RESEARCH & DISCUSSION SERIES

CLIENT ATTRITION IN MICROFINANCE:

Experience and Practice

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Pakistan Poverty Alleviation Fund

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Contents

Foreword

PPAF has launched a Research and Discussion Series to commemorate completion of ten years of its operations. The R&D series aims to foster debate and discussion on poverty and its reduction with special reference to community driven grass root development. This publication, the third in the series, focuses on an important dimension of microfinance.

The perceived abundance of demand for micro-loans initially detracted attention from efforts aimed at measuring client attrition. With microfinance markets achieving a measure of growth and consolidation, the phenomenon of client exit (and conversely client retention) has received greater attention. Subsequently, literature examining effects of dropout on a range of associated issues such as financial sustainability, portfolio growth and quality, institutional viability, staff productivity, risk assessment, as well as socio-economic impact has since proliferated. More recently, the microfinance industry has achieved substantial progress in deciphering factors contributing to client desertion in a variety of cultural, economic and organizational contexts. However, these advances have been researched and adopted with varying degrees of success in different markets at the regional, national and sub-national levels. Pakistan for instance shows tremendous growth in the sector that is yet to be matched by a corresponding level of research into factors underlying client desertion.

This study seeks to develop an understanding of borrower attrition with particular focus on the following fundamental questions: What constitutes client exit? Who is an exit client? How can exit clients be monitored? What are the main causes behind client exit? It attempts to answer these questions in the backdrop of institutional best practices, theoretical literature and empirical evidence.

Focused on sixteen partner organizations and eight districts of Punjab and Sindh, the study captures diversity of delivery (specialized/multisectoral), geographical concentration (urban/rural) and client focus (male/female). It was carried out under supervision of Ahmad Jamal (Chief Strategy Officer). The research team was led by Najeebullah Khan (Evaluation, Research & Development unit) who was assisted by Madiha Mumtaz (CSO office) and Sameen Shahid (ERD unit). The facilitation and support extended by partner organizations is gratefully acknowledged.

Kamal Hyat
Chief Executive/Managing Director

Chapter 1:

Defining Client Exit

To a large extent, the growth and sustainability of microfinance institutions can be viewed as a measure of their ability to forge long-term relationship with clients. High drop-out rates, by making the usually expensive venture of delivering financial services to low-income households even more expensive, can be particularly disconcerting as markets mature and become more competitive. Additionally, the phenomenon can impede an organization's social objectives, which at most times are directly proportional to the length of time a client participates in microfinance services.

An organization accrues several important benefits from keeping old clients for the longest possible length of time: a larger number of new clients mean additional costs in terms of marketing and more staff time in orientation sessions and client screening. A higher level of client retention further bolsters staff productivity as older clients in most cases would have developed stronger ties with organizational staff. Although organizational staff is expected to recruit new clients all the time, their efforts can be more meaningful if it contributes to greater outreach instead of merely keeping up existing levels due to high client exits.

As organizations would in most cases progressively increase loan size with the number of loan cycles, existing clients who might have stayed with the programme for any length of time – with their creditworthiness established and by contributing more to organizational revenue through bigger loans – are potentially less risky and more profitable.

Additionally, while client exit cannot be always perceived as perfectly correlated with client dissatisfaction, a high rate of desertion does not bode well for the organization's public image as well as for the morale of field staff. For most of the above reasons, it is not only crucial to measure client exit, but also to do it in a way so as not to overestimate (or underestimate) the phenomenon.

a) Definitional Issues

Broadly speaking, three major issues pervade available literature on how best to define client exit: Who is an active client? When does he/she cease to be active? And what standard time-frame can best capture an adequate, policy relevant and precise incidence of client exit? Irrespective of the differences that exist on each of the above, addressing these fundamental questions is the crucial first step in the development of a reasonably accurate measure of client exit/retention. Accordingly, we will take up these questions in this section as a lead up to discussing the pros and cons of the various existing measures for measuring the phenomenon.

i. Microcredit vs. microfinance

In general terms, client exit in microfinance organizations (MFOs) can be simply defined as the failure to contract an additional/follow-up loan. While this might furnish a reasonable basic premise, the proposition has been contested on the grounds that it restricts microfinance services to the mere delivery of microcredit: clients might continue to take active part in group meetings, contribute to group savings and be 'active' in that sense without contracting a follow-up loan. One group of expert opinion has accordingly defined drop-out as a 'client who has had no transaction with the MFI for the last six months,' where the term transaction is used to cover all client engagements with the service provider including contributing savings, attending meetings, as well as contracting and repaying loans (M-CRIL 2005).[1]

However, by virtue of the very fact that microcredit forms the core activity and the very raison d être for most MFOs, such broad based attempts at defining client status incorporating the full range of microfinance services and institutional ties is less favored by most organizations. Nonetheless, it is important to note that available measures of client exit can be accommodated to include the above broad-based definition of what constitutes an active client.

[1] The definition comes from Micro-Credit Ratings International Limited (M-CRIL), an international rural financing consultancy providing specialized services to the microfinance industry including credit rating of MFIs, monitoring, evaluation and sectoral research services.

ii. Time lapse between successive loans

Barring forced exit imposed by the microfinance organization, two possible scenarios can emerge following the successful completion of a loan cycle: The client might immediately contract a follow-up loan or he/she might wait for some time before doing so.[2] While defining client exit, how far should this 'resting' period between successive loan cycles be stretched before categorizing a member as an ex-member?

The literature does not provide any one uniform answer as organizations have followed different formulations either with or without preliminary research on the subject. For instance, one MFI, after reviewing its data on client exit and return patterns, found out that 75% of all exiting clients in the past, if ever they returned, did so within no longer than 250 days while 50% came back after no longer than 150 days. Following internal discussions with staff, a drop-out client was defined as 'a client that didn't come back to the programme at all or came back after one year' (Imp-Act 2004).[3] However, stretching the resting period that far will delay effective policy response in dealing with client desertion as decision makers would be waiting for a very long period to get empirical evidence showing the full extent of desertion. Waterfield (2006) points to a useful approach to get around this problem:

"An alternative approach is to develop "aging categories" to measure the risk of losing clients, just as MFIs do for the risk of loan defaults. By developing different client aging categories, we can generate different retention rates that can tell us things about client behavior in a more responsive fashion. We may therefore choose to define two or more retention ratios, each with a different cutoff date for resting. Such ratios could, for example, track: Regular clients (borrow again within 2 months); Resting clients (2–6 months); Likely deserters (7–12 months); Confirmed deserters (more than 12 months without a loan)."

The MFI cited above had in fact adopted such an approach (Pawlak and Matul 2004). After allowing for a

[2] This might be caused by several factors including the seasonality effect of many businesses (including those dependent upon a particular agricultural crop) experienced by clients. Such clients might either need credit at a particular time of the year or feel that they can repay loans only under certain conditions specific to a particular season.

[3] Improving the Impact of Microfinance on Poverty: Action Research Programme (Imp-Act) is a global action research programme designed to improve the quality of microfinance services and their impact on poverty. It is a collaboration between MFIs, academics, NGOs and its secretariat is located in the Institute of Development Studies, University of Sussex. The MFI mentioned above is Partner, which operates in Bosnia and Herzegovina.

one year resting period, resters were classified on the basis of their return behavior as, a) hard users – those who returned within 60 days (and presumably did not experience seasonality in their businesses) and, b) resters – those who returned after 60 days (and had a greater likelihood of experiencing seasonality).

Concluding that the likelihood of hard users to return was much higher, such a categorization allowed MFI to focus more intensively on the second category.

Prizma, another MFI located in Bosnia, adopted an identical approach. Following a similar survey of historical client exit data, a drop-out was defined 'as a person who has repaid any type of loan but has not taken any new loan during the next 90 days.' This conclusion was merited by data, which showed that the drop-out rate was only slightly less at over 500 days than what it was at 90 days: most of those who wanted to return did so within 90 days (Matul and Vejzovic 2004).[4]

These efforts gave implementing organizations a time-frame to define resting period, which can be a crucial ingredient in measuring retention/ desertion rate more effectively. In certain cases, defining resting period can be tied to an organization's lending methodology. For instance, in a situation where a group/village lending methodology specifically ties loan renewal to a group's loan cycle, the resting period can be simply set to match the loan term. In case the client does not renew his/her loan at the end of the group loan cycle in which he/she did not participate, there might be sufficient grounds to consider him/her as a drop-out after that.

The above discussion reflects that whereas it is important to account for a specific time-frame after which a 'resting' client can be conceived as an exit client, interpretations on the actual length of this period differ considerably, depending on what a particular organization considers as reasonable keeping in view its experience and history.

iii. Reference period for calculating the exit

The preceding discussion has

[4] Taking the view that every drop-out can be retained, Prizma denoted drop-outs as 'sleepers' who were profiled into three categories: 'Voluntary – satisfied' (leaving for reasons external to Prizma), 'Voluntary – dissatisfied' (leaving for reasons internal to Prizma), and 'Forced Out' (for bad character or bad services)

focused on defining exit status as the failure to contract a follow-up/repeat loan within 'x' number of days (with the 'x' denoting the time allowed for resting period). Equally important is the criteria for arriving at a standard reference period over which client drop-out rate is measured.

Again, no particular standard is followed with microfinance organizations adopting monthly, quarterly, six monthly and annual reference periods for measuring client exits. Although an annual rate will usually reflect better trends, it is important to note that shorter reference periods might be reasonably useful for the quick identification and diagnosis of problems in the short term, particularly with reference to addressing specific issues in some branches or operational clusters.

Given seasonal variations, monthly exit rates might vary sharply in comparison to rates calculated over a longer reference period. For this reason, it has been at times considered more fruitful to incorporate a measure of trend analysis to simple monthly comparisons. One way of doing this is to compare dropout/ retention rate in a particular month to the same month in the previous year. Further, better trends can be identified through calculating annual rates for subsequent months or other periods of time, or using rolling averages.[5]

b) Measuring Client Exit

The Microfinance industry is yet to reach consensus on a standard formula for measuring client desertion/ retention. To a large extent, the delay has been induced by the perceived futility of measuring client exit as microfinance organizations rarely experienced demand constraints in the initial decades. Even after particular MFOs took up the issue more seriously following increased levels of saturation and competition in specific markets, differences over a standardized approach to client exit have continued. Additionally, some noteworthy contributions to the literature have admittedly taken a less than ideal approach to measuring client exit in order to compensate for

[5] For a useful discussion on incorporating trend analysis in client desertion/retention rates, see Pawlak and Jahic (2004).

gaping holes in the data available with most MFOs.

In this section, we set out to delineate the various approaches in measuring client desertion/retention, while focusing on their respective limitations and advantages. As the practical application of any such approach is fundamentally dependent on the availability of necessary data, it is important to cite the specific data requirements for each approach.

i. The ACCION Formula

ACCION[6] conducted the first widely recognized effort to measure desertion rate in response to the high incidence of client exit experienced by one of its affiliates in the mid-1990s. The following formula was used to measure Desertion Rate *(DR)*:[7]

$$DR - \frac{x_1 + NC - x_2}{x_1}$$

Where,

x_1= Active Clients at the beginning of the period;
x_2= Active Clients at the end of the period;
NC= New Clients joining during the period.
DR= Desertion Rate

The ACCION formula is a simple measure that calculates DR as the number of clients dropping out in the period, expressed as a ratio of the total number of active clients at the beginning of the period. Immediately, several shortcomings can be deciphered:

i) the formula is inadequate to measure DR for new organizations in their first year/period with $x_1 = 0$;
ii) even for relatively older organizations, as we would shortly work out, the formula becomes illogical when a large number of NC enter and desert during the same measurement period. As they are added to the numerator but not to the denominator, the formula would show an inaccurately large DR.[8]
iii) the formula does not account for resters, although the following adjustment can be made to account for them (Pawlak and Matul 2004):

[6] ACCION is a leading microfinance organization with a network of lending partners in Latin America, Africa, Asia and the United States

[7] The ACCION formula can be reformulated in terms of a Retention Rate (RR):

$$RR = 1 - DR = \frac{x_1 \ (x_1 + NC - x_2)}{x_1} = \frac{x_2 - NC}{x_1}$$

$$DR = \frac{x_1 + NC + R - x_2}{x_1}$$

Where,

R= Clients who contracted a follow-up loan during the reference period after resting for *x* number of days

iv) Lastly, the formula also does not account for dropouts that could occur amongst New Clients

While many organizations continue to use the above formula – either in its original form or with one of the several adaptations mentioned in this note – ACCION itself gave up the formula for the one proposed by Mark Schreiner as part of his Ph.D dissertation (Schreiner 1997).

ii. The Schreiner Formula

It has been accurately noted that since RR tries to determine the number of clients an MFO retains of those who are clients during the year, it makes more sense to put NC in the denominator (Waterfield 2006).

Correspondingly, as DR calculates the number of clients that have dropped out of all those who could dropout during the period, it is equally important to account for NC in the denominator. Schreiner (1997) accordingly made the necessary adjustment (See Fig-A):

The formula calculates DR as the number of clients dropped out during the period as a ratio of all those who could drop out (or, who were active during the same period). DR calculated as thus is more accurate as it incorporates, unlike the ACCION formula, NC in both the numerator and the denominator. This reformulation of the Schreiner formula has in fact

Fig-A

$$DR = \frac{Number\ of\ Dropouts}{Number\ who\ could\ Dropout} = \frac{NC - (x_1 - x_2)}{x_1 \,|\, NC} = \frac{x_1 + NC - x_2}{x_1 \,|\, NC}$$

[8] To account for this deficiency, an adaptation has been proposed (M-Cril 2005) to the original ACCION formula by including a better, much larger, denominator:

$$DR = \frac{x_1 + NC - x_2}{Avg\,(x_1 \ldots \ldots x_2)}$$

, where the denominator represents an average of the number of clients at each interval during the reference period. This resolves the problem of a large number of deserters, including from NC, through a more representative denominator. Yet, the average does not cover all clients during the period. In any case, a better denominator is available in the Schreiner Formula, which works approximately similar data requirements.

been adopted by M-CRIL, noting that 'calculating drop-outs as a proportion of all the clients that MFI has come across during the period,' accounts for drop-outs that can occur from NC as well (M-Cril 2005).

The same formula can be reformulated for calculating RR (See Fig-B):

The above formula calculates the number of clients retained (numerator) out of the total number of clients that could have been retained (denominator). As such, when adjusting the formula for resters, the numerator must include only those resting clients who are resting at the end of the period.

