ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

CAUSES OF CLIENT DROPOUT AND ITS IMPLICATIONS THE CASE OF OROMIA CREDIT & SAVING SHARE COMPANY

BY

RESHID MUHABA SEID

APRIL, 2014

ADDIS ABABA, ETHIOPIA

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List of Acronyms

AEMFI	Association of Ethiopian Micro Finance
ATA	Agricultural Transformation Agency
ETB	Ethiopian Birr
FGD	Focus Group Discussion
GTP	Growth and Transformation Plan
GDP	Gross Domestic Product
M-CRIL	Micro Credit Rating International Limited
MDG	Millennium Development Goal
MFIs	Micro Finance Institutes
MFOs	Micro Finance Organizations
MoFED	Ministry of Finance and Economic Development
MSEs	Micro and Small Enterprises
NBE	National Bank of Ethiopia
NGOs	Non Governmental Organizations
OCSSCO	Oromia Credit & Saving Share Company
ORCSDP	Oromia Rural Credit & Saving Scheme Project
OSHO	Oromo Self Help Organization
PAs	Peasant Associations

PRA	Participatory Rapid Assessment
SEF	Small Enterprise Foundation
UNDP	United Nation Development Program
USD	United States Dollar
VSLAs	Village Saving and Loan Associations

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Abstract

Client exit is one of the challenges that microfinance industry is currently facing. It affects the outreach and growth which finally compromises the sustainability of MFIs. The thesis is primarily aimed at examining the reasons behind client exit in MFIs in general and Oromia Credit and Saving Share Company (OCSSCO) in particular. Second, to reveal the implications of the exit in the overall performances of OCSSCO and to identify and recommend areas that need change and improvements. The relevant data and information were collected through questionnaire, interviews, and Focus Group Discussions. The open and closed questions were used to gather both qualitative and quantitative data pertaining to causes of dropout. The study revealed that OCSSCOs' loan policy, lending methodologies, Personal reasons of the clients and client's business that manifested by different segments of problems were the main causes of exit from OCSSCOs' loan programs. Last but not least the study identified unlike commonly known in other countries, socio-economic problems were not a common reason for exit. Active clients of OCSSCO who were interviewed and covered under this study also complained OCSSCOs' loan policies and methodologies and requested for changes and improvements on the major policies and procedures. The study also identified the commercial and social implications of dropout which are manifested by different multidimensional adverse effects. It was concluded that clients are encouraged to stay longer in the banking relationships when they have got relatively larger loan size, discouraged by large group/center size and preferring individual loan than group loans due to the attached joint liability. It was also understood that the self initiated dropout rate is higher at the 1st and 2nd loan cycles where clients are still unfamiliar with policies, lower loan size and the pressures of the group liability.

Abstract

Client exit is one of the challenges that microfinance industry is currently facing. It affects the outreach and growth which finally compromises the sustainability of MFIs. The thesis is primarily aimed at examining the reasons behind client exit in MFIs in general and Oromia Credit and Saving Share Company (OCSSCO) in particular. Second, to reveal the implications of the exit in the overall performances of OCSSCO and to identify and recommend areas that need change and improvements. The relevant data and information were collected through questionnaire, interviews, and Focus Group Discussions. The open and closed questions were used to gather both qualitative and quantitative data pertaining to causes of dropout. The study revealed that OCSSCOs' loan policy, lending methodologies, Personal reasons of the clients and client's business that manifested by different segments of problems were the main causes of exit from OCSSCOs' loan programs. Last but not least the study identified unlike commonly known in other countries, socio-economic problems were not a common reason for exit. Active clients of OCSSCO who were interviewed and covered under this study also complained OCSSCOs' loan policies and methodologies and requested for changes and improvements on the major policies and procedures. The study also identified the commercial and social implications of dropout which are manifested by different multidimensional adverse effects. It was concluded that clients are encouraged to stay longer in the banking relationships when they have got relatively larger loan size, discouraged by large group/center size and preferring individual loan than group loans due to the attached joint liability. It was also understood that the self initiated dropout rate is higher at the 1st and 2nd loan cycles where clients are still unfamiliar with policies, lower loan size and the pressures of the group liability.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

“Microfinance” is financial service mostly small loans and other related services for poor and low-income clients offered by Micro Finance Institutes. These institutions commonly tend to use unconventional lending methods developed over the last 35 years to deliver very small loans to unbanked marginalized poor, taking little or no collateral. The methods include group lending and solidarity group liability (cross guarantee among group members), pre-loan savings requirements (depositing before accessing the loan or up front deduction from the loan), gradually increasing loan sizes in subsequent loans, and an implicit guarantee of ready access to future loans, if present loans are repaid fully and promptly. The use of group-lending was motivated by economics of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. (Heuisler 2004)

Muhammed Yunus, a Bangladeshi economist and a noble peace prize winner in the year 2006, is considered as a founder and pioneer in introducing the products of MFIs i.e. small size-non collateral loan to the poor who lived in one of the rural villages of Bangladesh. Yunus began the project in 1976 in a small town called Jobra, using his own money to deliver small loans at low-interest rates to the rural poor. With this, the Grameen Bank, which is generally considered the first modern microcredit institution, was founded in 1976 by Muhammed Yunus to deliver micro credit-non collateral-group based loans to the unbanked marginalized Bangladeshis rural poor. The Bangladeshi Grameen Bank was followed by organizations such as BRAC and ASA in 1978 in same country (Heuisler 2004). Thus, literatures and practitioners unanimously agreed that it is Bangladesh through Muhammad Yunus, who has proved the poor can be bankable, repay the loan, can save and also proved that the small amount matters on the lives of the poor in generating household income.

Before microfinance emerged, many developing countries attempted to stimulate development and mitigate poverty by providing subsidized rural credit, or cheap credit, through state-owned development banks. However, these efforts were not successful, as it had limited outreach, low loan recovery rates, and required continuous financial support (Hoff et al., 1993) as cited by Dackauskaite (2009).

The performances of Microfinance, on the other hand, have been promising in reaching the poorest of the poor, achieving high loan recovery rates and in becoming self-sustainable in the long run, which has made it a very appealing poverty alleviation tool (Dackauskaite 2009). Moreover, different reports showing that MFIs have been filling the financial gaps of the poor at the time when agricultural price fluctuates, crops fail, and on other related emergency situations, in this MFI clients are able to absorb the external shocks.

In Ethiopia, even though there were different modalities in which credit services were provided to the rural farmers, the conventional micro finance institutes were introduced after the fall of the Military regime and the issuance of the proclamation number 42/96 that permits establishing Microfinance Institutes(MFIs). The MFIs in Ethiopia, like other financial institute, are licensed and closely supervised by the National Bank of Ethiopia.

Most of MFIs in Ethiopia were established and owned by the National Regional States and NGOs. The major purpose of both MFIs that are owned by the Regional States and backed by NGOs in general is availing micro financial services for the unbaked marginalized poor in the region they are operating.

According to the report obtained from Oromia Credit and Saving Share Company, the micro financial services in Oromia National Regional state was started by Oromia Rural Credit and Savings Scheme Development Project (ORCSDP) in June 1995 under the mandate of an indigenous NGO known as Oromo Self Help Organization (OSHO).

The good achievements of ORCSDP paved way to the birth of Oromia Credit & Saving Share Company (OCSSCO) in August 1997.

Though the Micro Finance Industry in the country is an infant of two decades, reports show that the MFIs performances in outreach, loan portfolio and deposit mobilizations have been progressively growing and improving.

According to the report of National Bank of Ethiopia by the end of 2011/12 the number of MFIs operating in the country was 33. Their deposit mobilization and credit extension have witnessed a significant growth. Compared to 2010/2011 their deposit went up by 42.2 percent to Birr 5.4 billion which was about USD 278.1 million while their credit provision rose by 32.9 percent to birr 9.3 billion which was about USD 479 Million (2011/12 annual report of NBE).

The figures indicate that during the past couple of years the microfinance sector in Ethiopia has enjoyed rapid growth in terms of performance and outreach.

Despite the rapid growth of MFIs in Ethiopia, the researcher observed that MFIs have also been facing different challenges that among others is the significant client drop out whom the MFIs have recruited through long processes in spending considerable costs for targeting, screening and organizing the clients. Due to the client drop out, the MFIs lose their loyal customers who have demonstrated credit worthy character, the most important quality in MFI industry.

OCSSCO as one of the MFIs in the country and sharing the same market with other MFIs cannot be immune from the challenges and problems of losing its loyal clients that resulted from clients' discontinuation of the banking relationships.

This study provides insight into the major reasons why clients quit from the MFIs program in general and OCSSCO in particular.

It critically examined the implications of losing clients on the overall performances of the MFIs and on OCSSCO in particular. The study also suggests how OCSSCO can develop effective long term relationships with its loyal customers who have been recruited through long and costly processes.

The researcher could not find formal studies that done before on the causes of dropout and its implications on OCSSCO. Thus, this study could contribute in identifying the causes of clients exit from OCSSCOs loan program and forwarding the strategies to cope up the problems which will help OCSSCO to be competitive and ensuring long banking relationship with its loyal customers.

1.2 Statement of the Problem

Over the last three decades, microfinance has captured the attention of donors and policy makers for its ability to provide credit to the poor who have no access to commercial banks. The purpose is that with the additional income and determination, poor people can set up income generating activities in order to reduce their vulnerability and combat poverty (Claire, n.d).

According to UNDP report, using microfinance for creating wealth and reducing poverty in developing countries has been recognized as one of the strategies for achieving the first Millennium Development Goal (MDG) (UNDP, 2003). This is because microfinance services can assist the poor to accumulate assets, reduce risk and vulnerabilities, facilitate activities to earn livelihood, protect against income shocks, build social capital and improve quality of life.

To accomplish these roles successfully, the MFIs are required to be financially sustainable through enhancing employee productivity, cost efficiency and through establishing long banking relationships with clients so that improved revenue can be generated from repeat clients who borrow relatively higher loan size.

However, there are various reasons that compromise the financial sustainability of microfinance institutions. Among many other contributing factors: High default rates, setting the interest rate below costs recovery levels, poor management and inefficient allocation of resources, high fixed costs, inefficiency and staff productivity and significant client dropout-a phenomenon when client quits from the banking relationship, are the major few causes often cited as being responsible for the unsatisfactory financial performances of MFIs (Dackauskaite, 2009).

Among the various reasons that compromise the sustainability of MFIs, this study focused to examine the client dropout issues.

There is no doubt that, MFIs have much to gain from a quality, long-term banking relationship if causes of discontinuation of clients are identified and managed.

The followings are among several benefits that can be drawn from long-term banking relationships: as the relationship matures the lender benefits from lower screening and monitoring costs, increased revenue assuming loan balances grow over time, and improved lending decisions given that risk decreases as more information about the borrower is revealed. Benefits to the client include a continued and often expanded access to credit, a cost reduction in capital as terms and conditions improve over the long run, and an opportunity to establish a valuable reputation as a trustworthy borrower (Ongena and Smith, 2001) as cited by as cited by Dackauskaite (2009).

The exact dropout rates in Ethiopian MFIs are not known, though it is accepted that client exit is an urgent issue that microfinance institutions face (Itana, 2006; Wolday, 2008) as cited by Dackauskaite (2009). As a benchmark for the possible exit rates in Ethiopia could be exit data from Eastern African MFIs, which show that the exit rate can reach as high as 60% per annum (Hulme 1999).

In 2011 OCSSCOs' dropout rate reached 15% which was at increasing trend when compared with the previous years.(Operational Report 2011)

Thus, the costliness of client exit, its implications on the sustainability and outreach as well as the benefits that could be drawn from the long-term banking relationship make the study of the client dropout valuable and important.

Again, a detail look and analysis at the reasons behind client dropout could help to indicate the strengths and weaknesses of policies and strategies of the OCSSCO, point to the flaws in the products and services it provides and suggests possible improvements to better meet the clients' needs thus increasing their satisfaction and retention.

Lastly, one should be concerned with this issue because finance matters. Levine (1997) as cited by Pagura (2003) contends that the development of financial markets and institutions is a critical and inextricable part of the growth process. It is repeatedly said that about 1.2 billion people globally live at or below the poverty line of one US dollar per day. The people who are living under poverty in Ethiopia in general and Oromia Regional State in particular where OCSSCO is operating is also expected to be significant.

According to the Annual Progress Report for F.Y. 2011/12 Growth and Transformation Plan the 2004/05 Household Income Consumption and Expenditure Survey (HICES) had shown that 38.7 percent of the population in Ethiopia was living under poverty. This figure has declined to 29.6 percent in 2010/11(MoFED March 2013). Thus, if microfinance in general and OCSSCO in particular can become truly sustainable, adequately meeting the financing needs of the population, then the potential for it to affect and contribute to the economic growth in the region is high.

Even though several studies have been made to explore causes of client drop out in different countries including East African countries, this research is still very important for OCSSCO and other MFIs.

Because primarily, the researcher believes that the reasons of drop out in Ethiopia have not been sufficiently studied when compared to other countries including peer countries in East Africa.

Second, the researcher believes that the research results that were drawn from the studies that have been made on MFIs of other countries including those in Eastern Africa, cannot similarly reflect the situation of MFIs in Ethiopia and OCSSCO in particular due to the facts of the differences in: the characteristics of the product and service quality offered by the microfinance institutions; competitive environment characterized by the availability of other financial intermediaries; the attributes of the products and services the MFIs provide; the socio-economic situation and shocks; traditions and norms of the community; supports given by the local Government in considering the services of the MFIs as one of strategic developmental tools and etc.

Third, this research in addition to identifying the causes of dropout, it is also aimed at providing additional knowledge on the implications of exit from the loan program that other researchers have not much emphasized when conducting their research on same topic.

