
CLIENT SATISFACTION: KEY FACTORS TO SUSTAINABILITY OF MICROFINANCE INSTITUTIONS (MFIS)

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Abstract

This paper describes the analytical picture of client protection strategy. This is descriptive research design. Client's is an important part for institutional governance which interact different parties i.e. policy makers, political leaders, social leader/activist and gurdians of microfinance members. Responsible financing helps to Neplease microfinance institutions (MFIs) to retain clients in microfinance institutions. MFIs needs clear vision and policy regarding client's retention. MFIs need to create the healthy and favaurable environment of microfinance sector. Responsible financial inclusion focus on transprant in the pricing, terms and condition of all financial products. It works with clients so they do not borrow more money than they can repay or use products that they do not need. The conclusions of the study shows that an appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution is best way for the operational and financial sustainability of microfinance institutions. The findings of the study will benefited policy makers and leader of microfinance institutions. Accodingly, this paper explores the state of responsible financial knowledge and practices, with a focus on client protection and client's satisfaction strategies on the basis of review of best practices.

Keywords: *client's satisfaction, financial self-suffiency, income generating activities, operational self-suffiency, over-indebtedness, poverty allevation, responsible finance, self-employeement opportunities,*

Introduction

Microfinance is a financial system and effective tool that enables the poor to pull themselves out of poverty. Microfinance has been defined differently by different people and institutions. Ledgerwood (1998) has defined microfinance as a provision of range of financial services such as deposit, loans, payment service, money transfer and insurance to the poor people and low income household and their micro enterprises. Microfinance is defined as the provision of a broad range of financial services such as deposits, loans, payment services, mony transfer and insurance to the poor and low income households and their micro enterprises (ADB, 2002). The vision of the founders of microfinance was to supply formal financial services to poor people, who were shunned by banks because their savings were tiny, their loan demand was small, and they lacked loan collateral” (Adjei, 2009). Microfinance institutions (MFIs) provides financial services such

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as saving, credit, and insurance which are found that there are huge demand for safe and flexible saving by the poor and low income household people (Sharma, 2001). Microfinance has been a widely accepted as a development tool in the fight against poverty.

Microfinance is considered as most effective poverty alleviation tools in Nepal. Although many programs have been implemented for poverty alleviation, only microfinance programs are seen as pro poor and rural based (BK, 2013). Microfinance is one of the best alternatives to generate self-employment specially the rural poor women. It provides services to them who have no collateral to offer against the loans. Women who could gain access to microfinance services have been able to create self-employment opportunities and have been economically and socially empowered through increased income earning from their small projects.

Although there is inadequate access to microfinance service in remote area of the country, there is increasing competition in urban and semi urban and easy access areas. In these areas, expansion of microfinance institutions is increasing rapidly. Many commercial banks (CBs) and development banks (DBs) are also entering in the microfinance business by introducing small and medium enterprise loan. There are alternative options to the microfinance customers in the market. This situation is leading to customers switching across MFIs. Dropout of members is another problem in MF sectors. Thus, MFIs are concerned about customer satisfaction and retention. Indeed, customer satisfaction has great significance for the future of an institution and it is seen as a basis for securing market position and achieving objective of the institution. MFIs have to improve the service level continuously. There is no guarantee that what is excellent service today may be ineffective tomorrow. To survive in the competitive market, MFIs have to develop new strategies which will satisfy their customers.

Keeping in view the above-mentioned situation, this study will focus on the measuring customer satisfaction in service provided by MFIs. It will also find out the relationship between service quality attributes and customer satisfaction. The current study also identifies the most and the least important service quality attribute among reliability, assurance, responsiveness, and empathy. This study will be beneficial for the MFIs of Nepal in developing their strategy regarding their customer satisfaction and retention.

Review of related literature

The literature review is a major component in this conceptual framework. The purpose of literature review in research is to situate the proposed research in the context of what is already known in the field. It should be able to provide the theoretical basis for the current work on the one and helps to narrow down the proposed topic.

Mckee, et al. (2011) has stressed on the strategy to advance client protection and social performance of microfinance institutions. Microfinance institutions (MFIs) needs to be aware about role of responsible finance in delivering stronger value for clients and ensuring long term viability. They further highlighted for the proper management of operational, reputational and regulatory risk and political risk from the failer of organization, leaders needs to agree and take action on responsible finance which is right strategy for client retention and growth of institutions. Balanced management of financial and social performance and accountability for clients benefit are important for the development and credibility of microfinance industry (Mackee, 2011). If

microfinance institution adopt high stronger client's value for their service delivery mechanism and respectful treats their needs they will satisfied with their service and longer stay within institutions.