Conversely, the denominator includes only those resting clients who were resting at the beginning of the period and may have changed their status during the period.

The formula can be adjusted for resting clients (Waterfield 2006): Waterfield (2006) makes an interesting comparison between the ACCION and Schreiner formulas, which brings out the latter's comparative accuracy more clearly, and is worth reproducing here. The reformulated ACCION formula for RR (see discussion above) is denoted as the "Old" formula by Waterfield, while Schreiner's is referred to as the "new" formula:

$$RR = \frac{x_2 + R_2^{(x\ days)}}{x_1 + R_1^{(x\ days)} + NC}$$

Where,

x_1=	Active Clients (Loans) at the beginning of the period
x_2=	Active Clients (Loans) at the end of the period
R_1=	Resting Clients at the beginning of the period
R_2=	Resting Clients at the end of the period
$x\ days$ =	Resting period

Fig-B

$$RR = 1 - \frac{x_1 + NC - x_2}{x_1 + NC} = \frac{x_1 + NC - [\{(x\}]_1 + NC - x_2)}{x_1 + NC} = \frac{x_2}{x_1 + NC}$$

Retention Rate (RR)	"Old" Formula $\dfrac{\textit{End Clients} - \textit{New Clients}}{\textit{Beginning Clients}}$	"New" Formula $\dfrac{\textit{End Clients}}{\textit{Beginning Clients} + \textit{New Clients}}$
Case 1 Begin = 4 New = 2 End = 4	$\dfrac{4-2}{4} = \dfrac{2}{4} = 50\%$	$\dfrac{4}{4+2} = \dfrac{4}{6} = 66\%$
Case 2 Begin = 1000 New = 2000 End = 2000	$\dfrac{2000-2000}{1000} = \dfrac{0}{1000} = 0\%$	$\dfrac{2000}{1000+2000} = \dfrac{2000}{3000} = 66\%$
Case 3 Begin = 100 New = 2000 End = 1900	$\dfrac{1900-2000}{100} = \dfrac{-100}{100} = -100\%$	$\dfrac{1900}{100+2000} = \dfrac{1900}{2100} = 90\%$

In Case 1, where 2 clients drop out from the 6 that were active during the reference period, the Schreiner formula returns a more accurate RR (66%). While working with comparatively more extreme data in Case 2, where 1000 clients out of the 3000 that were active during the reference period have apparently dropped out, the Schreiner formula remains consistent by returning the expected 66% RR. Interestingly, the ACCION formula fails by returning 0% RR. This, however, is not all. In Case 3, which can be indicative of a new and growing organization with a large number of new clients during the reference period, the ACCION formula returns a negative 100% RR, indicating a complete collapse. The Schreiner formula, on the other hand, returns the more plausible 90% rate of retention. The reason for ACCION's failing is simple: a large number of new clients, if subtracted from the numerator and not covered by the denominator, will seriously distort the ratio. The Schreiner formula doesnot have this weakness as new clients are added both to the numerator and the denominator.

In light of the above discussion, the Schreiner formula could be easily passed off as a better bet. However, both share a 'logical inconsistency': the *RR*, in both formulas, is overstated by including new clients that have not yet had the chance to either desert or be retained (Waterfield 2006). Although Schreiner was the first to concede the argument, the formula was justified on the grounds that it makes less data demands on MFOs and works with information that is easily available (Rosenberg 2001). The CGAP-Waterfield formula was designed to specifically address the above stated drawback.

iii. The CGAP/Waterfield Formula

In 1997, while developing the "Microfin" business planning tool for CGAP, Waterfield formulated a measure of client retention that focused on decision points:[9]

$$RR = \frac{FL}{LP}$$

Where [10],

FL = number of Follow-up Loans during the period
LP = number of Loans paid off during the period

This could be reformulated as

$$DR = 1 \quad \frac{FL}{LP}$$

to calculate the drop-out rate.

Put simply, if 80 clients receive new loans out of a 100 clients who have successfully paid off their loans during the reference period, the retention rate would be 80 percent. The formula, however, has some serious shortcomings:

i) A specific focus on retention understandably leads to complications that can be better perceived in terms of desertion. For instance, while trying to divest

[9] This is also sometimes referred to as the Microfin formula

[10] If the MIS lacks provision for directly stating LP and FL, then the formula can be restated as:

$$RR = \frac{L - NC}{x_1 + L + x_2}$$

,where L = Number of Loans disbursed during the period (Rosenberg 2001). The Delinquency Management Framework of MFOs account for delinquents through measures such as Amount overdue and Portfolio at Risk (PAR). Different MFOs might apply different time-periods for which such clients are shown as active, before their loans are written off and they can be conceived as dropouts.

his formula from the problem of decision points vis-à-vis new clients, Waterfield took new clients out of the equation altogether. This logically led to the associated problem of accounting for drop-outs amongst new clients. With the Waterfield/CGAP formula, a failure to do so results in overstating *RR*.

ii) Similarly, the denominator LP did not account for delinquents who did not pay their last loan with potential for further inflating *RR*.[11] Recognizing the weakness, Rosenberg (2001) proposed the following adjustment:

$$RR = \frac{FL}{LP + WO}$$

where *WO* accounts for loans Written Off during the period.

iii) Furthermore, *RR (FL/LP)* is exaggerated if the denominator does not cover for resting clients who had paid their last loan in a previous reference period and have received a follow-up loan during the period (hence reflected in the numerator). Conversely, *RR* is deflated if clients repay a loan during the reference period (hence reflected in the denominator) and decide to rest for the remainder of the current reference period (hence not reflected in the numerator even though he/she is considered retained). The effect of this phenomenon is more pronounced when the reference period is small relative to the resting period allowed by particular organizations, at times yielding over 100% *RR* or *DR* depending on weather resting is occurring at the beginning or the end of the period. In such instances, a simple correction can be made:

$$R = \frac{FL + R_2}{LP + R_1}$$

, where R_2 and R_1 denote resting clients at the end and beginning of the reference period respectively. In cases where a

[11] The Delinquency Management Framework of MFOs account for delinquents through measures such as Amount overdue and Portfolio at Risk (PAR). Different MFOs might apply different time-periods for which such clients are shown as active, before their loans are written off and they can be conceived as dropouts.

sufficiently large reference period is taken relative to the resting period, the unadjusted formula will yield reasonably accurate ratios, provided the other deficiencies have been addressed.

iv) The formula works well when the loan term offered by an organization is equal to the reference period and consistent across various loan products. This is because the formula calculates *RR* per loan cycle. Any increase in loan cycles relative to the reference period can complicate the formula. For instance, for an annual reference period where the MFO has on offer either 2, 3 or 4 loan cycles per year, the calculated *RR* (say 80% or .8) has to be accordingly adjusted by the factor of 2, 3 or 4 respectively [$.8^2$, $.8^3$, $.8^4$] to get the correct annualized rate. Mathematically, with 4 loan cycles per year, the calculated *RR* of 80% through this formula would mean that 80 % clients would remain after each cycle which means an annualized RR of 41 % (.8*.8*.8*.8 = .41).[12]

Since loan terms vary most across different loan products, one way to decrease the above complexity is to calculate the ratio for different products along with the overall *RR*. Viewed together, such a scheme might be a better and more meaningful rendition of the incidence of retention within an organization.

iv. The New Waterfield Formula

The Shreiner formula includes new clients who have yet to reach a decision point. The Waterfield/CGAP formula sought to address the weakness by adopting a new approach based on (See Fig-C), rather than on the number of clients (See Fig-D). In doing so, it became open to complications resulting from varying loan terms.

The new Waterfield formula went back

[12] If 100 clients receive the initial loan with a 12 months loan term, then an 80% *RR* will mean that 80 clients were retained at the end of the year (assuming that there were no defaulters and resters, or that the formula has been adjusted to account for the same). With a three month loan term (4 loan cycles per year), the 80% (un-annualized) *RR* will mean that only 41 of the original 100 were retained at the end of the year. Similarly, an 8 months loan term will require an adjustment by a factor of 12/8, which would mean an average loan cycle of 1.5 per year.

Fig-C

$$\left(\frac{\textit{Number of Follow on Loans during the period}}{\textit{Number of Loans Paid off during the period}} \right)$$

Fig-D

$$\left(\frac{\textit{Number of Clients Retained at the end of the period}}{\textit{Number of Clients Active during the period}} \right)$$

to the original appraoch applied in Schreiner by simply adjusting the latter for those who had yet to reach a decision point. Essentially the new formula calculated retention as the number of clients who reached a decision point during the period and remained with the program, as a proportion of all those who had a decision point during the period.

The Schreiner formula was thus adjusted (Waterfield 2006) as (See Fig-E).

It is important to note that clients who have not yet reached a decision point include only those with an ongoing "new" (first time) loan during the period as well as clients repaying the same loan during the whole reference period (possible only if the loan term is longer than the reference period). Active Clients that were repaying the same loan but have reached at least one decision point during the period (active clients with a second, third, fourth, etc. ongoing loan in the year) were deemed to have reached the required decision point for the period and have decided to remain in the program.

To adjust the formula for resting, Waterfield suggested the following correction (See Fig-F):

Fig-E

$$RR = \frac{End\ Clients - Clients\ with\ the\ Same\ Loan}{Begin\ Clients + New\ Clients - Clients\ with\ the\ Same\ Loan}$$

$$= \frac{x_2 - Clients\ with\ the\ Same\ Loan}{x_2 + NC - Clients\ with\ the\ Same\ Loan}$$

Fig-F

$$RR = \frac{x_2 + R_{(2)}^{(x\ days)} - Clients\ with\ the\ Same\ Loan}{x_1 + R_{(1)}^{(x\ days)} + NC - Clients\ with\ the\ Same\ Loan}$$

Where,

x_1=	Active Clients (Loans) at the beginning of the period
x_1=	Active Clients (Loans) at the end of the period
R_1=	Resting Clients at the beginning of the period
R_2=	Resting Clients at the end of the period
$x\ days$ =	Resting period
$Same\ Loan$ =	a) NC with an ongoing loan at the end of the period b) Cleints repaying the same loan for the whole of the period

The new Waterfield formula is theoretically more accurate than other formulas cited above. However, as Waterfield (2006) cautions, the degree of error will increase if:

- the loan term is long relative to the measuring period (i.e., more clients are included who have not yet reached a decision point)
- the institution is growing significantly and there are a large number of first-time clients who have not yet reached a decision point

In the final analysis, the most accurate formula any organization can adopt at a particular point in time is dependent on the information it can readily generate from its MIS.

c) Acceptable Attrition Rates

Intuitively, the lesser the incidence of client exits the better. However, particular microfinance organizations are well placed to make that judgment, depending upon the specific spatial and temporal context in which they operate. For instance, an organization might be content with a comparatively less than ideal drop-out rate if the same could be rationalized in terms of forces that it cannot control. These might include, a) a highly stressful environ-ment characterized by systemic shocks in times of economic recession, civil unrest, and severe weather conditions; and/or b) an unusually high incidence of idiosyncratic shocks experienced by clients owing to a combination of factors, e.g., illness, death, business failure, economic distress of family members, ceremonies, etc.[13]

Similarly, microfinance organizations that are at a comparatively less mature stage in their development might justify varying degrees of client loss to stronger competition in the shape of more sustainable organizations that are in a better position to attract more qualified staff and have greater funds, experience, and product diversity/ flexibility.

Additionally, acceptance of a certain level of client desertion can be tied to organizational objectives: a higher drop-out rate, for instance, can be palatable to an organization if it helps sustain zero portfolio at risk (Imp-Act 2004).

[13] For a summary of the push and pull factors cited in the literature on microfinance client exit, see Pagura (2003)

Chapter 2:

Reasons for Client Desertion

A full understanding of factors leading to client dissatisfaction is a vital milestone on the road to achieving financial sustainability for all MFIs. Why an MFI's target clientele, or a part thereof, chooses to stay away is an important – yet a logistically and/or financially problematic – research question to answer. It is thus more feasible, and arguably more effective, to alternatively study clients who choose to exit microfinance services as a way to developing a better understanding of the sector's limitations.

It has been argued that repeat borrowing is critical to the long-term viability of MFIs as it lowers risks, reduces administrative costs and enhances organizational productivity. Contrarily, a high dropout rate might force an MFI to continually expand its lending base in order to maintain a viable portfolio size. In most instances, the recruiting and training costs incurred before making the first (small) loan to new clients prevents profitable lending before the third or fourth loan cycle (CHIP, 2005). For this reason, client retention is vital to the sustainability and profitability of microfinance organizations. Information on the causes of client exit can further assist MFIs in understanding client preferences and market trends, leading towards the development of more appropriate, user-friendly and feasible MFI products.

Significant theoretical and empirical research has been conducted on the causes of client exit from the microfinance sector. The principal objective of this chapter is to review work that has already been conducted on microfinance attrition globally and in Pakistan particularly. In view of the sector's rapid growth in Pakistan, the identification and assessment of reasons for client exit has become critical to ensure that greater competition does not constrain or artificially limit the natural progression of the sector.

Attrition need not only be viewed as a negative. The sector has in fact facilitated a large number of clients to graduate beyond microfinance into the formal sector. Such client exit can be classified more appropriately as a successful outcome than a failure.

a) Causes of Client Exit

i. **Market-Based Factors:** Market-driven attrition results from either industry competition or client maturity and are often cited as a sign of healthy competition or successful service delivery. Such factors are usually considered a positive force insofar as they reflect the client's ability to choose between different alternatives, i.e., by either allowing a movement towards MFIs with more competitive terms and better services or facilitating clients to graduate from the microfinance sector altogether to a higher quantum of finance offered by the formal financial sector (Pagura, 2003). This kind of exit from the microfinance sector is regarded as a positive force.

Sufficient research has been conducted globally identifying market-driven factors as an important force behind dropouts in the sector. Churchill (2000) identified competition in the Latin American setting as a significant explanation of client exit from particular MFIs. In a similar vein, Shreiner (2001) found that competition from Chilean consumer finance companies led dropouts to double for a large Bolivian MFO offering individual loans in Bolivia. Similarly, Maximambali (1999) found that in areas with significant MFI concentration, clients tended to leave one MFI for another. Montgomery et al (1996) also identified client perceptions of other MFIs offering better services as an important reason for drop out. Multiple studies conducted in Bangladesh (Hassan and Shahid, 1995; Khan and Chowdury, 1995; Hulme and Mosley, 1997; Evans et al., 1999), have found that a significant number of former clients typically shift to another MFO in the area because of better products and services. The CHIP study (2005) in Pakistan similarly found that

15 % of dropouts were caused by market-driven factors including a lack of demand for services of the MFO, borrowers finding other providers with better terms, and client needs graduating beyond what the NGO can provide.

ii. MFI-Related Factors

Forced Expulsions: In many instances, the MFI decides to expel clients if the latter default on their repayments and/or if the credit officer feels that a particular client might not be able to repay in the future.