1.3 Research Questions

In order to meet the stated objectives, the research questions that have been formulated were as follows:

- What are the personal profile and characteristics of the exit clients?
- What are the clients' reasons for exit?
- What are the opinions of active clients about the financial services (in terms of suitability) that OCSSCO currently providing?
- What are the possible benefits lost by OCSSCO/MFIs due to clients' drop out?
- What changes and improvements should OCSSCO undertake to meet the needs of the clients so that reduces the dropout rate?

1.4 Research Objectives

The followings are the general and specific objectives of the research:

1.4.1 General Objectives

Identifying the reasons of client dropout and its implications on operational performances of OCSSCO and thereby identify and recommend areas of improvements.

1.4.2 Specific Objectives

- To identify and examine the profile and characteristics of the exited clients
- To investigate the major problems and reasons that push and pull out clients from OCSSCOs loan programs
- Identifying attributes of OCSSCOs' current financial services that are suitable/unsuitable to meet the needs and expectations of active clients so as relating and comparing the results with the reasons that would be mentioned by dropout clients as push factors from OCSSCOs' loan program.
- To study the potential and actual implications of clients' dropout from OCSSCOs' loan programs
- To suggest and recommend areas that need changes and improvements in order to reduce the rate of dropout and/ or increase the retention rate in OCSSCOs' loan programs.

1.5 Significance of the Study

Even though the exact client dropout rate is not known in Ethiopia in general and OCSSCO in particular, the African dropout rate that extends up to 60% is also alarming for Ethiopian MFIs including OCSSCO.

The continuous increasing trend of client dropout rate (up to 15%) in OCSSCO is a manifestation of the severity of the problem which makes the study very significant to OCSSCOs' management and other users to give directions and set cope up tools in order to normalize/reverse the increasing trend of exit from the loan program.

The Ethiopian five years Growth and Transformation Plan (GTP), has set target to the agriculture sector to grow at 8.6% at the end of the plan year (2014/15) which the growth will make the contribution of the agriculture sector to GDP 38.8% at the end of the plan year (MoFED 2013).

Among different tools that can contribute to the sectors' growth are the interventions in providing financial services (credit and savings) that rural farmers use to finance their agricultural inputs and technology needs. Thus the role of financial sectors including MFIs in financing agricultural inputs and technologies are vital toward achieving the targets set in GTP.

OCSSCO as the Regional strategic financial institute toward achieving the target set in GTP both in agriculture and urban development packages is expected and required to finance agricultural inputs and technologies that can enhance the productivity of the farmers and to finance rural and urban Micro and Small Enterprises (MSEs) toward achieving the target set in GTP.

As Region based MFI, OCSSCOs' intervention is important in supporting the Government strategies that include creating jobs, alleviating poverty and unemployment, and speed up the transformation process toward industry led economy through the developments of MSEs in Urban areas.

Thus, the currently growing trend of client dropout from OCSSCO, if not controlled, could negatively affect OCSSCOs' contribution in financing the farmers (the agriculture sector) and MSEs toward achieving the target set in GTP.

Thus, no doubt on the usefulness of the findings of the study to the policy makers as well as for those who have concerns on OCSSCO' performance like the Regional Government, the National Bank of Ethiopia, donors and partners and Association of Ethiopian Micro Finance Institute.

The main contribution of this research also goes to the academic field. It has been observed that sufficient studies have not been conducted in the field of drop out in specific case of Ethiopia. Sharing these findings may help future interested researchers in examining clients' dropout in Ethiopian MFIs to use it as a basis for their studies.

1.6 Scope of the Study

This study was conducted on Oromia Credit and Saving Share Company (OCSSCO), Ethiopia, to examine causes of client drop out focusing at group based loan clients that OCSSCO has been serving along with other several types of loan clients. The reasons the researcher prefer to conduct the study on the group based loan client is that it currently covers more than 90% of the total clients and takes more than 85% of the total loan portfolio that OCSSCO has been owning and more than 95% of quitted clients were from this loan category.

It is obvious that it was difficult to cover all quitted and active clients in all of OCSSCOs' operational branches due to time and budget constraints. Thus, the scope of the study was limited to the purposely selected branches and randomly chosen quitted and active clients.

1.7 Limitations of the Study

Since some of the questions were focused in identifying causes of drop out that could be related with clients' performances and on service providing OCSSCOs' staff, it was tried to identify the questions/information that clients might fear to answer or becoming biased when responding. Accordingly the following issues were identified and tried to minimize their impacts through developing confidences of clients who were interviewed by explaining the purpose of the research and by convincing them that the discussion will be kept confidential.

Thus, though efforts were made to minimize the impacts of the issues, it is difficult to confirm whether clients were responded genuinely on some of the questions that are related with the following issues:

- fear of any subsequent penalty on OCSSCOs' staff
- Clients who have left because they were unhappy with program staff may be uncomfortable saying so
- The ex/active clients might misuse the opportunity as revenge due to previous conflict (if any) in making OCSSCOs' staff accountable for their exit
- Due to different reasons, quitted/active clients might remain silent not to comment programs' deficiencies.
- Similarly, OCSSCOs' staff might hide some information while discussion was made to cover their inefficiency and poor service delivery that have pushed clients to exit or led to dissatisfactions.

CHAPTER TWO

LITREATURE REVIEW

2.1 Theoretical Literature

Commonly referred to as "drop-outs," clients who have left an MFI's program can provide very valuable information about the MFIs overall performances as well as indicates whether the MFI has customer friendly products. On one level, drop-outs may represent the MFI's failures, e.g., clients for whom the service was not suitable or who suffered a negative experience and chose or were forced to leave. In some cases, where the client has graduated beyond the need for the MFI's services, drop-outs may represent a success. In either case understanding the reasons and processes leading to clients' exits can provide valuable information about the strengths and weaknesses of the program.

Among several advantages and implications of identifying the causes of dropout the followings are extracted from IMP-ACT journal: first, knowing who is leaving can be an indication of whether MFIs are meeting their social mission goals. If they aim to target and retain poor clients but these poor clients tend to leave, this may be an indication that the products need to be tailored to suit this group, or that institutional changes need to take place. Second, knowing who quitted clients are and why they leave is an important part of market research; it helps MFIs to monitor client satisfaction. If clients are leaving because they are unhappy with some aspect of the program, managers can use this knowledge to make changes and improve the program. If clients are drawn to the competition, managers will benefit from knowing what the competitors offer that their program does not (IMP-ACT, 2004).

Pagura (2003) has reported that a broad spectrum of stylized facts emerges on reasons of client exit on various available literatures. The following taxonomic framework is developed to organize these facts: 1) those reasons defined as *adverse push factors*; and 2) those reasons defined as *market driven pull factors*.

Adverse push factors highlight the vulnerability of the client and her inability to continue the borrowing relationship due to negative factors encountered. In essence, she is forced or involuntarily *pushed* out of the credit market.

Adverse push factors can then be divided into three subcategories: *organizational design and policy failures*, *idiosyncratic shocks* and *systemic shocks*.

Market driven pull factors highlight *client maturity* and *healthy competition* in the microfinance industry.

The details of Adverse Push factors and Market Driven Pull factors are summarized in the following taxonomic frame work:

Figure 2.1: Summary of Push and Pull Factors

Panel A: Adverse Push Factors

Organizational Design and Policy Failures

- Inappropriate loan sizes and terms
- Forced and inaccessible savings
- Poor staff quality
- Deficient operational policies

Idiosyncratic Shocks

- Business failure
- Competition/loss of market
- Fire/theft
- Illness/death
- Ceremonies
- Economic difficulties of
- family

Systemic Shocks

- Severe weather
- Economic recession
- Civil unrest

Panel B: Market Driven Pull Factors

Client Maturity

- Business growth
- Sufficient retained earnings
- Risk management reasons
- Graduated into individual loan program, either with new , commercial lender, or formal bank

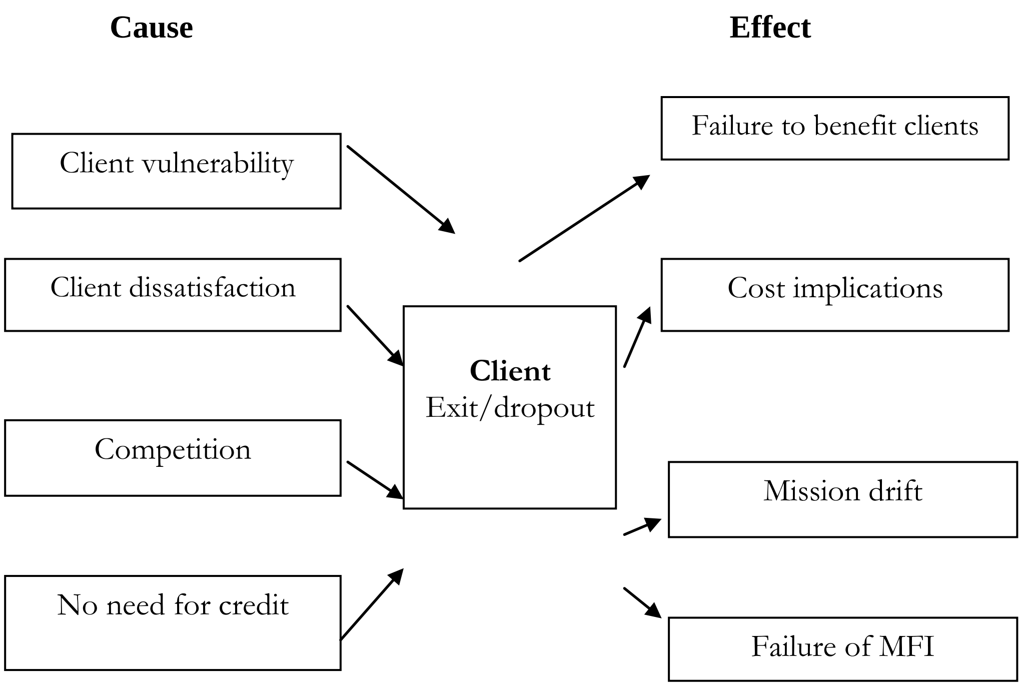
Competitive MF Industry

- Better terms and conditions received with another institution

Source: Pagura (2003

Similarly, Micro-Credit Ratings International Limited (M-CRIL) introduced the causes and effects of client dropout in the following diagram.

Figure 2:2 Causes and effects of client dropout



Source: M-CRIL (2007)

The reasons for dropout have been explored by different researchers. Among the findings of many researchers the followings are illustrated here below.

"…The reasons for drop-out are, in the words of Morduch and Haley (2002), '*multidimensional*'. Indeed, the unifying theme of the studies on the subject is that the reasons for drop-out are complex. They also noted in particular causes related to lack of easy access to savings, the excessive emphasis on credit discipline, the frequent policy changes and conflict among Village Organization members.

Sixteen reasons for drop-out were catalogued by Hasan and Shahid (1995) as cited by Morduch and Haley (2002). Of these, four related to social pressure, four to resource constraints, and four to the organization itself. The remaining four were migration, death, joining another NGO and no access (as hoped) to Vulnerable Group Development cards."

2.1.1 Client Exit Issues Worldwide

Pagura (2003) had discussed client exit factors by region conducting over 20 field studies using the taxonomic framework presented above. Overall, most people are pushed out of MFOs, especially in Africa, due to adverse push factors. Market driven factors, however, also play a role in pulling clients away from MFOs, especially in Latin America and Asia, where the microfinance industry is more developed and competition is higher.

2.1.1.1 Client Exit Issues-Africa

In Africa, organizational failures were cited frequently as reasons for client exit. Clients complain of inappropriate loan sizes and repayment schedules, complicated and poorly explained lending regulations and dissatisfaction with the joint liability system as key factors for leaving. (Painter and MkNelly, 1999; Wright 1999; Kuwik and Mashaba, 2000; and Churchill and Halpern, 2001) as cited by Pagura (2003).

In addition, compulsory and inaccessible savings as well as group dynamic issues, such as absenteeism, personality conflicts among members, and frequency of group meetings prompt client attrition. (Kashangaki, 1999; Maximambali, 1999; Painter and MkNelly, 1999; Wright et al., 1999; Kuwik and Mashaba, 2000; Churchill and Halpern, 2001) as cited by Pagura (2003).
Idiosyncratic shocks, such as business problems like cash flow issues, seasonality factors, and lack of business skills caused clients to exit. (Maximambali, 1999; Wright et al., 1999; Kuwik and Mashaba, 2000; Simanowitz, 1999; Churchill and Halpern, 2001) as cited by Pagura (2003).

Researchers in Africa 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, 1999; Maximambali, 1999; Wright et al., 1999; Simanowitz, 1999) as cited by Pagura (2003).
Very limited evidence exists on clients being pulled out of MFOs in Africa due to market driven factors. In one program in Uganda clients left because they wanted to rest or seek larger loans elsewhere (Painter and MkNelly, 1999; Wright et al., 1999) as cited by Pagura (2003).
In contrast to the other two regions studied, it appears that clients of African MFOs are less likely to leave due to competition from other institutions.

The African microfinance industry, especially in East Africa, is much younger and smaller than those in Asia and Latin America (Pagura 2003).

Musona and Coetzee (2001) investigated the causes and potential impact of client drop-out in microfinance on product design in Zambia. The main purpose of their study was to improve understanding of why MFIs in Zambia suffer high level of drop out among their client and thus to facilitate MFIs effort to address the problem. The study used qualitative research methods of Focus Group Discussion (FDG) and Participatory Rapid Appraisal (PRA) techniques to gather data on management, credit officers, clients and quitted client from three MFI institutions. The study found among other things that young people are particularly prone to exit than their older counterparts. It was also found that men are more likely to exit because they do not like to work in groups. The study further identified the following factors as common reasons for client exit: delay in loan disbursement, reallocation of loan funds, overburdened by debt as a result of group liability, repayment schedules that mismatch client business cash flow and the size of loan per cycle.

