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Client Exits (Drop-outs) Amongst Tanzanian Microfinance Institutions

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Executive Summary

Until the mid-1980s Tanzania had been following socialist policies, with a state controlled economy. Beginning in 1984, Tanzania gradually introduced reforms towards a free market economy. The reforms included liberalisation of interest rates, liberalisation of the banking sector, liberalisation of insurance, creating a stock exchange, and liberalisation of foreign exchange.

As the reforms were being introduced, unemployment increased, and the informal sector became an important means of livelihood for a considerable proportion of the population

The government, donors and NGOs (after liberalisation NGOs emerged) initiated credit programmes in support of the informal sector and women. However, the majority of the credit schemes initiated in the 1980s and early 1990s have remained small and unsustainable, reaching only a few people with minimal impact.

The reforms notwithstanding, Tanzania is still one of the poorest countries in the world with an estimated per capita Income of US $120. The access to financial services that the rural poor have is mainly through MFIs.

The study of three MFIs suggested two main categories of dropouts - voluntary dropouts and forced dropouts. In addition, there are clients who “rest” from taking loans but anticipate borrowing again in the future. Very high dropout rates are very expensive due to the cost of recruiting and training new clients. Additionally, high dropout rates adversely affect group cohesion.

The cumulative dropout rate in one of the MFIs is over 50%. The rates for the other MFIs are unknown because they are not tracked making an analysis of trends, causes and relationships difficult.

The major reasons that lead to clients dropping-out include: the rigidity of products, the narrow range of products and services, the expectation of grants, group dynamics, time consuming weekly meetings, natural calamities, competition, seasonality factors and overall poor economic conditions. The MFIs tend to perceive their clients and their businesses as homogenous entities that follow a common growth pattern, rather than as individuals, or at least as individual communities, each with her/his own peculiarities and needs. MFIs fail to acknowledge that a variety of factors impact the demand for their services and thus the retention of clients.

All the MFIs studied have just one product (credit) in spite of the wide range of client’s needs. To retain their clients, MFIs need to develop a wider range of products. Also, the poorest cannot access the credit products of the MFIs studied, however, the MFIs could possibly tap this pool of potential clients by first providing them with saving services appropriate for their saving capacity.

The gradually increasing competition among MFIs has resulted in clients switching service providers. Increasing economic hardship and competition among micro-businesses in the informal sector could lead to an increase in dropouts as a result of reduced margins and profitability.

MFIs that want to reduce dropout rates and achieve sustainability need to understand and consider the changing needs of the clientele and the products of their competitors, while at the same time maintaining low operating costs. This can be achieved through detailed monitoring of dropouts to identify trends, reasons, causes and relationships of factors that influence clients to leave or exit the programme.

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INTRODUCTION

Until the mid 1980s Tanzania followed socialist policies, with a state controlled economy. Private initiatives, NGOs and cooperatives including SACCOs were discouraged, and all financial institutions were state owned. The government provided basic services free.

Since 1984, there has been a shift in policy: Tanzania is gradually introducing reforms towards a free market economy. The public sector has been reduced considerably; and the private sector is now playing a much bigger role in the economy. Individuals are now required to share the costs of basic services: mainly health, education, and water. Of particular relevance to this study are the cooperative and financial sector reforms.

As the reforms were being introduced, unemployment increased, and the informal sector became an important means of livelihood for much of the population. At the same time, the need to support women as a specific marginal group appeared on the agenda of many development agencies. The government, donors and NGOs initiated credit programmes in support of the informal financial sector and women. These programmes include:

- SIDO, which was established in the 1980s to provide tools and equipment on hire purchase and business development services;
- The Presidential Trust Fund for Self Reliance (PTF)
- Youth Development Fund
- Women Development Fund
- The NBC Special Window for women
- CRDB Women's Credit Fund (Australian Fund)
- Donor funded credit programmes scattered in various regions in the country.

The majority of the credit schemes that were initiated in the 1980s and early 1990s have remained small and unsustainable, reaching only a few people with minimal impact. Many were politicised, heavily subsidised and were not designed to achieve sustainability. Lessons gained from these schemes, and experiences learned from other countries, mainly in S.E Asia, led to the development of new MicroFinance Institutions (MFIs), or the reorganisation of existing ones in which issues of sustainability were incorporated. Several issues related to sustainability arose. These included: charging commercial or higher interest rates and fees, targeting viable businesses rather than farming, and ensuring high repayment rates. These new developments notwithstanding, the grant-driven thinking is still foremost in the minds of many. To date, there is no MFI that has reached sustainability in Tanzania

MFIs define "dropouts" or "exits" as clients who leave the programme before completing all the loan cycles that are offered by the MFI. The three MFIs included in this study indicated the existence of two main categories of dropouts:

- Voluntary dropouts
- Forced dropouts

Often defined within the voluntary- dropout category, there are cases of clients who do not consider themselves as having dropped out. These clients are "resting" from the rigours of securing and repaying loans, but anticipate obtaining loans in future. In some cases, clients (groups) remain dormant or resting, without indicating whether they are resting or they have quit the programme.

This study evaluates drop-out from three of the larger MFIs operating in Tanzania.

FINANCIAL SERVICES AND THE POOR IN TANZANIA

Who are the Poor in Tanzania?

Tanzania is still one of the poorest countries in the world. With an estimated per capita income of US $120, it is the third poorest country after Mozambique and Ethiopia (World Bank, World Development Report 1997). Available records show high prevalence of rising poverty among the majority of the Tanzanians, particularly women, youth and the aged. About 55% of the total population live under conditions of absolute poverty (Repoa report, 1996). Maternal mortality rates are very high (200-400 per 100,000 women aged 15-45 (MOH 1997)), life expectancy at birth for men and women has marginally increased (i.e. 48.9 and 51.7 years respectively UNDP, 1997) but the under 5 mortality rate remains high at 137 per 1000 live births (Tanzania DHS, 1996).

Tanzania has one of the fastest growing populations in Sub Saharan Africa. Recent statistics show that the population had reached 28 million in 1994, and that it is projected to rise to over 47.8 million by the year 2013 (World Bank 1995).

Poverty is most prevalent in rural areas where yields are very low due to low application of improved technologies, and cost are ever increasing particularly now that peasants are required to pay cash for inputs. The rural poor have little high production technology, and they mostly depend on the hand hoe, which limits their farm sizes to 2-3 acres. Non-farm employment in rural areas is limited to small scale fishing along the lakes, agricultural processing and marketing, and petty trading. Rural isolation resulting in very poor communication is a major drawback to improving production and living conditions. The 1996/97 droughts (in some parts of the country), and the 1998 El Nino rains subsequently followed by droughts had a serious impact on the poor. In 1997, some regions experienced famine, and the whole country was hit by famine in January through May 1999, when deaths from hunger were reported in Handeni, Singida and Arusha.

Poverty varies significantly between the regions and between districts within the regions (Mascarenhas 1994). For example, the central part of the country (Dodoma, Singida, Tabora and Shinyanga regions) has been especially hard hit by unreliable rains and droughts, which exacerbate poverty.

Thirty-nine per cent of the urban population is categorised as poor. Increasing rural to urban migration, unemployment and retrenchment contribute to urban poverty. It is estimated that the urban population rose from less than 700,000 to 2.8m in the 1980's (Mascarenhas 1994) and to over 5 million in 1995 (SIDA 1996). The urban poor live in slums, depend on petty trading and casual labouring for their survival, and usually have one meal a day. The low cadre employees with minimum salary levels (Tsh. 17,000 per month - equivalent to $24), who are not involved in any supplementary business are among the poorest.

Women, children, youth and the aged are among the poorest people in the country. Culture, tradition and attitude have marginalised women in all aspects of life. Gender gaps in education and training, skills, and access to and control of resources have made women less endowed to participate not only in the informal sector, but particularly in the formal and mainstream commercial sector. The absence of employment opportunities has rendered the youth poor, while the increasingly disintegrating extended family system (due greatly to the increased cost of living and social services) has left the aged with no one to care for them.