A study of Kashf clients in Pakistan found that about 60% of the attrition was due to client expulsion for poor performance (Mosedale, 2001).

MFI Products/Policies: The majority of dropout cases (61%) interviewed for the CHIP study exited because of reasons related to the lending organization's product design or organizational policies.

One of the most frequently identified reasons for voluntary client dropout has been rigidity of the MFI's products and policies (Painter and MkNelly, 1999; Wright, 2000; Murray, 2001[14]). Strict rules concerning savings requirements and restrictions on withdrawing savings even in times of need have also been identified by former clients (Kuwik and Mashaba, 2000; Churchill and Halpern, 2001; Stark and Nyiumburinga, 2002[15]). Low credit ceilings and rules against taking multiple loans have also been identified as important factors leading to clients dropping out (Wright et al., 1999; Mosedale, 2001; Garuba, 2004 [16]).

Another factor cited was that intervals between installments were too short (Stark and Nyiumburinga, 2002; Garuba, 2004).

Methods of Recruitment and Loan Disbursement: Stark and Nyiumburinga (2002) found that recruitment methods are a major

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[14] This Also see ASA (1996); Churchill and Halpern (2001); Stark and Nyiumburinga (2002)

[15] Also see Montgomery et al (1996); Painter and MkNelly (1999); Kashangaki et al. (1999); Maximambali (1999); Wright et al., (1999); Wright (2000)

[16] Also see ASA (1996); Murray (2001); Kuwik and Mashaba (2000); Churchill and Halpern (2001)

contributor to client exit at PSA and SEF. PSA recruits clients by retaining agents who are responsible for finding clients in their immediate neighborhoods. On the other hand, SEF requires that members of poor households interested in taking part in the program form groups and create a full center. Clients from both MFIs identified tactics used by the agents as problematic, including humiliating clients by visiting their homes at odd hours. Agents were also found to encourage, and sometimes force, clients to take larger loans than they needed or their ability to repay. Clients interviewed as part of the CHIP (2005) study in Pakistan also reported MFI staff either forcing or sweet talking people into taking loans. In Bangladesh as well, a key factor for client failure to repay a loan (which would automatically exclude them from being able to take additional loans) was identified as the insistence of field staff that clients take loans (Wright, 2001; and PromPT, 1996).

Some MFIs require all members of a group to continuously take loans of increasing size (Matin, 1998), and often a client can only take a loan on the prescribed day and time of disbursement (CHIP, 2005). This assumes constantly homogeneous needs of all members and is likely to force relatively poorer members – who cannot afford the installments – out of the group. MFIs appear unwilling to recognize, especially in rural areas, that there are seasons when loans are not required. The clients are then left with no option but to borrow and try against the odds to service the loan, or to leave the MFI altogether (Wilson, 2001). Zeller et al (2000) in fact, found that the average size of borrowing groups fell over time because dropouts exceeded new members. Specifically the study showed the average size of ASA groups falling from 25 to 18 individuals over a five-year period, and that of BRAC groups falling from 56 to 37.

Transaction Costs: Meetings that were too frequent and/or too long were also identified as a major reason for dropouts (Murray, 2001; Khan and Chowdury, 1995; Kashangaki et al., 1999; Maximambali, 1999; Wright et al., 1999; Kuwik and Mashaba, 2000). At times, the distance between client residence and the designated place for group meetings have also caused apprehensions, especially in the case of women from conservative rural backgrounds. Cost of borrowing being too high (Murray, 2001; Khan and Chowdury, 1995) has been cited as a cause of dropping out in many countries, especially when there are cheaper alternatives.

Problems with Group Formation: In some instances, MFI policies on group composition have been found to negatively impact the quality of borrowers. For example, clients from two MFIs - Provident South Africa (PSA) and Small Enterprise Foundation (SEF) - interviewed for the Stark and Nyiumburinga (2002) study reported a large number of requirements for group membership: group members were required to be within 15 years of age of each other, not related to each other, be friends, live in close proximity, and fall within the MFI's 'poverty criteria'. Such condionalities significantly limit not only the number of individuals eligible to become group members, but are more likely to result in group members having to guarantee a much less desirable set of co-members.

Stark and Nyiumburinga (2002) found cases where defaulters would taunt their group members that they cannot go to the police or local council and press charges against them. Also, the unwillingness to pay for defaulting group members (Hassan and Shahid, 1995; and Mustafa et al., 1996; Stark and Nyiumburinga, 2002) has also been at times identified as a reason for client exit.

Staff Behavior: In the LAPO study (Garuba, 2004), staff attitude was found to be an important factor in the problem of client exits. In particular, mis-targeting of clients, inadequate pre-loan training for borrowers and disrespect for customers ranked high among the issues that former clients reported. The failure of some staff to strictly follow procedure for selection led to the inclusion of clients, who really do not value the amount of loan offered by LAPO because it is inadequate for their businesses, and who are therefore not the target clients of LAPO.

iii. Systemic Issues

Researchers have also found that client exit is provoked by systemic shocks. Some of the studies document natural disasters, e.g., drought or excessive rains, the closing of key industries, and general macroeconomic downturns as factors that provoke client exit (Kashangaki et al., 1999; Maximambali, 1999; Wright et al., 1999; Simanowitz, 1999). A CGAP study in 2000 also found that dropouts increase when there is a downturn in the national economy. The vulnerability of MFI clients to external shocks underscores the fact that MFIs are serving a precarious market. Such vulnerability, which can adversely affect both retention and repayment of clients, highlights how important it is for MFIs to address other needs of their clients besides credit. MFIs can either develop in-house capacity or otherwise form strategic alliances to provide voluntary savings, micro-insurance and business development services. Offering access to these valuable wraparound products could be an important dimension of any client retention strategy (Murray, 2001).

iv. Life Cycle Events

Personal and family illness and death also lead to client exit (Maximambali, 1999; Simanowitz, 1999; Kuwik and Mashaba, 2000)[17]

[17] Also see Hassan and Shahid, 1995; Khan and Chowdury, 1995; Painter and MkNelly, 1999; Churchill and Halpern, 2001; Wright et al., 1999; ; Stark and Nyiumburinga, 2002.

v. Enterprise Viability

Although microfinance loans are generally extended to clients for the purpose of investing in productive activities, the investments are not always profitable. Business problems including cash flow issues, seasonality factors, and lack of business skills can therefore also cause clients to exit the sector (Maximambali, 1999; Wright et al., 1999; Kuwik and Mashaba, 2000; Simanowitz, 1999; Churchill and Halpern, 2001). The lack of business skills has been particularly highlighted as a reason for failure of businesses by credit officers and borrowers alike. Many take loans and expand their business without adequate consideration of the capacity of their businesses to generate the cash to repay the loan. The lack of, or poor, record keeping is a major weakness in most informal sector businesses (Stark and Nyiumburinga, 2002).

Business competition has also been highlighted as a major factor for dropout and the inability to repay. At Provident, clients admit that since they all do the same types of business, they compete against each other and no one makes a significant profit (Stark and Nyiumburinga, 2002).

vi. Peer Based Expulsion

Group based expulsions are mostly common under a joint liability system where group members are made to pay the installment in case any member fails to do so. In some organizations, loan officers don't accept repayment installments if any one member is defaulting, putting the whole group in jeopardy. In many cases, such members are usually expelled by the group itself.

In the LAPO research study, a quarter of the ex-clients claimed that their MFOs and groups had expelled them. In Kibaha, Tanzania, it was similarly found that expulsion of clients from a group was often initiated by center members. In fact, the research team's impression was that group members were quite ruthless when it came to the expulsion of defaulters and other difficult members (Matin, 1998).

b) Classification of Exit Clients

Conceptually it is possible to distinguish between voluntary, non - voluntary and forced out drop outs. In practice, however, it is often difficult to categorize dropouts into neat categories. For instance, while it is easier to separate forced out client exits (those expelled by the MFI) from the other two categories cited above, a clear distinction between voluntary (those who don't need a loan at the time) and non voluntary (those who need the loan but do not contract it because they cannot repay due to some reason) drop outs might not always be possible. Many clients, for example, choose to rest from the loan repayment after a cycle is complete due to seasonality in businesses and/or as a result of no expressed need at the time (Churchill, 2000). Many researchers have identified, however, that often clients that are resting immediately following a loan repayment do intend to secure a loan in the future, but that monitoring systems at most MFIs are not able to distinguish such clients from non-voluntary dropouts.

More importantly, there is often no single clear reason of client exit. For instance, it is possible that a client drops out because the loan product is not feasible, in addition to a lean patch in business or illness in the family making repayments difficult.

c) Socioeconomic Profile of Exit Clients

Garuba, 2004 found that individuals who fall in the category of Least Poor, Less Poor and Average Poor groups constituted nearly 82% of MFI clients, while the Poor and Very Poor only made up 18% of clients. A CGAP study similarly found that the majority of clients were relatively less poor (though not necessarily non-poor) – those that have relatively stable income, sufficient livelihood diversification that allows them to make regular installment payments, and who are not as vulnerable to small external shocks.

Although clients that drop out have been found to belong to a wide range of different socioeconomic backgrounds, the reasons why clients decide to drop out vary greatly between these classes. CGAP, for instance, found that poorer clients tend to drop out when the average size of loans within the joint liability group rises to high levels and the members have to take the risk of guaranteeing much larger loans than they themselves can take. In addition, it was found that poorer clients are particularly vulnerable to the increasing size of weekly repayment installments. Such "program-design-induced" risk, when coupled with the general vulnerability to economic downturns faced by the poor, led to dropout.

On the other hand, the relatively better off clients of MFIs show a tendency to drop out, based more on factors such as the desire for larger loans as even the maximum loans offered by MFIs are often too small for their growing businesses.

Borrower dissatisfaction due to delays in entering the next loan cycle due to other group members' reluctance or being in arrears, and frustration with the length of time spent in group meetings and in trying to recruit new members to replace dropouts were also important causes of dropout.

It has been argued that the poorest cannot join most MFIs to begin with. This is based on several factors including the fact that the poorest do not have businesses – a pre-requisite for most MFIs, instead they often engage in casual labor or work at minimum wages. Many among the poorest that do own businesses make very low return, and therefore cannot meet the onerous conditions such as savings requirement, group-guarantee and other transaction costs associated with accessing a loan.

Evans et al. (1999) show that former clients were less educated and had smaller households than current clients, demonstrating that overall household vulnerability may be playing a role. The reasons from dropping out did not significantly vary based on gender of the client (Mutesasira et al, 1998; Maximambali, 1999).

d) Timing of Client Exit

A study on Nigeria (LAPO) found that a significant number of the ex-clients exited after their first (47%) and second loan cycles (31.8%).

Cumulatively, these two groups of clients constitute as high as 78.8% of all the exited clients.

Such a significant number of dropouts during the initial period indicate that a large proportion of clients were 'testing' the MFI in the case of voluntary dropouts, and those being weeded out by the MFI in the case of forced out dropouts (Garuba, 2004).

CGAP study results indicated that dropout rates tended to be higher around religious festivities, periods of harvest and the time for payment of school fees – when clients would likely need access to savings or would not have the capacity to make regular loan repayments. The period right after a major change in the policies of the MFI was additionally cited by staff as resulting in a large number of client exits from their respective programs.

e) Limitations of Literature

Because no uniform study design has been used to examine client exit, it is difficult to make meaningful comparisons across MFIs and it has been found that regional differences do exist (Pagura, 2003). Clients in Africa appear to be more susceptible to exit due to idiosyncratic and systemic shocks, indicating a high level of vulnerability at the individual household level. Conversely, market-driven factors play a comparatively larger role in explaining client attrition in Latin America and Asia.

Pagura (2003) believes that the literature on microfinance client dropout rates is biased by geographic location and in terms of the particular type of loan product being offered. Client exit within each region varies greatly and is often concentrated in one or two countries. She points out that most of the exit studies have been carried out in Bangladesh and Bolivia given their relatively long history of microfinance activity. In addition, she points out that almost all of the research work that has been conducted has focused on group lending and the village banking model – with very little focus on institutions that offer loans to individuals. Although it is logical that this be the case since it is the largest institutions receiving the most research attention and Bangladesh and Bolivia (both predominantly following the group lending model) dominate their peer groups in terms of scale, it is important not to assume that all findings from such research are relevant and applicable to the microfinance sector at large.

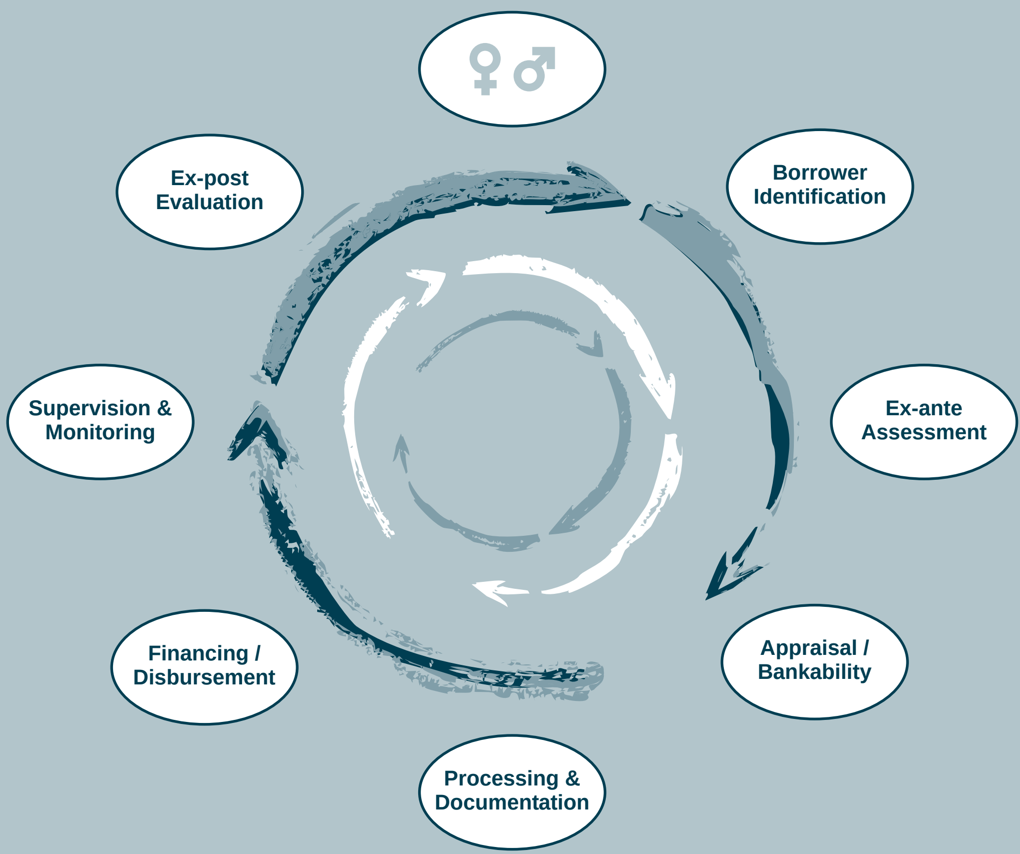
f) Conclusions

When an MFI client drops out, the organization is negatively impacted in many ways. There are tangible financial losses from client attrition – the resources that had been invested in recruiting and training that member and also the loss of future cash flows that would have come from the increasing loan sizes. The larger the potential future cash flow from a given client, the larger the loss from the exit. Exit, especially in large numbers, damages the growth potential and trajectories of the MFI. They negatively impact motivation in the centers where dropouts occur and may also lead to a sense of failure among MFI staff and a reduction in staff morale could negatively impact productivity and further slow growth.