In addition Hulme (1999) also investigated client exit from East Africa microfinance institutions with the view to determining who dropout from MFIs and why; who does not join MFIs and why. The main objective of the study was to improve the understanding of the extent to which and why client dropout in East African MFIs. This study employed qualitative research methods, in particular, in-depth interview with client of various MFIs and people who are no longer members of these MFIs. He found that MFIs clients in East Africa exit for many reasons. The MFIs reported that clients exit increase when there is adverse climatic condition for agriculture. The field staff also identified seasonality as the main reason for client exit. Particularly, they cited predictable period such as before and after Christmas, the Eid period, the period before harvest in the rural areas and the time for payment of school fees. The study further revealed that client exit in East Africa is partly due to the organizational policy, such as changes in agency policy or concern about sustainability which led to a rapid forced exit of large number of clients. Clients also drop out due to management problems and staff involvement in fraud and MFIs inability to disburse approved loans to client on time.

In a similar study, Maximambali (1999) looked at clients exit among Tanzanian microfinance institutions. The main purpose of the study was to ascertain the main reasons for client exit in Tanzania. The methodology employed was qualitative methods, particularly, in-depth interview of exit clients and Focus Group Discussion. The study reveals several reasons for client exit. The major reasons that led to client dropping out include: rigidity of products, the narrow range of product and services, group dynamics and time consuming group meeting. Other reasons identified include natural calamities, competition, seasonality factors, over all poor economic conditions, frequency of repayment schedules and lack of access to savings. Repayment problems due to client as a result of diversification of loan fund, lack of business skills, lack of financial discipline and extravagance and seasonal business were also found to be the main immediate cause of forced drop out in Tanzania.

In a related study, (Garuba 2004) designed a client exit study for Lapo, a microfinance institution in Nigeria. The prime objective for designing the study was for it to serve as a learning process towards the development of impact assessment system for AIMS project. However, Lapo had interest in the study because of the fact that it was experiencing increasing exit rate. The study adopted quantitative method to gather data for analysis. The major findings revealed by the study were that in Lapo client exit mainly because they feel the loan amount is too small and the interval between payments is too short. Other reasons such as inefficient disbursement of loan and the burden of paying for others who had defaulted also accounted for client exit. Some of client exited because they were either expelled from their union or had poor business performance. Some exit clients also complained of unfriendly attitude of some staff members of Lapo.

In a case study of client exit in Piyeli, a Malian MFI, Pagura (2003) used quantitative method design to establish the reasons for client exit in group loan schemes. She found that repayment frequency too rapid was the most important reason for client exit in Piyeli. Other factors such as loan length too short, repayment amount high, fees and interest rate too high and group problems contributed to the client exit in Piyeli.

In a study to explore in more detail how useful impact information can be gained from client exit interview and to present some ideas from the experience of the Small Enterprise Foundation (SEF) in South Africa, Simanowitz (1999) used two-stage qualitative approach, based on the understanding of the potential reasons for client drop out to achieve his aim.

The main findings of the study were categorized into: personal, business failure, problems in the group and the problems with the group policy and procedure. Personal reasons that caused exit were death and illness in the family, moving away from the area and found new job. Business reasons that caused exit include too much selling on credit, money for business diverted into household expenditure, inappropriate loan size and money not reinvested into business. Problems in the group included paying for other members default, poor group formation and expelled from the group. Finally, the problems that caused exit as a result of the organization's policy and procedure included repayment schedule inappropriate, high transport cost, loan too small and didn't like the loan utilization checks.

Kashangaki (1999) as cited by Asmah (2008) investigated drop out among Kenyan MFIs. The main purpose of the study was to shed light on the perceived high client exit rate in East Africa as well as to identify the reasons why clients exit in Kenya. In order to ascertain the reasons for drop out different methods were employed; detailed FGD with group leaders, detailed interviews with credit officers, individual group members and actual drop out themselves. Participatory Rapid Appraisal Technique was also used. The study found that the reasons for client exit are varied and complex and depends on a variety of different circumstances. Many clients drop out because they were unhappy with or unable to comply with the program requirements. Drop out also occurs due to illness and migration. Others drop out because they were forced out due to problem of repayment or disagreement with loan officers/other group members.

Painter and MkNelly (1999) as cited by Asmah (2008) found that client exit is attributed to factors internal and external to program policy and practice. They found that early-cycle exit is more tied to lack of compliance with group regulations, whereas late-cycle exit is linked with inconveniences of group meeting and limited savings access. Specifically, the study found that seasonality, migration or poor market or economic activity, dissatisfaction with weekly payment; illness, small loan size, inaccessible savings, repayment problems and group guarantee requirement are the major reasons for client exit.

Musona and Coetzee (2001**)** posted causes of quitting out from MFI program in the following manner**.** The surprisingly high dropout rates experienced by East African MFIs may be indicative of a mismatch between client attributes and conditions (overall market attributes) and product design and delivery. This may be due to many reasons, inter alia, the inflexible financial services MFIs provide to their clients, dissatisfaction with the quality of financial services being offered by the organization or better services being offered by another MFIs.

They also found clear gender differences among quitting clients; men are more likely to dropout because they do not like to work in groups. They also further found a seasonal pattern to dropout with the highest incidence in the first two months of the year.

Recognizing that as the reasons for dropout could vary among clients and institutions, Musona and Coetzee (2001**)** additionally reported the following common reasons:

- Delays in loan disbursement
- Reallocation of loan funds
- Group liability
- Loan Insurance Fund:
- Loan Amount
- Weekly Repayment
- Customer Service
- Multiple Borrowing
- Product Design (the products on offer are inflexible and not client responsive)

The Focus Series (2000), was also conducted the research on causes of client drop out in East African MFIs referring and basing itself several researches conducted before. The series posted the following facts on the issues of client's termination from the loan program:

- Most solidarity-group-based MFIs report significant numbers of dropouts during the initial period of member training. Some also experience many dropouts after the first few loan cycles. This is due to two factors: "product testing" by clients and "weeding-out" by MFIs. Typically, dropout incidence also tends to rise during the later loan cycles; this, however, arises primarily from clients facing problems with higher weekly repayments as loan size increases without a corresponding extension of the loan repayment term.
- Most field staff can identify periods in which dropout rates are higher: typical "problem times" are religious festivals (Christmas, Eid, etc.), the period before harvest, and the time for payment of school fees.

- Most MFIs have experienced at least one major “shake-out” when changes in policies have led to the rapid exit of a large number of clients.
- A number of MFIs have experienced increased dropouts because of management problems, such as fraud, or cash flow difficulties that prevented the MFI from disbursing promised loans to clients on time.
- Poorer clients tend to drop out when the average size of loans within the joint liability group rises to high levels and they take the risk of guaranteeing much larger loans than they themselves can take. In addition, 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, leads to dropout. By contrast, wealthier clients of MFIs also show a propensity to drop out. The main reasons for this are
    - ✓ the desire for larger loans as the maximum loans given by MFIs are too small for their growing businesses;
    - ✓ annoyance at having anticipated loans delayed because of other group members being in arrears; and,
    - ✓ Frustration with the amount of time spent in group meetings and in trying to recruit new members to replace dropouts. As a Kampala shopkeeper told the researchers, “…meeting time is killing my business.”

2.1.1.2 Client Exit Issues-Asia

Several studies in Asia, primarily in Bangladesh, were conducted on four group-lending institutions, which examined client exit issues in detail. Several of the organizations noted the principal reasons for exit are due to poor loan products and services. On the depositor side, inaccessibility and low interest on savings contribute to client attrition (Hassan and Shahid, 1995; Khan and Chowdury, 1995; Mustafa et al., 1996) as cited by Pagura (2003). On the borrower side, complaints about the frequency and length of group meetings, the small loan amounts and high interest rates, and negligence of staff and their overall poor quality all lead to client exit (Khan and Chowdury, 1995; ASA, 1996) as cited by Pagura (2003). Not wanting to pay for defaulting group members and other group dynamic issues also play a role in client exit in this region (Hassan and Shahid, 1995; and Mustafa et al., 1996) as cited by Pagura (2003).

Idiosyncratic shock factors that provoke exit include family problems and/or disapproval, migration, death, or cash flow problems within the business (Hassan and Shahid, 1995; Khan and Chowdury, 1995) as cited by Pagura (2003). Former clients typically shifted to another MFO because of better products and services (Hassan and Shahid, 1995; Khan and Chowdury, 1995; Hulme and Mosley, 1997; Evans 1999) as cited by Pagura (2003).

2.1.1.3 Client Exit Issues-Latin America

The Latin American studies reviewed, reasons for exit are also due to both *adverse shock push and market driven pull factors.* Organizational design and policy failures, such as small loan amounts, too rapid repayment schedules, and high interest rate contribute to client exits (Painter and MkNelly, 1999) and Churchill and Halpern, 2001) as cited by Pagura (2003). In addition, clients leave due to limited access to savings and group problems, such as length and frequency of meetings, personality conflicts, and an overall dissatisfaction with the joint-liability system (Painter and MkNelly, 1999) as cited by Pagura (2003). Seasonality factors that adversely influence clients' market activity, business failures, illness and personal problems (Painter and MkNelly, 1999; and Churchill and Halpern, 2001) as cited by Pagura (2003) were also among the major reasons for dropout.

Churchil as cited by Pagura (2003) states that competition in the Latin American setting, in general is one explanation why clients leave MFOs. This was true in Bolivia in which competition from Chilean consumer finance companies caused dropouts to double for large Bolivian MFO offering individual loans (Schreiner, 2001). Clients also leave because they are *resting,* meaning they are not interested in another loan at the time. The *resting* is a result of no expressed need, or a realization that the client's opportunity cost of time is too high to engage in further group borrowing (Churchil, 2000) as cited by Pagura (2003).

2.2 EMPIRICAL Literature

2.2.1. Gasha Micro Financing S. Co.

Dackauskaite (2009) conducted a research to investigate the major reasons of the client drop out from Micro Finance institute in general and specifically in Gasha Micro Finance S.co, Ethiopia, and the impacts of the exit. The research was carried out during a period of three months starting in March 2009 and ending in May 2009. The target group of the research was clients who recently left Gasha. In all there were 47 exit clients interviewed, majority of whom left within three months from the start of the research. The clients for the interviews were selected from Addis Ababa and from other 4 cities – all located in region of Oromia. The clients were asked about their reasons for exit, the usage of the loan and overall opinion of the program.

Even though 4 years have passed since the research is conducted and though it is expected that some of the causes that were discussed in the research have been changed or improved, I have referred the empirical research that conducted by Dackauskaite (2009) to give clear picture about the Ethiopian drop out causes to the users of the research.

There are two types of loans that Gasha gives: group and individual loans. The group loans were given for a group of individuals who cannot produce collateral and who were made jointly liable for the repayment of the loan of each of the group members. The group loans were provided as working capital to start or expand income generating activities. Individual loans were given to individuals who could not present collateral in form of fixed assets or own salary or salary of the third party.

2.2.2 Clients' Exit Reasons from Gasha Microfinance

- Dissatisfaction with characteristics of the loan
- Discontent with the loan attributes and they all indicated that they deserted, as the loan amount was too small, the interest rate was too high and the contract period was too short.
- Dissatisfaction with the joint liability contracts
- Previous experience of paying the debt for someone else in the group.
- Clients were afraid that they would have to pay the debts of other group members again,
- Mischief or mistrust in the group and inability to work together.
- Unwillingness of the group to take any more loans and the group disbanded.

- Adverse circumstances that undermined their financial capabilities. The clients suffered from unfavorable environmental influences that affected the performance of their businesses or idiosyncratic shocks that hampered the ability and capacity of the client to continue business at the same level.
- Instability in the market, increasing input prices, decreasing purchasing power of customers and consequently lower profits as well as illness or death in the family
- In the accounts of clients with individual loans graduation, or maturity. The clients graduated when they met their consumption needs, accumulated enough capital or simply when they did not need another loan.
- Financial difficulties that were caused either by poor performance of business or by illness or death in the family.

Explanation is required on the reasons why another research on '*causes of client dropout in OCSSCO*' is required while the research was already conducted in an Ethiopian MFI, Gasha Micro Finance Institute.

This is because, even though Gasha and OCSSCO are operating in the same country where more or less they are sharing the same market, the research findings in Gasha Microfinance Institute might not fully reflect OCSSCOs situations and/or the causes of drop out both in Gasha and OCSSCO might not be similar. The following facts were also additional reasons to conduct the research on the case of OCSSCO:

- OCSSCO is one of the biggest MFIs in the country with more than 250 branches and more than 600,000 outstanding clients, operating in the whole Oromia region while Gasha is smaller in size and operates in limited areas of the region
- It is known that OCSSCOs' interest rate is smaller when compared with other MFIs in the country. This was taken as one factor because interest rate is identified as causes of exit in several studies made.
- What makes this research different from other is that it covered and addresses not only the quitted clients but also the active clients in order to explore more possible potential causes that could push and pull active clients.
- The implications of the drop out, which is not found in several studies of same topic, were also discussed here in this research to show the consequences of client exits.

2.3 Commercial Implications of a Rising Exit Rate

A rising exit rate may indicate major problems for an MFI and even threaten its survival. Clients may be unhappy with terms and conditions and the leadership, or may be unhappy on the way staff treated them. They may be switching to competitors, or overall the financial services demand may be declining due to a change in the economic climate.

The short-run financial cost of losing a client is obviously equal to the loss of future revenue less any related costs.