Rahaman et. al. (2014) have conducted a research entitle the performance of financial self-sufficiency (FSS) of microfinance institutions and compared their positions of microfinance industry in Bangladesh. They used multiple regression technique gathering with secondary data and information to measured financial self sustainability for the justification yield on portfolio (YOP), cost per borrower, and average loan outstanding per borrower. They found most of microfinance institutions of Bangladesh are able to gain financial self-sufficiency and they covered all institutional expenses from their regular revenue due to high professional value and effective service delivery mechanism of microfinance institutions. They further recommended for policy consideration of the successful and effective operation of microfinance programs through simplify of distribution of loan and improve institutional productivity. Operational self-sufficiency (OSS) and financial self sufficiency (FSS) will be achieved through implementation of effective client's protection strategy. So, these issues are arises in microfinance industry.

Hulme, and Arun. (2011) has analyzed on what's wrong and right with microfinance missing an angle on responsible finance. They examined the issues of microfinance institutions and social and economic role of microfinance institutions and impact of microfinance for poor people particularly for women. They suggested wayforward for microfinance institutions i.e. the leader of microfinance, banking authorities, and government need to change and implement client oriented services, they need to be more honest, more humble their products and services, needs more transparency about their charges, terms and conditions, needs to be focused on unserved people and maintain good relationship with field staff and clients for institutional effectiveness. The leader of microfinance has focuses profit maximization strategy by charging high interest to their clients which is adverse situation of client's retention. So, leader of microfinance, banking authorities and policy makers needs to transparent and honest their clients for business grow and clients retention for future which is directly concerned with sustainability of microfinance institutions.

Knewton, and Qi. (2019) have analyzed the role of micro insurance in the area of microfinance to solve the challenges of providing sustainable microfinance services to the needy people and mitigating small and micro business difficulty. They explores feasible range of insurance premium to the top level management of MFIs to determine appropriate price for microinsurance protecting against small and micro business default. They recommend a mechanism of insurance and area of credit insurance as a risk management tool for creating sustainable microfinance necessary to serve small and micro business and benefit society. Risk management strategy ensures sustainable microfinance services to the clients.

Panos, and Wilson. (2020) have identified the role of financial technology (FinTech) for financial literacy and responsible finance. Moreover, they stressed that the role of financial institutions, corporations and entrepreneurs is important for the formation for the supply side solutions that enhance financial literacy and reduce inequalities across demographic groups. They also highlighted the important role of enlightened financial advising as a components to financial educational programs for target group or clients. Digitization in microfinance industry is an

important part for fast and trustable service delivery to the clients which ensures fast loan and saving transaction and maximize client's satisfaction.

Arun, and Murinde. (2010) have analyzed the status of regulation of microfinance services in Africa and map out patterns of regulation of microfinance institutions. They explored the relationship between regulation and outreach in microfinance provision in Africa with implication that outreach enhance the financial and social protection for the poor. They suggested for the outreach, effectiveness, performance and social protection governmental regulatory framework is essential which play vital role in the development of the microfinance sector and can determine the nature of the social protection provided by microfinance sector. For fast delivery services and outreach governmental regulation is essential which protects client's rights and value.

Islam A.M., et. al. (2011) examined the effect on entrepreneur and firms characteristics on the business success of SMEs in Bangladesh. The study was based on survey methodology through administered structured questionnaire. They found that, the characteristics of entrepreneur plays vital role in the success of SMEs in Bangladesh. Similarly, there is no relationship between firm's characteristics on the business success of SMEs in Bangladesh. They also recommend the government of Bangladesh proper leading role in educating SME practitioners on the incentives available to them for easy access of training, consultancy and expert services for IT, financial planning, and marketing planning for clients capacity building. Training and capacity building for financial literacy and business development functions of MFIs to the client ensures institutional loyalty of clients which directly affect sustainability of microfinance institutions.

Research gap

The result of the above mentioned literature review illustrates that social and economic empowerment through financial services to needy people in rural areas is not only the function of MFIs but it also acts as a bridge in linking the knowledge transformation through financial literacy program.

There is inadequate access to microfinance service in remote area of the country, there is increasing competition in urban and semi urban and easy access areas. In these areas, establishment of new microfinance institutions is increasing rapidly. Many commercial banks and development banks are also entering in the microfinance business. There are alternative options to the microfinance customers in the market. This situation is leading to customers' switching across MFIs. Dropout of members is also being a problems in many MFIs. Discomfort of the client's with unappropriate products, inflexible repayments, interest rate, unfaire treatment of client's expectation, over-indebtedness are the main causes of client dissatisfaction and dropout.