Murray (2001) found that issues causing dissatisfaction amongst current customers were the same as those that had caused dissatisfaction amongst former clients. If this is the case, then it is even more important that MFIs learn from experience of other organizations. The literature reviewed reflects a need for microfinance institutions to systematically collect information on client exit with the intention of understanding the limitations of existing products. Some studies indicate that middle management at many organizations are still of the opinion that dropouts are not a serious enough issue to require special attention, reflected particularly in the fact that many MFIs are found to not be maintaining any formal record of why borrowers are exiting their programs (CHIP, 2005).

Much of the microfinance sector is currently being funded through external concessionary finance, donor funding, and organizations more often than not have demonstrated a tendency not to follow self-identified objectives but those identified externally. CHIP (2005) points out that since current donor policies do not reflect a priority concern for client retention. NGOs benefiting from donor funds are not required to report their respective client retention rates for the organization as a whole or for different loan cycles, as part of the required set of performance indicators to benefit from future donor funding.

Microcredit Financing: The Generic Cycle



Chapter 3:

Monitoring Client Exit

Exit Monitoring Systems are vital learning tools furnishing a continuous feedback loop for decision makers at the helm of a microfinance institution. A well designed Exit Monitoring System (EMS) helps in the contextualization of successful microfinance products, models and methodologies imported from a variety of cultural, social and economic settings. Without a sound knowledge of local needs and preferences that an EMS is designed to provide, an MFI is always susceptible to an almost bureaucratic insistence on straitjacket solutions that seldom work in the long run.

While facilitating institutions in the development of better business plans and targeting methodologies, regular interviews with exit clients can further help in conceptualizing better loyalty building and promotional strategies. Simultaneously, ongoing access to client exit data provides management teams with requisite knowledge critical in adjusting product designs to market demand. Not only does the development of exit monitoring systems serve the decision making process, it aids field workers in improving their performance and draw maximum benefits from incentive structures, wherever the latter are designed to reward client satisfaction and retention.

Information from exit clients further assists in gauging client response to a variety of procedural, administrative, and policy changes within the organization. Consequently, organizations with sustained investments in exit monitoring systems - and a willingness to act upon the information – have invariably achieved declining rates of dropout and delinquency with positive impact on portfolio growth and institutional sustainability. While such investments have resulted in more client oriented policies, they have also played a critical role in revitalizing faltering decision making structures through the infusion of a learning culture critical to continued success in competitive markets.

Essentially, the EMS design revolves around a single key concept –

learning from clients who for some reason stop using the services of an MFI. It seeks to unearth the causes of disengagement with a keen eye on rectifying what has gone wrong and deliberating upon what can be made better. There is no one way of collecting information from exit clients: organizations have used methods ranging from sample surveys to one off in-depth case studies and focus groups. An EMS, while using some of the same techniques that are now common knowledge, follows a set process with a clearly defined set of data collection methods that are routinely implemented. Further, unambiguous procedures are laid down to integrate the EMS in the decision making structure through precise channels of communication for follow up action in a host of interconnected spheres including product design, staff learning, business planning, employee incentive structures, promotional and client satisfaction strategies, customer services, targeting methodologies, etc.

a) Building Effective Monitoring Systems

Every EMS that tracks reasons of exit should be carefully designed, tested and implemented. Any organization investing in an EMS should carefully consider the following three questions: What information do you need from dropouts? How that information will be collected? How often do you need to collect such information?

The first question is perhaps the most important and will usually take up the most time. The team responsible for developing the EMS would need to conduct several preliminary sessions at different tiers of management and would need to talk extensively to field workers and clients (both active and former). Once a decision is made on what information will best facilitate better decision making within the organization, further deliberations need to be carried out on ways in which that information will be collected. Depending on its preferences and needs, an organization will either choose between a quantitative and qualitative approach or will prefer a combination of both.

Taking the latter option is also cost effective. For instance, a survey tool based on a structured or a semi structured interview and administered to a representative sample of exit clients on a periodic basis can be complemented by Focus Group Discussions and detailed case studies for a more in-depth diagnosis. It is also important to carefully plan the skill sets and human resource required for collecting, inputting, and analyzing data. Lastly, a decision on how to collect data will guide the frequency with which data is collected. An organization will make a decision keeping in view the costs associated with different data collection methodologies and its own capacity in terms of financial and human resources.

It is important for MFIs to embed exit client management in their strategic vision and organizational objectives to induce full commitment from staff and shake off any confusion with regard to why the exercise is being carried out. It is equally critical to carefully plan and not rush the implementation of an EMS. As with any information system, later modifications not conceptualized at the system design phase are costly and difficult to implement. The system should thus be tested and necessary revisions made before roll out.

Any system developed to monitor exit clients on a routine basis is usually constructed out of a few important building blocks: a) a strong MIS, b) a well designed exit monitoring form, c) a mix of data collecting methods, and d) an institutionalized structure of data flow, follow up and effective action through clearly defined communication channels. Figure 1 shows how one MFI has brought the above pieces together in its EMS design[18].

For effective use and implementation of EMS, MFI first devised a definition of what constitutes an exit client. The EMS itself can be conceptualized as divided into three components:

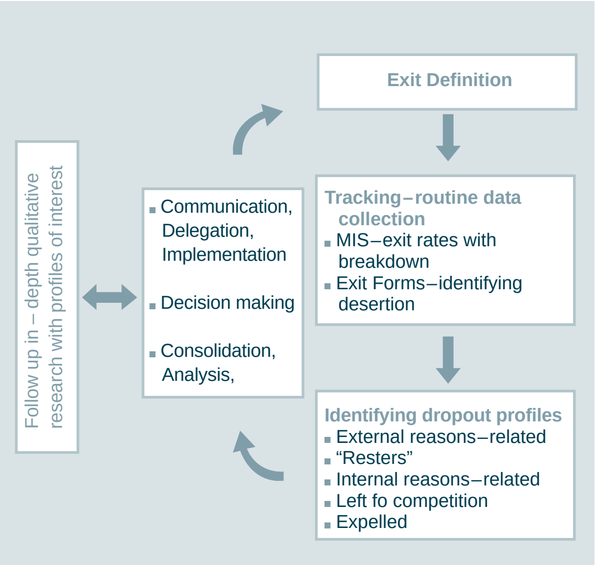
a) A routine component consisting of: i) A loan tracking system with

[18] Adopted from Pawlak and Jahic (2004). The organization alluded to is Partner in Bosnia-Herzegovina.

ongoing information on client status (new, active, exit, retained); ii) an Exit Monitoring Form furnishing a better understanding of exit reasons,[19] and; iii) anecdotal information about clients, competition and the local environment complementing the other two sources. While the first part of the routine component gathers information from an existing MIS, the second part forms the centerpiece of the EMS and answers questions related to the reasons of dropping out. Together, these help in building detailed profiles of exit clients. The third part of the routine component complements the information generated through the MIS and exit forms by focusing on relevant information collected from the field

b) An ad hoc component that seeks to collect follow-up in-depth information on particular areas of concern identified by the routine component through qualitative techniques like focus groups, detailed case studies, etc.

c) An action component that ensures timely reaction and response to addressing the problem and which includes: i) a research team headed by a marketing manager to develop proposals and take initiatives in response to the information received from the system; ii) meetings involving top management to take timely decisions and initiate proactive action, prompt follow-up and expedite research; iii) regional meetings to meet specific regional issues identified by the system.



[19] In this example, the concerned organization (Partner) uses a self completion form to be filled in by the clients themselves. Other organizations have used loan officers and/or other field and administrative staff for the purpose.

Table 1 reflects the above design from an operational perspective delineating in detail the scope of activities together with timelines, delegation of responsibilities, data collection methods, etc.[20]

Table 1:

What?	Who Collects?	How?	Who Compiles the data?	How?	Reporting	How often?	When?
Anecdotal Information on exit	Loan officers	Informal talks with clients that just became resters (after 2 months without a loan)	Regional managers	At monthly regional meetings in form of a standardized report (last working day of the month)	At regional level to other regional staff by regional managers	Monthly	Every month except April and September
			Research Team	At organizational level	At an organizational level to Management	Monthly	Every Month except April and September
Reasons for dropout – information on structure of exits	Loans officers	Self-completion forms with resters (after 2 months without a loan)	Research Team	Basic statistics in Excel for organizational level	Propositions presented to management at organizational level (Research Team – Headquarters members) Results presented at regional level and discussed at monthly meeting with regional staff (Research Team-regional representatives)	Semi-annually	May, September
In-depth understanding of reasons for dropout/problems experience by dropout groups of interest	Research Team	Qualitative Research with identified segments of dropouts (FGDs, PRAs, III)	Research Team	Narrative findings in a form of presentation	Propositions presented to management at organizational level (Research Team – Headquarters members) Results presented at regional level and discussed at monthly meeting with regional staff (Research Team – regional representatives) Send to Research Team and management	Semi-annually	June, November
Information on exit magnitude and its dynamics (exit and retention rates)	MIS officer/ LTS Officer	Analysis of MIS	MIS Officer/ LTS Officer	Reports to Research Team and Management	Detailed Analysis presented to the management	Monthly quarterly	January, April, July, October

20 Adopted from Pawlak and Jahic (2004).

i. The Management Information System

A strong Management Information System (MIS) that incorporates key socio-demographic data in addition to a client's loan history might be extremely useful as a quick resource for adding analytical value to drop-out rates. Such data can be especially helpful in conjunction with information generated from exit monitoring forms that track reasons for dropping out. An MIS with the capability of integrating information from such forms is particularly useful. However, such integration is desirable, not necessary.

Knowing what kind of clients are leaving – as opposed to just how many are leaving and after how many loan cycles – can yield important additional inputs that can be utilized in modeling better product designs and targeting strategies. Table 2 shows possible criteria for developing client profiles based on different sets of indicators that a good MIS should be able to record. When the MIS show clients to have exited, useful analysis could be done on the basis of these categories to evolve profiles showing what percentage of exit clients belongs in which category.

Table 2: **Possible Criteria for Exit Client Profiles (MIS)** [21]

Loyalty	Active as a client for how long?
Age cohort	Joined in which year of operation? How soon after opening a branch in that locality? What sort of group do they belong to?
Revealed indicators of capacity?	How much have they saved? What is their revealed debt potential
Individual client characteristics	Records of arrears? Credit rating? Age, gender, marital status, earner/dependency ratio, Education, training and business experience, Place of residence Poverty
Characteristics of clients main business	status (requires some form of routine means testing) Sector or sub-sector, Age of business, Location of business

[21] See Copestake (2001).

Table 3 below shows the exit/retention data of one MFI that has been disaggregated by a number of variables including sex, region (rural/urban), type and status of business, household size, number of loan cycles and marital status. In this instance, data shows that a large number of drop-outs are leaving the program after the first loan cycle and are predominantly married with a household size of 3-4 members. These and other such pieces of information can be valuable in ascertaining comparative likelihoods of clients with particular socio-demographic characteristics to leave or stay within the program, while helping the MFI to design better products for clients in a specific regional, economic and demographic context.

However, an MIS that regularly tracks loan and client portfolios of an MFI does not usually answer why a particular client is leaving. For that purpose, one needs to have a separate tool which can preferably be integrated with the MIS.

Table 3: **Exit and Retention Disaggregated by MIS Variables** [22]

	Retained	Drop-out	Active		Retained	Drop-out	Active
Status of Business				**Marital Status**			
New	14.6	29.2	25.4	Married	83.9	80.1	79.5
Existing	85.4	70.8	74.6	Non Married	16.1	19.9	20.5
# Previous Loans				**Household Size**			
0	40.1	62.7	50.8	1-2	18.6	17.9	22.4
1-2	54.3	32.3	35.3	3-4	64.1	68.7	63.2
>2	5.6	5.0	14.0	>5	17.3	13.4	14.4
Business Type				**Target Group**			
Trade	37.6	21.1	27.3	Women/rural	31.0	33.4	34.8
Service	29.1	30.6	28.4	Women/urban	24.9	19.4	20.0
Manufacturing	7.9	4.5	4.7	Men/rural	24.9	31.5	28.4
Agriculture	2.1	5.9	4.8	Men/urban	19.3	15.7	16.8
Animal Husbandry	23.3	37.9	34.8				
Total	**734**	**378**	**8281**	**Total**	**734**	**378**	**8281**

22 The table has been adopted from Matul and Pawlak (2004).

ii. Exit Monitoring Forms

The causes of client desertion are many and complex. It is important for a microfinance provider to exhaust all information resources – existing literature on dropout causes, focus group discussions and preliminary interviews with field and office staff, as well as with active and dropout clients, etc. – to develop a sense of all possible reasons that could lead to client desertion. The information collected can then be used as a basis for the development of an Exit Monitoring Form, which should ideally be field tested in one or several branches before implementation.