Old, Alone and Without Access to Financial Services

Maria Mashaka is an old woman, (about 65 years) living in Picha Ndege 0.5 km from a PTF centre. She has no assets and is currently living with a friend who has invited her in to live in her home. Mrs. Mashaka was once married in Tabora, but is divorced. She left her two children with her husband in Tabora and moved to Picha Ndege where she lived with another man. This man chased her away two years ago, seeing that she has grown old and could not help much on his farm. Presently she sells her labour and earns just enough to buy food. She also has rented a 1.5 acre farm on which she grows paddy, cassava and maize. However, yields are very low, but could be improved with the addition of technological advances. She has not heard from her children in the past three years. Her host is in the same situation as Mrs. Mashaka, although she never had any children. She also depends on labouring and farming on a 1.5 acre farm. Neither of the old women could access PTF loan - you must own a business to get a loan.

Financial Services for the Poor

The financial sector reforms have, to a considerable extent, eliminated access of low-income earners to formal financial services. However, the government recognises the need for financial services for the poor. It is in this context that specific programmes and institutions for low-income earners were initiated. Recent initiatives include those of the Tanzanian Postal Bank, the National Microfinance Bank, Entrepreneurs Fund, and the Dar-Es Salaam Community Bank. Many of these national initiatives are not yet operational. The few that are operational do not in actually cater to the poor, but rather to middle income people.

As it is now, the poor (mainly the rural poor) have little access to financial services. It is mainly NGOs and donor funded schemes that are making attempt to provide credit to the poor. With few exceptions, these attempts are rare and sparsely distributed, reaching only a few people. Few NGOs like PRIDE, and PTF have successfully established a network with wide coverage.

STRUCTURE, ORIENTATION AND PRODUCTS OF THE THREE MFIs STUDIED

PRIDE Africa

A profile of PRIDE Africa is attached as Appendix I.

Discussions with PRIDE management and staff clearly indicate the commercial orientation of the MFI. Indeed the credit policies clearly stipulate that each branch is supposed to be "a profit center run by a team of trained entrepreneurs who work as a team to earn profits". All the staff that were interviewed exhibited high levels of motivation and entrepreneurial competence. In line with this commercial orientation, PRIDE is urban based, with branches in 17 towns where the informal and commercial sectors are active.

This orientation has implications regarding the type of target group desired, and the overall culture of the institution. PRIDE has managed to dictate a product with potential for achieving high levels of efficiency by being the largest MFI in the country, with little competition, and a huge market for its products. The organisation's policies clearly state that, "Selection of new town locations will depend on the communication strategy developed by the programme ... branch offices must be placed in locations where there are basic infrastructure requirements to support both branch operating requirements and the relative comfort of PRIDE officers". Because of its commercial orientation, PRIDE does not focus on the poor, nor does it have intentions to do so. Almost all the clients seen by the consultants were not-so-poor and non-poor

PRIDE has only one product (credit) which has the following features outlined in Tables 1 and 2.

Table 1: PRIDE's Loan Structure

	Loan Size Tsh.	*Duration Weeks*	*Weekly Payment*	*Total LIF**	*Approximate Cumulative LIF*	*Cumulative LIF as % of total loan*
1	50,000	25	3,000	25,000	29,000	58
2	100,000	40	3,500	40,000	71,000	71
3	200,000	50	6,000	50,000	129,000	63
4	500,000	50	11,000	50,000	181,000	36
5	1,000,000	50	21,000	50,000	233,000	23
6	2,000,000	50	41,000	50,000	285,000	14

Note: LIF = Loan Insurance Fund

Table 2: PRIDE's PRODUCT FEATURES

Eligibility	♦ Must be above age 18, ♦ Must own a business, ♦ Must be in a group of five.
Procedures	♦ Loan Application ♦ Followed by 8 weeks training ♦ After which 2 group members get 1st loans, followed by 2 members after 4 weeks, followed by the Chairperson after another 4 weeks. ♦ Clients must make weekly contributions of Tsh. 1,000 to the LIF during the waiting period. ♦ Recently the procedures for loan release have been changed to 3 members in the first release of loans, followed by another in the next release, followed by the last member – each subsequent release being predicated on on-time repayment by the other loanees in the group
Security	♦ 1st guarantee is the group ♦ 2nd guarantee is the MEC ♦ 3rd guarantee is the Loan Insurance Fund (LIF)
Grace Period	♦ No grace period
Repayment	♦ 30% interest flat. Weekly payments include contributions to LIF. ♦ Prepayments are accepted.
Repeat Loans	♦ Must follow the prescribed sequence of loan sizes. ♦ An interval of 2 weeks between loans.

Small Enterprise Development Agency - SEDA

A profile of SEDA is attached as Appendix I.

SEDA was set up by World Vision International and subscribes to the overall mission of World Vision to serve the poor. The purpose of SEDA is to "empower the productive poor to transform their families through the development of sustainable micro-enterprises owned primarily by women, and to promote justice and proclaim the kingdom of God". SEDA's products consist of credit and savings, (and business counselling which is currently offered on a small scale). SEDA is still testing its products, and adjusting them to match the mission without compromising sustainability. SEDA has started to expand at a slow pace. The research team's opinion is that SEDA's clients consist of the upper poor, roughly in line with its mission.

Table 3: SEDA's PRODUCT FEATURES

Eligibility	♦ The upper 50% of the poor who are productive. ♦ Women form 70 - 80% of clients, ♦ Must own a business, ♦ Must be in a group of at 10-30 people.
Procedures	♦ Form group of 10–30, (smaller *upatu* (ROSCA) groups within the big group). ♦ Undergo 8 weeks training. Individual applications appraised by group. ♦ Loan insurance fund 2%. ♦ Guarantee Fund 20% of loan. ♦ Loan advanced to group for on lending to members.
Security	♦ 1st guarantee is the group ♦ 2nd guarantee is guarantee fund
Loan sizes	♦ Flexible: depending on sales. ♦ Repayment instalment not to exceed 8-10% of sales. ♦ First loan can not exceed Tsh. 150,000. ♦ Maximum loan Tsh. 700,000.
Disbursement fee	3% commission on training
Grace Period	No grace period
Repayment Period	Six months, 30% interest flat, Recently changed to weekly instalments (was monthly). Monthly saving of Tsh. 3,000 required. Prepayments are accepted.
Repeat Loans	After whole group completes repayment

Presidential Trust Fund for Self Reliance - PTF
A profile for PTF is attached is attached as Appendix I.

PTF makes deliberate efforts to target the poor, by having centres in specific geographical where the poor live, including urban slums and rural trading centres. PTF also seeks to target the poor by having specific targeting criteria and methods: women who operate small businesses, and by verifying the economic situation of clients through home visits prior to providing loans.

PTF's focus on the poor is expressed by its effort to enhance group and centre cohesion and organisational capacity. The centres are used not only for lending activities but also as a forum to enhance other development activities. For example, every member must send her children to school. To a considerable extent, PTF has successfully targeted clients who are not particularly rich. However, it is the opinion of the researchers that the very poor have not been reached. The researchers noted that the poorest are rarely engaged in sustainable business activities, and as such they can hardly benefit from PTF loans.

The main product of PTF is credit while regular savings are voluntary.