In Nepal, some studies have been done in the microfinance sector such as impact on income, outreach etc but no study has been undertaken to find out the relationship between clients satisfactions and responsible finance. They have not properly designed their saving and loan products, service quality, interest rate, financial literacy program, business development, and client's protection strategy. In this context proposed study will cover the gap in this area i.e. role of responsible finance for the sustainability of microfinance institutions.

Objective of the study

The main objective of study is to find out the way for client's protection strategy of Nepalese microfinance institutions (MFIs) for the future sustainability. The other specific objective of the study areas follows;

- To describe the state of responsible finance knowledge and practices.
- To identify clients satisfaction strategy for the long term sustainability of Nepalese microfinance institutions (MFIs).

Research methodology

The study is descriptive research design. This paper is focused on the impact of client's protection practices impacting the sustainability of MFIs. In order to establish a conceptual framework to explain the general relationship between client's satisfaction and sustainability of Nepalese microfinance institutions (MFIs) and the knowledge based view of client's retention in Nepalese microfinance institutions. There are different dimensions of sustainability of MFIs. In this paper operational and financial sustainability of the MFIs has been considered. Both financial and operational sustainability indicates the financial strength of microfinance institutions. It indicates income from operation should be greater than the cost of operation. Operational self-sufficiency (OSS) and financial self-sufficiency (FSS) of microfinance institutions indicates financial health of organizations. Financial health of MFIs is directly dependent on client's satisfaction and financial literacy strategy of institutions. The study has reviewed various articles and research papers related to client's protection and responsible financing to attain the goal of research.

Proposed methodology for clients protection and clients satisfaction

Responsible finance is a financial product which is offered by microfinance institutions to their clients. Responsible financial inclusion is being fully transparent in the pricing, terms and condition of all financial products. It works with clients, so they do not borrow more money than they can repay or use products that they do not need. In responsible financial mechanism, the employees adopt and practice high ethical standard in the treatment of clients. It gives clients a way to address their complaints so that they can be served more effectively. Responsible finance ensures privacy of data and information. Data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client. So, responsible financial inclusion protects clients, businesses and microfinance industry as a whole (The smart campaign). Client's protection principle also known as responsible financing is the best practice examples of client protection, and ideas for pro-consumer policies and practices which was developed by CGAP, the center for financial inclusion launched the smart campaign and a widely accepted set of client protection principles (The smart campaign). It is gaining as well as regional importance not just because it is a good thing to do but also because it helps increase business of MFIs. To review of related literature related to client protection/responsible finance which was developed by the center for financial inclusion launched by smart campaign is main components of this paper.

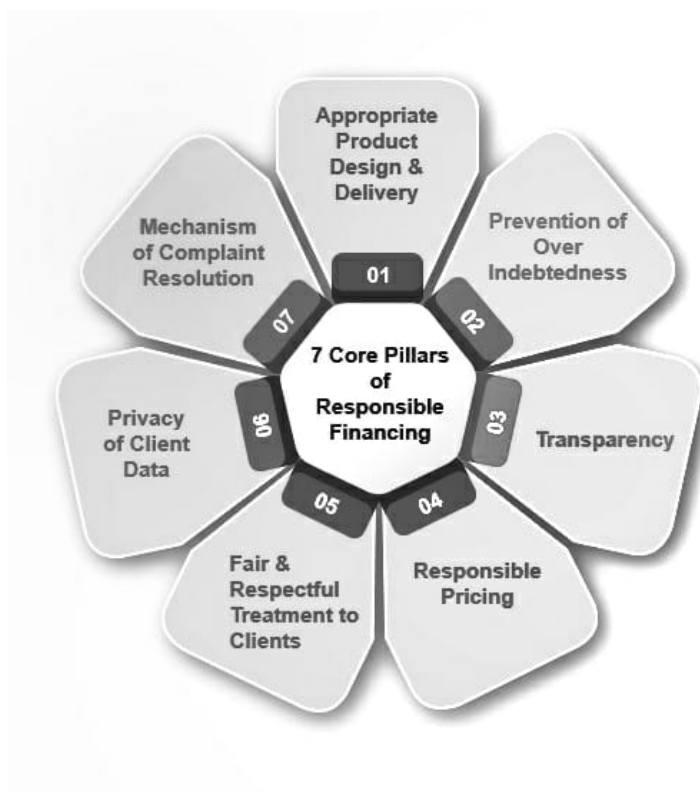
Results and discussion

Finding of the review literature mentioned in section 2 showed that there are so many factors that have been identified regarding clients protection for the sustainability of microfinance. Microfinance is a globally recognized as an effective and powerful instrument for poverty reduction and economic development. It has positive impact on whole economy in micro level.

