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Spotlight Note

11

Client Desertion in Microfinance: How To Diagnose It Successfully?

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April 2004

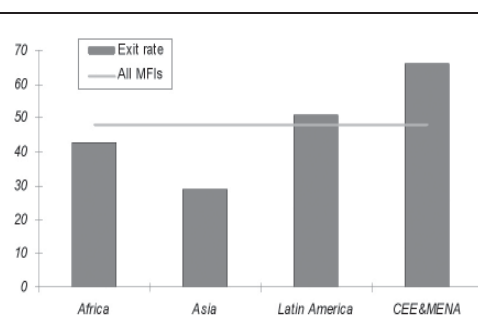
Client Exit - Why Care?

Given that many Microfinance Institutions (MFIs) experience significant client exit rates that undermine both their financial and social performance, it is high time for practitioners to address this problem². This Spotlight Note identifies key principles in investigating client desertion. These insights are based on the action-research work of the Microfinance Centre (MFC) for Central and Eastern Europe and the New Independent States (CEE and the NIS) together with Partner, Prizma, BosVita (within the Imp-Act programme) and MDF Kamurj (within SEEP PLP)³. The scope of our deliberations is limited to credit-only institutions due to their prevalence in CEE and the NIS.

We begin with some general remarks about the significance of client desertion for MFIs. Then, the paper goes on to explain how to define, measure and understand client desertion. In the last section, we introduce the concept of an exit monitoring as an option for those who want to operationalise a more systematic approach to investigate and act on client exit⁴.

As in other service industries, an MFI's success will depend on its ability to build long-term relationships with its clients. Development goals as well as financial objectives need time to bring returns on the investment made. Client loss undermines the MFI's efforts to maintain these long-term relationships necessary for its successful performance. The scale of client exit in microfinance (see figure 1) can be considered as an important factor that reduces effectiveness and thus requires proper diagnosis, understanding and management.

Figure 1: Desertion in Microfinance (annual rates)⁵



Source: MicroBanking Bulletin, April 2001, p.37

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² For more discussion on microfinance client exit issues see Copestake (2002), MicroBanking Bulletin (2001), Musona and Coetzee (2001), Nelson (2000), Hulme (1999).

³ **Partner** - www.partner.ba - is a locally registered MFI in Bosnia and Herzegovina (founded by Mercy Corps in 1997). Its mission is to provide financial services to economically active people who do not otherwise have access to commercial sources of funding.

Prizma - www.prizma.ba - was founded in 1997 by an international non-governmental organisation and registered locally in 2001. Prizma's vision is to be widely recognized for providing people with choices to improve their lives; its mission is to improve the well-being of poor and low-income women and their families by providing long-term access to quality financial and non-financial services.

BosVita - began its operations initially as an economic development program of the International Rescue Committee in 1996 to serve predominantly returnees. It registered as a local organization in 2001.

MDF Kamurj emerged by combining the efforts and resources of two microfinance programmes created in 1998 by Catholic Relief Services and Save the Children. Kamurj (or „Bridge” in Armenian) was officially registered as a local non-profit foundation in April 2000. MDF-Kamurj focuses on low-income women micro-entrepreneurs in urban areas in Armenia.

MFC is the leading membership-based resource centre in the region. It was launched in Warsaw in September 1997. Its mission is to promote the development of a strong and sustainable microfinance sector in order to increase access to financial services for low-income people, particularly micro-entrepreneurs. The MFC fulfils this mission by providing high quality training, consulting, research, mutual learning and legal and policy development services. More information about MFC research work can be found at www.mfc.org.pl/research.

Imp-Act Programme - www.imp-act.org - is a collaboration which brings together 29 MFIs in 20 countries, a team of academics from three UK universities, international NGOs, policy-makers and donors. MFC acts as regional coordinator and TA provider to 7 regional MFIs participating in the Programme.

SEEP PLP (Practitioners Learning Program) - www.seepnetwork.org - is a 2-year action-research project with the goal of developing and promoting client assessment best practices for microfinance worldwide.

⁴ The terms client exit, drop-out, desertion or loss are used interchangeably. The term “client resting” is used with reference to a client's temporary withdrawal.

⁵ Accion formula was used to calculate annual exit rates. New clients were defined here as first-time borrowers and returnees after 2 years.



Define Drop-Out Before You Even Look At Your Exit Rates

How much do clients cost your MFI? You invest a great deal in attracting new clients and the costs of serving them are high. You undertake this long-term investment counting on the growth of clients' loans and portfolios and consequently long-term financial and social benefits. It usually takes a few loans to a client to cover the costs of serving that client⁶. That is why losing a client early on impedes you in covering the costs of the initial investment.

Social mission (im)possible? If clients leave after using your service for a short time, fulfilment of your social goals is jeopardised. For impact to occur, this needs time, and by leaving the programme, the exiting clients are moving beyond your development reach⁷. What is more, they might be leaving because the programme affected them negatively.

Drop-out: a valuable signpost. Increasing exit rate is a signal that something bad is happening in the institution or its environment. Monitoring this can help you identify dissatisfaction factors, problems in your clients' environment that may influence your institution through client behaviour, changes in the competition, clients' needs and/or preferences, etc. Use this signal as an opportunity to improve your program, and strengthen both your financial and social performance.