For organizations that already have a strong MIS capable of producing lengthy client portfolios and the capability to integrate it with information from exit forms, the latter need not be very exhaustive and repeat information that can be retrieved from the MIS. However, profiles based on exit forms are different from MIS profiles in that they are developed on categories based on reasons of desertion. For example, Prizma, a MFI based in Bosnia,

Table 4: **Exit Client Profiles of Prizma** [24]

Exit Client Category	Profile
(Voluntary - Satisfied) Lost due to external reasons	Bosnian, single women, service providers, those who have taken more than 3 loans in Prizma;
Sleepers[25]	Croats, married women, traders, those with new businesses, exiting after repayment of the 1st loan, small last loan size, those who never had any repayment problems
(Voluntary – Dissatisfied) Eager to return if services improve	Serbs, younger women, big number of dependents, traders, those having "old" businesses, big last loan size
(Voluntary – Dissatisfied) Lost to competition	Serbs, older women, big number of dependents, service providers, those who have taken more than 3 loans in Prizma
Forced out	Sample too small to run any analysis on forced out

24 Adopted from Matul and Vejzovic (2004)

25 The term "sleepers" is used as a designated category for those exit clients who were not using any other financial services at the time of the interview and planned to resume their relationship in the future. A great majority of such ex clients is usually composed of those who experience seasonality in their businesses.

has developed five main dropout profiles on the basis of how it defines dropout clients and their reasons for leaving the organization (Table 4). Both the categories (formed on the basis of reasons for exit cited) and profiles in the table come from information collected through exit forms in a sample survey of exit clients (See Annex 1).

Notably, the profiles could have easily come from a strong MIS if the MFI had the capability to integrate the two sources of information in a meaningful way. Even in the absence of such a capability, the MIS alone can perform a useful function wherever an EMS exists. Having defined categories of exit clients on the basis of reasons for exit and having simultaneously developed exit client profiles on the basis of information from exit forms, an organization can then hunt for existing clients with similar profiles in the MIS. Subsequently, designated staff can focus more on clients with profiles that have a higher likelihood of dropping out and those that could be retained.

iii. Data Collection Techniques

The type and mix of data collection techniques employed will vary with organizational preferences that are usually guided by organizational objectives and benefit-cost analysis. There are several techniques available that can be readily used by organizations interested in developing an effective EMS: surveys based on structured/semi-structured interviews or self completion forms are examples of quantitative tools while focus group discussions and individual interviews (case studies) are qualitative tools that are useful for an in depth analysis.

However, each tool has some limitations that need to be kept in mind before implementation (Table 4)[26].

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[26] Pawlak and Matul (2004).

Table 5: **Data Collection Methods**

	Technique/Method	Applications	Limitations
Qualitative	Focus group discussion driven by discussion guide or by PRA tools (reasons to drop-out ranking, product attribute ranking, financial sector trend analysis, seasonality analysis, etc).	■ To collect in-depth information on specific issues ■ Learning tool ■ Identifying wider range of reasons for exit ■ Better defining exit for measurement ■ Underpinning this process with a tool that provides good segmentation allows this technique to go into depth and reduce the number of focus groups to be organized, thus reducing the cost.	■ Not representative ■ Requires homogenous groups ■ Difficult administration and data processing that requires appropriate training, skills and practice in qualitative research ■ Difficult to capture sensitive issues and talk at the community level about exit reasons of particular individuals. ■ Difficult to mobilize groups with ex-clients.
	Individual in-depth interviews	■ To collect very in-depth information on specific issues including more sensitive ones ■ Learning tool ■ Underpinning this process with a tool that provides good segmentation allows you to limit the number of interviews to identified main categories of exited clients, thus reducing the cost of administration.	■ Not representative ■ Costly ■ Limited possibility to identify wide range of reasons (unless high number of interviews conducted) ■ Difficult administration and data processing ■ Requires appropriate training, skills and practice
Quantitative	Semi-structured interview	■ To collect relatively in-depth, representative information. It combines advantages of both qualitative and quantitative methods. ■ If combined with MIS data the interview can be very short as there is no need to ask for all credit history and socio-demographic information. ■ Good to precede with qualitative research to identify possible reasons and adjust working.	■ Needs relatively large number of interviewers with qualitative interviewing skills ■ Needs a focused standardization effort and close supervision during the data collection. ■ Needs good analytical skills (both qualitative and quantitative) ■ Needs a strong "learning culture" of the organization to mitigate potential biases.
	Structured interview	■ To collect general representative information ■ Low skills needed to collect the data ■ If combined with MIS data the interview can be very short as there is no need to ask for all credit history and socio-demographic information ■ Good to precede with qualitative research to identify possible reasons and adjust wording	■ Needs quantitative analytical skills
	Self completion survey.	■ To collect general representative information ■ Low cost of data collection as no need for interviewers ■ If combined with MIS data the form can be very short as there is no need to ask for all credit history and socio-demographic information ■ Good to precede with qualitative research to identify possible reasons and adjust wording ■ Helps to avoid staff bias in an internally carried out investigation.	■ Needs quantitative analytical skills ■ Lack of control over a client when filling in the form. ■ Needs pilot testing and find tuning instructions for a client

All data collection techniques can be broadly divided into two categories, i.e. quantitative and qualitative. Quantitative data collection techniques are mainly survey based and collect information through a structured or a semi-structured questionnaire, which could either be self-administered or enumerated through designated individual(s). These survey based tools have the advantage of being representative of the population or a subset of the population if proper sampling is done in advance. Essentially, semi-structured interviews give the interviewee more freedom to answer whereas a structured interview restricts him/her to either giving short answers or choose from a given number of options. Whereas the former method has more scope for gathering qualitative data that can at times produce useful unexpected answers, both methods have the advantage of making statistical analysis possible. With self completion surveys that are self-administered by clients, there is the extra advantage of lower costs making it more attractive to organizations with scarce resources.

Qualitative tools can either take the form of focused discussions on specific issues with a group of exit clients or in-depth unstructured interviews with dropouts. These have the advantage of being more participatory with tremendous scope for providing staff with unique learning opportunities. However, such methods are not representative and require special skills to extract optimal value from the information gathered. It is often also not advisable to touch upon sensitive subjects during focus group discussions. Similarly, conducting in-depth sessions with individual ex-clients can be costly if carried out in large numbers. Conversely, conducting such interviews with only a few exit clients will not bring out the whole range of causes responsible for high desertion rates.

For most of the reasons cited above, an effective EMS makes use of a mix of tools to better understand the problem in ways that would also make decision making easy and more productive. However, a few organizations have successfully used qualitative methods alone as a way of routinely investigating the causes of client desertion. For instance, the Small Enterprise Foundation (SEF) in South Africa has adopted a two stage qualitative approach based on group discussions and individual follow up interviews to routinely study and monitor dropouts (Annex 6)[27]. Yet, a large number of organizations have used quantitative techniques with most preferring a sample survey approach: there are several instances where organizations have conducted a one-off client exit survey[28]. Very few organizations, however, have combined both approaches within an overarching scheme of routine exit monitoring forming what can be passed off as an EMS.

Although the choice of data collection techniques would usually guide the sampling methodology, it is important to collect data from groups that are comparable in terms of services used and/or the period of dropping out. Just as clients using different services are more likely to have different patterns of dropout causes, those exiting in different periods will reflect trends that are equally dissimilar if important changes have been introduced in the meantime. If the population is constituted of diverse groups such as those cited above, it is critical to capture that diversity through the use of proper stratification methods. Further, it is equally critical to use random sampling when quantitative tools are being used to extrapolate findings to the whole population. Even where non-representative qualitative techniques like focus groups are

27 Simonowitz (2000)

28 Many organizations have used the client exit survey tool developed by the AIMS AIMS project (Annex ____)

used, care must be taken to ensure that the latter are homogenous.

Moreover, it is important to carefully weigh the question of who will interview exit clients. An ex-client will perhaps not be able to open up if his/her previous loan officer is the interviewer. Similarly, the latter might be tempted to distort interviewee responses if the same reflects badly on him. A few organizations have tried to overcome such biases by making loan officers interview clients that are not known to them. However, this immediately throws up the disadvantage of the interviewer's inability to fully detect false answers. Further, getting loan officers to interview ex-clients of other loan officers might not completely eradicate bias. The close camaraderie that loan officers enjoy, particularly in small organizations, might prompt them to protect each other in situations where their interests, as a cadre, are protected. This might make the whole exercise biased and futile.

A few organizations have tried to deal with such biases by minimizing the role of loan officers (and other office staff for that matter) in the actual conduct of the interview through introducing self-completion survey methods where ex-clients are themselves made to fill exit forms. Another way to minimize staff bias and maintain the sanctity of findings is through outsourcing the whole exercise to a credible third party. This, however, is always an expensive option and one that is seldom taken by organizations planning to monitor exit clients on a routine basis.

b) Institutionalizing the Process

For any EMS to bear fruit, it has to be strategically integrated within the functions, operations and culture of the organization. Not only will an organization need to functionally entrench exit client monitoring within its strategic objectives, it will further need to procedurally integrate the process within its operations. Additionally, true institutionalization will not be possible unless both management and staff understand how important client retention is to the organization's social and financial objectives.

Operationally, it is critical to develop the necessary work plans and timelines; to assign and delegate responsibilities; to clearly define internal communication channels and delineate precise paths for vertical and horizontal data flow; to address the important question of what meetings will be held, at what intervals, and at which levels for discussing issues identified by the information collected; and to finally delegate responsibilities for taking decisions and overseeing implementation (Box 1).

Box 1: Institutionalizing the Process: An Example

Different Levels and Functions Involvement

To make sure that the information is used effectively there is a need for involving different organizational levels, functions, positions in different phases of the information flow through assigning different roles and responsibilities. …all the organizational levels and functions have their roles to play in system maintenance, and in particular:

Central level:
Management

- Set strategies based on the organizational goals, opportunities and challenges. These strategies are the basis for the system goals in terms of information collection priorities.
- Use the information from the system to revise the effectiveness of their strategies.
- Use the information from the system to revise strategies and make decisions about the initiatives that [the organization] needs to undertake.
- Make decisions on allocation of resources to allow the system to function.
- Make sure that other processes and systems are compatible with the information system (support activities undertaken under the system).
- Ensure that results are used and initiatives undertaken based on them implemented in a timely manner by responsible managers.
- Make sure that all inefficiencies in the system's functioning are eliminated in a timely manner.
- Make sure that the system is reviewed on an ongoing basis and provides reliable and high-quality information.
- Supervise exit-reducing and relationship-building strategies at an organizational and regional level

Regional level:
Middle Management

- Regional Managers supervise informal chats with exit clients and distribution and collection of forms twice a year.
- Regional Managers hold monthly meetings to discuss anecdotal information from the field.
- Regional Managers develop regional level strategies to fight exit as well as help frontline staff to build their individual relationships with clients.
- Regional Managers aggregate information on exit from informal talks of frontline staff and other feedback.
- Regional Managers pass the regional and frontline feedback to the central level.
- Supervise implementation of exit reducing and relationship building strategies at a regional and frontline level

Frontline-level: Staff

- Loan Officers develop individual strategies building relationships with clients from the moment of seeking information until a client becomes a dropout (after 12 months from last repayment).
- Loan Officers hold informal talks with exit clients turning to potential resters every month and twice a year distribute and collect self-completion forms.
- Loan Officers feed information back from the field and their ideas for new initiatives to Regional Managers.
- Feed the information back to clients about decisions made in the program.
- Implement individual, regional and organizational-level strategies to reduce dropouts and build long-term relationships.

Cross-level and cross-functional:
Research Team

- Administer the system – makes sure that all elements are working well, and problems are spotted and solved timely.
- Collect or supervise collection of data, input the data, analyze, come up with propositions to management and disseminate the results at different organizational levels.
- Marketing Manager manages the Research Team, drafts operational plan, prepares and update job descriptions (together with HR manager), recruits new team members (together with HR manager), evaluates the team work, identifies capacity building needs and makes sure that they are being met in timely manner.
- Regional Representatives of the Research Team (one representative for one branch) coordinate system implementation at the regional level, spot any inefficiencies, problems and inform headquarters about them; gather feedback and disseminate results.

Source: Pawlak and Jahic (2004)

An institutionalized EMS functioning as a decision making tool guides an organization's strategic vision toward a more client-based and demand driven orientation accepting a substantial degree of flexibility in products and procedures, in addition to focusing on building long term relations with clients. A supply driven orientation focusing on rapid expansion, centralization, and the standardization of products and procedures usually produce a culture that does not gel well with exit client monitoring as a learning and decision making tool.

For instance, a strategic emphasis on rapid expansion generally leads to high operational targets and a staff incentive structure that rewards outreach growth and punishes high delinquency, portfolio at risk and amount overdue in an employee's portfolio. Such incentive structures are likely to produce more dropouts as loan officers (as well as group members under a joint liability system) will be less interested in retaining weak and/or comparatively risky clients detrimental to their own interests. Nor will any system of exit client monitoring generate enthusiasm when incentive structures do not reward retention in the same way as outreach. In order to institutionalize a system of exit client monitoring, it is important not only to reform staff incentive structure by giving more weight to retention, but also to rationalize growth targets.

Insofar as exit client monitoring – as a learning and decision making tool – requires an accommodation of client preferences into organizational policies, products and procedures, it discourages staff uptake and enthusiasm in a supply driven organization that does not prefer flexibility in the first place.

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Annexures

Annex 1: Exit Client Case Studies (Pakistan)

Case Study 1:

Previous Loans	None
Loan Size	Rs. 8,000
Interest Rate	20 % Flat
Loan Duration	12 Months
No. of Installments	12
Loan Purpose	Retailing
Location	Shahdadpur, Sanghar

In January 2008, Mohammad Sajid Khan requested for a loan of Rs. 18,000 from one of PPAF Partner Organizations active in his area. At the time of the request, Sajid shared a rented shop with his brother in one of the busiest market places of Shahdadpur and needed the money for his mobile business. Unfortunately, the organization wouldn't lend more than Rs. 8,000 to first time clients. Sajid had little choice but to accept the amount of Rs. 8,000 for which the concerned loan officer approved him.

At the time of the loan contract, Sajid and his brother were the only earning hands in a family of ten. Sajid's parents were old and unable to work, while his four sisters were of marriageable age. His elder brother, the other earning hand in the family, was already married and also had to cater for his wife and one child. Given all this, the Rs. 5,000 a month that Sajid used to earn from his existing business was not enough to sustain the family.