Musona and Coetzee (2001**)** posted causes of quitting out from MFI program and its cost implications in the following manner**.** Members "dropping out" or leaving an MFI are costly to the organization in many ways – in terms of investments in training and "social preparation", in terms of the opportunity costs of losing the older, more experienced members most likely to take larger loans. In the longer-term, changes in exit rates also affect reputation and goodwill. Leavers may spread stories that deter others. High exit rates associated with adverse welfare effects on users may also scare away potential investors (from the private sector as well as donors) who are jealous of their reputations. This may raise the cost of capital and possibly also costs of compliance with regulation. An increase in exit rates may also be a lead indicator of a more widespread loss of goodwill among users, which may subsequently lead to contract enforcement problems or even political hostility.

A key determinant of commercial viability is staff productivity, and high exit rates are likely to reduce this because of fixed costs associated with induction and screening of new members. To put the same point another way, high exit rates increase the effort required to achieve organizational level economies of scale by increasing the total portfolio (Copestake, 2002).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGIES

3.1 Research Design

OCSSCOs' organization structure is built in three layers: at the top of the layer there is Head office, in the middle there are 18 Zonal offices and the last layer is the branch offices where the company's core businesses take place and where customers are directly contacted. The branches are located between 25-650 km away from head office which is found in the capital city of the country and the region, Addis Ababa.

OCSSCO as of December 2013 has 258 operational branches working across the Woredas/district's of the Oromia National Regional State of which 40 branches started operation in the year 2012/13. Accordingly, these newly opened branches were excluded from the sample group because clients in these branches did not start quitting from the loan program.

The nature of the research is both descriptive and casual. It was designed to be descriptive because in the first part of the research it identifies the profile and characteristics of the exited clients (identifying who quitted at most) as well as the loan steps/cycles on which clients mostly exited. It is casual because the research investigated why clients exited (defected) from the loan program.

3.2 Population and Sampling Techniques

First, even though OCSSCO has been providing about 5 loan types namely Group Based Loan, MSE Loan, Business Loan, General Purpose Loan and Housing Loan, the type of loan and clients that was chosen for this research was Group Based Loan clients because this loan type covers more than 85% of the total loan portfolio of the company and due to the fact that more than 95% of the dropout has been reported from this loan type.

Second, when selecting branches for the research, the availability and non availability of competing MFIs was taken into account to see whether competition was contributed for the dropout. Third, the study covered both rural and urban group based clients because some of the attributes of the two types of the group based loans were different.

These differences include: frequency of repayment, interest rate and group size are among the major differences of the two group based loan types. Fourth, not only dropout clients but also active clients were included in the study to identify potential causes of dropout. Fifth, branches that are located in areas where mostly religion friendly financial services requested were also included in the sample branches to assess whether the non availability of religion friendly financial products contributed for the dropout. Sixth, 15 Branches (10 branches where other MFIs-competing and 5 branches where there are no other MFIs operating in the area) were purposely selected for the study. Among the 15 branches, 3 of them were assumed to be where religion friendly financial products were demanded. Finally 13 clients from each branch (6 active clients and 7 quitted clients) totally 195 clients (90 active and 105 dropped out clients) were randomly selected for the interview.

FGDs were conducted to enable collecting in-depth qualitative information on the reasons of quitting from the programs and product attributes. The discussions were fairly open-ended, to explore more exit reasons that had not previously identified.

Accordingly, two FGD that had totally 7 dropout clients were conducted to explore more ideas beyond what were stated in the questionnaire. In addition, two FGD with branch office staffs consisting 8 members as well as key informant discussion was made with the head office staff consisting 4 members to further strengthening the results drawn from the study.

3.3. Types of Data and Tools/Instruments of Data Collection

The research was conducted first, in collecting both qualitative and quantitative relevant data and information through interviewing dropout and active clients using open and close-ended semi structured questionnaires, second, FGD discussions were made with clients, loan officers and managers of the selected branches, third, operational reports were referred and organizational structure of OCSSCO were also used to assess facts that are relating with the study, fourth, several researches on same topics and many literatures were reviewed and used as a spring board to further strengthening the study made.

In designing the questionnaire, care was given to maintain and ensure the validity and relevance of the questions in order the results drawn from the responses assist in attaining the research objectives. Care was also taken to ensure the reliability of the responses in developing respondent’s confidence while responding.

The tools in the questionnaire that was prepared for the dropout clients have three main parts. The first part of the questionnaire focused on the identification of the profile and characteristics of the dropout client while the second part focused to find the reasons why the clients left the program, and the third part asked suggestions to identify areas that need change and improvements. Similarly, the questionnaire for active clients have also three parts that the first part consists of data about personal profile and characteristics of the active clients, the second part consists questions that help assessing the suitable/ unsuitable attributes of the financial products and the third part asked suggestions to identify areas that need change and improvements. One of the purposes of including active clients in the study was to identify the suitability/unsuitability of the financial services that OCSSCO currently has been providing in order to identify the potential push factors that motivate clients to quit from the program.

3.4. Procedures of Data Collection

Sufficient orientation and explanation were given to the data collectors on each question that were prepared to quitted and active clients. In addition, to avoid respondent biasness orientation was also given to the respondents focusing on the purpose of the study.

Questions were interpreted where necessary into local language (Oromeffa) by data enumerator while respondents respond the questions.

3.5. Methods of Data Analysis

The data that that were collected by questionnaire survey have been presented through frequency distribution, percentage and other tabulations. Indeed, a simple tabulation is made in order to determine the ex-member profile and to identify the main causes of departure. It is supported by cross tabulation to analyze the most frequent reasons leading to exit. The qualitative data were intertwined with the quantitative data to further enrich and enhance the information that were collected.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Profile of Quitted Clients

Personal Characteristics

Under the personal characteristics, the study attempts to identify the age composition and, gender mix of exited clients and ascertaining their marital status as well the educational background.

Table 4.1: Age Distribution of Quitted Clients

Age	Frequency	Percentage
18 – 35	59	56.19
36 – 59	44	41.9
>=60	2	1.92
Total	**105**	**100**

Source: Primary Data

The figures on the table above shows the personal characteristics of the quitted clients in which the most of the quitted clients were relatively younger people with the age range of 18-35 years (56.19%) which might indicates that younger people have no patience than elders for stringent policies and procedures. Younger seems more restless in searching for better options and alternatives until the product meets their demand again, they are fearless to drop what has been on hand, if not satisfied.

Table 4.2: Gender Composition of Quitted Clients

Gender	Number	Percentage
Female	39	37.14
Male	66	62.86
Total	**105**	**100**

Source: Primary Data

There are clear gender differences among quitting clients; men are more likely to dropout because they might not like to work in groups.

Table 4.3: Marital Status of Quitted Clients

Marital Status	Frequency	Percentage
Married	90	85.71
Single	7	6.67
Divorced	7	6.67
Separated	1	0.95
Total	**105**	**100**

Source: Primary Data

Majority of the exit client are married (85.71 percent). It seems that married people are not interested to take any responsibilities that could endanger family property which could arise from group loan liability in which group members cross guarantee each other. The table below provides data of the marital status.

The age diversifications of the people in the house hold of the exit clients are presented here below in table 4.4

Table 4.4: Household Characteristics

	Age<18	Age 18-59	Age >=60	Total
Number of people	333	245	7	585
• Average size of the family: 6 • Dependency Ratio: 1.39 • Number of exit households: 105				

Source: Primary Data

The data in table 4.4 indicates that quitted clients were part of a relatively higher household i.e. in average 6 members (585/105). These households are also characterized by high dependency ratio of 1.39 (333 + 7)/245. Dependency ratio is defined as the number of those less than 18 and older than 60 years old divided by the number of active members of the household, *i.e.*, those between 18 and 60 years old.

It is assumed that the head of the households with several children/unproductive members, don't want to take or stay in the group loan where there is group liability which may endanger the property of the family at the time default faces between the group members

4.2 Formal and Informal Financial Services Used

In order to identify whether availability of options (competition) have any effect on client exit, the study has identified whether the clients have been used other sources in addition to OCSSCOs' loan.

Table 4.5 below demonstrates number of quitted clients accessing other sources and not borrowed from other sources while they were active clients of OCSSCO.

Table 4.5: Clients Borrowed and not Borrowed from Other Sources

Items	Borrowed	Not borrowed	Total
Clients	68	37	105
Percentage	**64.76**	**35.24**	**100**

Source: Primary Data

Out of 105 quitted clients interviewed, 68 of them (64.76 %) accessed other sources that include other MFI, cooperatives, traditional money lenders, VSLAs and SHG while the remaining 37 (35.24%) did not borrow from any other sources. It is possible to assume from the results that the availability of other sources of loan could be one of the push factors to leave the program. Moreover, the smallness of the loan size that OCSSCO provided might forced the clients to search for other formal and informal sources to meet their financial needs.

The study has also tried to categorize the sources of the loan in to formal sources (MFI and Cooperatives) and informal sources (Idir, Ekub, SHG, friends, Family members, and Government/NGO Programs and Traditional money lenders).

Table 4.6: Source of Borrowing

Source of Borrowing	Frequency	Percentage
Formal (MFI, Cooperatives)	44	30.34
Informal (Idir, Ekub, SHG, friends and etc)	101	69.66
Total	145	100

Source: Primary Data

The figures tell that informal sources were more available and easy to access than the formal sources because formal sources could be somewhat strict and most MFIs operating in the same area exchange information while recruiting new clients in order to reduce multiple loans that mostly caused over-indebtedness of the clients. The other reason could be members who were forming the loan groups together could seriously screen and exclude from the loan group those who had borrowed from formal sources. Practioners unanimously agreed that one of the advantages of loan group is that since people who are forming the group are mostly from the same village, they know the financial details of the other peers.

It is mostly known and observed that the lending rate of informal sources (traditional money lenders, friends, VSLAs and etc) is relatively higher than the formal sources. Despite this facts, people were borrowing from the informal source because primarily, the number of MFIs/cooperatives that are providing financial services to the community is not sufficient or secondly still people might not preferring to borrow from the formal sources due to their stringent procedures, polices, loan size and lastly as indicated above MFIs might exchange information to protect multiple loans of their active clients.

Note that the number of frequencies in table 4.6 above (145) is greater than the number of exit clients interviewed (105). This indicates that the quitted clients had borrowed from multiple sources in addition to OCSSCOs' loan.

4.3 Business Characteristics

Analysis of business characteristics indicates that quitted clients that were interviewed were mostly found in rural centers (69.52%) and while less percentage is located in the urban areas (30.48%). The table below summarizes business locations.

Table 4.7: Business Locations of the quitted clients

Location	Number of clients	Percentage
Urban	32	30.48
Rural	73	69.52
Total	**105**	**100**

Source: Primary Data

Table 4.8: Business Activities of Quitted Clients

Business activity	Frequency	Percentage of responses against the number of respondents (105)
Petty trading and cafeteria	38	36.19
Agricultural inputs, farm oxen and land Rent	75	71.43
Fattening	28	26.67
Dairy	12	11.43

Source: Primary Data

Many of the quitted clients in one way or the other engaged in agricultural activities. This could be seen in the area of Agriculture (inputs, land, farm oxen) 75 counts that represent (71.43%), Fattening and Dairy 40 counts that represent 38.10% and petty trades 38 counts which is equal to 36.19% from the total counts.

As the figures in table 4.7 indicate, about 69.52% of the quitted clients were residents of rural areas which again consistent with the business activities that the quitted clients were engaged on. The figures in table 4.8 confirm most of the quitted clients were engaged on agriculture related businesses.

4.4 Loan Characteristics

The analysis of loan characteristics indicate that substantial number of clients quitted after completing 1st cycle (44.76%) and 32.38% at their 2nd cycle. It is expected that the 1st and 2nd cycles are critical stages in which both clients and MFI decide about the loan program. The clients start to think the responsibilities related to group liability, the true prices and opportunity costs of the financial services, the loan size and other center and group obligations.

The opportunity costs that the clients start to think are the time spent on the long training, monthly meetings, the potential liabilities that could face due to default clients and etc.

As the relationships matured the clients start to consider herself as one part (member) of the MFI and become familiar with the program policies, procedures, compulsory savings and other obligations, accumulate both voluntary and compulsory savings, the loan size starts to increase by steps, pressure of credit officers on individual members start to decline and generally as the relationships continue, mostly after 1st and 2nd cycles, situations in MFI encourage clients to continue the relationships. The figures in the table 4.9 below confirm the true characteristics of the clients at different cycles that have been discussed on this paragraph.

Table 4.9: Loan Cycles before Exit

Number of loans received	Frequency	Percentages
1	47	44.76
2	34	32.38
3	14	13.33
4+	10	9.53
Total	**105**	**100**

Source: Primary Data

Even though the trend of self exit of the clients after 1st and 2nd loan cycles is commonly declining, the trend of terminating the contract that initiated by the MFI start to rise after 1st and 2nd loan cycles. After these cycles the field/credit officers have got sufficient evidence to end the relationships of some of the clients from the center/groups and reject successive loan cycles for those who were acting against group/center bylaws and showing signals of bad character on the loan provided.

Termination of the contract after the 1st and 2nd loan cycles are not only initiated by MFI/ the credit officers but also by group members themselves. The group members, because of the responsibilities of the group liability, become serious and strict and start to rescreen themselves and exclude those who had been violating bylaws, those whose productivity and generating income at household level are not improving, those who diverted the loan purposes, those whose bad character was reflected and demonstrated in breaking the agreement.

4.5 Reasons for Client Dropout

The main objective of this study is to identify the reasons why clients quit OCSSCO's credit services. In order to identify the possible reasons, the following major category of common problems were developed as main causes for exit (1) loan policies and procedure, (2) group lending methodology (3) clients business or activities financed (4) personal reasons of clients (5) socio and economic reasons.