Responsible financial inclusion encompasses core client's protection principles to help financial service provider's practices good ethics and smart business. It is a financial systems which focus on client's benefits needs to balance carefully with provider's long term viability and sustainability and client's protection is built into the design and business in every level.

Effective framework for responsible financing

The responsible finance, products and service are designed without any harm to the clients of microfinance. So, products are rationally designed, offer value for money, and minimize potential harm such as: over-indebtedness, aggressive sales strategy and inappropriate borrower behavior. Smart campaigns client's protection principles are main part of responsible finance. Seven core pillars of responsible financing are mentioned in figure 1.



[Fig: 1 Pillars of responsible financing]

Figure 1 mentioned in section 6.1 clearly shows that, client's retention depends on client's protection/responsible financing which was developed after reviewing related literature and article. There is positive relation between client protection and client satisfaction. If a company cares about client protection principles and values then its client's satisfaction automatically increases which ultimately has positive impact on companies' performances. The challenges of financial sustainability will be managed only through the client satisfaction strategy.

i. Appropriate product design & delivery

Different customers have different taste, needs, expectations and wants. MFIs need to take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account. MFIs need to have policies & procedures to monitor suitability of products, services and delivery channels. They need to avoid aggressive sales techniques.

ii. Prevention of over-indebtedness

Organization need to take adequate care in lending process to determine that clients have the capacity to repay without becoming over-indebted. In addition, organization will implement and monitor internal control systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management. MFIs need to use credit bureau information and regularly monitor the market and respond to heightened over-indebtedness risk.

iii. Transparency

Microfinance transparency (MFT) is a global initiative focused specifically on improving credit price transparency across the industry. MFIs need to communicate clear, sufficient and timely information in a way that clients can understand so that they can make informed decisions. Transparent information on pricing, terms and conditions of products is to be highlighted. MFIs need to design their price based on national pricing data by type of credit products and facilities offered to clients.

iv. Responsible pricing

Pricing is a critical aspect of responsible microfinance. It is also one of the key clients protection principles promoted by smart campaign. Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Organization need to provide positive real returns on deposits products. MFIs need to be able to justify its various financial ratios compared with industry.

v. Fair and respectful treatment of clients

Organization needs to treat their clients fairly and respectfully. They will not discriminate on the basis of age, caste, language, belief, religion, etc. They need to ensure adequate safeguards to detect and correct corruption as well as aggressive or

abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes. MFIs need to treat their clients fairly and respectfully.

vi. Privacy of client data

The privacy of individual client data will be respected in accordance with the prevailing laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

vii. Mechanisms for complaint resolution

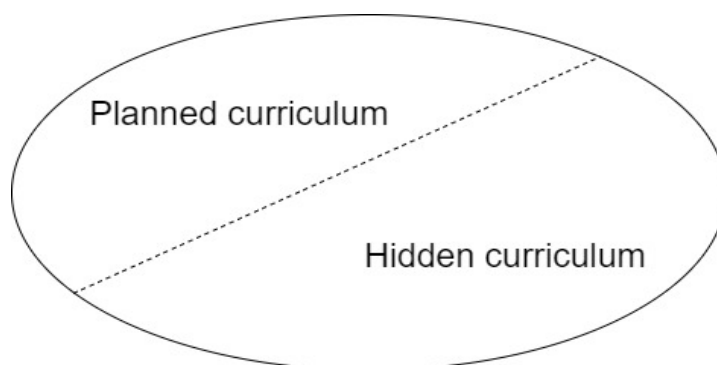
Organization need to have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

6.2 Effective framework for capacity building for client's satisfaction

Microfinance creates lot of opportunities in microfinance sector such as: stimulating growth of economy, increasing volume, accessibility and outreach, and women empowerment through capacity building programs.

There is a good and effective relationship between financial literacy and financial well-being. Financial literacy is related to knowledge about different types of saving and loan products and loan interest rate, enterprise selection, loan utilization, loan repayment, banking education and ideas about income generating activities. High financial literate are better equipped than low financial literate. Overall financial literacy is a key driver of financial well-being among clients of microfinance. Moreover, financial literacy and clients education, financial institutions, banks and corporations is important for the formation of supply side solutions that enhance financial literacy and reduce inequalities among deprived people particularly disadvantages people. Financial literacy programs improved social, economic, political, health, technological, and environmental life and literacies enable individuals to better engagement in social life.