Table 4: PTF's Loan Structure

	Size (Tsh. '000)	*Duration (Weeks)*
1	up to 50	26
2	51 - 200	32
3	200 – 300	52
4	300 – 400	52
5	400 – 500	52
6	500 – 600	52

Table 5: PTF's PRODUCT FEATURES

Eligibility	• Above age of 18, unemployed, must own a business, must be in a group of five, and not a client of another MFI. Home visits conducted by PTF staff to ascertain level of poverty. Eight groups of five are organised into a centre.
Application fee	• Tsh. 500
Procedures	• 1 week pre loan training. Three group members get loan first, group leaders get loans 2 weeks later.
Security	• Group members • Group guarantee
Interest	30% flat
Disbursement fee	Nil
Grace Period	Nil
Savings	• 5% of principle (compulsory and weekly)
Repayment Period	• Weekly repayments
Repeat Loans	• 2 weeks after completion of first loan

IMPORTANCE OF DROPOUT DATA TO MFIs

Data on dropouts is crucial for understanding clientele and market trends in order to develop appropriate and feasible MFI products. The existence or absence of data on dropouts reflects the extent to which MFIs regard this as an important issue. Only recently has the issue of dropouts emerged as a crucial factor for the MFIs that were reviewed. As a result, among the three MFIs visited, only PRIDE keeps up-to-date, computerised data on dropouts for each branch. In contrast, it was not a priority issue for SEDA and PTF. Of the two, SEDA regarded poor repayment as a more important issue since in Arusha 12% of the total loan portfolio was at risk.

PRIDE and Dropouts

At the time of this study, PRIDE had a total of 28,000 clients in 22 branches. The existing data concerning dropouts had not been analysed by PRIDE to indicate patterns and trends, but this was planned. Since PRIDE started operations, the cumulative dropout rate was over 50%. The research team analysed dropouts from PRIDE's Arusha branch (the oldest branch). The analysis of the year 1998/99 shows that more clients left than joined, resulting in a net decline of total clients. In addition, of those leaving, 37% had joined and left within the year. These very high turnover rates increase the costs of recruiting and training new clients, and are likely to adversely affect group cohesion.

Table 6: Turnover Rate for PRIDE Africa - Arusha Branch
Year April 1998 - April 1999

Description	
Active Clients at end of April 1998	1,671
Active clients at end of April 1999	1,612
Joined During the year	1,119
Left during the year	1,178
Number of those who joined this year and have left	435
Turnover rate 435/1119	38%

Clients (cumulative total)	4,998
Drop-outs (cumulative)	3,325
Drop-outs (cumulative) percentage	66%
Drop-outs (due to death)	9
Drop-outs – Voluntary	1,547
Drop-outs – Voluntary (percentage)	46.5%
Drop-outs – Forced	1,769
Drop-outs – Forced (percentage)	53%

The table above further shows that a new client has a 50% chance of dropping out and that the majority of dropouts are forced (53%) in 1998/99.

The research team could not establish any pattern, trends or relationship of dropouts to other factors such as education, land-ownership, gender, number of dependants, type or age of the business of the client. The results of the analysis are presented in Appendix II.

PRIDE Africa tested its product in Kenya before beginning operations in Tanzania in 1994. Since 1994, PRIDE has been very concerned with profitability, and placed emphasis on achieving high repayment rates during the expansion phase. Indeed repayment has always been maintained at 100%, reflecting the fact that traditionally the repayment rate is the number one yardstick for assessing performance. In view of this concern, dropouts were often perceived as bad clients and the product is seen to have a built-in screening mechanism to "weed-out" unreliable clients.

The absence of competition (since there are very few large MFIs), the existence of a large informal sector, and the existence of business opportunities (resulting from the reforms) has resulted in a high demand for credit and this made dropouts a non-issue to PRIDE. Dropouts were very easily replaced, and oriented by fellow group members, and were thus perceived as posing few serious problems or additional costs to PRIDE.

The need to address dropouts as an issue did not become apparent to PRIDE until March 1999. Presently the concern is to achieve sustainability and financial viability by the year 2002 and client retention has therefore recently emerged as a serious concern. PRIDE realises it is in danger of losing more clients and that they are not as easily replaced as before. This situation is a reflection of the current business competition in the informal sector, and the economic setbacks (caused by El Nino, droughts etc.) that the sector is facing. Competition from other MFIs is also a factor that has increased concern for client retention. In its efforts to address the problem of dropouts, PRIDE has recently outlined a number of strategies (Appendix III).

PTF and dropouts

In PTF dropouts are recorded at the centre level, but the data is not compiled at the branch or institutional level. While the absence of a fully computerised system could be a constraint, it was apparent that PTF was not worried about dropouts. The PTF staff which met with the research team believed that dropout rates were low at about 10 %. However, an analysis of dropout rates in one of the branches indicated a much higher dropout rate of 25% per cycle.

Discussions with project officers suggested much lower dropout rates in rural areas like Kibaha, although some agricultural areas, like Morogoro, heralded much higher rates. One of the two centres that the research team visited in Kibaha had the following dropout rate:

Table 7: "Characteristics of PTF Dropouts in Morogoro"

Location	Mwendapole Center A
Loan Cycle	2nd
Composition	Middle poor clients
Starting Number	40
Number of Dropouts before 1st loan	9
Number of Dropouts after 1st loan	4
Percentage of Dropouts: Clients after 1st Loan	32.5%

Observation of a centre meeting in Kibaha indicated that the expulsion of clients is to a large extent, done by centre members. The research team's impression is that members are quite ruthless when it comes to expulsion of defaulters and difficult members.

PTF staff view dropouts as a mechanism for weeding out bad clients. After all, they reason, bad clients are easily replaced and new clients easily oriented by existing centre members. In terms of development, PTF is a step behind PRIDE, and is still in its initial the expansion phase.

SEDA and dropouts

In SEDA, it was difficult to obtain accurate data on dropouts. Although SEDA's Management Information System is partly computerised, up to date information on individuals who leave the programme is not readily available because loans are advanced to groups. SEDA does not have frequent and regular contacts with clients since group management is the responsibility of the group leaders. Limited group information is available when a group applies for the next cycle of loans.

To date, SEDA has an <u>estimated</u> cumulative dropout rate of 10 –20%. From August 1995 to June 1998, only 15% of clients dropped out. From December 1998 to March 1999, there was a dropout rate of 9% - a markedly sharp increase on an annualised basis. The recent change from monthly to weekly payments and the economic downturn are viewed as the major factors for this rise in dropouts. With 12% of the Arusha portfolio at risk, SEDA is willing to consider completely moving out of locations with poor repayment performance, thus forcing more dropouts in order to ultimately attain higher repayment rates.

From the above analysis it is clear that, until recently, dropouts have not been an issue to most MFIs in Tanzania mainly because of the high demand for their products and absence of competition. With the gradually increasing competition among MFIs, the changing socio-economic situation and increasing business competition in the informal sector, MFIs, regardless of their level of development, will have to be more concerned with dropouts. Information on dropouts will facilitate continuous product improvement.

REASONS FOR DROPOUTS

Narrow range of services and products

The three MFIs studied are designed to deliver and collect loans only – a service that, if clients are to be retained, implies that the MFIs assume that their clients are in need of loans throughout their life. PRIDE for instance assumes that clients want to and will be taking bigger loans each time they borrow. In reality this is not always the case, especially for the poor and informal sector operators, some of whom operate seasonal projects and/or do not have an assured means of income. Indeed, there are many examples when they can neither afford nor wish to take a loan and incur additional debt.

Conventionally it is accepted that the role of financial institutions is to allow clients to:[1]

[1] Elisabeth Rhyne in The New World of Microenterprise Finance

- Protect themselves and their families against bad times by building assets (savings) or by borrowing;
- Manage their enterprises and other activities more efficiently, for example by purchasing inventory or inputs at advantageous times and prices; and
- Obtain capital for investment and/or for taking advantage of a business opportunity.

If we look at the role of MFIs in this perspective, it becomes obvious that in real life situation operators of micro-enterprises do not always need loans nor are they always in a position to save. A rational entrepreneur would not need the services of an MFI all year round, or throughout his lifetime. Successful commercial banks for example are able to retain their clients mainly because they provide a wide range of services and products throughout the year. They provide the service of managing an entrepreneur's finances including: savings deposits, credit products, effecting payments, funds transfer, investments, bonds etc. With this wide range of services an entrepreneur is likely to need the services of a bank throughout his life. On the other hand, the MFIs studied do not provide the full range of financial services that might be needed by their clients. The three MFIs studied provide only credit. Therefore, they should expect clients to regularly leave and join, as determined by their needs and capabilities.

