ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
GENERAL MBA PROGRAM

DETERMINANTS OF BORROWER DROPOUT IN MICROFINANCE: THE CASE OF WASASA MICROFINANCE S.C

BY: TEKLEMARIAM AWOKE

ADVISOR: ABEBE YITAYEW (PhD)

DECEMBER, 2016

ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Abebe Yitayew (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name and Signature Date

St. Mary's University, Addis Ababa

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor	Signature & Date

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ACRONYMS

ACSI	Amhara Credit and Saving Institution
ADCSI	Addis Ababa Credit and Saving Institution
AFDB	African Development Bank
CHIP	Civil Society Human and Institutional Development Program
CGAP	Consultancy Group to Assist the Poor
CLI	Credit Life Insurance
DECSI	Dedebit Credit and Saving Institution
ETB	Ethiopian Birr
FMO	Farmers Marketing Organizations
IFAD	International Fund for Agriculture Development
MFI	Microfinance Institution
NBE	National Bank of Ethiopia
NGO	None Governmental Organization
OCSSCO	Oromia Credit and Saving Share Company
OMFI	Omo Microfinance Institution
OSRA	Oromo Self-Reliance Association
PPAF	Pakistan Poverty Alleviation Fund
PRIDE	Promotion of Rural Initiative Development Enterprise
REST	Relief Society of Tigray
RSF	Rural Service Facilities
RUFIP	Rural Financial Intermediation Program
SEF	Small Enterprise Foundation
SMEs	Small and Micro Enterprises

ABSTRACT

The purpose of this study was to assess the determinants of borrower dropout in microfinance in Wasasa Microfinance S.C. Mainly; descriptive survey design was used to attain the objectives of this study. The study samples were the ex-clients of the organization in the year 2013 from the selected 15 branches of the organization with the highest dropout rate. Out of the total number of 9283 dropouts, 370 ex-clients were selected through random sampling technique. Questionnaire was administered to the ex-clients selected. In addition to the questionnaires, data were collected through in-depth interviews conducted to the management of the organization. The data gathered were analyzed using frequencies and percentage results. The interviews to the management were used to complement and validate the data gathered through the questionnaire. Among other things, the study revealed that the main cause to leave the Wasasa MFI is mainly related to the in-adopted products. Even if the respondents have said that there are reasons related to demand, supply and environmental reasons individually, the combination of reasons which are the Loan size, delays on loan disbursement, stringent criteria and repayment schedule reasons account for major reasons for clients' dropout. The clients' length of stay in the organization was also studied and most of them leave in the first few years after they joined the program. Their profile was also considered and most of them are farmers who live in rural areas who want to improve their productivity. The clients were asked to provide their suggestion to improve the services provided by the organization and to achieve better results most of them suggest that increasing loan size, providing loans individually, minimizing the interest rate and giving them enough time to return the loan are some of the suggestions they made. This researcher also suggest to Wasasa and other MFIs that they should properly study & identify need of their customers before they leave them and should make appropriate measures like tailoring products to the need of their customers. Besides, they should have exit customers' follow-up and monitoring mechanisms including their reason of exit to use it for decision making.

Key words: *Borrower, Dropouts, In-adopted, Loan, Microfinance,*

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Microfinance programs and institutions have become an increasingly important component of strategies to reduce poverty or promote micro and small enterprise development (Hulme, 1999). According to Falletto et al (2007) targets of today's microfinance are economically active poor such as urban and rural micro enterprises, small farmers, usually part of the economic informal sector. Also formal micro and small enterprises are microfinance clients.

Microfinance has demonstrated its potential to assist the poor to make significant progresses towards reducing their vulnerability, improving their livelihoods, paying for basic health care and financing their children's education. Many microfinance Institutions (MFIs) have demonstrated an ability to provide financial services to poor people on a sustainable, profitable basis. Together, these facts have attracted a great deal of donor of money and a wide variety of organizations into the Microfinance sector. As a result, a growing number of markets are becoming extremely competitive and clients have an ever-widening choice of financial service providers to choose from (Graham, 2003).

According to Wolday (2000), compared to Asian, Latin America and even some African countries, the development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services. Currently there are 33 microfinance institutions licensed and operating in Ethiopia (www.aemfi.org). Wasasa Microfinance S.C, which is selected for this case study is one and got its business license in the year 2000. There are also other new MFIs that are under formation.

Wasasa Microfinance got its business license in the year 2000 to operate in Oromia Regional State. Since then, it has been providing micro-financing services to its target markets; the rural and urban poor, women customers, and institutions. For loan, its targets include; individuals like farmers, petty traders, civil servants and institutions like micro and small enterprises (SMEs), and framer marketing organizations (FMOs). Similarly, it provides different savings services to its loan and non-loan customers residing around its operational areas.

As of June 2013, Wasasa MFI had 28 branches and 20 RSFs operating in eight zones and 38 Woredas of Oromia Regional State. As of the same date, it had 81,000 clients and outstanding loan of 300 million (June 2013 organization report). Next to the four biggest regional governments owned MFIs in Ethiopia; like DECSI, ACSI, OCSSCO, ADCSI, and OMFI; Wasasa is one of the largest MFI growing fast from time to time.

Despite the fact that MFIs get much attention from government and donors, and they are increasing the number of their customers, there are situations where old customers leave their programs. MFIs refer to customers who leave their programs as ‘drop-outs’ or ‘exits’ client.

According to Meyer (2001), dropouts are a concern for an MFI because of the cost of recruiting and training new members or clients to replace dropouts and the cost of making the first small loan to new clients, lending usually does not become profitable in many programs until the third or fourth loan to a client. Retention, therefore, is the key to profitability and sustainability of the MFIs.

Therefore, for microfinance institutions which would like to peruse customer oriented marketing approach, it is crucial to understand why customers leave their organization/services that otherwise affect their organization profitability and sustainability in the short or long term.

This study is concerned about assessing the determinant factors for the borrower dropouts in Wasasa Microfinance S.C. As seen in the above paragraphs, since microfinance services are not profitable in the first or second cycles, retaining customers is a must in order to be profitable and stay in the business. Hence, this study will try to assess what the current practices of Wasasa are, its operation, and strategy in customer retention and identify the factors which lead clients to leave the organization.

1.2. Statement of the problem

Simanowitz (2000) on his study discussed that drop-outs are particularly valuable source of information, as they are beyond the sphere of influence of the MFI. For existing clients, there may be real or perceived reasons against talking honestly about their dissatisfaction with the MFI’s service or their failure to achieve success in their business. Drop-outs have much less to lose or to fear.

Simanowitz's study also states that on the one hand, drop-outs may represent the MFI's failures, e.g., clients for whom the service was not suitable or who suffered a negative experience and chose or were forced to leave. On the other hand and in some cases, where the client has graduated beyond the need for the MFI's services (when they no more need the microfinance services and they can run their business with their own resource or when they become beyond the financing capacity of the MFIs and they go to commercial banks), drop-outs may represent a success. In either case, understanding the reasons and processes leading to clients' exits can provide valuable information about the strengths and weaknesses of the program, and its relevance to different target groups.

Actually, many of the clients are driven out not only by the inappropriate design of the MFIs' loan products but also by the unwillingness of MFIs to recognize that (particularly in rural areas) there are seasons when not credit but savings services are required. Thus clients are forced either to take a loan and try it despite the low-season, or to leave the MFIs' program. And all the while, their need for savings services is simply unmet and ignored by the MFIs (Wright, 2004). In addition to the unrecognized need of customers by MFIs, the existing products and services of the MFIs may not meet the need of the existing clients or the MFI may not provide the loan timely due to its liquidity problem and may be due to other inefficiencies in their service delivery.

According to Sempangi et al, (1999) drop-out rates are high in East Africa. One case reported a drop-outs rate reaching more than 60% per annum. Despite these apparently alarming rates, not all MFIs view this as a problem. While some organizations view drop-outs as a serious problem as they increase the costs of training, lead to raised unit costs for administration and are one of the factors constraining outreach and loan portfolio targets, other organizations and individuals (especially credit officers) view drop-outs as a good thing- 'You have to remove the weeds to get a good harvest' (Mutesasira et al, 1999).

As mentioned in the previous section, Wasasa is one of the largest MFI growing fast from time to time. But at the same time, despite its continuous growth and provision of different financial services, there are customers who leave its programs. The following table (table 1) summarizes the number of clients who joined, retained and dropped out of the organization for the years 2009 to 2013.