In the loan officer's assessment, the approved loan amount was expected to add an increment of Rs. 2,000 to Sajid's monthly income. Given the nature of the business, this could only have been realized on a sustainable basis through consistent reinvestments and/or access to a steady credit line. As household expenditures were continuously more than the pooled income of Sajid and his brother, the former was never a serious alternative. The family's reliance on the provision of a steady credit line was thus crucial to their long term prosperity.

Sajid's small business yielded enough income for him to pay back the Rs. 800 monthly installment on time. This was despite the fact that business was generally considered to be good only in winters after the harvesting of cotton when consumption levels in the area increased. Sajid's problem, however, was of a different nature. For a young enterprising individual with little capital assets, the fear of taking the additional risk of joint liability in case of loan default by a group member was a constant worry.

Organizational policy required that Sajid be part of a group of 3-5 individuals, all of whom would jointly be responsible for making sure that everyone paid his installment on time. Additionally, all group members would contribute in paying the installment of a fellow member in case the latter fails to submit his installment. The above policy follows the traditional model of group liability which leverages social collateral to reduce the risk of default. As such, it is absolutely crucial to the long term sustainability and health of the organization.

However, in order to make the model attractive to individual entrepreneurs averse to taking on additional risks, it is also crucial to adopt specific policies geared towards increasing group cohesion and trust. The traditional model tries to achieve that goal through selecting individuals in groups who are already known to and comfortable with each other. These preexisting bonds are then further cemented through regular meetings. In case of Sajid, the above safety valves were missing.

The other four group members were not known to Sajid before the formation of the group: he in fact had problems in remembering the name of one group member despite the fact that they were part of the same group for one year. The only group meeting that was ever held was at the time of the sanctioning of loan at the organization's office. Additionally, the usual meetings that are generally held for the purpose of collecting monthly installments were also not held in case of Sajid's group: the loan officer would collect monthly installments through individual visits to borrowers. Hence, the sort of group cohesion that the model heavily relies on could never mature at least in the case of Sajid's group.

A lack of trust in group members had other implications: In case other group members are holding larger loans than Sajid, the latter would have a disproportionate liability. Sajid was particularly concerned about such an eventuality. The above fears led him to look for other alternatives. He found one in a bank with a nearby branch that he could easily access. Despite the fact that the paperwork and other procedures of the bank were more cumbersome, the latter was willing to lend a loan of Rs. 30,000 to Sajid. More importantly, he did not have to worry about group liability.

Case Study 2:

Previous Loans	None
Loan Size	Rs. 12,000
Interest Rate	20 % Flat
Loan Duration	12 Months
No. of Installments	1 / lump sum
Loan Purpose	Livestock
Location	Pano Akil, Sukkur

Janat Bibi, age 33, wife of Ali Hassan is a lady health worker who left her schooling in 8th grade. Her husband owns some land and makes around Rs. 20,000 – 25000 every six months. They have three sons and two daughters and they all go to school. Janat Bibi and her family are well off and are living very comfortably. She requested for a livestock loan of Rs. 12000. According to her she applied for a loan because she thought it was a good way of keeping herself busy and earning money at the same time. She had to return the loan as a lump sum with 20% interest. She bought three lambs, six months before Eid-ul-Azha and sold them for kurbani with a profit of Rs. 2500 on each lamb. She had no problems repaying her loan and had no issues with interest rate. According to Jannat Bibi repaying her loan as a lump sum amount was easy as her livestock was ready to be sold by that time and she also made some profit after repaying her loan.

This was a very profitable experience for Jannat Bibi and she wanted to continue taking loans. But due to a sudden change in PO policy she had to change her plans. According to the new policy if Jannat Bibi applied for another loan she would have to repay it on quarterly basis (every 3 months). Jannat Bibi is not happy with the new policy; she feels her lending organization has taken a very unintelligent step. How is it possible for her to save money for an installment if she is still spending money on her livestock. The livestock she buys is not ready to be sold until after six months and people only buy her livestock for Eid ul Azha so this quarterly installment process does not make any sense.

This change in policy has been causing a lot of problems. Jannat bibi stopped taking more loans as she could not afford to repay her loan on quarterly basis. Other people in Jannat Bibi's village were facing similar problem. According to them, if they had a regular cash flow they would be able to repay their loans on quarterly basis but sadly that was not the case. Jannat Bibi and many others have dropped out of lending program due to change in policy of their lending organization.

Case Study 3:

Previous Loans	2
Loan Size	Rs. 30,000
Interest Rate	15 % Flat
Loan Duration	12 Months
No. of Installments	12
Loan Purpose	Livestock
Location	Mithi, Tharparkar

Lahri is a 48 year old woman and has a large family of five daughters and two sons. Her husband Dhangi died 10 years ago. Lahri makes and sells pappar from her home. Both her sons are tailors and earn around Rs. 7000 per month. Lahri, although illiterate, still makes around Rs. 4000 per month.

Lahri has completed 2 cycles and did not face any problems in returning her loans. Last loan she applied for was of Rs. 50,000 which was rejected. She wanted to buy a tailor shop for her sons. Her loan was rejected because her lending organization considered the loan limit requested too high.

Perturbed at the development Lahri has stopped taking loans. According to her she always payed her installments on time and never caused her lending organization any problems. She feels that her Lending Officer does not trust her with their money. She feels insulted and has decided never to take another loan.

Lahri's lending organization has its own policy but could have discussed their policies and constraints more proactively enabling her to understand the underlying reasons for rejection of her loan request. In the process they lost a performing microfinance client.

Case Study 4:

Previous Loans	None
Loan Size	Rs. 10,000
Interest Rate	18 %
Loan Duration	12 Months
No. of Installments	2
Loan Purpose	Livestock
Location	Pano Akil, Sukkur

Perveen Bibi, 34, is a house wife and has a 12 year old son. Her husband, Allah Dittah is a laborer and earns Rs. 200 a day. Their son, Salamat, has a heart condition and all that Allah Ditta earns is used up in doctor's fee and hospital bills.

Perveen Bibi took a livestock loan of Rs. 10,000 with 18% service charge. She bought three goats (kids) thinking that she will make some profit in goat raising and will be contributing in household expenditures. But her plans did not work out, two of her goats died. Perveen spoke to her social mobilize about this but she was very strict and made it clear to Perveen that she had to return the loan within the given time frame. There was no way out for her. She sold her husband's mobile to repay the loan.

Perveen said that she had applied for the loan because she had heard that it was a good way of earning money. But for her it was not profitable in fact she had to give her own money to pay off the loan. And representatives of her lending organization were not at all helpful. Perveen has decided not to take another loan as she cannot go through the tension and frustration of repaying the loan all over again.

Case Study 5:

Previous Loans	3
Loan Size	Rs. 20,000
Interest Rate	15 % Flat
Loan Duration	12 Months
No. of Installments	12
Loan Purpose	Livestock
Location	Mithi, Tharparkar

Although illiterate, Ramo Harji, 48, is an enterprising woman with three daughters and four sons. She makes and sells rilis (handmade traditional bedcovers) at home. Ramo has completed three cycles with her lending organization. And according to her all the loans she took were very profitable. The last loan (three years back) she took was of Rs. 20,000. She returned her loan in 12 installments and her social mobilizer confirms that her repayment record was good.

Ramo is member of a CO which has 39 members with more than Rs. 300,000 of group savings. Ramo and her CO, keeping in mind the large amount of savings, have started internal lending. They call their organization Darzi Paru and work along the same lines as their previous lending organization. Darzi Paru has regular borrowers even though it charges higher interest. These borrowers are willing to pay higher service charge as the profit Drazi Paru makes will eventually be distributed among the members and their money will remain within their group.

Darzi Paru feels that internal lending was a very good idea. According to Ramo they had learned what they needed to learn from their previous lending organization and it is always better to take a loan from people who are familiar and can be trusted. Ramo and her CO members feel quite comfortable applying for a loan because they know that Darzi Paru will help them out if they faced any problems returning the loan.

Case Study 6:

Previous Loans	None
Loan Size	Rs. 10,000
Interest Rate	15 % Flat
Loan Duration	12 Months
No. of Installments	12
Loan Purpose	Selling Bangles
Location	Mithi, Tharparkar

Momal Bai, 37, a matriculate used to be a teacher. Jodho Mal, her husband, did not allow her to continue teaching after marriage. They have four sons; three are currently enrolled in a nearby school and the youngest, 3, will start attending school when he is old enough.

Not so long ago Momal Bai and her family were facing hard times. Her husband used to make around Rs. 5,000 per month, which was not enough to cover their expenses. It became obvious to Momal Bai that she had to, somehow contribute and help her family.

In January 2008, Momal Bai requested one of PPAF POs for a loan of Rs. 10,000. She wanted to start her own business of selling bangles to women in her village. After receiving the loan she started a small bangle shop in her house.

Momal Bai started earning through her business but was not left with any profit after paying her installment each month. She realized that service charge on each installment was too high. She kept on paying her installments and after one year when her loan was repaid she decided that there was no point taking another loan as there was no profit in doing so. Even if she did make any money it was used up in paying service charges.

But Momal Bai's family is better off now. Her husband now works two jobs, (combined earnings: Rs 22,000 per month) and earns enough to support the family. So now, according to Momal Bai there is no need to take any more loan as her family does not need it. And even if she did need to take another loan, she would take from a relative. Her reason is that taking another loan from a PPAF PO would add to her problems and she could not afford to do that.

Annex 2: Practices of POs (Pakistan)

	MIS*	Is DR Reported (Y/N)	Reporting Document (for DR)	Formula (DR)	Reference Period (for DR)	Resting Period (for DR)**	Can MIS Compute DR Formulas?
Sindh							
TRDP	Operational	N	-	-	-	-	Y
SRSO	Operational	N	-	-	-	-	Y
MRDO	Not Operational	N	-	-	-	-	-
IRC	Not Operational	N	-	-	-	-	-
SAFWCO	Operational	N	-	-	-	-	Y
AMRDWO	Not Operational	N	-	-	-	-	-
OCT	Operational	N	-	-	-	-	Y
Punjab							
Kashf	Operational	Y	QPR	Exit / Active	Month, Quarter	10 days	Y
Assassah	Operational	Y	QPR	Exit/Total 10 days	Cumulative	6 months	Y
Daman	Operational	N	-	-	-	-	Y
PRSP	Operational	N	-	-	-	-	Y
CWCD	Operational	N	-	-	-	-	Y
CSC	Operational	N	-	-	-	-	Y
Bunyad	Operational	N	-	-	-	-	N
RCDS	Operational	N	-	-	-	-	Y
JWS	Not Operational	N	-	-	-	-	N

DR: Dropout Rate

Annex 3: Exit Monitoring Form of Partner (Bosnia-Herzegovina)

Source:
Pawlak, K. and Jahic, S. (2004). "Promoting Client-focussed Organizations – Partner's Exit Monitoring System." Microfinance Centre Spotlight Note # 9. www.mfc.org.pl

I. INTRODUCTION
II. INSTRUCTIONS FOR RESPONDENTS
III. CORE QUESTIONS

---

1. How have your business activities been affected by the loan last taken from Partner?

PLEASE MARK THE CIRCLE WITH MOST RELEVANT ANSWER

1. Helped to start a business
2. Helped to expand my / the business
3. Helped to keep my / the business going
4. Decreased the scope of my / the business activity
5. Influenced on my / the business closure
6. Other – please specify what:

----

2. Now please think about products and services offered by Partner. What is your opinion on each characteristic of the loan(s) that you got from Partner presented in this table.
IN EACH VERSE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER.

WHEN ANSWERING PLEASE USE THAT SCALE:	1-definitely Bad	2-rather Bad	3-neither good nor bad	4-rather good	5-definitely good
A. Office location (accessibility of the office location)	1	2	3	4	5
B. Working hours (convenience of working hours)	1	2	3	4	5
C. Loan officer's behavior (his/her politeness, being nice)	1	2	3	4	5
D. Reactions to your suggestions and complaints	1	2	3	4	5
E. Simplicity of procedures (how easy it is to comply with all the requirement to get a loan)	1	2	3	4	5
F. Loan size	1	2	3	4	5
G. Loan term (the time within which one can repay the loan)	1	2	3	4	5
H. Method of loan repayment (repayment through a bank)	1	2	3	4	5
I. Installment size (how well the amount of monthly repayments are adjusted to your needs and business capacity).	1	2	3	4	5
J. Repayment in even installments	1	2	3	4	5
K. Collateral, guarantee requirements	1	2	3	4	5
L. Processing time (how quickly one can get a loan, when one submits all the required documents)	1	2	3	4	5
M. Interest rate	1	2	3	4	5
N. Provision fee	1	2	3	4	5
O. Grace period (holidays in payment at the beginning of the loan)	1	2	3	4	5

3. What is your overall opinion on your co-operation with Partner?

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER

Definitely bad	1
Rather bad	2
Neither good nor bad	3
Rather good	4
Definitely good	5

4. Please complete the sentence choosing ONE statement that describes you best: Using Partner loan...

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER

I was not able to satisfy any of my business needs for borrowing	1
I was able to satisfy hardly any of my business needs for borrowing	2
I was able to satisfy only few of my business needs for borrowing	3
I was able to satisfy most of my business needs for borrowing	4
I was able to satisfy all of my business needs for borrowing	5

Here are given possible factors that might have influenced your decision of not taking next loan from Partner after repaying the previous one:	**6**. In this column please mark the main cause that influence your decision not to take next loan? PLEASE MARK WITH THE CIRCLE ONLY ONE – THE MOST RELEVANT REASON.	**7**. in this column please mark any other, less important cause(s) that influenced your decision not to take next loan? PLEASE MARK WITH THE CIRCLE ALL OTHER RELEVANT REASONS.
A. Experienced business problems	1	1
B. Experienced personal problems	2	2
c. I have found a better source of credit	3	3
D. I am not satisfied with your staff	4	4
E. I am not satisfied with your loan product	5	5
F. I am not satisfied with your procedures	6	6
G. My business doesn't need any additional	7	7
H. I have no business any more	8	8
I. Other reasons – please specify what?		

8. Do you plan to take another loan from Partner within the next 10 months?
Please indicated how likely it is that you will borrow from Partner again?