A rational decision for a MFI which intends to retain its clients is to strive to provide the range of financial services that are needed by its clients throughout their lives. For instance, discussions with clients indicated that they need savings services, but cannot use existing, formal sector, financial institutions since the minimum balance required is too high.

Rigid Products

There is a consensus in the microfinance industry that for MFIs to achieve sustainability they need to be profit oriented, in the same way that commercial banks are. However, MFIs are, challenged by managing the high costs of intermediating small amounts of money, while at the same time matching their products to the needs of their clientele. As a strategy to lower administrative costs, MFIs have developed a few rigid products that are easy to manage. Because of their rigidity, such products do not adequately address a wide range of needs of the MFIs' clients and their businesses. This is illustrated by the high dropout rates, and lack of loyalty to MFIs particularly in the face of increasing competition. An ideal situation would be to strike a balance, such that the products are easily managed by the MFI at low costs, but are also able to attract enough clients for the MFI to operate profitably. An MFI however, just like any enterprise, needs to watch the market trends and adjust accordingly. To grow or at least remain in business an MFI must be alert to changing client needs in response to socio-economic and environmental changes, and to alternatives in the formal and informal financial sectors.

Monitoring and evaluating dropouts could function as an excellent indicator of the clienteles' difficulties and needs, thus aiding in the development and adjustment of sustainable MFI products. Presently, the products are very rigid, do not adequately match the needs of the clientele and do not take into consideration the realities of life. The research team found that the problems that emanate from normal life events such as sickness, marriage, and death. as well as other non-predictable problems due to economic downturns, or theft have been left for the client groups and centres to handle. The inability of clients to cope with the rigid MFI policies and procedures is manifested in the high dropout rates (40% of all dropouts) which occur even before clients get the first loan – i.e. during the initial training/saving period. Issues like delayed repayment due to sickness are left as a burden for the groups to deal with, and not the institutions. By manipulating the existing systems, clients try to find how best they can use the MFI products, a practice that can cost the MFI good and well trained clients. For example, PRIDE clients often decide to exit when they want to access their savings. This was particularly the case when the repayment period for the Tsh. 2,000,000 loan was two years, at the end of which clients had accumulated substantial savings. Discussions with clients, staff and management of the three MFIs indicated that problems that arose between the existing products and clients' needs are in the following main areas:

- *Timely access to loans*: In all the MFIs studied, clients cannot access additional loans or another loan before completing the current loans. Furthermore, a client can only take a loan on the prescribed day and time of disbursement. In real life, the clients' needs for money do not always coincide with the prescribed disbursement day.
- *Group lending*: Group dynamics, conflicts within a group, group politics and the need to pay on behalf of defaulters is a frustration to some clients and undermines group cohesion.

Group Dynamics - A Bitter Experience for Haika

" I will never ever join a group for purposes of taking a loan," says Haika Malisa an operator of a simple restaurant at Unga Limited Arusha. "My income had increased two fold as a result of SEDA loan, but I was in a very bad group. We were 18 in the group. I did not know my group members well - actually I met most of them at SEDA office. They were also trying to access loans, so we decided to form a group. We used to contribute Tsh. 2,000 weekly to a ROSCA. Problems started when some group members failed to contribute to the ROSCA, when they had already had their turn of taking the weekly ROSCA collections. At the end of the same month the treasurer said that the group's monthly repayment (Tsh. 300,000) that was to be deposited in SEDA account had been stolen. Two days later the treasurer got very sick; he was bewitched by some of the group members. However after seeing a witchdoctor he recovered. We took him to the Ward Executive Officer; who forced him to repay the money in instalments. He did repay the money but then he was forced to leave Arusha town completely. If he had continued to stay they would have killed him through witchcraft. I lost Tsh. 4,000 through the ROSCA."

- *Time consuming*: Pre-loan training and frequent, fixed, meeting schedules are time consuming, a bother and a constraint; particularly, for example, to clients whose businesses involve travelling. Often clients whose businesses have grown to a reasonable level opt to dropout, even though they might be still in need of loans.

Weekly Meetings A Constraint

Paul Sawe is a client of PRIDE Tanzania. When he took his third loan of Tsh. 300,000, he used the money to buy a plot of land and continued to repay the loan from his business proceeds. Upon completion of loan repayment he dropped out, firstly because he wanted his savings (which he used to contribute towards construction of his house on the plot of land that he had bought), and secondly, he could not attend the weekly meetings because he was too busy with construction activities. Two months later, having completed his construction activities, he rejoined PRIDE.

- *Delays*: Delays in getting access to the first loan is particularly discouraging to clients. When MFIs enter new areas, pre-loan training and delays sometimes create suspicion as to whether the MFI will actually give out loans.
- *Loan sizes*: Fixed loan menus, as in the case of PRIDE, often force clients to take loans which are either too small or too big for their businesses, causing many problems. Clients who need bigger loans have taken the expensive strategy of completing repayment before the scheduled time in order to access bigger loans. At Kijenge, we were told that this mostly happens when clients at higher loan levels have identified lucrative business opportunities requiring large amounts of money. They are forced to adopt this strategy in preference to losing the opportunity. On the other hand, clients are often forced to take loans which are too big for their businesses, simply because they want to keep pace with their fellow group members. They do not see why they should guarantee others for loans larger than those they are operating and so do not scale-back the size of the loans they request.
- *Duration*: As is common in MFIs throughout the world, the absence of a grace period was found to be a major complaint. Many clients kept part of the loan to repay the first instalments. Further some clients found the overall repayment period to be too short.

- *Frequent repayment schedule*: The frequent repayment schedule prescribes the type of businesses that can genuinely benefit from the rigid products.
- *Interest and other costs*: All MFIs visited charge an interest rate of 30% flat (inflation is currently at about 10%). Almost all clients that the research team met, complained that the interest being charged is too high, particularly when taken together with other costs e.g. disbursement fee, application fees, etc.
- *Lack of access to savings*: In all the three MFIs visited, compulsory savings are used as security for the loans and can only be accessed upon dropout/exit. In PRIDE, for instance, the research team found that clients choose to dropout in times of need since this allowed them to access their savings.
- *Lack of interest on savings*: Clients, particularly those of PRIDE, also complained that they did not get interest on their savings. Many assumed that PRIDE is intermediating their savings and therefore making substantial profits. They felt that they should also benefit from the profit generated.
- *Absence of a formal resting period*: MFI products normally require that members be actively involved. The frequent, fixed repayment schedules and compulsory meetings make it difficult for clients to attend to other activities. One client said he dropped out because his business involves travelling outside Arusha. Another client said she dropped out because she was attending to her sick child. Other personal reasons include attending training sessions, moving to other areas, sickness, difficulties getting permission to be absence from work in case of employees, etc. Discussions with clients indicated that women in particular are forced to dropout or rest due to family commitments. Common reasons for women dropping out include giving birth, attending to the sick, or joining husbands who have been transferred to new workstations.

MFI Knows No Sickness

Teresia Makamle is a vegetable vendor at Mwananyamala Market in Dar Es Salaam. She took a first loan from PRIDE Bugurini branch. Unfortunately she fell sick before completing loan repayment. However, she tried her best to make her loan repayments, which she dully completed. She was sick for almost a year, and her business did not perform well. Upon recovery she went back to PRIDE, and asked if she could take a second loan. To her disappointment she was told that she had to start afresh, she was given back her LIF amounting to Tsh 30,000. Starting afresh was too much of a bother and too expensive for her - she never rejoined.

Thus most of the voluntary dropouts are the result of rigid products.