Table 1: *Dropout rate of Wasasa Microfinance S.C for years 2009-2013*

Year	Number of customers beginning of the Year(July 1)	Number of new customers during the year(July-June)	Number of Total Clients end of the year(June)	Total number of dropouts in the organization
	X_1	**NC**	X2	
2013	64359	16140	76406	13376
2012	56085	10354	64359	7504
2011	44844	15548	56085	8691
2010	40797	10794	44844	9552
2009	36536	7919	40797	8667

Source: *Wasasas' Operations Department reports*

As we can see in the above table, there is inconsistent fluctuation of dropouts along the five years. It is also difficult to compare its performance in the years using percentages due to the growth of the MFI. But in terms of number of client dropout, if we look at year 2009, 8,667 clients left whereas in the year 2013, 13,376 customers were dropped out in the organization. With the size of the MFI during this study, if we take the number of dropout customers in the year 2013, it is almost equal to the number of customers that of 3 average branches of the MFI have. Therefore, as it can be seen from different studies and as it is mentioned above, if the dropouts of old clients affect MFIs profitability and sustainability; understanding the reasons why all these clients dropout is the first step and is crucial decision that the MFIs should make.

Hence, this research paper tries to identify the main determinants for the high dropout rate in Wasasa Microfinance S.C and tries to give some recommendations on how to overcome the problems.

1.3. Research questions

This research paper tries to answer the following questions

RQ1: What are the main reasons leading to loan clients' dropout in Wasasa MF S.C?

RQ2: What are the profiles and background of ex- clients of Wasasa MF S.C?

RQ3: What suggestions can be made to Wasasa MF S.C to reduce dropout?

1.4. Objectives of the Study

This study is concerned with assessing factors that lead for customers' dropout in Wasasa Microfinance S.C. With the above major objective in mind, more specifically, the study attempts:

- To identify the profile and background of ex-clients and
- To identify the main reason leading to loan clients dropout in Wasasa Microfinance S.C;
- To provide recommendation that may help MFIs reduce dropouts.

1.5. Significance of the Study

Generally, the outcomes and results of this research will have potential value for Wasasa Microfinance to understand why its old customers leave from its loan services. But for financial institutions, particularly for microfinance institutions and banks, since there are no other similar researches done in Ethiopia that this researcher came across, it helps to modify or use the same research approach to understand why customers leave from financial institutions. In addition, this study is expected to help other researchers who will be interested to conduct further study by providing basic information regarding the issue under investigation. Finally based on recommendations of this study, the researcher hopes that Wasasa Microfinance will take corrective actions to retain its customers.

1.6. Delimitations of the study

The scope of this study is to identify the major reasons for client dropout in Wasasa Microfinance Institution from its loan services. As delimitation, from the 9,283 clients that did dropout during the year 2012/2013 in the 15 branches of the organization, this study only took 370 ex-customers as a sample to be studied.

1.7. Limitations of the study

One of the limitations of this study is that it was difficult to find the dropped out customers because they have already stopped any contact with the organization. As a result, from the total 9283 dropout customers in the year 2013 in the 15 branches, only 370 customers were selected as samples at selected branches.

1.8 Organization of the paper

The research paper is divided into five chapters. Chapter one presents the introduction part, which contains, back ground of the study, statement of the problem, research questions, objectives of the study, research method adopted, scope & limitations of the study and significance of the research paper. Chapter two presents the literature review regarding microfinance operations, dropout and its implication, reasons for dropout, and framework (model) selected for this research based on different literatures. Chapter three presents research design; which introduces research purpose, research approach, research methods used. The research results and discussion is presented in chapter four. The final part, chapter five; summarizes the findings, concludes the paper, and forward some recommendations.

CHAPTER TWO: LITRATURE REVIEW

This chapter reviews the different works done on Microfinance and dropouts in different countries and the different causes for dropouts are also discussed. This is of help to understand the current state of global as well as African and Ethiopian Microfinance services and the reasons for their clients' dropout. The chapter comprises of the following sections. The meaning of microfinance, microfinance in Ethiopia, Wasasa's programs, the different reasons for dropouts and the conceptual framework of the study.

2.1. Nature and Definition of Microfinance

Microfinance refers to small-scale financial services, primarily credit and savings, provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. Many such households have multiple sources of income (Robin, 2001).

MFIs and the development funds invested to support their activities are designed to alleviate poverty. It follows, therefore, that it is important that MFIs seek to target the poor and vulnerable. The 'poor' are defined as those with low levels of income, consumption and social power. The 'vulnerable' are defined as those who are likely to experience adverse 'shocks' and who have little capacity to cope (Mutesasira et al, 1999).

Even if MFIs are designed to alleviate poverty, debates about finance and poverty-reduction have been shaped by changing conceptualizations of who the poor are and the nature of poverty. During the early development decades (1950s, 1960s and 1970s) the bulk of the poor were seen as the members of families headed by (male) small farmers. Their poverty could be overcome by subsidized agricultural credit that would raise productivity and incomes. From the early 1980s a new image began to dominate thinking and action: the poor were mainly women (and their dependents) who coped with their situation by running microenterprises. Small business loans would permit them to expand (or establish) income generating activities, raise their income and socially empower them. Most recently, the poor have been conceptualized as a heterogeneous group of vulnerable households with complex livelihoods and varied needs. From such a perspective microfinance is seen as a means for achieving household priorities (e.g. paying school fees, meeting funeral expenses), reducing vulnerability (e.g. a sudden drop in consumption, income or assets) and/or increasing income. This broader understanding of poverty leads to argue that 'Micro-financial services' is the concept that should inform external agents intervening in the area of finance for the poor (Matin et al, 2002).

Improvements on the services of MFIs have been made since their emergence. There was this movement called the 'microfinance movement', which has generated considerable enthusiasm among academics, donors and development practitioners of diverse intellectual persuasion. This movement is reflected in the figure that by the mid1990s the microfinance industry had extended around US$ 7 billion in loans to more than 13 million individuals around the world (World Bank, 1996).

Matin et al (2002) stated that despite the recent advances, there are still many opportunities to improve practice. A better understanding of the financial service preferences and behaviors of the poor and poorest is needed to expand the scope of microfinance initiatives and address emerging concerns about microfinance and the poor and poorest. The logic underpinning most of the recent innovation in microfinance starts from a set of assumptions about the financial service needs of the poor. The focus has been mostly on the design and institutionalization of a microcredit 'template'—a delivery model that is believed to best answer those needs. Millions of poor households around the world now benefit from this model. However, more useful and varied financial products can be developed if a fuller understanding of the existing money-managing efforts of the poor informs practice.

2.2 Microfinance in Ethiopia

The development of microfinance institutions in Ethiopia is a recent phenomenon. Based on the experience and the model developed by the Grameen Microfinance, the first micro finance service in Ethiopia was introduced as an experiment in 1994 when the Relief Society of Tigray (REST) attempted to rehabilitate drought and war affected people through rural credit scheme (Yohannes,2006).

The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). The Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance

Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005).

The Ethiopian microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, a dominance of government backed MFIs, an emphasis on rural households, the promotion of both credit and savings products, a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven. The industry has a strong focus on loans to the very poor, as indicated by the relatively small loans when compared to neighboring countries. Sector outreach is impressive and the financial performance of the sector is considered good, although the operational margins and profitability are low. MFIs have also mobilized a significant amount of savings, thereby improving financial as well as operational sustainability (Ebisa et al, 2013).

The sector has got much attention from the government. It identified a number of priority areas of actions as part of the government's poverty reduction and development programs. One of the priority areas acknowledged is the provision of support to microfinance institutions. In this regard the government is working hard to solicit funds from international donors for supporting the microfinance sector; hence the International Aid for Development (IFAD) and African Development Bank (AFDB) supported Rural Financial Intermediation Program (RUFIP) (IFAD;2009).

MFIs operate in a niche market as they address the needs of those clients who are considered ‘high-risk’ by bigger banks. High-risk groups or individuals are characterized as those with very few assets, requiring very small loans, high degree of close follow-up, business appraisal and evaluation, as well as those engaged in activities whose income is fluctuating such as small-holder farmers or petty traders (Ebisa et al, 2013). The author also mentioned that, although the Government of Ethiopia has allowed private ownership of financial institutions, the financial sector is still dominated by large public financial institutions. Also within the microfinance sector, the major Microfinance Institutions (MFIs) are owned by regional governments/endowment companies.

As of June 2013, there were 31 microfinance institutions in Ethiopia that had about 2.7 million clients, with the outstanding loan portfolio of more than 11 billion, and saving balance of more than 6 billion. There are also other MFIs under pipeline of establishment. These associations have a microfinance network called Association of Ethiopian Microfinance Institutions (AEMFI, 2013).