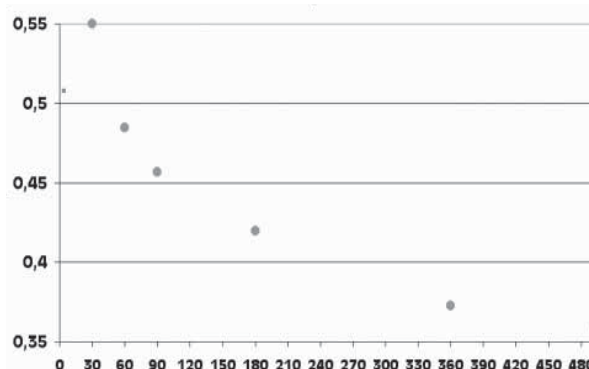
Exit rates are not comparable across institutions. As each institution is different in terms of its products, policies and institutional design, working with different clientele and in various contexts, comparison of exit rates is not meaningful⁸. That is why a proper definition of client exit, taking into account all these characteristics, should be the first step in addressing a drop-out issue. Only a well-defined drop-out status will help your MFI to successfully diagnose the problem and serve as a basis for your managerial decisions.

Drop-out status is a time-related characteristic. The point in time at which we assess a particular person's status is important, so a time horizon is necessary for our definitions. A drop-out is a person who repaid a loan/finished using a service at a particular moment and didn't renew it during a certain period of time. Although long client resting period is a loss for an MFI since the money is idle - there are client-related, institutional and environmental factors that need to be taken into account when defining a drop-out to make the term operationally useful.

Being in debt all the time is not natural. Micro-enterprises face seasonality due to various business

Box 1: "Resting" Phenomenon

Example of exit rates (y axis) decrease along "resting window" being extended (number of days between loan – x axis).



production cycles and changes on the market. Additionally, clients use credit for different purposes (undertaking market opportunities, investment, solving temporary problems, maintaining the level of current operations), which has an influence on the client's likelihood and frequency of return. As a consequence of these factors, it should be natural for a client to rest for some time (see box 1).

Retained or drop-out – is there any other option? Our goal is not to calculate how many clients left

⁶MFI's break even only after the fourth or fifth loan cycle (Brand and Gerschick 2000). Taking into account that regional MFIs deliver loan products of higher loan sizes and longer terms it can be expected that they break even after fewer cycles than MFIs operating in other parts of the world.

⁷There is growing evidence that the longer the participation in microfinance services, the more significant is the impact on clients. See Morduch and Haley (2002) for a detailed review of microfinance impact assessment studies.

⁸For example, one institution may work in a more competitive environment than another one and only because a client has no other choice can they be more willing to stick with the institution for a longer time. Another issue can be that of institutional design. Some institutions introduce certain product parameters that increase the cost for a client to leave it, e.g. necessity to accumulate compulsory savings, compulsory training or starting from the lowest loan size level are institutional disincentives for a client to leave, but only till the moment some other institution starts offering more flexible services.

permanently just for the sake of arithmetic, but we want to do something to lower these statistics. Introducing other categories of exiting clients can help us. Introducing mid-way definition between leaving client and drop-out will help us to streamline our drop-out prevention methods (see box 2).

Voluntary vs. forced drop-outs. In many cases it is actually an institution that makes a client leave, not the client themselves making the decision. It is important to distinguish between voluntary drop-outs and those that are forced to leave the programme by either the institution or a client group⁹.

Choose the best from different rates. The rate you choose will depend on your MIS (Management

Box 2: Defining drop-out at MFI A

To come up with the definition, MFI A reviewed its historical data and discussed the problem with the staff. The analysis of the whole database on exit and return patterns revealed that 75% of all who exited in the past, if they came back at all, came back after no longer than 250 days, while 50% came back after no longer than 150 days. After the discussion with staff it was decided to define a drop-out client as a client that didn't come back to the programme at all or came back after one year. A year was identified as a time horizon that reduces the likelihood of a client coming back, and makes a client no longer viable to retrieve (somebody that can be seen as "lost client" to the institution). This horizon was calculated in relation to the highly competitive, dynamically changing market where annual changes internal and external to the institution are significant enough to merit a client returning after a year being considered as a new client.

While such a definition is useful for reporting, it is not sufficient to use it for operational purposes with the aim to reduce drop-outs (the defined period is too long for allowing timely response to drop-out problem). Additionally, MFI A classified the leaving clients into the following groups based on their return behavior:

- **hard-user** – a client that exits and comes back to the programme within 60 days. Such a client is considered to return within a "standard" time of 1-2 months for somebody that doesn't experience seasonality in his/her business. As a likelihood of such client return is high, this category of clients is not given much attention by the MFI.
- **rester** – a client that exits and doesn't come back to the institution within 60 days. This client may rest since he/she experiences seasonality in their business. However, they may be also those that won't come back at all. In order to avoid this client falling into the drop-out category, MFI A engages in various initiatives to increase the client's likelihood of return (informal contacts, interviewing, adjusting products and services based on the feedback).

⁹ See the discussion on voluntary vs. forced drop-out in Copestake (2002).

Measuring Exit

Information System) capabilities. The most meaningful one is the CGAP formula adjusted for the client resting. If your MIS doesn't support CGAP rate, there is a wide spectrum of other rates that you may use. Each of them has its advantages and disadvantages. Some don't apply to start-up programmes; others need to be adjusted by additional characteristics. No one formula is perfect, so you need to decide which will suit your organisation best¹⁰.