Repayment Problems Due to Clients

Repayment problems were found to be the main immediate cause of forced dropouts. While some of the factors that contribute to repayment problems emanate from the rigid structure of the loan products, the clients themselves are responsible for many of the repayment problems. Client related factors that contribute to repayment problems are:

- *Diversion of loan funds*: Almost all clients visited admitted that they divert some of the loan funds to other more pressing needs like school fees, health, purchase of land, house repairs with anticipation that the business will be able to repay etc. In reality most of the clients said that they have a kind of consolidated household budget/cash flow including all activities that involve money e.g. *upatu* (ROSCA), salary, farm proceeds, business proceeds, family expenses and education expenses. For SEDA clients in particular, the issue is to have a smooth well-managed cash flow rather than large business profits. A few said that they lent the money to friends or husbands who never repaid them.
- *Lack of business skills*: Both credit officers and clients claimed that lack of business skills contributes to clients' failure to repay. Many take loans and expand their business without adequate consideration of the capacity of their businesses to generate the cash to repay the loan. The lack of, or poor, record keeping is a major weakness in most informal sector businesses.

- *Lack of financial discipline and extravagances*: A few clients, mostly young, fail to repay not because of poor performance of their business, but simply because they spend most of their profits on non-essential items.
- *Seasonal businesses*: All clients interviewed indicated that businesses perform better in July through December. In this period, they comfortably repay their loans. The rest of the year is more difficult. In rural settings and upcountry urban centres like Morogoro and Singida, almost all poor and middle income people are engaged in farming in addition to other micro-businesses. During the farming season people move away from the urban centres to live on and tend their farms: they are thus forced to drop out. After the harvesting season, they restart their businesses and may again need to rejoin MFIs.
- *A culture of non-payment*. In the past, Tanzanian small-scale farmers and operators in the informal sector were given subsidised credit (most of which was never repaid) and grants from government and donor funded programmes; as a result, new clients of the MFIs often still expect that repayment will not be a serious issue. Clients join with these expectations but leave once they realise that the MFIs are serious about repayment. Credit officers of all the MFIs studied shared this view. It is likely that some of the 40% who dropped out from PRIDE before the first loan (during the training period), did so because they realised how serious the loan repayment discipline was.

Repayment Problems Due to Unpredictable Complications
Natural Calamities: Natural calamities have an impact on client's lives and their businesses, thus making them unable to repay and forcing them to dropout. The El-Nino rains and droughts are recent specific examples. PTF however did take this into consideration in Turiani where their clients lost everything. PTF not only rescheduled and/or provided additional loans, but also mobilised donations for their clients. This gesture of concern for peoples' lives (in addition to money) has contributed to the addition of more clients and improved the retention of existing ones.

Overall Poor Economic Conditions: The economic hardships currently facing the country (1998/99) have had a negative impact on many businesses. As a result many clients experienced difficulties in repaying their loans and were therefore expelled. Others left voluntarily after paying their last loans with difficulties. In PRIDE 75% of their clients left during the second half of 1998.

Competition from Other MFIs
Most of the many small MFIs, however, are concentrated in Arusha, Mwanza, and Dar Es Salaam. In these areas clients leave one MFI to join another. In Arusha Unga Limited, Kijenge, Daraja Mbili and in Dar Es Salaam the consultants learned that clients move from PRIDE to SEDA or to SIDO.

CHARACTERISTICS OF DROP OUTS

The paucity of data makes an analysis of dropout characteristics difficult. Nevertheless the analysis of dropouts in PRIDE Arusha branch clearly shows that dropouts do not come from a particular demographic group. Any client is a potential dropout. This fact is a reflection of the rigidity of the credit products, and the absence of other financial services that clients need in addition to credit. People remain PRIDE clients only when they need credit, and when their activities can fit into the framework of PRIDE products. The researchers met with clients and discussed the reasons for dropping out and attempted find any correlations between client demographics and dropouts (see Appendix II). The findings of these discussions are below.

Socio-economic Position of Dropouts

The client meetings and PRIDE data indicated that both the poorer and the better-off clients dropped-out. Most of the poor dropped out because their businesses were too small, had little potential for expansion and therefore did not need higher loans. Often they would face repayment problems that would lead to expulsion or voluntary dropout. According to clients in Kijenge, the poor are typically unable to maintain a loan size above approximately Tsh.200,000 and thus dropout. Clients that are better-off, however, continue to need and maintain the larger loans. At SEDA, clients asserted that the poor are highly vulnerable to adverse conditions, like the current downturn of the economy, droughts and floods. They have limited planning and management skills, and lag behind in adjusting to changes and new policies like value added tax (VAT). Often they eat into their working capital in order to repay loans and then decide to quit.

On the other hand, the clients who are better off who dropout, do so because they are too busy with their businesses. Some of these businesses have already grown to levels where PRIDE's loan sizes are no longer sufficient. In other instances, they drop because they must attend to other more crucial or rewarding business activities such as travelling to procure supplies.

Occupations and Dropouts

Most PRIDE clients are engaged in more than one business. Some are employed in addition to having businesses. The team did not find any direct relationship between the type of business and the risk of dropping out. However, we learned that in Morogoro farmers' dropout during the farming season since they move to their farms, which are far from their residences

Gender and Dropouts

Figures on dropouts at PRIDE Arusha branch show no significant relationship between gender and dropouts. At PRIDE Kariakoo branch however, there were indications that women drop out more than men. PRIDE clients explained that women's family role contributes greatly to more women dropping out. The responsibilities include attending to the sick, joining husbands who have been transferred and maternity reasons. SEDA clients said that women drop out more because they have low business skills. On the other hand they said women are trustworthy and good payers.

Other Factors

PTF's experience is that in urban areas there are generally more dropouts than in rural areas, probably because in urban areas there are more options than in rural areas. The team could not find any significant relationship between dropouts and age, religion or normal life events.

WHO DOES NOT JOIN AND WHY

Each of the MFIs has well defined target and eligibility criteria as described in the product structures. While the eligibility criteria might be quite open, the products and excludes many individuals. The main difficulties faced by potential clients are:

- The fixed frequent meetings which are difficult for potential clients to fit in with their other activities;
- The limited number of available products that dictate loan sizes and repayment schedules;
- The group guarantee system which means that some people are excluded because no group will guarantee them or they are simply not interested in guaranteeing anybody else;
- The lack of confidentiality;
- The long waiting period;
- The high interest rates (some people clearly said that they would rather participate in *upatu* than pay the high transaction costs);
- The absence of interest on savings/loan insurance fund; and
- The fear of loans due to the associated consequences of non payment which include seizure of pledged assets.

Poverty

The poorest cannot join any of the MFIs. At present, no MFI targets the poorest. This clear omission is due to a number of points. Firstly, the poorest rarely have businesses - a requirement of all MFIs. Indeed the team identified the poorest to include the minimum wage employees, casual labourers, and the aged, most of who do not own businesses. Secondly, while the lower urban poor may own businesses, they make very low returns. Discussions with women at Mwananyamala MFAVESCO, for instance, indicated that poor women, mostly engaged in selling vegetables, have even refrained from participating in *upatu* requiring Tsh. 100 daily contributions for fear that they might not be able to come up with their daily contribution.

It is evident that the poor can not afford to pay financial transaction costs of accessing a loan, which include minimum saving/guarantee, application/membership fees, disbursement fee, and, in the case of PRIDE, transport costs to the meetings.

Gender

There are many socio-economic and socio-cultural reasons why women might not join MFIs' programmes. These include:

1) Women are often the poorest;
2) Women are often less educated;
3) Women are often intimidated;
4) Women have so many other obligations that they do not have time for group meetings – particularly those who are single mothers
5) Women often have less collateral; and
6) Women usually have access to fewer and poorer business opportunities.

Although PTF specifically targets women and SEDA ensures that 70 – 80% of their clients are women because women are usually poorer than men are. Furthermore, men are more mobile, have more options and are better positioned to take advantage of other opportunities. Alternatively, women are often forced to contend with whatever is locally available, even if the conditions are not very favourable. Indeed the women at Mwendapole said "We can never leave PTF, it is our only saviour." On the other hand, women are sometimes not able to join because their husbands do not allow them.

Salary Employment

SEDA and PTF target those who are not formally employed because traditionally, formally employed people are assumed to be better off. However, the low cadre employees with the minimum salary level of Tsh. 17,000 per month (US $ 24.30), who are among the poorest, cannot even join PRIDE which does not restrict employees, because they are not able to pay the transaction costs. Further, being low level employees, it is not easy to get permission to attend the fixed weekly meetings.