2.3. Wasasa Microfinance Institution S.C and Its Program

Wasasa is one of the microfinance institutions established under Micro Financing Business License from the National Bank of Ethiopia (NBE) on September 20, 2000 with a paid up capital of Birr 201,000. The company emerged from its mother NGO known as Oromo Self-Reliance Association (OSRA). Since then it has been working with the poor communities by providing savings and credit services. At present, it is operating in 36 Woredas, 8 zones of Oromia National Regional State with a plan to expand every year.

The general objective of Wasasa Microfinance is to alleviate poverty through provision of financial services for the economically active rural and urban poor. Its specific objectives include increasing household income through increasing productivity and business creation and to improve the overall economic and social wellbeing of its target community by solving their working capital problem and through inculcating saving culture.

Wasasa has been providing mainly loan and saving services for its customers. The majority of the loan is delivered through group lending methodology that helps the microfinance as collateral and for the clients as the only way to access loan from microfinance institutions due to absence of other collaterals for the poor to access loan. There are also non-group, (individual loans) provided by the institution; but not significant compared to the group loans. At the time of this study, Wasasa MFI was providing loan products that target farmers, employees, medium and small enterprises, petty traders, women, etc. It charges interest rate that ranges from 11-18% flat depending on the loan size, repayment pattern, risk involved, the type of collateral, etc. Although the loan size varies from product to product, the average loan size for the entire product was about 3000 Birr.

In addition, Wasasa provides saving services for its customers for two major objectives. On the one hand, as part of its social objectives, it inculcates the importance of saving in its customers so that they can mitigate risk of financial liquidity. There are two types of saving products that are linked with the loans (for borrowers) which is mandatory saving and the other one is non-loan linked that targets borrowers and non-borrowers (voluntary). Borrowers are required to deposit 10-15% of the loan amount as a mandatory saving to access the loan. It is one of the requirements to access loan which serves as collateral for the loan disbursed by the institution. It can only be withdrawn if the loan taken by the borrowers is fully repaid. On this saving account Wasasa pays 5% interest compounded monthly.

Currently, Wasasa is providing Credit Life Insurance (CLI) for its group borrower customers that customers pay 1% of the loan amount as a premium and used for writing-off the outstanding loan in case a borrower/s die from a group. That means the outstanding loan to the MFI (the liability to customer) of the diseased customer is neither transferred to his/her family nor to the other group members he/ she belongs to.

As of June 30, 2013, the total number of active loan and saving clients has reached 81,000 households. The great majority of Wasasa's clients came from rural and semi-urban poor whose livelihood is based on subsistence farming and related activities. The asset of the institution was about Birr 250 million, whereas the capital was about ETB 75 million.

2.4 Microfinance and Dropout

Dropout in microfinance can be defined by different aspects depending on the type of the situation the clients are in. MFIs refer to individuals who leave their programs as 'drop-outs' or 'exits'. Different MFIs have different criteria for drop-outs. According to M-CRIL (2007) some of the definitions of dropouts for MFIs include;

Withdrawal of compulsory savings: For organizations accepting compulsory savings, a client can be termed as dropped out, once he/she has completely withdrawn his/her compulsory savings from the organization. Compulsory savings generally signify association with the organization and its withdrawal marks the dissociation of the client from the MFI. This definition has the advantage of simplicity and availability of data. However, in practice clients may stop attending meetings and may or may not be in default on an MFI loan, but who have not been allowed to withdraw their savings balances. Such clients would not be called drop-outs based on this definition. Another inherent limitation of this definition is its applicability. The definition covers only organizations accepting deposits and hence lacks universality.

Attendance Based: A client can be termed as dropped out if she does not attend the compulsory meetings of MFI clients for a specified period of time. This method is again simple and the data could be obtained from group attendance registers. However, it may not prove effective in areas where members due to their jobs, the compulsions of daily wage earning or temporary migration are unable to attend meetings but are regular in depositing repayments or voluntary savings.

CGAP definition: A dropout is defined as a client that did not take a follow on loan within the next 'x' number of days. This definition is relevant in MFIs which only provide credit. However, microfinance as it exists today has expanded well beyond credit. Clients may not take repeat loans for a significant period of time but may be accessing other financial services offered by the MFI. In which case, such clients cannot be called drop-outs.

Prizma Definition: A drop-out is a person who has repaid any type of loan but has not taken any new loan during the next 90 days. An analysis of MFI historical drop-out data indicates that 90 days is the point at which, almost all clients intending to drop-out will have already done so. Again, as with CGAP's, this definition considers only credit transactions.

Waterfield Definition (Decision based retention): This definition focuses on retention in terms of clients who had a decision point during the period and remained. A dropout then is a client who had a decision point and decided not to remain. This method has the conceptual advantage of focusing on those who actually face a choice during the period. Having a decision point is taken to refer to being at the end of a loan cycle. In theory it could be adapted to include decision points related to other services, though these may be difficult to define.

M-CRIL's definition: After considering various ways of defining drop-outs, M-CRIL has attempted to arrive at a simple definition that reflects the field situation based on information obtained from the records maintained by many MFIs. M-CRIL defined dropout as any client who has had no significant transaction with the MFI for the last 6 months. According to this definition, transaction would mean savings, loan repayment, taking loans and attending meetings. Often, small amounts of money are lying in the savings accounts of members without any activity in the account for many years. Holders of such dormant accounts would also qualify as drop-outs. This definition includes, all dissociated members irrespective of their reasons for dissociation and, hence, includes reasons like death and migration.

In the credit-driven East African context, many MFIs consider those who do not have outstanding loans to have dropped out, even if they retain savings with the MFI. (CGAP, 2000)

2.5 Reasons for Dropout

Though the causes / variables attributed to drop-outs are similar across regions, the strength of variables in contribution to drop-out rates vary on the basis of region and program design, and nature of competition / market maturity faced by an institution (CHIP, 2006).

Customers leave an organization for many reasons, some of which the MFI can mitigate and some that it cannot. Different studies and researches categorize the same variables and factors of dropout in different ways. Some categorize as internal and external factors. Internal factors include: high prices, rigid product design and narrow range of products, high transaction costs, and insufficient attention to customer service. External factors are exogenous to the institution such as illness, death, family problems, seasonal migration patterns, natural disasters, increasing competition, and economic shocks (Murray, 2001).

A research was made to identify the top ten reasons for desertion / drop out in Bangladesh and Uganda, and the results reveal that in Bangladesh the top reason (33%) was that the loan amount was too small followed by that there were too many and too long meetings (28%). The case was different in Uganda that most respondents(65%) stated the reason for their dropout was that the loan period was too short followed by that the interest for the voluntary saving was too low(64%) while the interest rate for the loan was too expensive(57%). (Inez, 2001).

Other researchers categorize reasons for dropout as voluntary and forced reasons. The former may be resting (i.e. they plan to re-join the MFI), transferring (i.e. they leave to join a different MFI) or withdrawing from MFI services entirely. The latter may be ‘pushed out’ by the MFI and its staff or by other clients of the MFI (i.e. fellow solidarity group members). In practice it is often difficult to identify a specific process for an individual and often both voluntary and coercive mechanisms are involved in an incidence of exit (Mutesasira et al, 1999).

According to a research from the experience of the Small Enterprise Foundation (SEF) in South Africa made by Simanowitz (2000), the reasons for drop-out revealed from the monitoring can be divided into four broad categories. The first one is personal reason which includes family related problems like death, illness, conflict, disaster, and fear of credit. The second one is business failure. That means business does not grow or collapses. Reasons for this may include too much selling on credit; money not re-invested into business; money taken from business for household expenditure or emergency; poor loan utilization; inappropriate loan size. The third category include problem related to group or center. Paying on behalf of other group members reinforce conflict in group/center. Poor group formation (members don't know and trust each other) the group or the center may expel members from a group. The fourth category according to this study is due to Problems with MFIs policies and procedures. This includes loan product features like loan size, repayment frequency, loan term, cost of the loan, support from field staff, timely disbursement of loan and other factors

CHIP (2005), in its study in Pakistan, divided the reasons for dropouts into five major categories. These include: organizational design and policy; which is mainly looks at product design, loan processing, communication strategy, staff related causes, and group/center related causes. Idiosyncratic Shocks; includes crises factors such as unprofitability of business, migration, change of work, inability to repay loan, family problems, spending business capital in something urgent or an event, etc. The third category according to this study is systemic shock which includes seasonality of business and poor economic condition of the target customer. The forth and the fifth categories as reasons for dropout in this study are market driven pull factors such as inadequate working capital and liquidity problem of customers and competitive MFI industry that assumes customers found another better source of borrowing (CHIP, 2005).