Figure 2: Most commonly used exit rates

<p>Accion Formula:</p> $\frac{AC_{begin} + NC - AC_{end}}{AC_{begin}}$ <p>Formula adjusted for resters:</p> $\frac{AC_{begin} + NC + R - AC_{end}}{AC_{begin}}$ <p>AC_{begin} number of active clients at the beginning of the period NC number of new clients that came for a loan between the beginning and the end of the analysed period AC_{end} number of active clients at the end of the period R number of repeat clients that returned after resting to the program between the beginning and the end of the analysed period</p>	<ul style="list-style-type: none"> • relatively easy to calculate even with simple MIS • not for start-up institutions • underestimates the results as some clients calculated into the analysis haven't had opportunity to exit in the analysed period¹¹ • does not capture the moment of dropping out or being retained as it relies on number of clients at the end and at the beginning of the analysed period¹².
<p>CGAP formula:</p> $1 - \frac{FS}{TS}$ <p>Formula adjusted for resters:</p> $1 - \frac{FS_{within Y days}}{TS}$ <p>FS number of follow on (repeat) loans made in the analysed period TS number of repaid loans (closed services) in the analysed period FS_{withnYdays} number of follow on loan made within Y days since last repayment during the analysed period</p>	<ul style="list-style-type: none"> • relatively more difficult to calculate – requires stronger MIS • used for measuring exit at each cycle (to recalculate it for particular period of time there is a need to include average loan term into the formula)¹³ • may produce negative results (unadjusted formula)

Watch out for seasonality again. Exit rates fluctuate over time due to seasonal variations. That is why you shouldn't compare exit rates month by month without trend analysis. If you want to see whether your organisational retention improved in any one month, compare it with the results of the same month in the previous year. Another way to see whether the situation is getting better or worse is to calculate annual rates for subsequent months or other periods of time, or rolling averages. This will allow you to analyse trends (see box 3¹⁴).

Is resting reflected? Make sure "resting" is reflected in the rates you use. Some rates allow you to directly incorporate this through their construction (CGAP formula), some need adjustments (see figure 2 for examples of adjusted rates).

Analyse characteristics of drop-out clients. Make use of your MIS data to disaggregate your rates and see who drops out more or less often, who comes back earlier or later. Look at your drop-out clients from the perspective of what product types they have been using, their poverty and target status, loyalty level, repayment performance, their household, business and individual characteristics, etc. This will help you identify areas to focus on to deal with the desertion problem.

¹⁰ Some institutions use poorly constructed rates that provide misleading results. For example some MFIs use an exit rate defined as number of drop-outs last month divided by number of clients at the end of this month. In such a formula the numerator and denominator do not refer to the same period of analysis. The denominator includes not only clients that repaid their loans last month and came back (retained vs. drop-out clients in numerator), but also those that renewed their loans in previous months or took a loan for the first time and haven't had a chance to exit yet. The numerator includes the clients that repaid last month and haven't come back to the programme. Results of such calculations are underestimated and difficult to interpret.

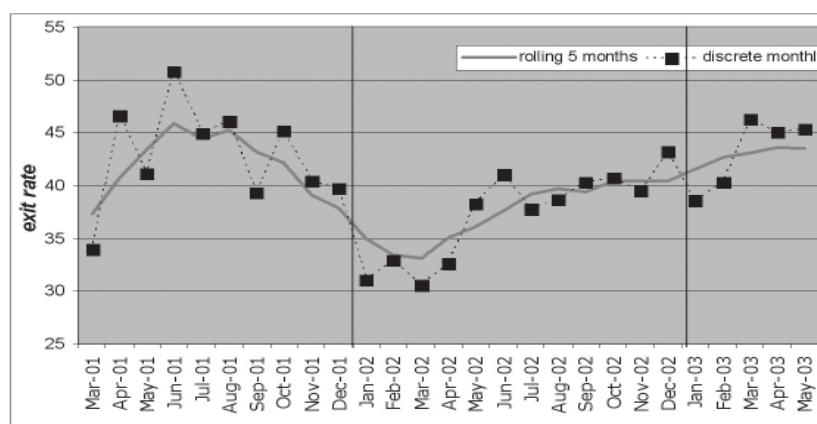
¹¹ Generally, the shorter the period of the analysis in relation to a loan term, the greater the underestimation.

¹² E.g. a new client that comes in the middle of the analysed period and drops out before the end is not taken into account in the analysis.

¹³ E.g. if your loan cycle exit rate is 20% and average loan term is 8 months, to obtain the annual exit rate you will need to adjust it in the following way: $(0.2)^{(12/8)}$, where 12 is the number of months in a year and 8 your average loan term (in months).

¹⁴ In the graph present the CGAP formula for 90 days between loans were used (Exit <90). To smooth seasonal variations rolling 5 – month averages were calculated. Another way to exclude seasonal variations is to calculate annual exit rates for subsequent months – e.g. for September 02, Exit(Sep 02)= Drop-out(Oct01 to Sep02)/Repaid(Oct01 to Sep02).

Box 3: Seasonal fluctuations of exit rates



Box 4: Exit and retention disaggregated by MIS variables at MFI A

Disaggregated overall exit rate helps us to get a better picture of drop-outs for a particular MFI. For example, based on the above figures, we may realise that the majority of drop-outs operate new businesses and only less than one third of them stay in the programme. The clients with existing businesses are more often being retained. If the drop-out pattern in these groups doesn't change, looking at the currently active clients (and providing that our targeting doesn't change) we can expect a significant future decrease in the share of the clients with new businesses in our loan portfolio. Further analysis of exit rate, broken down by certain characteristics, helps to draw a more detailed profile of dropping out clients and identify those that are experiencing the greatest number of exits.

	Retained	Drop-out	Active		Retained	Drop-out	Active
Type of business			Marital status				
new	14,6	29,2	25,4	married	83,9	80,1	79,5
existing	85,4	70,8	74,6	non married	16,1	19,9	20,5
# previous loans			Household size				
0	40,1	62,7	50,8	1-2	18,6	17,9	22,4
1-2	54,3	32,3	35,3	3-4	64,1	68,7	63,2
>2	5,6	5,0	14,0	>5	17,3	13,4	14,4
Business type			Target group				
Trade	37,6	21,1	27,3	Main (women/rural)	31,0	33,4	34,8
Service	29,1	30,6	28,4	Target (women/urban)	24,9	19,4	20,0
Manufacturing	7,9	4,5	4,7	Target (men/rural)	24,9	31,5	28,4
Agriculture	2,1	5,9	4,8	Other (men/urban)	19,3	15,7	16,8
Animal Husbandry	23,3	37,9	34,8				
Total	734	378	8281	Total	734	378	8281

Understanding Why Clients Leave

Why do some clients drop out? – This is a critical question your MIS cannot answer. In-depth understanding of exit reasons is very often a missing piece in exit analyses. The biggest challenge is to decide what is the most important factor that made each individual client leave. Clients leave for various reasons but there are usually multiple factors that affect an individual client's decision to stop using microfinance services. An MFI cannot control all of these, but greater understanding of the circumstances of drop-out will enable an organisation to address specific issues and develop effective drop-out reduction strategies.