The team found that a number of middle income employees are PRIDE clients. However, the majority of middle income employees find it difficult to join because they cannot fit the weekly meetings into their work schedules. To address this problem PRIDE is considering holding Saturday meetings.

Age

None of the MFIs studied have a maximum age limitation to joining. However, the team found that the aged are not able to join the MFIs. Very old people depend on relatives, neighbours and friends, and can hardly engage in business activity.

Other Factors

While PRIDE is purely urban based, SEDA and PTF are located in peri-urban areas, or in rural settings with an active micro-business community. However, most of the MFIs are in Mwanza, Dar Es Salaam and

Arusha, and therefore location is a key factor that excludes the majority of the population from joining even when they are eligible and capable.

WHO JOINS MORE THAN ONE MFI

The research team spoke with clients who had switched from one MFI to another. However, this was not a very common practice. The frequency of meetings and repayment schedules make joining more than one MFI difficult. When asked why clients rarely move from one MFI to another, one woman who had bitterly complained about PRIDE's interest rates and lack of interest on savings responded, "I am used to PRIDE, I cannot be like a prostitute". SEDA clients also indicated a legitimate preference for SEDA because of the less frequent meetings and repayment schedules. The team could not find individuals who had joined more than one MFI. PTF categorically prohibits clients from joining another MFI, and group members are on the lookout for anybody doing so.

CONCLUSIONS AND RECOMMENDATIONS

Until recently the issue of dropouts was not handled seriously by any MFI, nor was it incorporated into their Management Information Systems. This has led to a lack of data with which to analyse trends, causes and relationships. Nonetheless, dropout rates for PRIDE are high with a cumulative figure estimated over 50%, and alarmingly high rates of client loss for the other MFIs .

All three MFIs studied have very rigid products, in which the responsibility of ensuring repayment and dealing with defaulters has been entirely shifted to the clients. In this way, the products are easily managed with modest administrative costs - making life comfortable to the MFIs, but a burden to the clients, and thus prompting dropout.

The rigidity of the MFI products is the major factor contributing to high dropout. The products offered are inappropriate for the business needs and life patterns of the clients, prompting clients to dropout. Other clients manipulate the MFIs' products whenever possible to suit their business or personal needs.

The MFIs appear to perceive their clients and their businesses as homogenous entities that follow a common growth pattern, rather than as human beings/individuals[2] each with her/his own peculiarities and needs e.g. maternity, health needs, travelling, employment, etc. In addition, MFIs fail to recognise that their clients and their businesses are subjected to a variety of factors that impact the demand for their services and retention of clients. Such factors also include national policies, the climate, natural calamities, etc.

All the MFIs studied have just one product: loans. MFI should realise that their clients do not need to be indebted throughout their life. They are bound to leave when they no longer need credit. To retain their clients, MFIs need to develop a wider range of products that will match the varying needs of their clients.

The poorest cannot access the credit products of the MFIs studied. The poorest are the aged, employees with the minimum salary level, casual labourers and small petty traders. MFIs could tap this pool of potential clients by providing them with saving services that match their saving capacity.

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[2] or at least as a multitude of groups with varied needs. MFI would then be able to offer a variety of products from which to choose the one that best suits the clients needs with an option to choose other products as the individual needs change. In this way, the client is better served and the MFI retains a good, well-trained client for a longer period of time even if the products are limited to loans.

The gradually increasing competition among MFIs, increasing economic hardships and competition among micro-businesses in the informal sector are likely to lead to an increase in dropouts. None of the MFIs studied have reached self-sustainability. If they intend to be sustainable, they need not only retain their existing clients but also recruit new ones.

MFIs need to watch the changing needs of their clientele and the products of their competitors. This can be achieved through detailed monitoring of dropouts to identify trends, reasons, causes and relationships to other factors that influence clients to dropout. MFIs need to constantly adjust their products to match the changing needs of the clientele while at the same time maintaining low operating costs.

APPENDIX 1 TANZANIA	SEDA	PRIDE	PTF
Institutional Status	NGO. Now independent of but linked to World Vision, their founder	Company limited by guarantee (once considered becoming a bank: ties with Pride Africa of Nairobi)	Registered NGO
Target group of clients	Productive poor (and mainly women) micro enterprise owners	Micro and small enterprise owners	Unemployed poor women and youths with existing micro businesses, rural as well as urban
Year started	Registered 1996; operations October 1995	Registered 1993; operations 1994	NGO registration 1988; operations 1989
Institutional model	'Community Banking' (modified SHG model similar to Proshika's)	Grameen-type solidarity group; weekly meetings at PRIDE premises	Grameen-type solidarity group; weekly meetings in the village or peri-urban settlement
Staff numbers	34 (3/99), of whom 12 are Credit Officers	165 (4/99), of whom 80 are credit officers	25 (4/99) of whom 17 are credit officers
Current number of clients (or members)	4,500 (3/99) in 3 branches	28,750 (4/99)	4,700 (3/99)
Current number of borrowers	3,000 approx	21,500	Approx. 4,200 (3/99)
Current number of savers	4,500 (but SEDA doesn't collect or hold these savings)	28,750 – all compulsory savers	4,700 (3/99)
Ratio loan officers to clients, to savers, to borrowers	1:375 officers to clients and savers 1:250 officers to borrowers	1:359 officers to clients and savers 1:268 officers to borrowers	1:276 officers to clients and savers 1:247 officers to borrowers
Value of savings held	$22,985 (owned and held by members)	1.4 bn shillings (4/99) = $1.97 m (compulsory savings only)	29.4 m shillings (3/99) = $42,000, mostly compulsory
Value of loans out-standing	$415,127 (3/99)	1.5 bn shillings (4/99) = $2.11 m	$340,000
Level of self-sufficiency	45% 'operational self-sufficiency'	60% of operational coat	81% of costs covered by income in last quarter
Profit/loss last accounts period	Not available: loss	Loss of $356,750 in six months to June 1998	Loss of $8,400 in quarter ending March 1999
Drop-outs rates with years	Estimated approx 5% cumulative – there are definition problems	Cumulative over 50% over five years	Not tracked; maybe 24% per loan cycle (average 8 months) in urban area, less in

APPENDIX 1 TANZANIA	SEDA	PRIDE	PTF
			villages
Arrears rate	12% at month end	Zero	Less than 1%
Interest rates on loans	30% flat plus 3% disbursement fee	30% p.a. flat plus disbursement fee of 1% of face value (second loan onwards); compulsory savings of $1.40 a week	30% p.a. flat plus disbursement fee of 5% of face value: compulsory savings of 5% of face value paid during loan
Interest rates paid to savers	None: Bank pays bank rates to member-held savings	10% of final value of compulsory savings paid on leaving scheme provided at least 12 months have elapsed and that the exit was voluntary (less than 50% of exits are voluntary) and provided that no compulsory savings were ever used to repay loans	10% of final value of compulsory savings paid on leaving scheme provided at least 12 months have elapsed and provided that no compulsory savings were ever used to repay loans of others
Loan application procedures	Group must be running a ROSCA and have completed training. Each member's loan application must be approved by group. Group then makes a bulk application to SEDA.	Form a five person group: undergo eight weeks training: fill up form: undergo inspection of business by MEC (a group of groups): appear before MEC committee and obtain approval	Form a five person group: undergo seven days training (2 hrs a day): fill up form: get acceptance by Centre (a group of groups):
Loan disbursement procedure	By cheque as a bulk loan to group., first loan not more than equivalent of 150,000 shillings per member, rising by 50,000 steps to 600,000.	Solidarity group members receive loans in a set order; loans are sized according to a fixed formula: loans issued by cheque from HQ within one week of MEC approval being granted (cheque can be open if there are problems with banking)	Where possible, by cheque to bank, other by cash at meeting: members get simultaneous loans at start of cycle (but pre-payment mean cycles get out of sync after a while)
Loan repayment procedure	By cheque each month or each week from group to SEDA bank account: COs don't touch money.	Weekly, with interest and compulsory savings, at Pride premises: no arrears allowed (all payments cleared in cash before members can leave the premises): number of weeks rises from 25 (first loan) to 40 (second) to 50 (subsequent)	Weekly, with interest and compulsory savings, at the village or peri urban settlement: no arrears allowed (all payments cleared in cash before members can leave the meeting): number of weeks rises from 26 (first loan) to 32 (second) to 52 (subsequent)
Restrictions on loan use	For existing businesses only (but it's hard to check and there is much diversion)	For existing businesses only. Businesses are checked but loan use isn't: management is aware of much diversion	For existing businesses only. Businesses are checked but loan use isn't: management is aware of much diversion
Restrictions on use	None	None (but see below)	None