As we can see from different researches mentioned above, although the magnitude of impact and categories of reasons is different from region to region or country to country and there are slight differences in the naming and how different studies categorized them, generally it seems there is a consensus on the understanding of the major reasons for dropout in the MFI industry. These major reasons can be grouped into three broader categories; supply reasons, demand reasons and environmental reasons, which are the basis for this research and the researcher is dealing with these classifications through the whole document.

2.5.1. Supply Reasons

Supply reasons include factors that contribute to clients exit due to MFIs products and their delivery to address changing need of customers and competitions. Some of the supply reasons include in-adapted products to clients need, the attitude of staff of the MFI, and competitions from formal and informal financial service providers. The details might include:

2.5.1.1. In-adapted Products

The assumption of most of the MFIs is that microfinance clients worldwide are essentially homogenous and "one product fits all" approach continues to dominate the industry. But in reality, the financial service needs of poor people are as diverse and complex (Wright, 2004).

Hulme (1999) stated that much of this standardizing problem of MFIs financial services and service delivery is driven by the attempts to "replicate" products and services from foreign cultures without taking into account the socio economic environment into which they are being imported. Thus, when MFIs products and services do not meet clients' needs, there is a high dropout rate. Loan size, delays in loan disbursement, repayment schedule, costs of loan, loan eligibility criteria, group lending issue are the variables most cited as proof of this in adaptation.

Loan Size: Loan size is the loan amount that customers access from the MFIs to use it for different purposes. Hulme (1999) have also pointed out that many clients voluntarily withdrew from MFIs due to the loan amount. According to him, when the loan amount is small, it leads wealthier clients to dropout. In the opposite, it pushes out poorer clients to voluntarily dropout as the loan size increases. On the other hand, when loan size is small and it does not meet the financial requirement of customers, they also tend to search for another source than taking unnecessary risk. Accessing larger loans is among the top five needs that clients express no matter where they live and their capacity (Murray, 2001).

Loan amounts for first and second loans are considered inadequate by clients, this has forced some clients to borrow from other sources to supplement, which ultimately complicates repayment obligations and leads to default and consequently dropping out, especially where loans have been reallocated to consumption use (Musona and Coetzee, 2001).

Repayment Schedule and Delay in Loan Disbursement: Musona and Coetzee (2001) have highlighted that the repayment schedule was perceived as too rigid and therefore not adequately taking into account the realities of micro businesses. The argument is that the loan product requirement and their business cash flows are not synchronized.

Hulme (1990) in the same line of thought, have observed that a long period of waiting for disbursement of a loan, most of the time, pushes clients out of MFIs. This means that the longer the loan disbursement takes the more clients exit from MFIs.

In MFIs studied in Tanzania, 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' need for money do not always coincide with the prescribed disbursement day (Maximambali et al 1999). This indicates that they may need loan to fulfill their different financial needs not attached to specific event or time.

Group lending: Most of the MFIs provide loan in groups that has adapted from Grameen Lending Methodology. It is a method first introduced by the Grameen Bank in Bangladesh. Since there are no collaterals that poor people pledge to access loan, MFIs use character (behavioral) assessment for loan appraisal and as collateral for the loan. In group lending methodology, a borrower in a group is liable or responsible to the loan taken by all the group members in a group. As a result of this joint responsibility and liability of a group, members support the MFIs to make proper loan appraisal and the decisions like determining the loan size that should go for each borrower. When the group size is large, clients hardly know each other to take the risk of default of loan that might come. Group borrowing might affect group dynamics issue such as group size (the number of members in a group), group liability and the lack of time for frequent meetings like weekly or bi-weekly depending on the operations policy of the institution for each loan product.

Therefore, these 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 that may lead to dropout.

2.5.1.2 Staff Attitude

The fastest, cheapest, and best way to deliver an MFI's service is through its employees. Due to various factors, including clients not understanding then risks of borrowing and loan officers being under a lot of strain and being harsh with clients. Clients can and do generalize about an entire organization based on one bad interaction (CHIP, 2005).

Civil Society Human And Institutional Development Program (CHIP) categorized staff related factors of borrower dropout as staff competency, staff workload, and remunerations/ reward systems in MFIs. Staff Competency focuses on causes related to the competence and/or adequacy of the MFI staff. According to the above research, MFIs are not generally known to have the finest quality staff. Their poor pay structure and difficult working conditions often force them to have less than desired level staff. This translates into a number of administrative problems which, in turn, have an impact on dropout rates. Staff incompetence or inadequacy (in terms of both quality and numbers) leads to lack of follow up meetings with borrowers, absence of rapport building with potential dropout candidates, lapses in credit appraisals etc.

The other issue is Staff Workload. Credit officers of MFIs may get overloaded due to various factors. This is also true in Ethiopia where the same credit officers are responsible for provision of diversified activities like loan, savings, insurance, training, etc. The manual operations in most MFIs are another factor that takes much time of MFI staff. Due to the work overload of credit officers and branch managers; client follow-up and client appraisal get poor and may be done simply. The System of rewards and penalties for credit officers, which is the third staff related reason for dropout, revolves around portfolio target and recoveries. The loan officers get penalized financially in case of loan default. Thus, in the absence of any guidelines set by the MFIs on how to treat borrower/clients, staff tends to use threats and rudeness to get payments out from the borrower and by doing so alienates the latter forever.

2.5.1.3 Competitive Environment

As far as the competitive environment is concerned, many authors have recognized that over the past few years, microfinance sector has faced high competition. As observed by Pagura (2004), dropouts are frequent because of dissatisfaction with the financial services being offered by one MFI and the belief that other MFIs or other financial institutions can offer better facilities. Thus, they switch from one financial institution to another.

A common belief amongst MFIs is that they are “the only game in town”, and the only source of financial services for poor people. In this belief they are invariably wrong. Long before any formal financial service provider started, poor people had developed their own methods for storing money (Wright, 2004). For example some of these informal ways of storing in Ethiopia include at Iqub, Idir, and other methods of in-kind savings. It is essential that MFIs understand not only the competition in the formal and semi-formal sectors but also, and above all, the competition in the informal sector.

In brief, in-adapted products and competition have been unanimously recognized by the microfinance practitioners, as reasons which lead to high dropout rate.

2.5.2 Demand Reasons

This group is more related to crisis reasons, socio economic characteristics and clients' maturity (SILIKI, 2011). These are more related to external problems to the MFI that may arise from clients and environmental.

2.5.2.1. Crisis Reasons

Microfinance institutions are assumed to reduce the vulnerability of the poor people to different crises through increasing their income and helping asset creation. However, sometimes, the reality is often much complicated. Some studies have shown different results: over-indebtedness of many clients, reallocation of loan, clients' delinquency and the decrease of schooling levels that lead to customers crises (Meyer 1999). The reason for such conflicting results could be that the poor face unexpected events such as illnesses, death of a family member, the loss of a job, funeral expenses and wedding or children's education (Rutherford, 1999).

2.5.2.2. Socio Economic Characteristics

The socio-economic characteristics include variables such as age, gender, location of residence and occupation as well as socio economic characteristics (SILIKI, 2011). Socio-economic status plays a tremendous role in the reasons for clients' dropout; furthermore, socioeconomic status is also closely tied to the likelihood that someone will or will not join an MFI's program. According to the research made on microfinance institutions in East Africa which includes Kenya, Tanzania, and Uganda; the reasons why clients decide to drop-out of MFIs vary greatly between different socio-economic characteristic (Mutesasira et al, 1999).

Age and Dropouts: A study made in microfinance in Tanzania, Promotion of Rural Initiative Development Enterprise (PRIDE), has revealed that age clearly plays a role in those individuals who are recruited and their likelihood to dropout. The 21 year olds and less dropped out at the highest rate while 60 years old and more dropped out at the lowest rate. However, most MFIs highlight that members must drop out of the organization on retirement because they stop to be an entrepreneur.

Gender and Dropouts: In dropout issue, Schreiner (2004) has shown, with empirical evidence, that women are less likely to exit than men and also that occupation is correlated with dropout. In the East African research however, there was no clear evidence indicating that women were more or less likely to drop out of MFIs that serve both men and women (Wright et al., 1999). Moreover, while some credit officers in Uganda have claimed that women were more likely to dropout than men (Hulme et al., 1999), other studies have implicitly argued that men can dropout more than women, because, they are less reliable.