Box 5: A range of different factors that may influence client decision to leave

- Experiencing difficulties in business
- Experiencing difficulties in personal, family life
- temporary absence of need for financial services
- no more need (e.g. business closure if a business loan was used; graduation from school if a school loan was used, etc.)
- Emergence of a new need that cannot be satisfied within current programme outline
- product didn't match the client's needs
- service was not satisfactory
- nothing changed in the programme but client expectations have been raised
- a new, more convenient source of credit has appeared
- a client gained access to a new source of credit
- a client decided to try something new
- client has/had repayment problems with your MFI/other institutions
- client was forced out by the group, loan officer or programme

Maybe we are just forcing them out. Some clients leave voluntarily and some are forced out by the MFI due to low repayment performance. A decision to withhold the subsequent loan is guided by internal policies but also by the loan officer's previous experience with the delinquent client. If the rule of "0" delinquency is applied within an MFI and loan officers' incentive system is significantly built around their portfolio at risk, loan officers would be tempted to force out more clients than needed (especially on less penetrated markets). Additionally, poorly designed services might be a reason for low repayment performance.

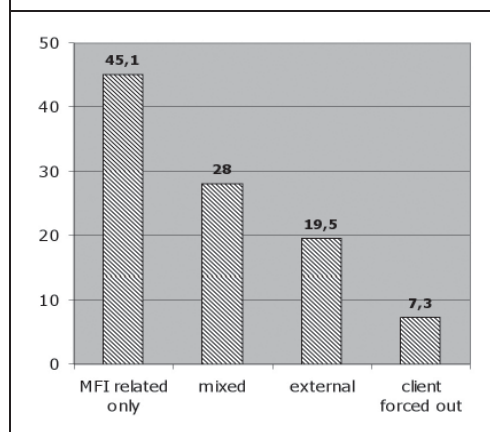
Current behaviour and intent to come back shed more light on exit reasons. Asking a client only about the reasons for drop-out will not bring you much valuable information because, as discussed earlier, this is a complex problem. To get a better understanding of desertion problems, it is important to get information on the client's current behaviour on the financial market as well as related plans (intent to use the MFI's services in the future). This information will shed more light on the client's reasons for exit. Particularly, if a client currently uses other providers of financial services, this information may help you identify areas where your services fail to respond to the client's needs. The intent to take a follow-on loan and/or willingness to recommend the services to others can be helpful in identifying "resters" among those who do not currently use any financial service and/or have temporarily stopped using the service because of being influenced by external factors.

Satisfaction and loyalty are important aspects for understanding client exit. Identifying information on client satisfaction and loyalty may further improve our understanding of reasons for client exit¹⁵. A satisfied client may still be leaving due to his/her low loyalty level, while identifying dissatisfaction among clients helps to identify areas for improvement in programme design.

Within or out of control? The various factors influencing client exit make it difficult to draw a precise line between different reasons for exit. However, the analysis of their diversity helps to segment the exit clients into those that are more and less likely to return. Identifying factors within complete or limited MFI control helps in this disaggregation. This includes all factors related to client dissatisfaction, use of alternative financial sources, and expulsion due to reasons other than the client's inability or unwillingness to pay. Some people who are dissatisfied would come back if services were improved. If better value than the competition is offered, MFIs should expect those using other sources to return to their programme. Revising products and procedures to minimise their influence on clients' problems with repayment should help decrease client expulsion. Some external problems can be mitigated by undertaking certain actions or introducing other services e.g. opening up an office in the destination area of migrating clients if there are many such drop-outs, or introducing health insurance if many clients face health problems that they have a limited possibility to deal with, etc.

How to learn more about drop-outs? There are many research tools that you may use to learn more on

¹⁵ See the discussion on client satisfaction and loyalty in Pawlak and Szubert (2004).

Figure 4: Main reasons for drop-out


drop-outs – each has its advantages and disadvantages. To make the best use of them, use a combination to give a more comprehensive picture. The optimal vehicle for exit research will be different for each MFI, depending on both type of informational needs and institutional capacities. The figure 5 below summarises the most commonly-used techniques to research reasons for client exit.

Who to interview. The type of sampling you use will depend on your research objectives and the tools you employ. However there are some general rules that will apply to any drop-out related research. First, make sure that you include drop-outs that are similar i.e. all those that haven't returned within the exact number of days in a set period so that they can be comparable¹⁶. If you use quantitative methods, make sure you choose the drop-outs randomly to be able to extrapolate results to the entire population. The sample size for quantitative methods should allow for multi-dimensional analyses.¹⁷ If you use qualitative methods, you don't need a representative sample, but make sure that you define well the categories of clients you want to interview. In particular, ensure that your focus group participants are homogenous and that you have sufficient representation of clients influenced by various factors causing exit for in-depth interviews.