APPENDIX 1 TANZANIA	SEDA	PRIDE	PTF
of savings withdrawals			
Savings account opening procedures	Groups open it at a bank after making a Constitution and bye-laws	Part of membership application procedure.	Part of membership application procedure.
Savings account access conditions	On exit only, after all SEDA loans are cleared (SEDA is a signatory to group-owned bank accounts)	Savings are held as security against loans and no withdrawals are allowed until exit.	Savings are held as security against loans and no withdrawals are allowed until exit. Some voluntary savings as well.
Main donors and other sources of funds.	Grants from World Vision; USAID; Ford; DFID (for Mwanza branch)	Grants from NORAD for operations and for lending (some USAID grants go via Pride Africa)	Grants from Ford, ADF, Tanzanian-Swiss Trust Fund; loans from NIGP, Gatsby, Grameen Trust
Intermediation.	None (SEDA doesn't hold member savings). Some groups may intermediate their own savings.	Unlimited lending of the compulsory savings.	In past yes; now prefers to bank the savings and will negotiate for loans against these savings

Appendix II
Research For Patterns Among Drop- Outs

Figures for Arusha branch (the oldest, started January 1994)

D 1: test for influence on drop-outs of sex of client

Total clients ever: *of whom:*	4,998	100%
Male	1,679	34%
Female	3,301	66%
Total clients ever dropped-out: *of whom:*	3,316	100%
Male	1,194	36%
Female	2,122	64%
Impact of sex on drop out rate:	**Negligible**	

D 2: test for influence on drop-outs of education of clients

Total clients ever: *of whom:*	4,998	100%
Totally uneducated	138	2.7%
Primary 1-4	250	5%
Primary 5-8	3,503	70%
Secondary	1,072	21.4%
College /university	36	0.7%
Total clients ever dropped-out: *of whom:*	3,316	100%
Totally uneducated	108	3.2%
Primary 1-4	178	5.4%
Primary 5-8	2,283	68.8%
Secondary	829	25%
College/ university	27	0.8%
Impact of education on drop- out rate:	**Negligible**	

D3: test for influence on drop-outs of type of business owned by client

Total clients ever: *of whose businesses:*	4,998	100%
Trade	3,784	75.7%
Services	725	14.5%
Manufacture	489	9.8%
Total clients ever dropped-out: *of whose businesses:*	3,316	100%
Trade	2,476	74.7%
Services	513	15.5%
Manufacture	327	9.9%
Impact of type of business on drop out rate:	**Negligible**	

D 4: test for influence on drop-outs of age of client

Total clients ever: *of whom:*	4,998	100%
More than 60years of age	69	1.4%
51-60	269	5.4%
41-50	1.144	22.9%
31-40	2,315	46.3%
21-30	1.180	23.6%
Less than 21 years of age	21	0.4%
Total clients ever dropped-out: *of who:*	3,316	100%
More than 60 years of age	40	1.2%
51-60	177	5.3%
41-50	796	24%
31-40	1,526	46%
21-30	767	23%
Less than 21 years of age	10	0.3%
Impact of age of clients on drop-out rate:	**Negligible**	

D5: test for influence on drop-outs of dependants of client

Total clients ever: *of whom*	4,998	100%
With no dependants	138	6.1%
With 1 or 2 dependants	250	28.5%
With 3 to 5 dependants	3,503	45.9%
With 6 to 9 dependants	1,072	13.6%
With 10 or more dependants	36	1.7%
Total clients ever dropped-out: *of whom:*	3,316	100%
With no dependants	258	7.8%
With 1 or 2 dependants	968	29.2%
With 3 to 5 dependants	1,438	44.7%
With 6 to 9 dependants	450	13.6%
With 10 or more dependants	52	1.6%
Impact of education on drop-out rate:	**Negligible**	
Note : percentages will not total 100 because there are some unknowns.		

D6: test for influence on drop-out of age of business of clients

Total clients ever: *whose :*	4,998	100%
Business established before 1990	729	15.4%
Business established in 1990 or later	4,013	84.6%
Total clients ever dropped-out: *whose:*	3,316	100%
Business established before 1990	453	14.7%
Business established in 1990 or later	2,632	85.3%
Impact of age of business on drop-out rate:	**Negligible**	

D7: test for influence on drop-outs of land ownership of client

Total clients ever: *of whom:*	4,998	100%
Own no land	3,726	74.5%
Own less than half acre	203	4.1%
Own between half and one acre	227	5.5%
Own between one and two acres	352	7%
Own between two and five acres	315	6.3%
Own between five and ten acres	86	1.7%
Own ten acres or more	43	0.9%
Total clients ever dropped-out: *of whom:*	3,316	100%
Own no land	2,397	72.3%
Own less than half and acre	136	4.1%
Own between half and one acres	191	2.7%
Own between one and two acres	260	7.8%
Own between two and five acres	232	7%
Own between five and ten acres	66	2%
Own ten acres or more	34	1%
Impact of land ownership of client on drop-out rate:	**Negligible**	

D8: test for influence on drop-outs of possession of a bank account by client

Total clients ever: *who:*	4,998	100%
Had a bank account before entering PRIDE	1,566	31.3%
Had no bank account	3,432	68.7%
Total clients ever dropped-out: *whose:*	3,316	100%
Had a bank account before entering PRIDE	1,015	30.6%
Had no bank account	2,301	69.4%
Impact of possession of bank account on drop-out rate:	**Negligible**	

D9: test to see if drop-out rate declines with time

Year	Number of clients registering in that year	Of those that registered that year, the number who also left in the year	Percentage of joiners who left in the same year as they joined
April 1994 to March 1995	1,105	270	24.4%
April 1995 to March 1996	771	98	8.8%
April 1996 to March 1997	554	127	22.9%
April 1997 to March 1998	1,070	312	29.2%
April 1998 to March 1999	1,043	335	32.1%

The rate of early drop-outs has not diminished as time has gone by.

D10: test to see if there were trends amongst very rapid drop-outs:

Month	Number of clients registering in that month	Of those that registered in that month, the number who had left by the end of the following June	Percentage of joiners who left that quickly
April 1994	223	34	13.9%
April 1995	18	3	16.6%
April 1996	96	11	11.5%
April 1997	47	7	14.8%
April 1998	73	13	17.8%

No trends identified.