Location of Residence and Occupation and Dropouts: Pagura (2004) and Lehner (2009) have shown that crisis reasons are generally the main factors for dropouts. In Bangladesh and in Africa for instance, many clients migrate to other areas because they are looking for better life conditions or new markets, therefore resulting in dropouts. Other studies have just mentioned occupation and location of residence without giving a real correlation between those variables and the causes of departure (Musona and Coetzee, 2001).

Client Maturity: Client maturity means that clients will take larger loans to expand or maintain the working capital of their business or to finance asset acquisition (Wright, 1999; Simanowith, 2000; Dackauskaite, 2009). Client maturity also means that clients will accumulate enough capital and they do not need another loan (Dackauskaite, 2009).Therefore, this phenomenon can also lead to clients' exit. In the same of thought, Wright (1999) has shown that there were two schools of graduation: One held that after a limited number of subsidized loan cycles, the beneficiaries would no longer need credit. However, for Wright, this was a supreme naïveté, because there is scarcely a business in the world that does not use overdraft facilities.

The other school, more plausibly, believed that poor clients could "graduate" with enough wealth and self-confidence to become the clients of commercial banks.

In their East African studies, Wright et al. (1999) has observed that socio economic characteristics and crisis reasons play a tremendous role in the reasons that lead to clients dropouts.

2.5.3. Environmental Reasons

Environmental reasons are linked to downturn in the national economy and adverse climatic conditions. Clients generally served by MFIs have fewer assets and their income is not diversified. Thus, the poor are more vulnerable to financial difficulties due to economic downturns or other crises. All the African MFIs studies have reported that dropout rates increase when there is a bad economic climate, seasonality and natural calamities (Wright et al., 1999; Meyer et al., 2001), because clients have fewer ways of coping with such events and are more likely to drop out. African countries as others faced climatic conditions these last years. However, in Africa more than other countries, people who face economic downturns or other crises receive fewer supports.

2.6. Managing and Measuring Dropouts

Measuring client exit (client retention) seems to be a straightforward concept. Client retention is expressed as a percentage, with clients either being retained or deserting, with the total adding to 100 percent. However, things are not so straightforward as we will see in our next discussion chapters and as the result the microfinance industry is yet to reach consensus on standard formula to measure client desertion/retention. As per this study, delay to standardize is due to the absence or rare demand constraint that MFIs faced in the initial decades. Even after the issue is given attention by some MFIs and competition is increasing between MFIs, the difference on standardized approach of measuring client exit has continued. (PPAF).

Again as per the same study of PPAF, broadly there are three major issues that pervade the existing literatures on how best to define clients exit; who is active client? When does he/she cease to be active? What standard time-frame can best capture adequate, policy relevant and precise incidence of client exit? In respective of differences that exist on each of the above, addressing these fundamental questions is the crucial first step in the development of reasonably accurate measure of client exit/retention. But and depending on the understanding about the facts and MIS system, MFIs can use from simple to the more complex approaches to calculate their retention or dropout rate.

The simple approach, for example, might be:

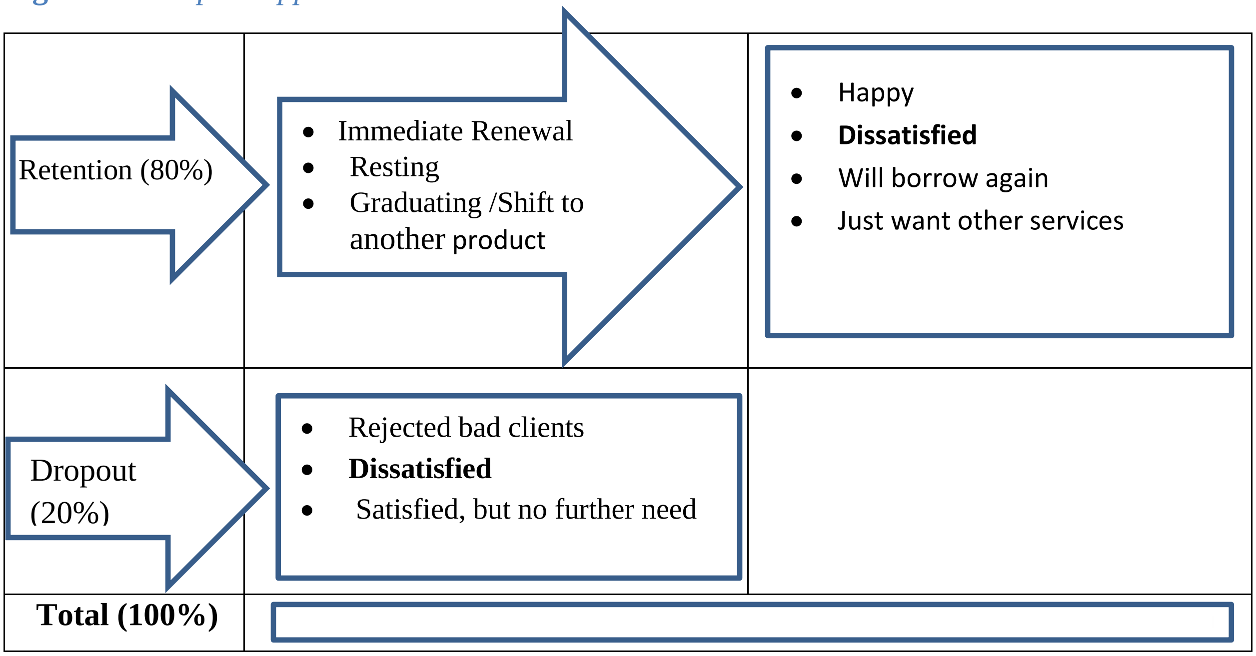
Retention rate =80% (do our clients remain with us?)

Dropout Rate =20% (do they leave?)

Total = 100%

The complex approach is depicted on the graph below:

Figure 1: *Complex Approach*



As we can see from the above graph, there is no direct relationship between clients dropout/retention and customers satisfaction. However, there are differences in microfinance institutions in how client dropout or retention is understood and which formula applied. Also depending on the MIS and the availability of important data, dropout or retention calculation might be constrained.

According to Waterfield (2006), it seems the formula that MFIs have been applying for dropout rate calculation have passed through three phases due to different limitations observed through time and maturity of MFIs.

Generally, retention Rate = 100% – Dropout Rate

1. Old Formula (Sometimes called ACCION formula):

$$\text{Retention Rate} = \frac{\text{Ending Clients} - \text{New Clients}}{\text{Beginning Clients}}$$

2. New Formula (Sometimes called "Schreiner" formula):

$$\text{Retention Rate} = \frac{\text{End Clients}}{\text{Beginning Clients + New Clients}}$$

3. Microfin formula (Sometimes "Waterfield/CGAP" formula):

$$\text{Retention Rate} = \frac{\text{End Clients – Clients with Same Loan}}{\text{Begin Clients + New Clients - Clients with Same Loan}}$$

In the case of Wasasa MFI, it has been using the older formula to calculate its dropout (retention rate) for its entire products and services. It had no appropriate MIS system to track all the necessary data. But very recently it has started implementing the core banking solution that would help to get detail information regarding its dropout clients and other relevant details related to this.

As it is mentioned above, due to unavailability of all the necessary data to calculate dropout/Desertion using the latest CGAP formula, the dropout rate in Wasasa MFI as you can see in the table 1 was calculated using Schreiner formula that relatively gives more realistic information compared to the old ACCION formula (*Wasasas' Operations Department reports*). That means that, the movement of clients from one loan product to another loan product is considered as they are dropouts. In addition, if clients leave for some time and come back after sometime (if they rest), since there is no appropriate data, they are also considered as dropouts.