When to interview. There are two options for timing an exit interview: either interview a client after he/she has not renewed the service or is at the end of its use, or after some time has passed since the contract closure. The former option is usually easier to administer, as very often loan officers talk to clients anyway at the end of the loan cycle. The only risk is that unless there is an evident case for drop-out (such as being forced out or migration) clients very often find it difficult to say, or don't want to tell, whether they plan to leave or not. The advantage of interviewing drop-outs after a certain period of time is that they are in a better position to judge the factors underlying their decision, and in addition, we can draw conclusions based on the client's current behaviour and situation. What is more, allowing more time for those clients who may well come back to renew the service helps to reduce the size of the population to sample from.¹⁸

Who should conduct the interview? Depending on the tool you use you will need an interviewer who is adequately skilled in interviewing. As a rule of thumb, avoid using a loan officer who has worked directly with the client because the client can be reluctant to provide the "real" reason for drop-out, and the loan officer can have an interest in biasing the results. You can outsource interviewing to external interviewers, a useful investment that will enable you to gain fresh perspectives on reasons for client drop-out. On the other hand, you need to bear in mind that employing external interviewers may mean you lose an essential staff learning opportunity and, to a certain extent the opportunity for your staff to use their knowledge to ask good probing questions.¹⁹

Don't forget to solicit staff feedback. It is important to include staff feedback in the drop-out analysis. Even if staff impressions about exit reasons can be biased, they provide a useful opportunity to triangulate information collected from clients. Apart from informal talks and meetings with staff, a good way to accommodate their feedback is to let them add their impressions at the end of the interview form so this can be further used in analysis.

¹⁶ If you provide different types of services, you need to calculate sub-exit rates for each service, decide if you focus on all or selected services, and then sample accordingly. In addition, if you decide to monitor exit reasons over a specific period of time this period cannot be too long. If the data collection period is too long then some changes introduced in the meantime can distort exit data analysis. Literally, drop-outs from January and from July can be drop-outs of two "different" institutions if there was an important change introduced in the meantime.

¹⁷ There are various guidelines or calculators you may use to determine your sample size available in the relevant literature and accessible in the Internet (e.g. at <http://www.surveysystem.com/sscalc.htm>).

¹⁸ Please refer again to the example presented in box #3, the categorisation of exiting clients can be helpful for identifying drop-outs for interviewing.

¹⁹ Another option is to use your staff just to distribute forms that are self-completed by the clients. This can help you to reduce bias and costs, especially if maintaining contacts with exiting clients is already part of the existing processes in your institution (withdrawal of membership fee, return of some documents, etc.) However, although simple and quick, this method may limit your staff learning through this exercise and sensitivity to the "client voice".

Figure 5: Most commonly used tools to explore client desertion problem

	Technique/Method	Applications	Limitations
Qualitative	Focus group discussion driven by discussion guide or by PRA tools (reasons to drop-out ranking, product attribute ranking, financial sector trend analysis, seasonality analysis, etc) ²⁰ .	<ul style="list-style-type: none"> To collect in-depth information on specific issues Learning tool Identifying wider range of reasons for exit Better defining exit for measurement Underpinning this process with a tool that provides good segmentation allows this technique to go into depth and reduce the number of focus groups to be organised, thus reducing the cost. 	<ul style="list-style-type: none"> Not representative Requires homogenous groups Difficult administration and data processing that requires appropriate training, skills and practice in qualitative research Difficult to capture sensitive issues and talk at the community level about exit reasons of particular individuals. Difficult to mobilise groups with ex-clients
	Individual in-depth interviews	<ul style="list-style-type: none"> To collect very in-depth information on specific issues including more sensitive ones Learning tool Underpinning this process with a tool that provides good segmentation allows you to limit the number of interviews to identified main categories of exited clients, thus reducing the cost of administration 	<ul style="list-style-type: none"> Not representative Costly Limited possibility to identify wide range of reasons (unless high number of interviews conducted) Difficult administration and data processing Requires appropriate training, skills and practice
	Semi-structured interview ²¹	<ul style="list-style-type: none"> To collect relatively in-depth, representative information. It combines advantages of both qualitative and quantitative methods. If combined with MIS data the interview can be very short as there is no need to ask for all credit history and socio-demographic information. Good to precede with qualitative research to identify possible reasons and adjust wording 	<ul style="list-style-type: none"> Needs relatively big number of interviewers with qualitative interviewing skills. Needs a big standardisation effort and close supervision during the data collection. Needs good analytical skills (both qualitative and quantitative) Needs a strong “learning culture” of the organisation to mitigate potential biases
Quantitative	Structured interview	<ul style="list-style-type: none"> To collect general representative information. Low skills needed to collect the data If combined with MIS data the interview can be very short as there is no need to ask for all credit history and socio-demographic information. Good to precede with qualitative research to identify possible reasons and adjust wording 	<ul style="list-style-type: none"> Needs quantitative analytical skills
	Self completion survey ²²	<ul style="list-style-type: none"> To collect general representative information. Low cost of data collection as no need for interviewers If combined with MIS data the form can be very short as there is no need to ask for all credit history and socio-demographic information. Good to precede with qualitative research to identify possible reasons and adjust wording Helps to avoid staff bias in an internally carried out investigation. 	<ul style="list-style-type: none"> Needs quantitative analytical skills Lack of control over a client when filling in the form. Needs pilot testing and fine tuning instructions for a client

²⁰ See www.microsave.com for more information on participatory rapid appraisal (PRA) tools.

²¹ Both semi-structured and structured interviews can be conducted over the phone (instead of face-to-face). This limits significantly costs of travelling to clients. On the other hand, it limits interaction with a client, thus risking losing some non-verbal information (see Matul and Vejzovic (2004) for more deliberations on semi-structured methods as well as QUIP tool for another application of semi-structured interviews – Imp-Act Practice Note #2).

²² See Pawlak and Jahic (2004) for more information on the lessons learnt for self-completion forms application in drop-out research.