4.5.1 Problem with Loan Policies and Procedure

The following loan attributes were developed and incorporated in the questionnaire to identify whether the problems with loan policies and procedures were one of the push factors:

I. The size of the loan
II. The loan term to generate income and repay the loan
III. Frequency of the installment
IV. Affordability of interest and service charges as well as other opportunity costs
V. Efficiency of MFIs' in disbursing the loan and providing other services
VI. Untimely loan disbursement
VII. Compulsory savings and monthly meetings

Table 4.10: Problems with Loan Policies and Procedures

Reasons	Frequency	Percentage of Responses against number of respondents (105)
Loan amount was too small	64	60.95
Loan term was too short	34	32.38
Frequency of installment	11	10.48
Loan became too expensive	18	17.14
Inefficiency in loan disbursement	10	9.52
Untimely loan disbursement	9	8.57
Compulsory savings and meetings	7	6.67

Source: Primary Data

Among the category of problems of policies and procedures, two of the reasons have considerable influence /push factors on client exit: Loan amount was too small (60.95%) and loan term was too short (32.38%).

Other drop out occurred due to other conditions such as Loan became too expensive (17.14%), Frequency of installment (10.48%), inefficiency in loan disbursement (9.52%) and Compulsory savings and meetings (6.67%) were among major reasons for dropout. The frequency of installment was mostly blamed by x-urban group based loan customers.

Similar studies also demonstrated that clients leave microfinance loan schemes due to MFIs program policies. For example, Painter and MkNelly,(1999) found that client exit mainly due to the problem of repayment schedules and inappropriate loan size.

4.5.2 Problems in Group Lending Methodology

Group lending becomes popular after the Bangladesh's Grammen bank introduced the methodology in 1970. It is a method in which the members cross guarantee each other to access micro loans without presenting additional property collateral or personal guarantee. It is also a systematic way in which peer pressure is implemented to enforce the micro loan repayments that borrowed without property collateral or personal guarantee.

In group lending methodology, the group members are fully entitled to screen the potential group members that can be eligible for the loan because the liability that can result from the default of any group members will be shared among the remaining group members.

In OCSSCO the loan group was formed by 4-6 members and the center is formed by 8-10 loan groups.

Thus, a center has 32-60 members which OCSSCO has preferred to organize the clients by center through group and center liability due to the economic advantages of economies of scale that can be generated from lending by center.

In OCSSCO if more than 50% of the group members defaulted, the liability goes to the center otherwise if the defaulted clients are below 50% of the group members, the liability is limited to the group members only.

Thus, to assess whether the group lending methodology was pushing out the clients, the following issues that are related with the methodology were developed and incorporated in the questionnaire:

(i) The group member dismissed by the group members

(ii) The group itself denied the loan by the MFI

(iii) The group member left the group due to personal conflict with other group members

(iv) The member quitted because of dissatisfaction on the group leadership

(v) The group member forced to leave because s/he was unable/unwilling to attend all group meetings

(vi) The member was uncomfortable with group/joint liability, rule and/or pressure of the group loan such as restriction of accessing accumulated savings.

Table 4.11 demonstrates the contribution of each problem under the group lending methodology category.

Table 4.11: Problems in Group Lending Methodology

Exit Reasons	**Frequency**	**Percentage of responses against total number of respondents(105)**
Dismissed by the group	9	8.57
The Group denied	6	5.71
Personal conflict with other members	12	11.43
Unhappy about the group leadership Unhappy about the group leadership	4	3.81
Unable to attend group meetings	3	2.86
Group/joint liability, rule and/or pressure of the group loan and restriction of accessing accumulated savings	43	40.95

Source: Primary Data

Accordingly, one influential reason in this category was being uncomfortable with group/joint liability, rule and/or pressure of the group loan including restriction of accessing accumulated savings (40.95%).

The second major reason that caused ex-clients to quit from the loan program under the group lending methodology was the personal conflict of the quitted client with other members in the group (11.43%).

According to one of the branch managers who participated in FGD, the personal conflict sometimes arouse among the group members due the group liability in which group members control each other in loan utilization, diversion of the loan, attendance of the monthly meetings and depositing monthly compulsory savings. If someone from the group fails to meet the group bylaws, naturally personal conflicts follow.

The other cause was the group denied the loan by the lending institute (8.57%). Mostly the cause of denying the loan by the MFI is due to failure of the group to meet the obligations that are contracted on bylaws. One of the reasons that cause denial of the subsequent loan by the lending institute was the repayment problem of some group members. In a strict solidarity group principle, the whole group is denied the subsequent loan, if the group is unable to pay fully the previous loan.

The group leadership was also one of the reasons covering (3.81%) from the total causes under the group lending methodology category. OCSSCOs' center has center chief, center secretary and group leaders. In OCSSCO, the centers' leadership positions are rotated among the center and group members aiming at building the leadership capacity of all targets at small level. The maximum service years of the leaders are two years.

The group leaders are the first layer of the structure of the center and responsible to maintain the healthiness of the group loan through strict follow up and loan utilization supervision at members' village. Thus, as a chief of the group when responsibly watch after the loan, conflict can be unavoidable in which the remaining members might consider it as the problem of leadership which at end may lead some uncomfortable clients to drop out from the program.

Dismissal by the group members was also one of the reasons sharing (8.57%) from the category. Group members dismiss the member from the loan group, if the member found misbehaving and acting against the agreement made on the loan contract.

Unable to attend the monthly group meetings has also contributed 2.86% for the drop out. Most of the interviewed clients were not comfortable about the monthly meetings, though it was not the major reason for the dropout.

4.5.3 Problems in the Client Business Operation

Clients' business condition/operation by itself might lead to drop out from the program. The following issues were developed and included in the questionnaire:

(i) Having enough working capital

(ii) Seasonality of the clients' business

(iii) The need to graduate from the current program to the modality that offer larger loans,

(iv) Weak condition of the business

(v) Closing the business to do something else

(vi) Selling the existing business.

Table 4.12: Problems in the Clients' Business Operations

Reasons	**Frequency**	**Percentage Of responses against the number of respondents (105)**
Having enough working capital	21	20
Seasonality of business activity	3	2.86
Graduating to program that Offer higher loan	14	13.33
Weak condition of business	3	2.86
Closed Business to do something else	3	2.86
I sold Business	1	0.95

Source: Primary Data

As indicated in table 4.12, clients were mainly dropped out because of having accumulated enough working capital (20%). As the relationships matured, it is obvious that clients accumulate compulsory savings that could not be withdrawn until the client quit from the program. In addition the clients could have accumulated voluntary savings even though it is permissible to withdraw any time regardless of the loan liability.

Therefore, ones clients have accumulated both compulsory and voluntary savings that enables to finance their working capital needs, there is no reason to borrow in paying interest and service charges with additional risks that are attached with group liability.

As one of the interviewed client commented on the loan size, mostly for those who have borrowed for longer years, there was no big differences between what they were borrowed and what they own as accumulated savings. Thus, it seems wise decision to quit as long as what they have accumulated as saving is enough to finance their working capital needs.

The other significant ratio among the problems was scored by graduating to the programs that offer higher loan (13.33%). As the relationships matured and clients demonstrate their credit worthiness, they need to graduate from the regular program to other better programs that can offer relatively higher loan size. Some of the quitted clients migrated to Rural MSE loan where relatively higher loan size is provided.

Seasonality of the business, weak condition of the business and closing the business are similar in character and scored equal results (2.86%). As the business starts to decline due to seasonality or weak conditions, the client her/him self hesitate to borrow because of the risks that are related with group liability in one side and group members can also ban the clients whose business is declining.

4.5.4 Personal Reasons

In order to examine whether personal reasons were contributing for the dropout, the following six items were identified and included in the questionnaire:

(i) Spending money on crisis
(ii) Detaching/separating from income supporter,
(iii) No time or ability to continue business
(iv) Relocating/transferring to another place
(v) Rejection of borrowing by family member/s and
(vi) Religion/cultural reasons. Accordingly, the following results were recorded by each item:

Table 4.13: Personal Reasons

Problems	Frequency	Percentage Of responses against the number of respondents (105)
Spending money on crisis	9	8.57
Separating with income Supporter	4	3.81
Unable to continue the business	5	4.76
Transferring to another place	6	5.71
Rejected by family member	16	15.24
Religion/cultural reasons	24	22.86

Source: Primary Data

22.86 percent of interviewed clients responded that the major reason for their quitting was borrowing with interest which is forbidden in the religion they are following. They were recommending if OCSSCO introduce interest free loan that fits to the doctrine of their religion.

The other major reason in this category was family opposition/rejection of the loan (15.24%). The rejection comes mostly because the group members are severally and jointly liable for any default, the family of the borrower may fear any attached liability that can endanger the property of the family due to the default of other members in the group. Commonly, the family members resist the loan when the economic status of the group members varies significantly fearing that the burden of the weak can be carried by the better family.

8.57% of the counts indicates the drop out was caused by spending the loan and may be some resources of the family to cope up the crisis that faced the family during the loan term. Most of the target of OCSSCO and may be other MFIs are the poor who cannot absorb the external shocks. Thus it is obvious that when crisis faced one’s ability to repay the loan can decline so that the group members can exclude the victim from the loan group fearing default and at the same time the victim may claim her/his accumulated savings that can be withdrawn only when client quits from the program to cover the burden of the crisis.

Shifting to another places, separating with income supporter and unable to run business were also caused the dropout as indicated in table 4.13 above.

4.5.5 Community and Economic Reasons

This section was explained by the following three items; (i) business destroyed by disaster, crop or price failure (ii) Many of my customers buy from the competition(sales dropped because of competition) (iii) my business affected by poor economic conditions.

Table 4.14: Community and Economic Reasons

Problems	Frequency	Percentage of responses against the number of respondents (105)
Disaster, Crop and Price failure	1	0.95
Competition	-	-
Poor economic conditions	1	0.95
Total	**2**	**100**

Source: Primary Data

Community and economic reasons contributed less to client dropout in OCSSCO. As stated in the above table two of the items received only one count for each items, i.e. Disaster, Crop and Price failure (1 count) and Poor economic conditions (one count). The figure justifies that for the last 7 years, the country has been reporting double digit economic growth and particularly the growth of Agricultural sector was tremendous. In addition to productivity of the agriculture sector, the price of the product was highly encouraging farmers to produce more. Thus as the counts in the above table, economic reasons could not be drop out reasons due to the fact that more than 85% of OCSSCOs' portfolio finances the Agriculture sector.

4.5.6 General Comments of the Quitted Clients

The quitted clients were also asked to give additional opinion on the following open ended questions in order to look at their feelings and identify areas of dissatisfactions:

- What they liked most about OCSSCO
- What OCSSCO should improve
- Feeling about OCSSCOs' staff in particular credit officers
- Advices provided by quitted clients if asked by someone about OCSSCO

Accordingly, the quitted clients responded the following answer for the questions '***What they liked most about OCSSCO':*** business advices given by OCSSCOs' staff***, o***ne time repayment for rural group based loan (balloon type repayment), and lower interest rate, *s*taff punctuality *and n*on collateral loan for the poor were among major responses given by quitted clients.

For the question ***what should OCSSCO improve***: loan size, group/center liability, not to deduct group saving and service charges from the loan, introducing individual loan, office outlay and quality, assigning capable staff with good communication skill, updating clients pass book and ledgers, saving withdrawal processes particularly compulsory savings were among major responses given by quitted clients.

For the question ***feeling about OCSSCOs' staff particularly on credit officers: m***ost of the clients praise OCSSCOs' staff and commitment while two individuals from the interviewed quitted clients complained OCSSCOs' staff saying '***they were not respecting clients'.***

For the question ***what do you advice if someone asks you about OCSSCO:*** almost all of the interviewed quitted clients said the financial service that are provided by OCSSCO can change the lives of the poor, though there are some policies that need change, thus we positively recommend, if we are asked advices by others.

Thus, most of the quitted clients again complained OCSSCOs' loan policies and loan attributes when asked what OCSSCO should improve in the open ended questions. The complaints mentioned here and the responses summarized from the questionnaire survey were also similar.

Though most of the quitted clients were discontinued the relationships due to different push factors and problems that were discussed under different category of problems, still most of the quitted clients consider OCSSCO positively and recommend OCSSCO if asked by someone else.

However, still some of the quitted clients did not hide the facts that indicate their dissatisfaction on OCSSCOs staff (disrespecting), inadequate service (saving withdrawal and disbursement processes, updating clients pass book, ledgers and etc).

4.5.7 Results of Group Discussions

In addition to the above, the branch managers and credit officers raised the following summary of exit reasons while conducting group discussions:

- The clients were discouraged to take another loan because of the previous experience of paying the debt for someone else in the group
- Since OCSSCO has been financing rural and Urban Micro and Small Enterprises (MSEs) with relatively higher loan size to small number of members, some of the clients were shifted to MSEs product line
- Some Micro Finance Institutes lend individual loan which OCSSCO has not yet introduced in rural areas. Thus, those who have got land ownership certificate quitted from OCSSCO and borrowed from other MFI using the certificate as loan guarantee.
- Good yield of Agricultural crops and coffee were also another reasons for exit
- Incidences of reported fraud and embezzlements in the MFI could be causes of withdrawal from the program
- Clients requested for rest if they have accumulated sufficient voluntary and compulsory savings
- They broke the relationships when they have cattle to sell
- Remittance from family member and relatives were also one of the causes of discontinuing the banking relationships

4.6 Opinions of Active Clients

Though it was planned to assess the opinions of 90 active clients, the actual active clients responded were 84. The purposes of assessing the opinion of the active clients were first to identify areas of dissatisfaction on the attributes of OCSSCOS' financial services (Credit and saving). Second, to relate and compare the findings with what clients who have quitted responded about the reasons of terminating from the program. Third, the assessment of the opinions of the active clients is expected to identify the possible potential reasons that could push active clients to quitting. The method that used to explore the opinion of the active clients was through collecting and organizing clients' view on suitability or unsuitability of the features of the financial products that were offered by OCSSCO. The following table shows the summary of the findings.