In the case of "Schreiner Formula",

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

That means DR=100-RR

Where, X_1= Active clients beginning of the period

X_2= Active clients at the end of the period

NC= New clients joining during the period

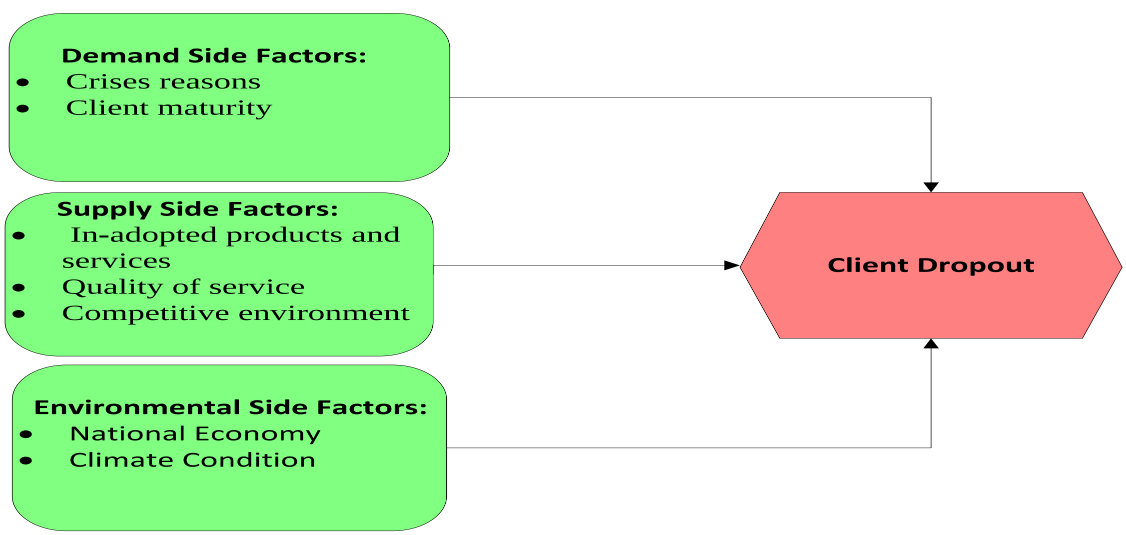
DR= Desertion/Dropout Rate

RR= Retention Rate

2.7. Conceptual Framework:

As mentioned in the previous sections, the major reasons for dropouts can be grouped into three broader categories; supply reasons, demand reasons and environmental reasons, which are the basis for this research and the researcher is dealing with these classifications through the whole document. The conceptual framework for the study is shown in the following figure.

Figure 2: *Conceptual Framework*



CHAPTER THREE: METHOD OF THE STUDY

This chapter presents the research design and methodology adopted in this study. The chapter is arranged as follows: the first secretion presents the research design then followed by sources of data, population and sampling techniques, types of data and tools/instruments of data collection, procedures of data collection and methods of data analysis respectively. Finally ethical consideration in doing the study is discussed.

3.1. Research Design

A descriptive survey method was used to investigate the determinant factors for borrower dropouts in Wasasa Microfinance S.C. The method is selected because it is helpful to describe what really is happening in the study field and to gather enough information from many people on the issues under study. The appropriateness of this design for such study was noted by many scholars. For example, Koul (2008) states that descriptive survey becomes useful particularly where one needs to understand some particular information.

3.2. Sources and Type of Data

Both primary and secondary data sources were used to gather information about the determinant factors for borrower dropouts in Wasasa Microfinance S.C.

Primary sources were used to get firsthand information on the determinant factors for borrower dropouts in Wasasa Microfinance S.C. The primary sources were ex-clients who have already dropped out from the program and the management team at different level in the MFI.

Secondary data were used to strengthen the data gathered from the primary sources. The sources of the secondary data were reports and policies and procedures prepared by Wasasa MFI. Furthermore, different researches and articles written by different scholars on the industry and on determinant factors for borrower dropouts in microfinances were used.

3.3. Data Gathering Instruments

A questionnaire, an interview, and reports from the Wasasa Microfinance S.C were the main data gathering instruments. These tools were used with the belief that data gathered through different data collecting tools would produce richer empirical evidence. In doing so, the researcher was mindful of the benefit of using multiple sources. According to Cresswell, employing multiple data collection instruments helps the researcher to combine, strengthen and amend some inadequacies of the data gathered by a single instrument and for triangulating purpose.

3.3.1 Questionnaires

The questionnaire was used to collect relevant information on the determinant factors from dropout borrowers in Wasasa Microfinance S.C. The items included in the questionnaires are mainly close ended questions accompanied by a few open ended questions. The questionnaire was prepared in Afan Oromo (See Appendix 2) since it might be difficult for the respondents to understand English. It was later translated to English (See Appendix 1) by the researcher while filling the responses into SPSS. For those clients who can't read and write, the persons distributing the questionnaires were reading and filling for them.

The questionnaire has seven main parts of which the first part is about the personal background information of the respondents; the second part is information about the main reason for their departure and the third one is their suggestions to improve the services provided by the organization. The second part, which was the major part of the questionnaire, has to do with identifying the major reasons from the lists for the clients' exit. The items in this specific part are grouped into three parts depending on the similarity of their contents (For details see Appendix 4). With regard to the analysis of the data collected, each content was analyzed based on the responses they circle and the reason why they select it.

3.3.2 Interviews

Semi-structured interview was used to collect information from branch & operations managers. Semi-structured is selected because it helps to have a focused information on the subject matter, helps both the interviewer and interviewee not to stray away from the subject matter under study. The interview had seven questions which are self-developed by the researcher. Each interview took about half an hour. It was captured through hand writing and each statement made by the interviewees was written. The interview took place at their respective offices for branch managers and at head office for Operation department staff. By conducting the interview in each of the offices, the researcher had an added advantage of observing the client profiles, reports and perspectives from the other side.

The questions in the interview mainly focused on the main reasons why the clients dropped out, what measures they take to minimize the dropout rate at their respective branches and as an organization, the kinds of challenges they face in dealing with clients and any improvements Wasasa planned to make on its products. In addition, the challenges they face and the solutions they recommend are also included in the questions (For items used during interview see Appendix 3).

3.4. Population and Sampling Technique

At the time of this study, Wasasa Microfinance S.C had a total of 28 branches all based in Oromia Region. Of these 28 branches 15 of them had a highest number of dropouts at the end of June 2013. These 15 branches were selected using a purposive sampling technique. The number of dropouts in the year 2013 in the organization are 13,376 and 9,283 clients were registered as the dropouts in these 15 branches. Their names were listed in an excel file alphabetically. Using random sampling technique 370 dropouts were from the total population of 9283 with 95% confidence level and 5% confidence interval. Since there are no previous studies that can be referred, 50% population proportion, conservative rate has taken to determine the sample size.

The selected dropout files were checked from the records of the MFI in order to know their address and the credit officers who used to support them. In addition to the dropped out clients, operation staff and mangers were also selected as interviewees based to respond to interview questions with the belief that they have all the relevant information about the activities in their respective branches and their clients.

3.5 Procedures to Data Collection

To assess the determinant reasons for the borrowers' dropout in Wasasa Microfinance, first questionnaires and structured interview were developed. Then, the questionnaire was piloted being administered to 15 dropped out clients of the organization, which are outside of the sample selected. Accordingly, with some modifications, like wordings which might confuse the respondents, and clarifications, the final instruments were developed and used for the purpose.

The data were collected from the ex-clients by the Branch Managers from each branch with a close supervision by the researcher. From the distributed 370 questionnaires, 316 (85%) were correctly filled and returned. The researcher committed his time and energy and went to each branch to make sure that the questionnaires were filled correctly by the credit officers for those who can't read and write and by the clients themselves.

3.6 Methods of Data Analysis

The data which were collected from the respondents through the questionnaires were analyzed quantitatively and qualitatively (for open ended questions). Percentage and frequency counts were used to analyze the characteristics of the population as it helps to determine the relative standing of the respondents. Cross tabulation which was made between the variables to analyze the most frequent reasons which lead to the clients' exit. For this reasons, SPSS and Excel were used.

In analyzing the data which were obtained through an interview, summary of the responses was prepared and the content of the responses were grouped accordingly. These responses were taken in order to support what has been gathered through the questionnaire from the ex-clients. The documents such as reports made by the branch offices on their performances were used in complementing the analysis of the qualitative data gathered through interviews. The collected data were translated, categorized and presented in a narrative form. The qualitative data collected were used for triangulation with the quantitative data to further deepen the augment of the information collected.

3.7 Ethical Consideration

Efforts were made to make the research process professional and ethical. To this end, the researcher tried to clearly inform the respondents about the purpose of the study i.e., purely for academic. As the purpose was introduced in the introduction part of the questionnaire and interview guide to the respondents, the researcher confirms that subjects and confidentiality are protected. The researcher also does not personalize any of the response of the respondents during data presentations, analysis and interpretation. Furthermore, all the materials which are used for this research are duly acknowledged.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

This chapter presents the data collected through the questionnaire and interviews. It consists of the personal characteristics of the respondents, circumstances of departure, the respondents' reasons for leaving the organization and the suggestions they provide to improve the services of the organization.

4.1. Responses from Questionnaires

As mentioned in Chapter three, the respondents were 370 ex-clients, selected on random basis, of Wasasa Microfinance S.C from 15 branches with the highest dropout. The return rate of the questionnaires was very encouraging while, 85% of the participants have appropriately responded to all the items of the questionnaires. Thus, the analysis of the quantitative segment of the study is based on the responses of these participants.