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER

Definitely no	1
Rather no	2
Rather yes	3
Definitely yes	4

9. Choose the sentence, which describes you best:

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER

Partner is the only available source of credit for my business	1
Changing the source of credit (Partner) would demand too much effort from me	2
I got used to partner and I like this institution. I see no need to look for another one	3
Partner is the best source of credit I can imagine	4
As a good client I am offered special terms by Partner	5
None of the above	6

10. Would you recommend in the future taking a loan from Partner to your colleagues, friends or any other people?

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER

Definitely no	1
Rather no	2
Rather yes	3
Definitely yes	4

11. If you could improve something about Partner, what would would it be?

PLEASE MAKE SURE YOU ANSWERED ALL THE QUESTIONS!!!
THANK YOU VERY MUCH FOR YOUR HELP.

iv. INSTRUCTIONS AND PART TO BE FILLED OUT BY A LOAN OFFICER (separate piece of paper)

Annex 4: Exit Monitoring Form of Prizma (Bosnia-Herzegovina)

Source:
Matul, M. and Vejzovic, S. (2004). "Beyond Numbers: Prizma's Exit Monitoring System." Microfinance Centre Spotlight Note # 10. www.mfc.org.pl

X1. Client ID	X2. Client Name	X3. Telephone No.	X4. Interviewer Name

(This form is supposed to be administrated by loan officers guided by core questions. The form supports an informal telephone interview with a use of the probing techniques. Nor the questions or pre-coded answers should be used to prompt answers from the respondents.)

INTRODUCTION:
Hello! I am calling from Prizma – microcredit organization. In Prizma, we always want to improve out services to adjust them to our clients' needs. We are now in the process of calling active and former Prizma clients to learn about your opinion on Prizma and its services in order to better tailor our offer to your needs and preferences. I would appreciate if you can devote 10 minutes of your precious time. I would like to emphasize that all replies will be treated in strictest confidence. The answers provided by you will be reported in general statistical tables. They will never influence any of your applications to Prizma. Do you agree?
(encourage, but if not willing ask when you can call again)

WARM UP QUESTIONS:
Do you remember Prizma? With who have you worked in Prizma? How was it? How did Prizma credit help you? How is your business? Have you constructed the house? Etc.

A-1. What are 2 things that you did not like the most about Prizma and its products and services? (if you could improve Prizma services what two things will be priority?) Do not prompt! If difficulty in responding. You can mention broad categories: promotion, place, people, product, price, process….	A-2. Which of the external reasons (not linked to Prizma services) discouraged you to take another loan? (multiple responses possible) Ask the question, if no response list possible reasons. Even if the respondent mentions spontaneously the reasons probe delicately on other listed reasons.
1. [] loan size 2. [] repayment period 3. [] repayment frequency 4. [] installment size 5. [] collateral 6. [] guarantors 7. [] eligibility requirements (access) 8. [] group methodology policies 9. [] interest rate level 10. [] application fees 11. [] penalty system	40. [] seasonality 41. [] business/household has no need for further Financing 42. [] other financing from informal sources 43. [] approval of credit in formal institution 44. [] closing down the business 45. [] lack of market demand 46. [] other business problems 47. [] family health problems 48. [] travel/migration 49. [] other personal / family reasons

12. [ ] staff professionalism 13. [ ] approach to client 14. [ ] staff flexibility 15. [ ] handling of non payment 16. [ ] application process (incl. simplicity of forms) 17. [ ] waiting time between application and disbursement 18. [ ] way of loan repayment 19. [ ] office location 20. [ ] office opening hours & days 21. [ ] promotion and communication channels used 22. [ ] incentives for loyal clients 23. [ ] range of products 24. [ ] availability of other then credit products 25. [ ] difficulty in getting money back from other group members OTHER:	OTHER: A-3. **Do you feel that problems in repayment** (yours or other group member) influenced the fact that **you have not taken the next loan in Prizma?** It is not a question if the respondent had delays but rather if the delays caused her desertion. Look in the repayment history and probe further if you feel the respondent is not honest. 60. [ ] No (go to question X6 / A4) 61. [ ] Yes, because of my repayment problems 62. [ ] Yes, because of other group member repayment problems

X5. CHECK if all the reasons mentioned in X5 are reflect in A1, A2, A3. If not get back to relevant question and probe. If there is no space to put the respondent answer put it here:

100. [ ] ____

A-4. SUMMARY – decide together with respondent which are the 2 most important reasons (from A1, A2, A3, X6) why she has not taken the next loan:
(put code and description; use the same codes as in questions A1, A2, A3, X6)

1. [ ]______________________________ 2. [ ]______________________________

A-5. **Which other financial services are you and your household members using now** (are about to use)? (this question is totally independent of Prizma)

99. [ ] I do not use any financial services

1. [ ] Enterprise credit (incl. supplier credit) 2. [ ] Leasing 3. [ ] Housing credit
4. [ ] Consumer credit (incl. hire purchase agencies / department store credit)

A-6. which institutions are sources of the above (A-5) mentioned loans?
(after spontaneous answer list all sources and probe carefully if the respondent or any of her household members is using 9is about to use) any of the credit services)

1. [ ] Family/Friend	2. [ ] Suppliers	3. [ ] Moneylenders (loan sharks, Private persons)	4. [ ] Hirepurchase	5. [ ] Other MCOs	6. [ ] Banks

A7. Do you plan to take another loan in Prizma?

1. [ ] Definitely No (go to question A8)
2. [ ] Probably No (go to question A8)
3. [ ] Probably Yes
4. [ ] Definitely Yes

A-8. SUGGESTIONS: What will encourage you to take another loan from Prizma? Other suggestions?

A-9. for interviewer only: please classify a respondent as a drop-out who: (select one statement in each column A-9a and A-9b)

A-9a

Was voluntary and satisfied (reasons not related to Prizma)	1. [_]
Was voluntary and dissatisfied (Prizma related reasons)	2. [_]
Was forced out by Prizma	3. [_]

A-9b

Does not have any need for credit services and will not come back to Prizma in a near future	1. [_]
Is not using now any other credit services and plans to come back to Prizma in near future ("sleeper")	2. [_]
Will come back, to Prizma only if services will be improved/expanded (can use or not other services)	3. [_]
Is using now credit services of competition and do not plan to come back to Prizma	4. [_]

Annex 5: Exit Monitoring Form of AIMS Project (USA)

Source:
Nelson, C. et al. (n.d). Learning from Clients: Assessment Tools for Microfinance Practitioners. The Small Enterprise Education and Promotion Network, Washington D.C.: The SEEP Network

Data quality revision:

Form reviewed by field team leader (date and initials)_________________________

Data entered on computer by ____________________(name) on ___________(date)

Form reviewed by data cleaning team (date and initials)________________________

Fill in before meeting with ex-client:

21. Client identification number________________ 22. Survey identification number_____________
23. Interviewer number______ 24. Date of interview_______________________
25. Name of Client ____
26. Address____
27. Type of borrower: Individual loan_______ Group loan________ Other______
28. Name of group (if any)____
29. Sex (circle): M or F
30. Entry date: <___/___/___> 31. Exit date: <___/___/___>
32. Number of program loans taken _______ 33. Size of last loan __________
34. Was final loan repaid by borrower? (circle): Y or N
35. If NO, amount in arrears or default?__________________________________
36. Amount of savings withdrawn_______________________________________
37. Amount of withdrawn savings used to pay off the last loan? ______________
38. Loan officer (who last worked with client): ____________________________
39. Circumstances of departure according to program MIS (Mark only one answer):
    [__] 1. Client voluntarily left group/program
    [__] 2. Loan group failed so client left
    [__] 3. Group/program expelled the client (because of inability to pay, loan default)
    [__] 4. Other

40. Type of business financed by last loan (Mark only one answer):

[__] 1. Retail
[__] 2. Service
[__] 3. Production/industry
[__] 5. Animal raising
[__] 6. Fishing
[__] 7. Other (specify):________

(Read to Ex-Clients):

"We would like to find out a little about why you are leaving our loan program so we can consider future improvements. Please think of all the main reasons you decided to leave the program. We will combine your answers with those of others to understand why clients leave our program. Your answers will not be shared with anyone else. This will take only a few minutes. Thank you for helping us."

1. Who primarily made the decision that you will no longer be participating in the program (or continuing as a member of this group)? (Do not read answers. Mark only one answer)

[__] 1. I made the decision. (go to question # 3)
[__] 2. Someone else in my family decided. Specify who__________________

Why?____________________________________ (go to question # 3)

[__] 3. The group made the decision. (go to question # 2)
[__] 4. The program made the decision. (go to question # 3)

2. (If marked answer 3 in previous question) In your opinion, what factors led the group to decide to exclude your continued participation? (Do not read answers. Multiple responses possible.)

[__] 1. Repayment problems
[__] 2. Attendance problems
[__] 3. Difficulties with other members of the group
[__] 4. Other reason (specify): ______________________________________

3. What are the main reasons that you are leaving or left the program? (See the following list of possible answers. Do not read answers. Multiple responses are possible)

A. Problems with program policies or procedures:

[__] 1. The loan amount is too small.
[__] 2. The loan length is too short.
[__] 3. I do not like the repayment schedule.
[__] 4. The loan became too expensive (such as interest, fees).
[__] 5. The disbursement of the loans is not efficient.
[__] 6. I was unwilling to borrow because of other conditions (such as obligatory savings, obligatory training).
[__] 7. I did not like the treatment by the staff or had personal conflicts with staff. Who?______________________
[__] 8. I found a program with better terms.

Which one?_________________________
Why is it better?______________________
____

B. Problems with group lending:

[__] 9. The group told me to leave.
[__] 10. The group disbanded.
[__] 11. I had personal conflicts with other members of the group.
Explain_____________________________
____

[__] 12. I was unhappy about group leadership.
[__] 13. I was unable or unwilling to attend all the group meetings (such as take too much time; have schedule conflicts)
[__] 14. I did not like the rules and/or the pressure established by group.

C. Client's business reasons:

[__] 15. I have enough working capital now for my business.
[__] 16. My business is seasonal; I will borrow again when I need it.
[__] 17. I am graduating to a loan program that makes larger loans.
Which one?
____

[__] 18. I am unable to repay the loans because of the weak condition of my business (for example, poor profits, low sales).

[__] 19. I decided to close the business and do something else (for example, get a job, start a new business).
Why? _______________________

[__] 20. I sold the business.

D. Personal reasons:

[__] 21. I cannot continue because I spent the money on a crisis (such as illness, death) or a celebration (such as marriage) in my family.
[__] 22. My spouse (or other adult income earner) left me so I do not have the ability to continue the business.
[__] 23. I am pregnant or now have another person to care for (lack of time or ability to continue the business at the same level).
[__] 24. I am moving out of the area.
[__] 25. A family member told me to stop borrowing from the program.

E. Community and economic reasons:

[__] 26. My business was ruined by a disaster (such as robbery; fire; flood; hurricane).
[__] 27. A major new competitor moved into the area and many of my customers now buy from the competition.
[__] 28. Poor economic conditions have left my customers with less money with which to buy my goods or services

4. In thinking about all the reasons why you have said you left the program, which category best describes your most important reason? (Read the answers. Mark only one answer.)

[__] 1. Program reasons—Client has problems related to the program requirements or policies (does not want to borrow again under present program terms; does not like treatment by program staff; needs loan but decided to borrow from competitive source of capital).

[__] 2. Problems related to borrowing in a group (internal conflicts; does not like group pressure, frequency of meetings, or group leaders; was expelled; group failed).

[__] 3. Does not need capital now (has enough capital now; seasonal business is not active now; has graduated to larger loans from another source).

[__] 4. Business reasons—Related to economic activity for which client borrowed (was not profitable enough to continue borrowing; decided to sell or close business).

[__] 5. External reasons—Problems beyond client's control that are not related to either the loan program or business (for example, personal reasons such as illness or death in family, leaving area, pregnancy, lack of time, departure of spouse; or economic reasons such as destruction of business, new competitor, poor economic conditions affecting purchasing power of customers).

The following questions are about your use of the loan:

5a. How did you spend your last loan? (Multiple responses possible. Mark the 3 largest categories of expenditure. Do not read answers.)

[__] 1. Start a new business
[__] 2. Change type of business
[__] 3. Buy more inputs/stock
[__] 4. Buy equipment/tools, and the like
[__] 5. Hire more workers
[__] 99. Don't know, or unwilling to answer
[__] 6. Improve/expand business site
[__] 7. School fees
[__] 8. Medical/funeral expenses
[__] 9. Savings
[__] 10. Other (specify)____________

5b. Did the loans help your family? If yes, how? (Do not read. Multiple responses possible)

[__] 1. More and better food
[__] 2. Educate children/self
[__] 3. Improve your housing
[__] 4. Medical costs/improved health
[__] 5. Clothing [__] 99. Don't know
[__] 6. Furniture, utensils, goods for your house
[__] 7. Recreation; leisure activities
[__] 8. Other (specify)_________________
[__] 98. Loans did not help family

6. Which of the following best describes your experience in paying your last loan...?
(Read the answers. Mark only one answer.)

[__] 1. Difficult to pay
[__] 2. Within my capacity to pay
[__] 3. Easy to pay
[__] 99. Don't know

7. During the last 12 months, did your income in the business…?
(Read answers. Mark only one answer.)

[__] 1. Increase greatly
[__] 2. Increase some
[__] 3. Stay the same
[__] 4. Decrease some
[__] 5. Decrease greatly
[__] 99. Don't know

8. Which answer best describes the impact for you of these program loans...?
(Read answers. Mark only one answer.)

[__] 1. Helped me quite a lot
[__] 2. Helped me a little
[__] 3. Didn't help me at all
[__] 4. Loan was a burden
[__] 99. Don't know

9a. (For group members only) Do you think you benefited from being a member of the group?

[__] Yes (go to #9b)
[__] No (go to #10)

9b. (For group members only) Please tell me the specific ways in which being in a group helped you. (Do not read answers. Multiple responses possible.)

[__] 1. Helped me to make my repayments
[__] 2. Provided advice and support when I needed help personally
[__] 3. Gave me business ideas and contacts
[__] 4. Offered me new friendships
[__] 5. Allowed me to develop my leadership skills
[__] 6. Gave me training and new information
[__] 7. Other (specify):___________________________________

(Read to Ex-Clients):
"We are coming to the end of the survey. The next set of questions is about your opinion of the overall program."

10. Which best describes your experience of participating in the program?
(Read answers. Mark only one answer.)

[__] 1. Very good
[__] 2. Good
[__] 3. No Effect
[__] 4. Bad
[__] 5. Very Bad

11. Please name the two things you liked best about the program.

1. ____
____
2. ____
____

12. Please name the two things you liked least about the program.

1. ____

____
2. ____
____

13. What do you think should be done to improve the program for clients?
____
____
____

14a. Do you think that you would rejoin the program in the future? (Read answers.)