Appendix III
PRIDE Tanzania's Work on Client Exits

Probing Client Exits

Client exit from the programme has continued to be registered as either voluntary or expulsion. It should be pointed out that typical of this programme, the fast recruitment experienced at the new branches called for a tighter screening process to ensure that only eligible and committed clients stay in programme to receive loans. Further, screening continues after issuance of the first loans to restrict potentially bad clients from moving to higher loans. The table below maps out retention rates at different stages of the client progression. It can be seen that 79% of clients entering the programme will survive to receive at least the first loan. The rate increases progressively from 79% reaching 97% at the fifth loan level. Further, the exit profiles by loan sizes supports the functionality of the model whereby up to 84 percent of the cumulative exits recorded was prior to receiving the second loans. The percentage exits drops sharply as loan sizes increase. The cumulative number of exits since programme establishment to end of December was 25,919 of which 8,730 were recorded in the reporting period. Voluntary exits accounted for 45% of the total exits while 54% of the total were expulsion exits. The remaining 1% of client exits was attributed to death. Exit profiles by loan level are shown in the following table:

Cumulative retention and exits by loan size

Loan #	Nil	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6	Total
# of clients	50,797	38,828	18,982	6,658	735	111	12	50,797
Exits	10,438	11,404	2,970	1,040	74	3	1	25,930
Retention %	79.5	70.6	84.4	84.4	89.9	97.3	91.7	--
Total exit %	40.3	44.0	11.5	4.0	0.2	0	0	100

The analysis shows that client exit is a serious problem and if remains unchecked could cause serious setbacks to the programme. For example in February the actual number of client population was 27,200 as compared to targeted figure of 32,100 which is a shortfall of 5,000. The shortfall was attributed to unprecedented high rate of exits during the month of January and February in which some 3,337 clients exited the programme. The client population by the end of August 1999 has been targeted at 37,000. Thus the programme has to recruit 10,000 more clients within a spell of five month net of exits to achieve the planned target by August 1999. Given the high exit rate this poses quite a challenge.

On account of the foregoing and in recognition of the importance of client retention in relation to portfolio growth, profitability and hence sustainability of a micro-finance institution, management took action to determine (apart from screening) other possible causes of the massive client exit from the programme. The ultimate objective was to find ways to at least improve on the situation. To this end, a special meeting of branch managers was convened towards end of March 1999 to deliberate on the matter. The following were the outcomes of the meeting:

Causes of client exits

1. Macroeconomic factors- tight fiscal and monetary policies which have affected the money supply in the economy resulting in diminished purchasing power thus affecting businesses (cited as major cause of failures of many micro and small business).
2. Competition from other MFIs in certain locations.
3. Rigid PRIDE credit policies and procedures
   - lack of access to loan insurance fund by clients
   - unfavourable bonus pay out system
   - strict disciplinary measures for late comers and absentees prior to and during the initial 8-4-4 loan disbursement cycle
   - end of year prepayment exercise.

4. Natural calamities-drought, hunger, outbreak of disease (such as cholera resulting in closure of certain type of businesses), influx of refugees who find their way into the programme and desert it after accessing loans.
5. Seasonal economic activities particularly farming-clients leave the programme to attend their farms in distant locations.
6. Use of loans for unintended purposes-in consumption rather than business leading to failure of business to repay loans.
7. Lack of business management skills among clients.
8. Poor customer care/services among PRIDE staff.

Recommended solutions

A number of actions were recommended. In a majority of cases recommendations required further consideration by management due to financial, systems and other implications. In a few cases resolutions were adopted for implementation. The summary of the recommendations and resolutions including management decision on the issues appear in the attached matters arising from the special branch manages meeting (see next page).

Matters arising from the special branch managers' meeting held on March 29, 1999 at the Valley View Hotel in Dar es salaam.

Recommendations	**Action taken/status of work in progress**
1. Clients to be allowed to withdraw part of their LIF	Management needs more time to consider implications and mechanisms needed. May be handled under the USAID project. Will require the new PRIDE star software currently under developed in Nairobi.
2. Review of the 8-4-4 initial loan disbursement systems	Management has decided to adopt the 6-2-2 to replace the 8-4-4. MIS to assess PRIDE star's flexibility and advise prior to implementation planned effective 1st May 1999.
3. Clients inter-branch transfer	Management has no problem with this matter and MIS can handle it under existing PRIDE star. It is now up to the branch managers to come up with a process of making the transfers acceptable to MECs which the transferees intend to join.
4. Annual computation of bonus to clients	Management has agreed in principle on computing the bonus once every year at a specific period of time but using a rate slightly below market rates. However, more time is needed to determine financial implications and to work out the modalities to operate the scheme. This will require a review of PRIDE policy on bonus.
5. Clients to be allowed to save more than LIF amount per week	Decision on this issue will have to await introduction of new systems with capability to track such transactions. Further, it will involve designing the mechanisms and modalities to operate it as a separate scheme.
6. Opening new outlets (sub-branches)	The new outlets will be implemented as soon as review of branch survey rep[orts by management is complete. The identified sites will have to be adequately assessed by considering their market potential, banking services, accessibility, market stability, etc. (*Suggested cost benefit analysis for each outlet*).
7. Premium clients scheme	The matter requires further research and will be considered under USAID project as part of new product development. The BMs should identify potential clients and make document their profiles and expectations.
8. Exited clients to rejoin the same MEC	Management has approved the move but only clients exiting voluntarily can rejoin the same MECs. The recommendation may be implemented as follows: • A temporary exit holding MEC will be introduced in the database • Clients wishing to exit for a while will have their LIF balances transferred to the holding MEC • Upon re-entry the clients will be reactivated back to either their original MECs or other MECs where they are admitted. • The temporary transfer will last for a period of four weeks after which the temporary exit will be processed to a regular exit. (*Suggested that the holding period to be extended to 3months*). • On joining the MEC, the client can either build up

Recommendations	Action taken/status of work in progress
	his/her LIF to advance to higher loan from where he/she left otherwise he/she may have to start anew. • Modalities for this will have to be further refined for simplification and based on systems capability. A cost benefit analysis will have to be conducted.
9. Business management training	There is evidence of improved client retention and business performance at branches where some business training is offered: Dodoma and Morogoro. Management agrees to the recommendation to formalise this service. REDI will be requested to design a TOT course in order to equip branch staff with training skills. Further, training modules will have to be sourced. To note here is that training is of low level which COs can handle in the absence of commercial training contractor.
10. Introduction of Saturday MECs	This matter has been approved due to extra costs associated with working on Saturdays and the fact that branch staff need to rest on weekends after busy workdays.
11. Interest rate for higher loans	Management has reviewed the interest rate for loan 7 (Tsh. 2,000,000) down to 25%. The rate for other loans remain unchanged.
12. Voluntary exits	Branch managers to carry out exit interviews, counsel clients to make them stay in the programme. Branch managers should document reasons for exits and where possible prepare case studies with recommendations to the head office.
13. December prepayment exercise	To be stopped. MIS to investigate systems implication on post recess period.
14. Use of LIF to repay loans	Branches to continue with the current practice of three tier guarantee to enforce loan repayment during MEC meetings. Where full collection fails within the standard MEC period, the meeting should be extended. To limit the time spent in the appraisal room, the following appraisal room technique has been proposed: • Making use of EG LIF contributions for the day to pay for the defaulting member's (P+1) due. • Where the EG's LIF deposit for the day is less than the defaulter's P+1 due, the liability should be spread to the MEC and the balance due should be taken from the MEC's LIF contributions for the day. • If members LIF collections are used to pay off loans, then such members must top up the amount of LIF so used before they can access new loans.
15. LIF topping up for loan 6 and above	• No topping up for loan 6 as long since at 23% the LIF balance is closed to the required minimum of 25% of the sixth loan size of Tsh. 1,000,000 • Clients must top up LIF to 25% of the 7th loan cycle of Tsh. 2,000,000. • Clients should be given the option to prepay LIF

Recommendations	Action taken/status of work in progress
	without matching it with loan and interest repayments.
16. Registering clients with less than 10 MECs	Management has approved registration of MECs with at least 6 MECs but no branch is allowed to have more than one such a MEC at any one time.
17. Balancing of LIF against loan P+1 when clients exit the programme	Dived the amount paid to set off the loan equally among other EG members and add to their LIF amounts. Record the new LIF amounts in the form 4a and fill the exit form for the balancing member. At the MIS the loan tracker will automatically extract the additional amount of LIF from the EG members to set off the loan of the exiting member.
18. Loan menu flexibility	Management is looking into the effects of increasing loan sizes on cash flow and profitability.
19. Branch mini research	Mr. Ntambi to circulate standard questionnaire for use by branches by the end of April 1999.
20. Provision of different products	This is part of USAID project being implemented by PRIDE Africa in Nairobi.