The responses are grouped in seven parts. First, personal characteristics of the respondents are discussed. Their circumstance of departure is discussed on the second part of the data presentation followed by their reasons for leaving the organization. This part comprises of four sub parts which deal with the supply, demand, environment and combination of the three reasons. After leaving Wasasa, whether they joined another organization or not is discussed on the next part. Finally, the respondents' suggestions to improve the services provided by the organization are discussed.

4.2. Personal Profile of the Respondent

This section shows the characteristics of the respondents, in terms of sex, age, occupation, place of residence, length of stay in the MFI and the type of loan product they took.

Table 2: *Background Information of the respondents*

Item	Description	Frequency	Percent
Sex	Male	168	53.2
	Female	148	46.8
	Total	316	100
Age	18-30	98	31
	31-40	136	43
	41-55	62	19.6
	above 55	20	6.3
	Total	**316**	**100**
Occupation of respondent	Farmer	230	72.8
	Trader	56	17.7
	Employee	30	9.5
	Total	**316**	**100**
Place of residence of respondent	Urban	82	25.9
	Rural	234	74.1
	Total	**316**	**100**
Length of stay in the MFI(in years)	1-3 yrs	152	48.1
	4-7 yrs	132	41.8
	8-10 yrs	32	10.1
	Total	**316**	**100**
Type of Loan product	Large Group Loan	270	85.4
	Employee Loan	30	9.5
	Enterprise Loan	16	5.1
	Total	**316**	**100**

Based on the information gathered through the questionnaire, the summary on table 2 above shows that 53.2% of the respondents are male and the rest 46.8% are female. There is no as such a significant difference between male and female when it comes to drop out.

There have been given arguments about gender and dropout that women are less likely to exit than men Schreiner (2004). But according to Wright et al., 1999, there was no clear evidence indicating that women were more or less likely to drop out of MFIs that serve both men and women.

Our finding from the respondents of Wasasa Microfinance S.C seem to agree with Wright and his friends argument that there is no clear evidence that gender has anything to do with their being dropped out from the program.

The second item in table 2 above is about the age of the respondents. Accordingly, of the total 316 respondents, majority of them (43%) are between the age group of 31-40 followed by the next highest respondents (31%) being between 18-30 years of age. Only 19.3% are between 41-

55 and the rest 6.3% above 55 years old. From the table, adding up the total age groups from 18-40 years, majority of the respondents (74%) fall into this group which is the productive and active age group in the economy of the country. Hence the result suggests that the major microfinance dropouts are the active age groups in the economy who want to work and change their lives, their community and the country in general.

Another aspect to consider about the personal information of dropouts in Wasasa Microfinance is the occupation of the respondents. As it can be seen from table 4.1, 72.8% of the respondents are farmers and 17.7% are traders. Only 9.5% are employees. Occupation of the clients in microfinance is believed to have an impact on their exit or stay in the microfinance program.

As the data collected from the respondents shows, considering the place of residence of the respondents, most of them, 74.1%, live in rural areas. The rest 25.9% comprises those who live in urban areas.

The responses of the above two points, occupation and place of residence, coincide with the objective that Wasasa Microfinance was established in that it mainly targets farmers those who live in rural areas. Most of its clients are these groups and it will not be a secret that most of the dropouts are from these groups.

Length of stay in the MFI is one important topic to consider while trying to identify the main reason why borrowers dropout from a program. It helps to point out the phase at which most of the dropouts leave the program. In doing so, the respondents from Wasasa Microfinance were asked about their length of stay in the program. Majority of them, 48.1%, say that they have been in the program for only 1-3years and the next highest respondents, 41.8%, stayed for 4-7years. Only 16 respondents (10.1%) were in the program for 8-10 years. The number of dropouts is higher for the first time borrowers than those who have been clients in the organization for long. This is best explained by Meyer (2001) that, in most cases, in the group lending methodology that most MFIs use in different part of the world, the loan amount provided to a borrower increases progressively through different loan cycles[1]depending on the capacity and borrowers repayment history of the previous loans. Because of the cost of making the first small loan to new clients, lending usually does not become profitable in many programs until the third or

[1] It is the frequency that a borrower appear to take loan from MFIs. If he/she is first time borrower, it is 1st cycle. If again appear for another loan, it is 2nd cycle and it continues like this. Usually the loan size increases from small to big loan cycles.

fourth loan to a client. During the first two to three loan cycles, the loan size (loan amount) provided to new loan customers, until MFIs develop some confidence about the repayment capacity their loan is very small. But distributing such small loan involves a lot of administrative, risk management, and operational costs.

The last point considered in studying the personal background information of the respondents is the type of loan product they used. In doing so it was revealed that 85.4% of the respondents said that they used large group loans and only 9.5% and 5.1% used employee and enterprise loans respectively. Wasasa has been providing mainly loan and saving services for its customers. The majority of the loan is delivered through group lending methodology that helps the microfinance as collateral and for the clients as the only way to access loan from microfinance institutions due to absence of other collaterals for the poor to access loan. Hence this is the reason why most of the dropouts are from this group of borrowers.

An interview was also conducted with the branch managers and the Operation manager at the head office regarding the composition of the organization's clients, their product preferences and the services the organization provides. They said that Wasasa Microfinance S.C. was established on September 20, 2000. Since then the Company has been working with poor communities (mainly the rural poor) by providing savings and credit services; it currently has 28 Branches and 20 rural outlets which are operating in 34 Woredas of Oromia Regional State with a plan to expand every year. The organization currently provides different loan and saving products and credit life insurance service. The loan products include: Large group loan, Enterprise Loan, Employee Loan, Individual Loan, Big Installment Loan, Regular Installment Loan, and Term Loan. The last three products have been provided only at RSFs level. Generally, in Wasasa agriculture loan accounts 84% of the total loan portfolio. From the loan products mentioned above; Large Group Loan, which is agricultural loan and that we have been providing in all our branches, accounts the majority of our loan portfolio. Also, Big Installment and Term Loan products that we have been providing at RSFs are agricultural loans.

The operation manager of Wasasa Microfinance was asked about the overall dropout rate in the organization. The interviewee responded that the organization monitors number of customers who are dropping out. Although the organization can see some variations from time to time and branch to branch, dropout in the MFI generally has been increasing. But Wasasa doesn't know the detailed reasons why customers leave the organization. Of course from the information that the organization collects from branches at different times in different ways, it is also generally known that, for example, the loan size that the organization provides is very small compared to what most of the customers would like to get.

4.3. Circumstances of Departure

This section of the analysis has two parts. The first one deals with who made the decision for the respondents to no longer participate in the program and their main reason for such decision. The first item in table 4.2 is describes about who made the decision that the respondents will no longer participate which was a close ended question for them to answer. The second item is an open ended question which the respondents are required to state their reasons. Their responses were grouped into the categories in the following table:

Table 3: *Decisions to leave the program*

Item		Frequency	Percent
Who made the decision that you will no longer be participant in the program?	I made the decision	274	86.7
	Someone else	14	4.4
	Group	22	7
	MFI	6	1.9
	Total	**316**	**100**
The reason why You decide	Family Influence and health problem	44	13.9
	Additioal income	80	25.3
	Group fear	44	13.9
	Enviromental factor	28	8.9
	High interest rate	22	7
	Small loan allowance	98	31
	Total	**316**	**100**

As per table 3, the dropped out borrowers of Wasasa Microfinance S.C have given their responses to that made the decisions for them to leave the organization and the reason which forced them to decide. Accordingly, 86.7% of them said that their decided by themselves and of which 31% said that they decided to leave because the loan amount is small. 22 of the respondents (7% only) said that the decision was made by the group. The number of respondents who were forced to leave is by far less than from those who leave by themselves.

The other significant reason for leaving the organization is that the respondents are looking for additional income. 25.3% of the dropped out borrowers responded that the main reason for them to leave the organization is because they want additional income. The other reason related to this one is the small loan allowance that the organization offers. 80 of the respondents agreed to this reason. Family influence, group fear, environmental factors and high interest rate are the other reasons responded by 138 of the respondents.

The operation managers of Wasasa Microfinance S.C were interviewed regarding the points on Table 4.2. They confirmed that the decision to leave the organization almost all the times comes from the clients themselves.