Table 4.15: Suitability/Unsuitability of Loan Features

Loan Feature	Suitable	Unsuitable	Total	Percentage	
				Suitable	Unsuitable
The loan amount	31	53	84	36.90	63.10
The loan length (Loan term)	72	12	84	85.71	14.29
The repayment schedule	70	14	84	83.33	16.67
The price of the loan such as interest and fees	71	13	84	84.52	15.48
Efficiency of the disbursement of the loans	69	15	84	82.14	17.86
The timing of the loan (the period in which it is disbursed)	66	18	84	78.57	21.43
The policies of the center/group (group and center liability	30	54	84	35.71	64.29
Size of the center/group	32	52	84	38.09	61.91
Accessing savings both compulsory and voluntary	36	48	84	42.86	57.14
Quality of service delivery	68	16	84	80.95	19.05
Center/group meeting	44	40	84	52.38	47.62
Compulsory Saving & Training	45	39	84	53.57	46.43
Staff Treatment	79	5	84	94.04	5.96

Source: Primary Data

As clearly illustrated in the above table, similar to quitted clients, active clients complained loan size (63.10%), group and center liability (64.29%), center/group size (61.91%), access to compulsory savings (57.14%), center meetings (47.62%), and compulsory savings (46.43%). The results of the assessment conducted on active clients were also similar with complaints raised by quitted clients. Thus, the dissatisfaction areas mentioned by active clients could be potential reasons of exit, if OCSSCO does not improve or change it. Active clients were also asked to give their opinion on the following open ended questions in order to look at their feelings and identify additional areas of dissatisfactions:

- What they do like most about OCSSCO
- What OCSSCO should improve
- Feeling about OCSSCOs' staff in particular credit officers

- Advices provided by clients if asked by someone about OCSSCO

The summary of the responses given for the question '***what do you like most from OCSSCOs service?***' were: lower interest rate on roan, credit life insurance, the right given to organize the loan group by ourselves, staffs' respect for society's culture, providing saving services at our village, non collateral loan, serving the poor, repayment schedule (One time repayment on last repayment date), credit officers' punctuality on saving days, credit officers advice on business development/financial literacy were among major responses given by active clients,
The summary of the responses given for the question '***What should OCSSCO improve?'*** **w**ere: Loan size and under financing, group/center size**,** group/center liability**,** loan term, saving withdrawal processes for quitted clients**,** upfront deduction of 10% group saving and 3% service charge from the loan approved which decreases the loan capital for business planned**, s**peed in service delivery**, n**arrowing the gap of interest on loan and interest on saving**, m**onthly center meetings**, u**pdating clients' passbook specially saving interest balances**, t**imely calculating and posting of interest on clients' ledger**, i**nefficient saving withdrawal i.e. sometimes no staff in the office or no sufficient fund in cash box for withdrawal**, i**ntroducing individual loan for long years clients**, a**ccessing accumulated compulsory savings i.e. we are borrowing what we have saved

The summary of the responses given for the question '***what do you feel about OCSSCOs' credit officers'*** were honesty of the staff, staffs' punctuality and good conduct, staffs were cooperative and good advisors.

However 3 of the active clients interviewed responded differently commenting some OCSSCOs' staff should be motivated, needs capacity building training on customer handling, on basic knowledge of loan management and interest calculation.

For the question ***what do you advice if someone asks you about OCSSCO*** most of the clients responded to recommend OCSSCO to others to join OCSSCOs' program and change their life.

Similar to quitted clients, active clients of OCSSCO also critically complained loan size, center liability, center size, service delivery and other areas of dissatisfaction.

4.7 Commercial Implications of Clients Dropout in OCSSCO

A rising dropout rate can be considered as one of the indications of clients dissatisfactions on the services provided. As the rate raises it even threaten its survival.

In addition, as the rate increases it can damage the reputation and good will of the institute. The terminated clients may spread internal stories and inefficiencies that prevent others to join OCSSCOs' loan program. Competitors can also recruit the quitted clients of OCSSCO and capitalize on the rumors and stories that are spread by quitted clients in order to gain institutional advantages that otherwise lost through fair competitions. Significant dropout rate can also frustrate voluntary depositors in OCSSCO when looking at huge saving withdrawals that are to be made by quitted clients. Donors and investors are not also interested to work with an institute whose clients are migrated due to dissatisfactions and other organizational push factors.

Similar to dropout rate, experiences show that the rate of default is mostly higher than on new clients than repeat borrowers. As the rate of exit significantly increased and parallel significant replacement is made, the institute might face significant default rate due to compromising the screening and recruiting quality of the new entrants.

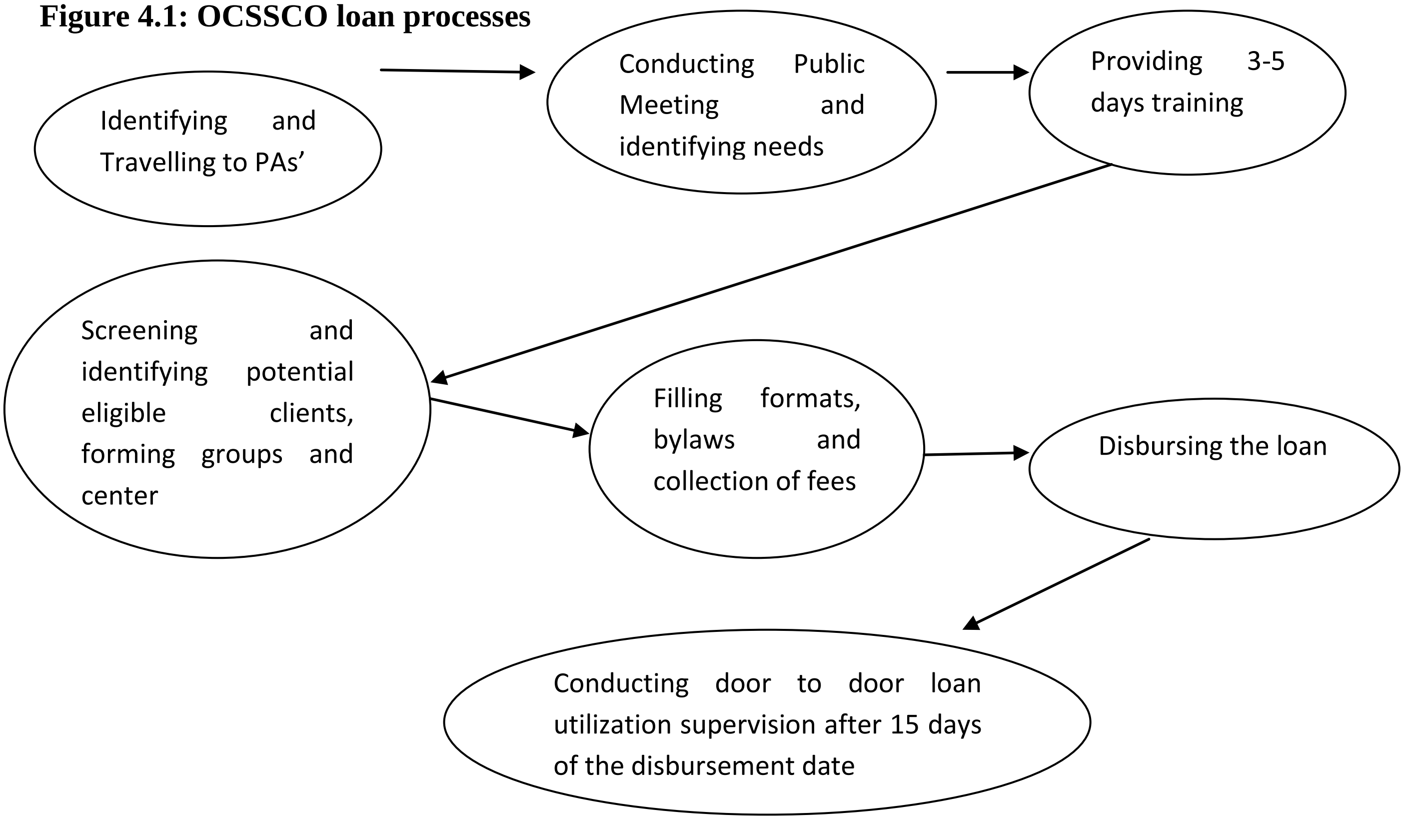
From the commercial viability perspective, staff productivity is measured by the number of case load that are carried by each credit officers. Along with this line, the case load of credit officers is subject to be lower as the rate of dropout increased. Thus until replacement is made the lending institute may lose the advantages of economies of scale.

High exit rate reduces number of repeat borrowers who would be eligible for higher loan size that could also erode the benefits that would be derived from economies of scale.

OCSSCO can also generate two benefits when the customers repurchase its financial services. First a repeat borrower is likely to be a low risk borrower. Since she has borrowed again and again the institution has accumulated sufficient information to make wise credit decisions. Therefore, if repeat clients represent a greater percentage of the portfolio than new clients, then the MFI is likely to extract a cost savings in the form of lower loan losses. Second, a repeat customer is the best source for new customers. People are much more inclined to go to a movie or a restaurant based on the recommendation of a friend than based on some form of mass advertising. The rule of thumb in many businesses is that it costs five times more to gain a new customer than to retain an existing one.

While the ratio may not be as high in MFIs in general and OCSSCO in particular, OCSSCO certainly incur marketing and acquisition costs in recruiting new clients while it is running to replace the number of quitted clients. Even though this study could not trace the unit cost of recruiting new client, the process of recruiting new client on OCSSCO indicates that substantial amount is spent both in time and money until the loan disbursed. For example, in order to establish a new center the credit officer is expected to pass the following steps:

Figure 4.1: OCSSCO loan processes



Source: Compiled from operation manual and drawn by the researcher

The average distance of Peasant Associations (PAs), away from the branch office is estimated to be 15 km. The credit officers are mostly travel by motorbike or by foot sometimes. The prospective clients cannot attend the training on consecutive days so that the program of each process is scheduled based on the idle or religious days of the farmers. Thus, the process cannot be completed within short consecutive days. In average it can take 15-21 days to finish the process.

Though it is difficult to calculate the costs of formats used, the time spent, fuel or transportation costs, the opportunity costs of the liquid cash on hand and other related expenses, one can easily guess and understand the burden of recruiting new clients and the attached significant costs. That is why commonly said the cost of retaining is lower than recruiting new clients.

Efficiency and productivity can be improved through repeat borrowers. New clients are expensive to serve. Besides the acquisition costs, new microfinance customers often require a significant amount of support. Individual borrowers may need loan officers to complete the applications for them; group borrowers may need to find additional group members and learn the roles and responsibilities of the group. OCSSCO does not provide training for repeat customers unless there are changes of policies or new included polices. Unlike new clients, no bulky formats, no collection of membership fee and other paper works for repeat customers, no critical evaluation of business appraisals and finally no regular visits are made while financing repeat clients. Thus it is clear that OCSSCO can significantly reduce the costs of delivering a loan to repeat borrowers.

4.7.1 Estimated Profit Margin that could be lost due to Dropout

Operational reports of OCSSCO shows that the rate of drop out in each year ranges from 10-15%. Since there is no clear data that shows the loan cycles of the quitted clients, let's take the figures that are found in this study as a bench mark and assuming of the total quitted clients, 40% of them terminated on the 1st loan cycle, 25% quitted on 2nd cycle, 15% on 3rd loan cycle, 10% on 4th and the remaining 10% on the 5th loan cycles. The operational report of OCSSCO for the year 2012/13 indicates OCSSCOs' outstanding clients were 532,000.

Based on the above assumptions and at the dropout rate of 10% and 5%, the following profit margin could be lost as indicated in the table 4.18 below.

Table 4.16: Estimated Lost Profit Margin

Cycles and Dropout Rate	Dropout Rate in Scenario I=10% and in Scenario II = 5%.					
	1st-40%	2nd-25%	3rd-15%	4th-10%	5th-10%	Total
Estimated Quitted Clients Scenario I	21,280	13,300	7,980	5,320	5320	53,200
Scenario II	10,640	6,650	3,990	2,660	2,660	26,600
Estimated Average Loan size in each cycle (ETB) Scenario I & II	2500	2900	3200	3800	4500	
Estimated Lost Disbursement Scenario I	53,200,000	38,570,000	25,536,000	20,216,000	23,940,000	161,462,000
Profit Lost With 3% profit margin, Scenario I	1,596,000	1,157,100	766,080	606,480	718,200	4,843,860
Estimated Lost Disbursement Scenario II	26,600,000	19,285,000	12,768,000	10,108,000	11,970,000	80,731,000
Profit Lost With 3% profit margin, Scenario II	798,000	578,550	383,040	303,240	359,100	2,421,930

The table above indicates the estimated profit forgone at the dropout rate of 10% was ETB 4,843,860 and still it is possible to see the severity of the situation at a minimum and the lowest scenario of 5% dropout rate, the profit forgone would be ETB 2,421,930. Thus the implications of dropout both qualitatively and quantitatively are severe and if it is not managed properly, it could compromise the sustainability of the MFIs in general and OCSSCO in particular.

4.8 Discussion of Results

As observed from the profile, the percentage of respondents living in the rural area was 69.52% and 30.48% in urban areas. The significant variation was due the fact that more than 80% of the Regions' population, where OCSSCO has been operating, lives in rural areas. Thus, the domination of the rural group based loan in OCSSCOs' portfolio was natural.