Box 6: Different results from different methods

The method you use and timing of interview determine the results you obtain. MFI A has been using in parallel two methods:

A - Loan officer asking their client one question about the reason at the end of the loan cycle.

B - Loan officer interviewing an ex-client of other loan officer using semi-structured questionnaire 3 months after the contract closure.

<i>Reasons:</i>	<i>Method A</i>	<i>Method B*</i>
No need for a loan	45%	-.**
Forced out (by institution or by a solidarity group)	28%	15%
Move to other city	10%	2%
Use of other sources of financing	3%	20%
Personal problems	3%	12%
Group closed	3%	-.**
Left the group	3%	-.**
Loan conditions not convenient	1%	47%
Seasonal business	1%	6%

Source: exit monitoring report submitted by MFC to MFI A, April 2004. N=196, only those interviewed with semi-structured questionnaire for whom the previously recorded reasons were provided and only those whose reason categories were reflected in the first method.

* Percentages do not sum to 100% as there were two main reasons possible.

** Non-applicable: it does not mean 0% but there were no evident matching categories in the semi-structured questionnaire.

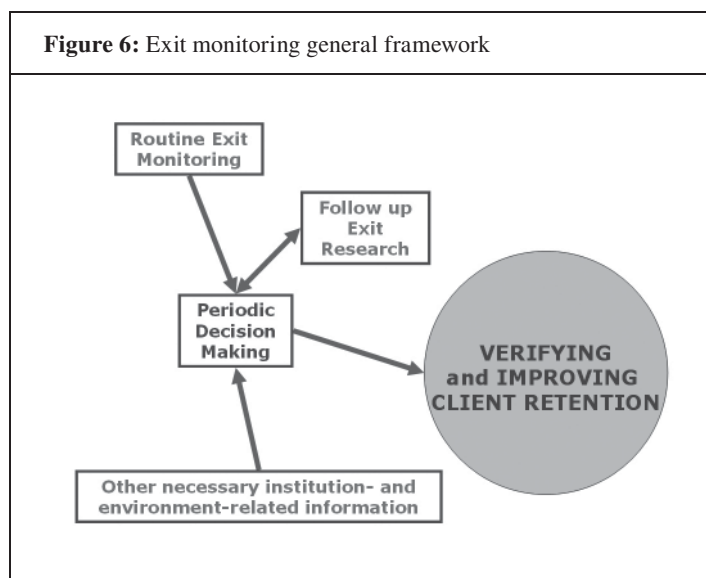
We do not claim that this will be true in each case, but method B allowed to identify fairly more of those dissatisfied with the products and those who went to competition - two groups we must act on if we want to reduce our exit rates. The more in-depth nature of the method, the interviewer's relationship to the person dropping out and retrospective analysis ensured by delayed timing of the interview should have played an important role.

Box 7: Tips for interviewing drop-outs

- Preparation and interviewer training is the key to obtaining high data quality. During the preparation phase interviewers (especially internal ones) must understand correctly what the goal of the research is and how it relates to their daily work. It will motivate them to collect high quality data. Another measure to increase data quality is close supervision by middle or senior management at the beginning of data collection.
- Introduction and warm-up are very important when interviewing ex-clients. They must understand that the MFI is not chasing them up, but rather wants to learn from them to improve its products and services.
- Where different interviewers are conducting the research it is necessary to make sure they understand the questions in the same way and have a sufficiently standardised approach to the interview.
- Forced-out clients are less prone to co-operate during an interview. It is therefore important to give them special treatment and delegate an interviewer who can objectively judge if the reasons for being forced out were justified or not.
- Most drop-outs respond positively to the question about intent to take a subsequent loan because they do not want to disregard this financing option. It is important to design appropriate scale of responses in order to identify those who mark the highest positive response on the scale.
- Some drop-outs may prove difficult to interview due to external reasons (frequent business trips, family migration, etc.). It does not pay to be so rigid in sampling approach that you have to spend lots of time accessing them. It is important to keep track of how many drop-outs were difficult to contact and adjust your sampling plan accordingly.
- The end of an interview is the right moment for promotional activities (updating the ex-client about recent changes in MFI offer). Never do it in the beginning.

Exit Monitoring – A Systematic Approach To Measuring And Understanding Client Loss

Who? How many? Why? – Integrated with other institutional processes and systems. An exit monitoring system (EMS) is a management support system and should provide you in a systematic way with answers to those questions. You will be interested in profiles of the clients that leave your institution (who?), how many out of each segment are leaving (how many?), and what are the reasons for their exit (why?). Answers to these questions are necessary to undertake informed decisions on strategies to reduce drop-out directed at your priority groups. Last but not least, the exit monitoring information as part of the management information system provides a holistic background for managers to take informed decisions.



Exit monitoring vs. ad-hoc exit studies. The approach you take will be a consequence of your priorities and possibilities within your reach. Current experience shows that EMS can be applied when you have a significant exit rate and:

- The exit rate is already “structural” for your MFI. None of the ad-hoc activities to reduce it have been successful. You need a more systematic approach to collect information over a longer period to be able to develop strategies to combat drop-out.
- You would like to increase your profitability. Exit monitoring can help you to improve your efficiency through better allocation of resources. It can yield interesting information on which client groups you should focus your attention on to get the highest return.
- You work in a mature market where a loyal client base is key to the growth of your MFI. You would need some specific routine exit information to develop loyalty- building strategies and evaluate their impact on your MFI and your clients.
- you have a development-oriented organisational mission. Exit monitoring supports you to manage your social performance as you need to know scale and reasons for exit among your mission-based target clients²³.

If none of this applies to you it does not make sense to invest in an exit monitoring system. If you are currently experiencing significant exit rates but were not in the past, then go for an ad-hoc study first.