MFIs are concerned about customer satisfaction and retention. Indeed, customer satisfaction has great significance for the future of an institution and it is seen as a basis for securing market position and achieving objectives of the institution. MFIs have to improve the service level continuously. There is no guarantee that what is excellent service today is also applicable for tomorrow. To survive in the competitive market, MFIs need to develop new strategies which will satisfy their customers. Figure 2 shows the curriculum for client's capacity building.



[Fig: 2 Client's capacity building model]

Planned curriculum of capacity development refers to documents that shape the content to be covered when teaching and sharing ideas and knowledge. These documents arise out of policy environments and reflect what is deemed required or necessary for clients to learn at specific levels of education or educational settings. Typically, planned curriculum documents are created by MFIs of subject matter series, publishers of assessments, or boards of education.

Hidden curriculum refers to the unwritten, unofficial, and often unintended lessons, values, and perspectives that clients. While the “formal” consists of the courses, lessons, and learning activities clients participate in, as well as the knowledge and skills educators intentionally teach to clients, the hidden curriculum consists of the unspoken or implicit academic, social, and cultural messages that are communicated to clients while they are involved in bank/microfinance institutions. It is not only limited to content but also it covers emerging issues, concept and latest development. The emerging needs for microfinance institutions (MFIs) is market research, customer satisfaction and capacity building through planned and hidden curriculum.

Microfinance institutions are able to gain financial self-sufficiency and they covered all institutional expenses from their regular revenue due to high professional value and effective service delivery mechanism of microfinance institutions (Rahaman, 2014). The conclusion of this study is similar in line with my study. Microfinance institutions (MFIs) should be aware about role of responsible financing in delivering stronger value for clients and ensuring long term viability (McKee, et al 2011). Stronger value for clients is an important part of responsible financing for client's protection which is similar with my conclusion.

In Nepal, huge growth in the members of MFIs took place in the last decade. There were 85 microfinance institutions (MFIs) in Nepal (NRB, 2020). They covered all areas of the country through their network. This has significantly increased the outreach and income generating activities to the poor people. Responsible finance is probably a new concept for microfinance in

Nepal. In Nepal, the awareness on the client protection principle (CPPs) is growing and few MFIs have started implementing the principles.

Conclusion

The aim of this study is to analyze the effectiveness of client's protection practices in performance of Nepalese microfinance institutions. Nepalese microfinance institutions (MFIs) need to be concerned about customer satisfaction and retention. Indeed, customer satisfaction has greater significance for the future of an institution and it is seen as a basis for securing market position and achieving long term objectives. MFIs have to improve the level of service continuously. There is no guarantee that what is excellent service today may be ineffective tomorrow. To survive in the competitive market, MFIs have to develop new strategies which will satisfy their customers. For the operational and financial sustainability of MFIs, they need to introduce client's protection strategy which is an important part of responsible financing. Appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution are the strategy which may ensure clients retention. As a result MFIs grab business opportunity in this competitive market. Client's protection is the heart of responsible finance. There are mainly three key ways to promote clients protection. The first is industry led initiatives such as: client's protection related function and code of conduct of MFIs. The second way is consumer protection regulation and supervision mechanism of MFIs and thirdly, organizational efforts to improve client's awareness and financial capability. These elements are powerful mechanism and strategy to promote clients protection. Nepalese microfinance institutions (MFIs) need to create proper mechanism for prevention of over-indebtedness and ensure transparency, reasonable pricing for their loan and saving products and respectful of clients compliance as well.

Nepalese MFIs need for specific improvement in products design and pricing, marketing, group formation, clients education, entrepreneurship development, disclosure for loan lending and saving procedures and loan collection processes and digitization. For the long term sustainability and financial self-sufficiency and to achieve deep outreach, MFIs need to identify the needs and wants of the poor and provide products of value for them. The urgent need of microfinance institutions is market research, customer satisfaction monitoring, systematic delivery of product and services and capacity building for client satisfaction. There is positive relation between client protection and client satisfaction. If MFIs care about client protection principles and values then its client's satisfaction increases which positively impacts on companies' performances.

This study proposes a descriptive conceptual framework on the general relationship between responsible financing and client's satisfaction of MFIs. This study is based on the theoretical lenses, past literature, the logical explanation and best practices. The next step is to test if the proposed conceptual framework and the propositions are academically legit and empirically supported. There could be many limitations such as generalization of ability of the proposed conceptual framework when applied to specific industry or country setting.

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