The survival analysis indicates that majority of clients stay in the banking relationship up to the second loan cycle with the trend of significant exit on the 1st cycle (44.76%) and declined to (32.58%) at the 2nd cycle of the loan. Thus, the figures tell that most of MFIs' clients defect from the program on 1st and 2nd cycles and then the rate of leaving the program declines as the relationships matured. This might be because clients cannot resist and tolerate the pressures of group liabilities and related procedures at the 1st and 2nd years of life in MFI, second group member's screening and banning of those clients who have showed signals of breaking bylaws might also continued in these two cycles. Thus clients' self initiated discontinuations and groups' banning of some members dominated in the first two cycles.

Among the 7 major contributing reasons for institutional Loan Policy and Procedures Problems, the loan amount is too small stood 1st taking the proportion of 60.95%, the loan term is too short stood 2nd taking the proportion of 32.38% and the loan became too expensive stood 3rd taking 17.14% proportion. Though their contribution was relatively insignificant, migrating to other programs for better terms, frequency of installment and inefficiency in loan disbursement, untimely loan disbursements, compulsory savings and monthly meetings were also contributed for the drop out under the problems of institutional policy and procedures.

Similar reasons have been identified by other researchers, in particular, Musona and Coetzee (2001), Maximambali (1999) and Simanowitz (1999) found in separate studies that frequency of repayment schedule, fee and interest too high and inaccessible savings are the major cause of client exit.

Another major pushing factor which the study identified as causes of exit came from the ***group lending methodology*** in which more than 80% of OCSSCOs' loan portfolio is concentrated. From the details of the 6 possible exit reasons under the major category of group lending methodology, ***Group liability*** (rule and or pressure of the group loan and restriction of accessing accumulated savings) stood 1st taking the proportion of 40.95%, ***personal conflict with other members*** stood 2nd taking the proportion of 11.43% and ***dismissed by the group members*** stood 3rd taking 8.57%. In addition, the group denied the loan**,** unhappy about the group leadership and unable to attend group meetings were also contributed for the exit under the category of group lending methodology, though the proportion they took were smaller.

It is obvious that the application of the principle of group liability has an advantage to the clients by replacing the property collateral or personal guarantee that otherwise requested by MFIs. Despite its advantages, the group lending methodology has been critically blamed by the clients especially if the number of members in the group/center is high. The blame emanated from the facts that each group members cross guarantee each other so that any unpaid loan is shared among the rest of the group members. The problem is more severe if the number of group/center size is high because the possibility of facing the default is high as the number of member in the group increases. OCSSCOs' loan center is formed by 32-60 members and the group is formed by 4-6 members which imply that a centre is formed by 8-10 loan groups. According to OCSSCOs' operational policy, the liability of any default in the group primarily falls on the shoulder of the group members and if the burden is beyond the groups' capacity the liability can be stretched up to center members.

The other reason why the group lending methodology was blamed by quitted clients was that the principle of the method that restricts other members who have paid their liability within the repayment schedule to access the loan, if other member in the group defaulted. The MFIs also sometimes ban the whole member of the group from accessing the loan if someone in the group was defaulted.

Among the details of exit reasons under the group lending methodology, restricting accessing of the accumulated saving was also one of the top areas of complain among the quitted clients.

The other area of complain under the group lending methodology was upfront deductions from the loan approved. It is OCSSCOs' policy to deduct 10% of the loan as group saving which

OCSSCO indirectly consider it as a loan security and way of establishing equity for borrowing clients and the 3% service charge that to be deducted from the loan approved. This policy was seriously blamed due to the fact that it reduces the loan capital by 13% which results under financing for the activities anticipated by the borrowing clients.

Among the interviewed quitted clients, four of them made *group leadership* responsible for the quitting from the program. Even though, the scores that this reason of exit achieved were lesser, the study considered it as one of the issues for exit because group/center leadership has significant role in OCSSCOs' loan management, monitoring and follow-up processes. If the group leadership problem is uprooted and expanded among several centers/groups, its effects on the quality of the portfolio, fraud and embezzlement would be significant.

A group/center leadership in OCSSCO is formed by center chief, center secretary and group leader. The leaderships are elected among the center and group members to play different role and responsibilities in the center and groups. In addition to their loan in loan and delinquency management, they serve as a bridge that links OCSSCO with the community at large. The maximum service life of the leaderships, according to the operational manual, is two loan terms if elected for the second time otherwise, the leadership rotates to other members. Some of the clients who were interviewed for this study commented that the service year of the leadership was not changed every two years. Sometimes the center/group leaders stay on the service for more than five years. OCSSCO should seriously consider the issue and rotate the leadership in accordance of its policy because if all clients in the group/center given the responsibility turn by turn the skill of leadership of all clients will develop.

Among the details of the pushing factor under the category of ***Personal Reasons***, the religion reason took the lion shares (22.86%). Some of the clients in south east eastern covered under this study claimed the financial services that fit with their religious doctrine.

Among the detail causes of ***Clients Business Reasons***, having enough working capital (20%) and searching for MFIs that offer higher loan (13.33%) were the major reasons that pushed clients to quit. Ones the client accumulated sufficient savings that could be used for working capital to run her business, there is no reason to borrow a loan that could create additional liability and risk which emanated from the principle of group lending methodology. In the other angle the client migrate to other options that can offer better or higher loan size that sufficiently finances the business or activities that were planned by the client.

Seasonality of business, weak condition of business, and closing the business were also contributing for the exit though they share lesser percentages.

The ***socio-economic reasons*** had little contribution for exit. The detail reasons under this category include: disaster, crop and price failure, competition and poor economic condition. However, it was fortunate that during last 7-10 years there were no officially reported significant disaster and crop failure challenges in the region. Instead during last 10 years continuous economic growth and encouraging agricultural prices were reported.

In addition, competition among MFIs in the country is not as such strong and became challenge for competing MFIs. Rather it is estimated that more than 80% of the market share was taken by 3-5 MFIs out of the total 28-30 MFIs operating in the country. In Ethiopia literatures show that MFIs emerged at the beginning from two major sources: NGO backed MFIs which were large in number but small in size and the Regional Government affiliated MFIs which were small in number but large in size. For example two Government affiliated MFIs represent 72% of the total assets of 22 MFIs in the country while four of them represents 88% of the total assets and 85% of the total capital which clearly shows the dominance of Government backed MFIs (Duressa, 2009). Thus, OCSSCO as one of Government affiliated MFI, as one of the three biggest MFI in the country and as an MFI having more than 250 branches, competition cannot be a challenge and cause of push factor.

84 active clients who were part of the study as additional input were also contributed their opinion and feeling: on what is suitable and not suitable for them in OCSSCOs' financial services, what OCSSCO should improve and where to see inside. The objectives of including the opinions of active clients in this study were to compare and identify the similarities between the reasons of quitting given by quitted clients and areas of dissatisfactions that may cause dropout in the feature pointed by active clients. The opinion of the active clients is also useful for fertilizing the reasons that were identified by quitted clients and helps to reach to the tangible and convincing conclusion on the reasons of the dropout.

Among the active clients who were responding the questions, 10 of them or (11.90%) were on the 1st cycle loan, 13 of them (15.48%) were on the 2nd cycle, 20 of them (23.81%) on the 3rd and 41 of them (48.81%) were on the 4th and above loan cycles. Thus, having more senior experienced clients who have long relationships with the MFI was good opportunity to explore the suitable and unsuitable areas in the MFIs' policies and procedures and also helps to identify the strengths and weaknesses in the service delivery of OCSSCO that could result and contributed for retention or exit of the clients.

In examining whether the financial services that were provided by OCSSCO have improved/changed the family life of the active clients, all of the active clients responded for 12 items of improvements that were gained due to the financial services. Among the 12 items of improvements, educating children got 53 votes, more and better food got 52 votes, increasing number of domestic (pack) animals got 51 votes and improving productivity got 46 votes. Improving furniture, utensils and goods for households got 1 vote which was the lowest vote from all items listed. This implies that improving furniture, utensils, and goods for households were not primary need for the poor households who have no domestic animals, who has not able to send her children to school or who has not yet improved its productivity.

Active clients were also asked whether the product features offered by OCSSCO are suitable or unsuitable to clients needs. The features of the financial products offered by OCSSCO were classified in 13 items and all of the 84 active clients were responded in each item.

Out of the 84 active clients 53 of them (63.10%) mentioned that the loan amount that OCSSCO provided was unsuitable and not sufficient to finance their anticipated businesses. Similarly, from 153 counts of the vote of exited clients 64 of them (41.83%) mentioned that the loan amount was one of the reasons for their exit from the loan program.

12 of active clients from the total 84 (14.29%) said that loan term offered by OCSSCO is unsuitable for their business similarly, of the total 153 counts of the vote of exited clients 34 of them (22.22%) indicated the loan term was one of the reasons for the drop out.

54 of the 84 active clients (64.29%) said the policies of group/center liability are unsuitable for them in same way 43 of the 77 (55.84%) votes of exited clients indicated that group or joint liability was one of among other reasons of their exit from OCSSCOs' loan program.

Thus, the areas of dissatisfaction stated by active clients could be possible causes of future dropout, if OCSSCO does not respond for the dissatisfactions and areas of discomfort that were stated by active clients.

It is also found in this study that client drop out has commercial and social implications as the rate increases. Losing customers have several implications for MFIs in general and also to OCSSCO in particular. All the consequences of losing customers will finally rest in affecting the sustainability of MFIs.

Investments in organizing clients, screening and training new customers are significant. New comers to the program are riskier than with those experienced clients who have demonstrated their credit worthiness, the cost of supervision, follow up and monitoring are significant when OCSSCO deals with new clients than the existing clients. In addition, there are opportunity costs that are attached with losing existing clients who likely borrow larger loans that can generate high interest income than those of new clients who are mostly eligible for small size loan, senior clients exit from the program by withdrawing their accumulated saving balances which adversely affect the liquidity position of the MFIs and finally quitting of senior/existing clients discourage other potential new comers and creates suspicion on those who have thinking/planning to join the program.

Hulme said "client exit is a significant problem for MFIs. It increases the MFIs cost structure, discourages other clients and reduces prospects for sustainability" (Hulme, 1999).
Thus, OCSSCO like any other MFI also has no immunity from the implications of exit so that it has been affected by all dropout consequences that are discussed above.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The major reasons blamed for the dropout first under the category of ***problems on loam policies and procedures*** were the smallness of the loan amount, the loan term (too short) and loan became too expensive, second under the category of ***Group Lending:*** group/joint liability, personal conflict with other members and dismissed by the group, third under the category of ***problems in the clients' business operation***: having enough working capital, graduating to program that offer higher loan and seasonality of the business, fourth under the category of ***problems in personal reasons:*** Religion/cultural reasons, spending money on crisis and transferring to another places, fifth under the category of ***problems in community and economic reasons:*** though this factor contributed lesser two respondents blamed disaster, crop and price failure and poor economic conditions.

5.2 Conclusions

The following conclusions are drawn from the findings of the study. ***First***, the study shows that clients are encouraged to stay longer in the banking relationships when they have got larger loan sizes that can finance their planned business. Thus, larger loan size is a motivating factor for client to stay longer in the borrowing relationship and the opposite is also true to quit from the program. ***Second***, though clients are organized by loan group from the same village who they know each other, they don't want to guarantee the loan and take responsibility for each other. The group lending modality that has been stayed for more than three decades in the industry and considered as good innovation at that time, the study confirms that its acceptance is currently declining by MFI's clients. Thus, the group lending modality, according to this study, has been losing its role and becoming one of the causes of defecting from the loan program. ***Third,*** people prefer remain unfinanced, if the loans' attributes compromise the doctrine of their religion, the study shows. That is why significant number of quitted and interviewed clients sited the loan characters as one of the causes of withdrawing from the loan program.

Fourth, if the loan term and frequency of the repayments could not match with the cash flow that would be generated from the activities financed as well as if it could not allow sufficient time to generate income, it cannot create differences between continuing or quitting from the loan programs in the eyes of the clients, the study indicated. That is why some of the interviewed quitted clients made the loan term and frequency of the repayments responsible for their withdrawal from the loan program. ***Fifth,*** it is natural for clients to look outside, if they are not satisfied by what they are offered currently regardless of the price they are paying. That was why OCSSCOs' quitted and interviewed clients search for other financing sources paying higher interest rate, while they were OCSSCOs' loan client. The finding tells that people primarily concerned for the sources of the loan fund, and then the price comes next. ***Sixth***, inaccessible accumulated savings encourage dropout because immediately upon withdrawal, it can directly replaces the loan fund that otherwise could be obtained from the lending institute through group liability, service charges and interest. ***Seventh***, internal and external leaderships matter on the performances of MFIs.

The quality of internal leadership reflects on all processes from the point of inception to the last repayment of the loan and saving withdrawal including credit officers' personal behavior and the way they are treating the customers. The external leadership is the role of center/group leaders and secretaries. The study indicated that some of quitted clients were not happy on the external leadership, even though it was not main pushing factor, but still it is one of the areas to be considered because its consequence could be far reaching. ***Eighth,*** the dropout rate is high during the 1^{st} and 2nd loan cycles where the clients are unfamiliar with MFIs' policies, pressurized by group/joint liability policies and procedures as well as where relatively underfinanced until she demonstrates her credit worthiness. ***Ninth***, the study shows that male clients mostly break the relationships than female clients because they are not as such interested to work in group and take the liability of other peers. ***Tenth,*** the active clients were not also satisfied on some of the loan attributes like loan size, group lending methodology, center/group size, center meeting and compulsory savings, restriction on accessing compulsory savings and loan terms. These facts indicate that active clients tolerate the problems may be due to three reasons. The first might be they were satisfied by other features so that remain silent. The other reason can be they might not have other better option where they can migrate or lastly they might wait for appropriate time to shift to other sources. Whatever the reasons, the study indicated that the areas that are listed by active clients as ***unsuitable*** could also be potential causes for leaving the program.