[__] 1. Yes [__] 3. No (go to #15) [__] 99. Don't know

[__] 2. Probably [__] 4. Only if specific changes are made (go to #14)

14b. Note the specific changes in the program that the ex-client desires before returning to the program.
____
____

15. Would you encourage a relative or friend to join this program the way it is now?

[__] 1. Yes [__] 2. No [__] 99. Don't know

16. Any other comments?
____
____

(Read to Ex-Clients):
"Thank you so much for your time. We will use your answers to help us improve our program for other borrowers. Good luck." END OF INTERVIEW WITH EX-CLIENT.
Observations by the loan officer about the ex-client and reasons for leaving:

17a. Does the information given above match with your understanding of the situation and the program records?

[__] 1. Yes (go to #17c.   [__] 2. No (go to #17b.)

17b. (If no) Why not?

____
____
____

17c. Was there any noticeable difference between this ex-client and other clients in his or her group?

[__] 1. Yes (go to #17d.)   [__] 2. No (go to #17e.)

17d. (If yes) What was the difference? (poorer, richer, more outgoing, more shy, and so on)

____
____
____

17e. Other comments:

____

____
____

Interviewer: If you need to shorten the survey, consider eliminating some of the following, which may be of lesser importance: questions # 4, 6, 8, 10, 11, 12, 16, and possibly the last few questions designed for the loan office

Annex 6: Client Exit Monitoring at SEF (South Africa)

Source:
Simonowitz, Anton. (2000). “Client Exit Surveys: A Tool for Understanding Client Drop-Out.” Journal of Microfinance, no. 6 (spring): pp. 112-137.

1) Group Meeting: A meeting is set up with as many of the drop-outs as possible. In this meeting a general discussion is held. At this stage it is important not to ask the reasons for drop-out. Clients who have left the program feel bad or feel pressured to rejoin. By explaining the poverty mission of SEF and the fact that SEF is worried when people leave, the staff should make sure that clients feel relaxed and free to talk about their experiences in the project. The staff then explain that they want to learn what the former clients thought was good and bad about the project—former clients are the best people to learn from because they have nothing to lose if they tell the truth. Existing clients, on the other hand, may feel they will jeopardize their position if they say what they think.

   A. The group meeting starts with looking at the participants’ experiences at SEF.
   - What did they like about SEF (what was good)?
   - What did they not like (what was bad)?

   Participatory methods, such as voting forms, are used to ask specific questions as they arise. For example, how was the loan term; how was the loan amount; how was the support from the staff; how was the support from the group? Voting forms give a quick view of the range of opinions, which can then be used to facilitate a discussion about why people voted the way they have and why there are differences of opinions.

   B. The second stage looks at participants’ business experiences. Matrices or voting forms can be used to look at participants’ business strength before the loan, at present, and at a number of points during the loan. If the business status has changed, the staff ask why. They try to understand why it improved or if there were problems. This general discussion generates a good understanding of the clients’ experience in the program, and it is likely that the staff will have a good idea of the reasons for drop-out without actually having had to ask.

   The group meeting should not be too long (about 1 hour). The aim is to finish when people are still active, not when they are getting tired. In this way they will be happy to come back for a followup meeting. At the end of the group meeting the staff facilitator explains that the meeting yielded a lot of information which is very helpful to SEF. Participants are then asked if they would be available for individual discussions at a later date.

2) **Information From Files:** Following the group meeting, the files for drop-outs are gathered. Information can be triangulated with the group meetings, for example on loan sizes and business types. Credit discipline, performance, impact monitoring, and comments on the debtors card can also help triangulate information and add to the understanding.

3) **Individual Meetings:** Individual meetings allow for a more in-depth understanding of an individual's experience in the program and reasons for drop-out. Prior to this meeting, the facilitator looks at the information gained in the group meeting and relates this information to the four areas of potential problems: personal reasons, problems with the business, problems in group/center, and problems with SEF procedures.

   In the individual interview, the staff member probes the issues raised in the group meeting, trying to get a good understanding of the member's experience and opinions. Finally, as the last question, the drop-out is asked why she or he left. At this point, there will be a good understanding of the experience, but not necessarily how these related together and what was the final motivation for her or his leaving the program.

4) **Interview with the Field Worker:** Finally, the staff member talks with the field worker (FW) and discusses the dropped members. Again, this helps to triangulate previous information, as well as improve the overall understanding.

5) **Writing of the Report:** Reports are written using these headings in the following format:
   A. Introduction and description of the process for the monitoring – how did you do it, what problems did you have, how was the group meeting (were people open and free?), etc.
   B. Description of the members who dropped – names, center, group, business, loans received, etc.
   C. Group discussion (according to the four headings).
   D. Individual members – results from discussion and information from files (according to the four headings).
   E. Information from field worker.
   F. Analysis and conclusions – from the meetings, interviews, files, and FW, what can you conclude are the main reasons for drop-outs (according to the four headings)?
   G. Recommendations for the members who dropped (is any more follow- up necessary?), for the center where the member dropped, and for SEF.

Recommendations from SEF's Dropout Study

I. Personal Reasons

There are many personal reasons given for drop-out, which include the following: death in the family; personal or family illness; conflict in the family (e.g., husband stops member participating); moving away (temporarily or long term). Personal reasons are important to note for two reasons:

A. Often they are not the real reason but are given as an excuse, either because the member is ashamed of failure or the member has not complied with TCP rules and is afraid to admit it (for example, poor loan utilization).
B. Where the reason is because of something temporary, the member may want to return in the future, or may return with encouragement.

Action to Reduce Drop-Outs

1. Understanding reasons for drop out: Where "personal reasons" are given it is important to allow the member time to talk freely about her or his reasons for dropping and to talk about the success or problems in the business. This may give FWS a chance to discover other reasons that they may be able to help solve.
2. The "personal touch": Members should feel that TCP staff care about them as people not just as loans. For example, if a member is ill or has a death in the family, the FW should visit the member and perhaps a fund should be set up to make a small contribution toward funeral costs. This contact will also help in encouraging the member to return once the mourning period is over, or once they have recovered from illness.
3. Allowing the member to return: If the member gives reasons that indicate a temporary problem, the FW should encourage the member to continue to attend center meetings and maybe to save. The FW should make an effort to maintain contact and give the member an opportunity to return in the future.
Important: The FW should never try to force or convince a member to remain in the program or to return.
4. Group formation: During group formation, it is important to discuss issues of potential conflict at home created by the member starting or expanding her business.

II. Business Failure

Failure of a business may be reported directly or can be seen from other information given:
A. Business does not grow or goes down—business value does not increase, or it decreases.
B. Member leaves business to take up employment—this employment is mostly not well-paid (such as a farm or domestic laborer), so it shows that the business was not succeeding in providing a living income.

C. A member often has to be patched by the group or the center.

Common Reasons for Business Failure:

1. Too much sales on credit.
2. Inappropriate loan size—too big for manageable repayments, or too small to do planned business.
3. Too much competition.
4. Lack of business skills—support not given by group/center/field worker to develop skills.
5. Poor loan utilization.
6. Profits not re-invested in business—due to high demands from the family, or poor business management.
7. Unforeseen disaster—such as robbery, rain damage, or family crisis that takes money from business.
8. Part-time business—member works as well and is not serious about the business.

Action to Reduce Drop-Outs

Through close monitoring and support of businesses, joined with good problem-solving, we can help reduce the chances of business failure; we can deal with problems early so as to solve any problems before the business fails and the member drops.

1. Understanding of the business: spending time before the first loan discussing the business with the member and group (looking at the market for the business, how it should be run, and how it could grow) helps the member develop skills for running their business and gives the FW and group a focus for the type of support they should be giving.
Included in this discussion should be competition, selling on credit, the need to re-invest in the business, and often the need to diversify the business in order to grow. From this the member will develop a business plan, which will not just be how much and what she will buy, but how and where she will sell, and how she will grow her business (this need not be written down, but should be discussed).
2. Appropriate loan sizes: Using the business value and impact monitoring information, the FW can assess the strength of the member's business and her progress. Based on this assessment, an appropriate installment plan for the business should be set. During the business plan discussions, the FW, member, and group should discuss what loan size would be appropriate for the business type, and the member's planned activities.
3. Support to business development and monitoring: The group, center, and FW should support members in following through with their business plans. This support may sometimes include business skills training, but most skills will be developed "on the job" through discussion of

problems and sharing of experience within the groups and centers and by the FWs. Regular checks need to be made by members/groups/ centers on the performance of businesses so as to deal with problems immediately as they arise.

4. In-depth discussions at center meetings: The financial and reporting side of center meetings should be kept short, and at least half an hour should be allowed for detailed discussions and occasional workshops. Reports from group chairs should show problem areas. These reports can be used to encourage discussion about the issues raised—for example, selling on credit, diversification, good business practice tips, etc. The FW can facilitate this. Sharing experience of problems and solutions is the best form of business skills training and can help reduce drop-outs due to business failure.

5. Good monitoring of loan utilization: Loan utilization checks and loan supervision visits must be taken seriously. It is important that the group chairs take responsibility for this job and that they do it well. FWs must ensure that this happens. Monitoring of loan utilization helps members to take their businesses seriously and to avoid destroying the business by taking money from the business for their families. The monitoring also gives an early warning of problems, which can then be dealt with.

6. Dealing with disasters: Members must be helped to deal with disasters and not to feel that they must leave the program because they are struggling to repay the loan and their businesses are failing (see personal problems).

III. Problems in Group/Center

A. Conflicts within groups or centers: Conflicts often arise from members not making their repayments. This results in other members having to spend time trying to find the member to make them pay or having to make payments on their behalf.

B. Patching for other members: the feeling of "working for others" is a major reason for drop-out in centers with patching problems. The costs of members making additional payments for others, on top of their other costs, may be enough to cause business failure and drop-out, or it means that they are unable to make savings.

Patching results from deliberate nonpayment or problems of some members whose businesses fail. A major reason for this is poor group formation, where the members do not know and trust each other well. This may result from the following:

1. Rapid growth of a center: The centers grows too fast for the FW to ensure that the groups are well formed.

2. Inexperienced FW: Many drop-outs are from groups that were formed by trainees or newly qualified FWs. Again, this is due to failure of the FW to recognize poorly formed groups.

3. Pressure of targets on FW and branch: The need to reach targets can result in a FW or branch manager (BM) pushing through groups that are poorly formed.

4. Deliberate "cutting of corners": FWs may form groups that they know are not well formed and then train the group to answer questions from the branch or zonal manager in a way that the poor group formation is disguised.

Action to Reduce Drop-Outs

Good group formation is the key to reduce conflict within groups and centers, and is one of the keys to reducing drop-out.

1. Deal with repayment problems immediately: Field workers must find out in each meeting who is being patched and work to assist the member to pay, or settle the reason they are not paying. When patching occurs, this must be dealt with immediately. Patching one week is a problem; repeated patching every meeting causes a lot of discontent and leads to dropouts.
2. Pressure from targets: Targets must not be set so high that they create a pressure on the FW or CO to pass badly formed groups. Other targets – such as dropout rate – should be set and the link between group formation and success in these other targets should be made clear.
3. Fast center growth: Fast growth is not good in TCP. This fact should be stressed and fast growth should be checked by BMs and the zonal manager. Again, targets should be developed which are more holistic, reflecting impact and keeping of members, not just numbers.
4. Deliberate "cutting corners": Checking of group formation is very important, however, the current procedures should be reviewed to see if there are better systems to detect groups which have been trained to pass the group recognition test, despite being poorly formed.

IV. Problems with SEF Procedures

Many former TCP members complained about various aspects of the program. For many issues, strong opinions were expressed, but there were no issues for which there was 100% agreement – even where most people were strongly against something, there was someone strongly in favor of it. The following are recommendations based on majority and strongest opinions – any changes implemented should be piloted prior to being adopted.
A. Repayment terms: Most drop-outs agreed that repayments should be monthly rather than fortnightly. However, a few members do prefer fortnightly repayments. Some businesses, where income is spread throughout the month, seem more suited to fortnightly payments, but the women running these businesses still express strong desire for monthly payments.
B. Transport costs: Many members are having to pay high transport costs, which in some cases amount to far more than the interest payments on the loan. For people with small loans and new businesses, this may place great burden on their ability to succeed.
C. Loan periods: Long repayment periods for small loans result in difficulties in maintaining

the business. Particularly at the start of the business, it is easier for a member to manage repayments over a shorter time period. As loan sizes increase, so should the repayment period. However, some members are also concerned that 10 fortnight loans are too short.

D. Staff support: Support and regular contact with FWs is valued by members and is important to provide moral support as well as advice and skills.

E. Loan size: A loan which is too large for a business may create problems and lead to business failure, however, no cases of this have been reported from the people interviewed so far. Similarly a loan which is too small, for example, to buy enough stock to be viable, may result in the member having to spend household money which puts a strain on the household and results in money being taken from the business.

The fact that under the Visual Indicator of Poverty Test many members came into TCP who are richer than the cut-off line under Participatory Wealth Ranking means that these people may put pressure on TCP to give larger loans. Loan size did not come across as a very strong issue.

F. Failure to re-form groups: When a member leaves a group they must be replaced. This becomes very difficult if three or four members leave. In many cases the remaining members are forced to drop because of their inability to re-form the group.

Action to Reduce Drop-Outs

1. Monthly repayments: It is important for centers to meet fortnightly so as to establish regular contact between members and with the FW, so that problems can be discussed and businesses supported. However, monthly payments should be piloted as either an option or as standard, either from the first or second loan.

2. Transport costs: Alternative forms of disbursement should be implemented to reduce the costs of members collecting their disbursements.

3. Loan periods: There is agreement that 20 fortnights is too long for a first loan. Shorter periods should be reviewed based on the pilots currently being done, and also in relation to the issue of monthly payments. More time should be spent reviewing whether 10 fortnights is too short.

4. Staff: Staff commitment to the success of their members is important (see “personal touch” above). In addition, it is important for staff to be strict in following TCP procedures.

5. Loan sizes: Maximum first loan sizes should be reviewed in the context of the business profiles being developed to ensure that they enable members to start a viable business.

6. Re-forming groups: We should look at how to make it easier for a member left on her own to continue with TCP. The possibility of allowing centers to re-group themselves once they have been members for some time should also be looked at.

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