What strategic planning and positioning did you used?

16. Product analysis and differentiation strategies: which are your target markets?

17. What promotional tools are used to attract new clients, outreach communication, etc?

18. Do you have a marketing plan?

19. Is there an attempt to develop new financial products present market-present product, present market- new product, new market- present product, new market- new product? Issues with this regard are product-clients, competitive characteristics, distribution channels, promotion programs, and legal and regulatory or others.

20. How do you see the direct and indirect competition in the industry?

21. How do you see the factors with both positive and negative impacts in the performance of the mf industry in country in general and specifically in Addis Ababa?

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Declaration

I, Tewodros Damtew, declare that this project paper entitled “**Assessment of marketing practices of selected Microfinance institutions in Addis Ababa**” is the result of my own effort and study. I have conducted it independently except for the guidance and suggestion of the research supervisor. This study hasn’t been submitted for any degree or diploma in this or other universities. It is presented here in partial fulfillment of the requirements for the degree in masters of business administration.

Tewodros Damtew