Lastly but not least, the study also revealed the implications of the exit on the performances of MFIs in general and OCSSCO in particular. The implications of the exit range from damaging the reputation and goodwill of OCSSCO and cost implications, to the loss of revenues that would be generated from exited clients, if financed.

5.3 Recommendations

Therefore MFIs in general and OCSSCO in particular, to attain the very reasons of its existence have the responsibility of solving the problems of client exit that emanates from institutional policy and procedure. For instance, OCSSCO can improve its loan size that currently does not match with the needs of the clients to finance the activities planned. OCSSCO can attach the loan size may be with the saving accumulated or can look at socio-economic status of individuals in the group or it can consider past performances of individuals in the group instead of setting standardized loan size in each cycle which mostly under finances the activities anticipated by the borrowing clients.

It is also good to know that under financing is one of the reasons that cause default. OCSSCO should also reconsider its policy of the upfront deductions from the loan approved that also again becoming a cause for under financing in addition to the smallness of the loan size.

This study recommends that OCSSCO should adopt the policy of conducting loan needs assessment and come out with the loan size that meets the business needs of the clients rather than setting fixed step loan to every member in a group, because a jacket cannot fit all.

OCSSCO can also consider the loan term based on the type of activities financed. Some activities start to generate income within short period while others can take some time to generate income. Some clients repay the principal and interest from the income generated while some can repay from sale of the business/activities bought using the loan. MFIs should know that the 100% repayment of the loan cannot assure whether the client is also benefiting from the loan program. Thus, OCSSCO can set different options of loan term for different activities/purposes that are to be financed.

Like any other business, MFIs should take care of not to compensate their inefficiency in charging high prices for the services they are offering. The cost of inefficiency should not be burden for the clients. Thus, cost can be reduced through enhancing efficiency and productivity as well as economies of scale.

OCSSCO and other MFIs can further improve the group lending methodology in introducing variety of menu of loan products that fits and meets customers demand and expectations so that can cope up the challenges and multi dimensional impacts of clients' termination that resulted from the problems of lending methodology. The clients blame this methodology because the methods transfer the liability of the defaulted clients to those who are paying the loan smoothly. Though it is one of the reasons for exit in the eyes of clients, it is also considered as a method of maintaining economies of scale among MFIs when compared with individual loans. The problems of group lending methodology can be minimized, if care is taken in choosing the group partners. Thus, if the success of a group depends on choosing right type of members, and then OCSSCO should include screening and monitoring skills training in its training modules that are prepared for client and credit officers.

Reports show that OCSSCOs' clients exit rate is increasing at increasing rate.

The implication is that OCSSCO has to continuously explore new markets to replace the number of quitted clients from the operation so that able to maintain the case loads of field officers. However, recruiting new clients just to replace the lost ones might compromise the quality of screening because of rush targeting in one side and the new comers can also risky and requires strict follow up and monitoring which is usually costly in the other side. It is therefore recommend that OCSSCO should constantly interact with its client to find out the basic problems which confront them and threaten their banking relationships. Such interaction and identifying problems should guide the revision of its institutional policies.

OCSSCO in order to meet its mission and goals is expected to respond to the demand of the unbanked marginalized poor within the frame of regulatory directives. In principle no group of people left un-served as long as the regulatory framework is supportive and the business does not compromise the sustainability of MFIs. The questions of religion friendly financial services are manifested through different ways. Among which, clients were releasing from the program due to the doctrine of their religion. Thus, OCSSCO should design the financial products that fit the needs of the community.

Finally, to be able to make informed decision and develop appropriate policies to deal with exodus of client exit, it is recommended that OCSSCO should introduce client exit interview while clients apply for withdrawal from the program.

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Degife Duressa. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

__________________________ _______________________

Name Signature

St. Mary's University, Addis Ababa
APRIL, 2014

Questionnaire for drop-out Urban and Rural Group Based Clients

Dear Respondents

This questionnaire is prepared to identify the '*Causes and Implications of Client Drop out in OCSSCO'* for academic purpose of the researcher. The study is expected to contribute in formulating new policies and designing new products based on the research results. Both the MFI and the clients benefit from the research results in strengthening and extending customers relationships and obtaining well designed products that meet expectations respectively.

Any responses or answers given on this questioner shall not be used to evaluate performances of employee, OCSSCOs' branches or responding ex-clients. No accountability, recognition and reward are implied for any results that will be derived from the result of the questionnaire.

The data collectors should support clients in reading, interpreting and filling the questionnaires where required.

This survey document is adopted from Carter Garber that compiled under the auspices of the SEEP AIMS project. It is stated that the document was originally adopted from Opportunity International's 'Trust Bank Client Exit Interviews'.

Branch Name_____________

Center No. _______________

Group No._______________

Group Name_____________

SECTION A: Ex-Client Personal Data

1. Gender: M___ F______ Age_________
2. Marital and Family status of dropped out client: Married _____unmarried_____
   Divorced ____Separated_____ Family size_____
3. What level of education did you attain? (Convert into number of years of Schooling)_________

SECTION B: Center/Group Profile

4. Type of Group: Urban Group Based _____Rural Group Based_______
5. Did your center/group members know each other very well? Please tick?
   1. Yes___ 2. No____
6. How well did the center/group members know each other? (Multiple responses accepted)
   A. They are from the same neighborhood
   B. They engage the same business activity
   C. They are from the same family

D. They participate in the same social local groups

E. Any other, specify____

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7. Did your center/ group hold meeting regularly and strictly as mandated by?

   1. Yes___ 2. No____

SECTION C: Ex-clients' loan transactions

8. How many other MFIs did you transact business with (take loan) when you were with OCSSCOs' loan program? ___________________

9. Was it possible for you to obtain loan from any of the following mentioned below when you were still doing business (took loan) with/from OCSSCO?

   1. Yes____ 2. No______

S/N	Other Sources for additional loan	Multiple answer allowed tick (√)
1	Family member	
2	friend	
3	Traditional money lender	
4	MFIs	
5	Ekub/Idir/SHG	
6	Cooperatives	
7	Government/NGO programs	
5	Other(specify)_________________ ____	

Note: Ekub and Idir are Ethiopian social groups that serve as instrument of cooperation among the member groups

10. Loan cycle at termination of the relationship (at the time of drop out)_______ (1st, 2nd, 3rd, 4th and etc.)

11. Loan taken and purposes in each cycle:
    - 1st Loan________ Purpose_____________________________________
    - 2nd Loan________ Purpose_____________________________________
    - 3rd Loan________ Purpose_____________________________________
    - 4th Loan________ Purpose_____________________________________
    - 5th Loan________ Purpose _____________________________________

12. Was final loan repaid by borrower? (circle): Y or N

13. If YES was the repayment made from clients' pocket in cash or from saving transfer____________

14. If NO, amount in arrears or default? ____

15. Did any member from your center/group have any problem with the repayment of his/her loan? 1. Yes____ 2. No____

16. Were there any instances that you had to pay a group member's loan because he/she had defaulted?

    1. Yes______2. No______

17. How many times did you pay on behalf of the group member/s? _________________

18. How much did you pay in each case?

Case 1	Case 2	Case 3	Any other

19. Did the loan help your family? A) Yes____ B) No____

20. If yes, how did it help your family? (Multiple responses possible)

    A. More and better food
    B. Educate children/self
    C. Improve my housing and its type
    D. Increase number cattle like cows, oxen, sheep and goats
    E. Increase number domestic animal such as mule, donkey or horses
    F. Improve my annual income and saving
    G. Improve Productivity
    H. Medical costs/improved health
    I. Clothing
    J. Furniture, utensils, goods for your household
    K. Improve and expand my business (farms)
    L. Added size of farm land
    M. Other, specify ____
    N. Don't know
    O. The credit and saving service have not brought any change in my life

21. What do you like most about OCSSCO

____

22. What do OCSSCO should improve in its financial services delivery

____

23. What do you feel about the staff particularly the field officer(customer service officers) who has been responsible for your center/group

____

____

24. What do you advice if asked by friends or relatives who want to join OCSSCOs loan and saving programs____

____

SECTION D: HOUSEHOLD CHARACTERISTICS

25. How many people in your household are?

Item	**Year group**	**Number**
1.	Less than 18years and above 18 not working	
2.	From 18years to 59years working	
3.	60 years and above	

Did any of the following event/incidence ever happened in your household in the past twelve months and how much did you spend when they occurred.

Shock	**Please tick as appropriate**	**Amount spent**	**Source of finance**
Death			
illness			
Marriage ceremony			
Theft			
Fire outbreak			
Birth			
Other, specify			

…………………………			

Note: The source of finance is coded as 1-money for my business 2- remittance (transfer from relative, family or friends) 3- Savings 4- loan and 5- other

SECTION E: EXIT REASONS

Can you tell me the main reason(s) that made you leave the program? (*Do not read answers. Multiple answers accepted*)

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. The timing of the loan was wrong
7. I was unwilling to borrow because of other conditions, (such as obligatory savings, obligatory training).
8. I did not like the treatment by the staff or had personal conflict with the staff
   Who? ________________________
9. I found a program with better terms.
   Which one?_________________________
   Why is it better?_____________________

Other, specify_________________________

B. Problems with group lending:

10. The group told me to leave.
11. The group disbanded.
12. I had personal conflicts with other members of the group.

Explain_________________________ ____

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

Other, specify______________________

C. Client's business reasons:

16. I have enough working capital now for my business.

17. My business is seasonal; I will borrow again when I need it.

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18. I am graduating to a loan program that makes larger loans.

Which one? __________________________

19. I am unable to repay the loans because of the weak condition of my business (for example, poor profits, low sales, crop failure, cattle death and etc).

20. I decided to close the business and do something else (for example, get a job, start a new business).

Why? __________________________

21. I sold the business.

Other, specify__________________________

D. Personal reasons:

22. I cannot continue because I spent the money on a crisis (such as illness, death) or a celebration (such as marriage) in my family.

23. My spouse (or other adult income earner) left me so I do not have the ability to continue the business.

24. I am pregnant or now have another person to care for (lack of time or ability to continue the business at the same level).

25. I am moving out of the area.

26. A family member told me to stop borrowing from the program.

27. My religion/culture forbids me from taking loan any longer

Other, specify________________________

E Community and economic reasons:

28. My business was ruined by a disaster (such as robbery; fire; flood; hurricane).

29. A major new competitor moved into the area and many of my customers now buy from the competition.

30. Poor economic conditions have left my customers with less money with which to buy my goods or services.

Other, specify________________________

F. Other reasons:

31. Other (specify):____

32. Don't know

THANK YOU

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Questionnaire for active/existing Urban and Rural Group Based Clients

Dear Respondents

This questionnaire is prepared to identify the '*Causes and Implications of Client Drop out in OCSSCO'* for academic purpose of the researcher. The study is expected to contribute in formulating new policies and designing new products based on the research results. Both the MFI and the clients benefit from the research results in strengthening and extending customers relationships and obtaining well designed products that meet expectations respectively.

Any responses or answers that are to be given on this questioner shall not be used to evaluate performances of employee, OCSSCOs' branches or the performances of the responding clients. No accountability, recognition and reward are implied for any results that will be derived from the questionnaire.

The data collectors should support clients in reading, interpreting and filling the questionnaires where required.

Branch Name______________

Center No. ________________

Group No.________________

Group Name______________

SECTION A: Clients' Personal Data

1. Gender: M___ F______ Age________
2. Marital and Family status of the client: Married _____unmarried_____
   Divorced ____Separated_____ Family size_____
3. What level of education did you attain? (Convert into number of years of Schooling)________

SECTION B: Center/Group Profile

4. Type of Group: Urban Group Based _____Rural Group Based_______
5. Loan cycle__________

6. Loan amount in each cycle: 1^{st}______, 2^{nd}______, 3^{rd}______, 4^{th}_______, 5th_________
7. Loan Purpose in each cycle:
    - 1^{st}_________________

    - 2^{nd}________________
    - 3^{rd}________________
    - 4^{th}________________
    - 5^{th}________________
8. Is the loan helping your family? 1. Yes_____ 2. No_____
9. If yes, how does it help your family? (Multiple responses possible)
    A. More and better food
    B. Educate children/self
    C. Improve my housing and its type
    D. Increase number cattle like cows, oxen, sheep and goats
    E. Increase number domestic animal such as mule, donkey or horses
    F. Improve my annual income and saving
    G. Improve Productivity
    H. Medical costs/improved health
    I. Clothing
    J. Furniture, utensils, goods for your household
    K. Improve and expand my business (farms)
    L. Increase size of farm land
    M. Other, specify ____
    N. Don't know
    O. The credit and saving service have not brought any change in my life
10. Are the following OCSSCOs' loan features suitable (S) or Unsuitable (U) for you as a client. If Suitable answer by marking (S) and if Unsuitable mark (U)
    - The loan amount__________
    - The loan length (Loan term)__________
    - The repayment schedule____________
    - The price of the loan such as interest and fees_________
    - Efficiency of the disbursement of the loans_________

- The timing of the loan (the period in which it is disbursed__________
- The policies of the center/group (group and center liability______
- Size of the center/group__________

- Accessing savings both compulsory and voluntary________________
- Quality of service delivery____________
- Center/group meeting____________
- Other conditions such as obligatory savings, obligatory training_________
- The treatment by the staff __________

11. What do you like most about OCSSCO?

____

____

12. What do OCSSCO should improve in its financial services delivery

____

____

13. What do you feel about the staff particularly the field officer(customer service officers) who has been responsible for your center/group

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14. What do you advice if asked by friends or relatives who want to join OCSSCOs loan and saving programs____

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THANK YOU