Think twice: implementing exit monitoring is expensive. The biggest cost is related to development of a customised exit monitoring system, integration with other systems, and finally management of change to institutionalise it fully.

Looking for signals. Monitoring should provide you with operational information – the minimum necessary to allow you to track changes over time on a routine basis and respond to them promptly. In other words, monitoring should serve as a problem detection instrument. The signal may concern a change in client exit behaviour – for example, you may obtain information that a particular group of clients has started to leave more frequently; or give you verification of initiatives undertaken, for example, you may obtain information that a particular group of clients at which an improvement programme was directed have started to drop out less often.

How to verify signals? The signal provided by the system identifies a problem/issue taking place. However it

²³ See Pawlak and Matul (2003) to see how exit monitoring is integrated in social performance measurement systems.

doesn't give us an understanding of why it happens. So the signals need verification using available anecdotal information (staff feedback, information on competition, records of internal changes, etc.) and through a process of more in-depth research (e.g. focus groups with the relevant clients to identify why a trend of drop-out has been happening).

Using a mix of tools - To be able to obtain the required information in a cost-effective and timely manner, a mix of tools is the best solution. Firstly, the combination of tools - drawing on each other's advantages and addressing each other's shortcomings - should ensure integrity of the information. Secondly, it will allow for some information to be obtained more or less often. Some tools will require greater or fewer resources, thus possibly minimising the costs. Thirdly, a combination of tools will prove comprehensive enough to allow adjustment of the system for an individual institution's needs and capacities. It is important to make use of existing information sources and to integrate an exit monitoring system into existing institutional processes.

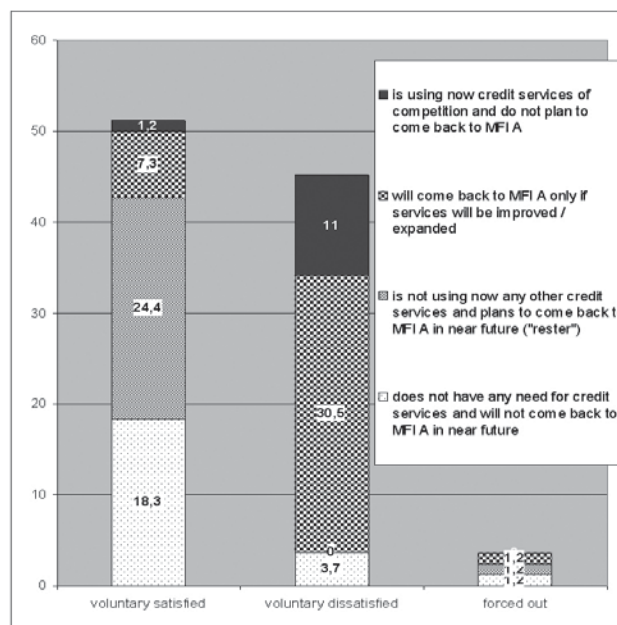
Well defined drop-out profiles stimulate EMS cost-effective use - If the above considerations are taken into account it is possible to measure and understand the drop-out phenomenon in a systematic way that provides timely information at a low cost. This can be done thanks to established drop-out profiles of interest, whereby changing patterns can be observed on an ongoing basis, serving as signals. Further investigations, using more in-depth methods, are conducted only with selected profiles and when they are really needed (triggered by the signals from the systems), thus reducing the cost. The information provided, narrowed down to priority groups and issues, informs well-targeted actions, thereby further reducing the cost of implemented strategies (see the box 8 for an example of practical implementation of this concept).

Developing an exit monitoring system: process is key. To come up with a good mix of tools and as a consequence increase the system's cost-effectiveness, there is a need for a holistic design process that will take into account the institution's profile, strategy and environment. To facilitate this, let the following questions

Box 8: Drop-out profiling using exit monitoring system

MFI A's exit monitoring system (EMS) generates 5 main drop-out profiles. The following example refers to one branch:

- 1) **satisfied lost due to external reasons** – 18,3%;
- 2) **“resters”** – 24,4%;
- 3) **dissatisfied eager to return if services are improved** – 30,5%;
- 4) **dissatisfied lost to competition** – 11%;
- 5) **forced out** – 3,7%.



MFI A has decided to focus on profiles 2&3, which stand for 54,9%, in their efforts to improve client retention in a cost-effective way. It was agreed that there is a need to build loyalty of “resters” and to investigate which product attributes or new services might be provided to make sure they come back to MFI A in a reasonable period of time. In case of dissatisfied drop-outs, there is a need to see what might be improved in MFI A's services. The next step for MFI A will be to select homogenous groups for in-depth qualitative follow-up research to respond to the objectives mentioned above. Building on the monitoring and follow-up research results, MFI A will take some operational decisions. Impact of these decisions on client retention will be verified later on using EMS.

drive your design:

- **Why do you want to investigate drop-outs?** Answering this will help you embed the system development into your organisational goals and strategies, and consequently facilitate ‘selling’ the whole idea to all your staff, to make sure that the results are effectively used once the system has been developed.
- **What do you want to learn from drop-outs?** You need to clarify your information needs on drop-outs since these will drive the system design. Think what information your organisation needs to be able to effectively act on drop-outs (see box 9 for an example).
- **For whom will the information be useful?** When you clarify your needs, think about who is going to benefit from the system information and what type of information they will be looking for. This will help you to identify best tools to collect it, as well as drive the decision on frequency of data updates.
- **How would you like to monitor drop-outs?** Once you are clear about the different information users are looking for, you need to find the best way to provide it. There is a whole spectrum of tools available, but you need to be aware of their pros and cons (see figure 5). Your choice will be also determined by existing capabilities in your organisation and your possibilities to develop new ones. Also make sure you have identified all the implications of your choice on costs related to necessary investment in developing the system and its maintenance.
- **By whom will the data be collected, inputted, reported, analysed and used?** Who do you want to involve in each phase of information flow, what are the skill requirements, can they be met internally, and what implications will this have for other processes?
- **How frequently do you need this information?** The more often you collect the information the more precise a picture you obtain, but the more costly it is. Some of the information you will need more or less often depending on users’ needs and market environment dynamics. Frequency of data collection with use of different tools will be limited by the cost of its implementation, bringing you back to the question of capacity and your real needs.
- **When do you want to start collecting information?** As with any new initiative you need to make sure that you will have enough attention, commitment and involvement of the staff and other stakeholders. Before you start, check that the project launch and implementation doesn’t interfere with any other important processes going on in your institution – for example, don’t start just before the high period of loan disbursement, at the end of the month if you want to involve loan officers that chase delinquent clients at that time. Make sure also that you don’t undertake too many initiatives at the same time so that you are able to manage the process effectively, without losing focus or overburdening the staff.

Coming up with a solution is an iterative, ongoing process. Looking at the various dimensions of the system design will help you to find the best solution for your institution. Last but not least, it will ensure that the system designed is cost-effective and supported by all stakeholders, which is inevitable to its success.

You have the design – don’t rush with the roll-out. Follow the steps that will help you to minimise the costs of system implementation: 1) identifying and clarifying the need; 2) designing; 3) testing; 4) revising; 5) rolling-out. If the testing phase is omitted the costs of any modification in all branches might be very high. If the system is not yet optimal, all your staff could be disappointed with the process and results. In

Box 9: Example of WHAT you might want to learn from drop-outs

	Core follow-up questions to be considered:
Voluntary satisfied (reasons not related to your MFI)	<ul style="list-style-type: none"> • Forever or “asleep” • Can microfinance assist in solving their problems? • Loyal or not?
Voluntary dissatisfied (MFI related reasons)	<ul style="list-style-type: none"> • Forever or “asleep” • Dissatisfaction factors? • Went to competition? • Will come back if services improved?
Forced out	<ul style="list-style-type: none"> • Bad character or bad services? If latter, what should be adjusted? • Went to competition?

such an unfavourable situation, it will be very difficult to persuade them that the revised system will work much better later on.

Institutionalise it to make it really work for you²⁴. Rooting your system in your organizational needs and capacities as well as its process-focused development is key to institutionalize exit monitoring. Another crucial element is its integration with already existing processes and the organizational structure. To do so, you will need to ensure an on-going commitment of the senior management, staff buy-in and training as well as good internal communication from the moment your system development initiative has been launched. Make sure you involve people from different organizational levels and functions not only to secure the system ownership, but also to ensure resource allocation from different organizational departments engaged in different steps of the data collection, analysis, effective decision making and use (see box 10 for an example). Integrating new activities with existing processes will be of great help to reduce staff burden and other system related costs. Make also sure that your policies and procedures reflect the new activities and responsibilities accordingly.

Box 10: Example of integration of EMS into a decision-making process

To make sure that information is acted upon timely, MFI A introduced decision-making meetings as part of its everyday operations. These meetings were held quarterly at first and focused on discussing research-related issues. The Marketing Director had an obligation to present progress on any research initiative undertaken by the Research Team at each meeting, and this item had its permanent place on the decision-making meeting agenda. Presented findings were discussed and decisions made regarding next steps for the research as well as the operational application of results. Over time, the meetings have started to concern other issues and are held whenever the need is perceived. The meetings involve either all top and middle management or top management only depending on type of decision to be made. With the system decentralization to the regional level, similar meetings have been also introduced at the branch level further speeding up the implementation of decisions and allowing branches to undertake their own initiatives to address drop-out problems.

²⁴ For more information see the forthcoming MFC Spotlight Note on the institutionalisation of learning from clients.

Translating Learning Into Action

The EMS potential - wide range of its organizational uses. A systematic approach to collecting, analysing and using information on drop-outs is an important element supporting managerial decisions. It improves client retention but also has a wide variety of applications (summarised in box 11) leading to improved social and financial performance. Apart from variety of the system uses, its implementation will support the process of moving your MFI towards client-oriented learning organisational culture and a relationship- building philosophy.

Prevention is always better than cure. As a rule of thumb you should focus on eliminating possible incentives for drop-out and developing client loyalty strategies for the identified priority client groups. One way to ensure this is to gather feedback from current clients regarding their satisfaction and loyalty, and improve your services and performance before they drop-out. In this respect, special attention should be paid to dissatisfied clients; their complaints timely resolved in an efficient way will help you to avoid problems later.

Box 11: Potential uses of client exit information

- Increase organisational flexibility and further facilitate decentralisation processes
- Inform and verify the various strategies – e.g. targeting, loyalty building, promotional strategies, as well as business planning etc.
- Prompt new product development and refinement
- Monitor how many clients are lost to competition in order to learn from competition and develop competition survival strategies;
- Provide basis for segmentation (and future data mining) and thus inform better allocation of resources focusing on priority areas and client groups.
- Constantly learn about the quality of service, identifying key operation areas to be improved, and adapting services and products to changing markets;
- Act as a proxy indicator for client dissatisfaction and negative impact
- Monitor client reaction to internal and external changes
- Adjusting staff incentive systems with a better understanding of the magnitude of MFI-related drop-out.
- Allow field workers to be more effective in reaching their drop-out performance targets, and branch managers to understand what are their loan officers' support needs in client exit management;
- Compare branches in terms of retention performance in order to create an effective cross-branch learning network;
- Act as promotional tool itself and help to create an image of flexible, learning organisation that cares for its clients.

(source: discussions with staff from partner MFIs)

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This paper was published with the support of the Open Society Institute.