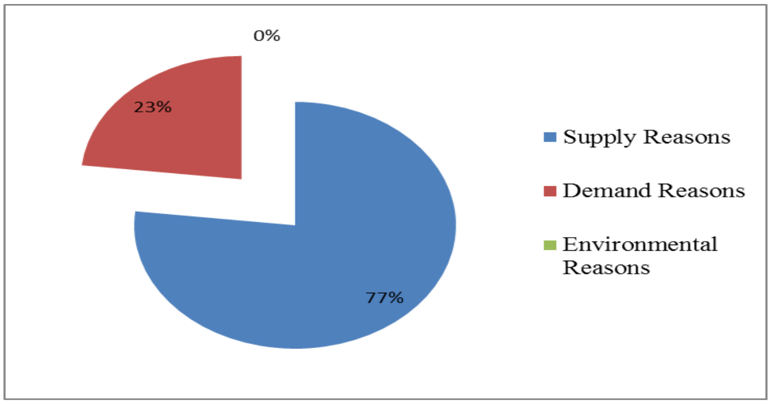
One of the interviewees stated that; either in groups or individuals when the customers want to leave the organization for many reasons, we try to convince them to stay in the program. But most of the time, their reason is the small amount of the loan provided, there is not much that we can do to keep them in the program since it is against the organization's policy. There are some circumstances where we try to keep them in the program but it is a very rare case. Overall the dropout issue in our organization is critical because the cost of dealing with such clients is high and recently the management team is trying to come up with a solution to reduce the dropout rate.

4.4. Reasons for Leaving the Organization

The reasons that customers leave an MFI are different across different MFIs, different regions and different groups of clients. Each and every client has a very unique reason to leave the program either by his/ her own problem or other forces outside of his/ her control.

As mentioned in the literature part of this study, for this research's purpose we have divided the responses into three broad categories; supply reasons, demand reasons and environmental reasons. The responses of these broader categories are summarized in the following figure.

Figure 3: *Reasons for leaving*



From the figure 2 above, taking into consideration of the broader categories of reasons for dropout, the supply reasons in general take the majority of the responses. 77 % of the respondents' reason falls into the supply side and only 23% is the demand side. None of the respondents left the organization because of the environmental reasons.

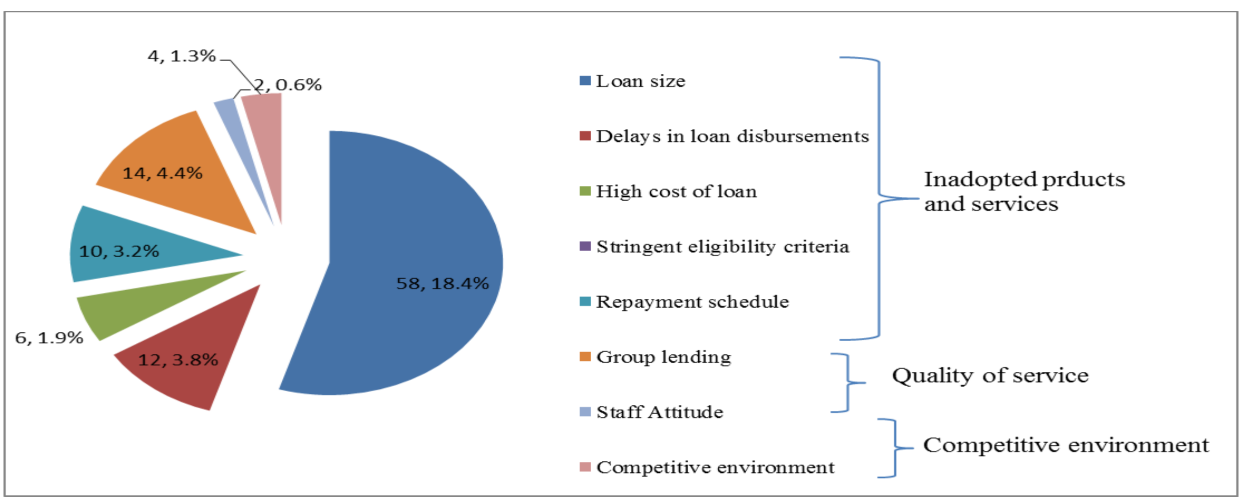
As mentioned in the literature part, the supply reasons are related to the products and services offered by the organization whereas the demand reasons recap the reasons related to the problems from the customers' side. But as the data gathered shows it is mainly what the organization offers that let most of the clients to leave the organization.

These broad reasons were further subdivided into 16 reasons which fall into the three categories. Accordingly the analysis is made based on these classifications. The following subparts and figures summarize the responses from the dropout customers of Wasasa Microfinance S.C.

4.4.1. Supply Reasons for dropout

Supply reasons include factors that contribute to clients exit due to MFIs products and their delivery to address changing need of customers and competitions. The supply reasons are divided into three subcategories of in-adopted products and services, quality of service and competitive environment. These sub categories are further subdivided into detailed reasons which might be the core causes for borrowers' dropout from MFIs. The figure below, figure 1, summarizes the core reasons from the supply side which lead to client drop out according to the responses from the dropped out clients themselves.

Figure 4: *Supply reasons for dropout*



In-adopted products and services refer to the assumption of most of the MFIs that microfinance clients worldwide are essentially homogenous and “one product fits all” approach continues to dominate the industry. But in reality, the financial service needs of poor people are diverse and complex. Adopting the products needs of one country might not fit the needs of the other. A careful consideration and study needs to be done before establishing microfinance so that the products offered can align with the needs of the target customers.

In doing so, Wasasa Microfinance S.C has adopted its products and services from other countries which is a common practice in other MFIs in Ethiopia as well. The dropped out responses suggests that their reason for leaving the organization is due to the products offered by the organization. Of the total respondents, 31.7% of them said that the overall reason for their drop out is related to the products offered by the organization. From this subcategory of the supply reasons, the loan size accounts for 18.4% followed by group lending (4.4%) and delays in loan disbursement (3.8%). Repayment schedule and high cost of loan are the next core reasons for drop out accounting for 3.2% and 1.9% respectively.

In-adopted products in general are the main reasons for drop out from the supply side of the organization in Wasasa Microfinance S.C. The results from the above figure support this argument. This idea is also is supported by Hulme (1999) that much of this standardizing problem of MFIs financial services and service delivery is driven by the attempts to “replicate” products and services from foreign cultures without taking into account the socio economic environment into which they are being imported. Thus, when MFIs products and services do not meet clients‟ needs, there is a high dropout rate.

The next supply reason for drop is the quality of service provided by the organization. It deals with the attitude of the staff in providing the products. The fastest, cheapest, and best way to deliver an MFI’s service is through its employees. Due to various factors, including clients not understanding then risks of borrowing and loan officers being under a lot of strain and being harsh with clients. Clients can and do generalize about an entire organization based on one bad interaction (CHIP, 2005). With this regard, only 0.6% of the respondents said that they leave the organization because of the staff attitude. This is insignificant suggesting that quality of service is not the main reason for customer drop out in Wasasa Microfinance S.C.

The last point to consider in analyzing the supply reasons of dropout in MFIs is the competitive environment. As far as the competitive environment is concerned, many authors have recognized that over the past few years, microfinance sector has faced high competition. As observed by Pagura (2004), dropouts are frequent because of dissatisfaction with the financial services being offered by one MFI and the belief that other MFIs or other financial institutions can offer better facilities. Thus, they switch from one financial institution to another. With this regard, Wasasa Microfinance doesn't seem to face a problem because only 2 respondents stated that they left the organization because they get a better offer from another MFI.

In brief, taking the overall supply reasons for drop out, in-adopted products and services accounts for majority of the reason for drop out in Wasasa Microfinance S.C.

The operation mangers were interviewed on their view regarding the results gathered from the dropped out clients of the organization. The results were communicated to the interviewee and were asked about how they design the organization's products. He replied;

> Like any MF, at the beginning, most of the products that we had were more or less similar to what was offered somewhere else. But gradually, due to pushing and pulling factors and experiences gained, Wasasa has been trying to design products that are in line with the need of its target groups. To design new products, as much as possible, the MFI conduct assessments to understand if there is need and it is something that is acceptable. In this process, many products have designed. Since the focus of the MFI is also rural, the major portfolio of the MFI goes to agriculture and related activities. However, due to different risks involved and lack of collateral especially for the poor, above 90% of the loan of the MFI is group collateralized. However, we cannot deny that our target market segmentation is very broad, for example for rural and for urban and there are could be highly diversified activities that might need different financing approach and may be new products. But due to the current capacity of the branches of the MFI to manage, the manual MIS System, and available collateral and risk management systems, the MFI could not adapt its current products to the required level and also has not designed new products tailored to different needs available.

The interviewee was further asked to provide his opinion on the main reason why the clients leave the organization which is a small loan size. He said that;

> The MFI has been trying to increase adjust loan size from time to time depending on economic situations and the capacity of the MFI. When we started our operation, the maximum loan size for example for rural large group loan was ETB 500. Currently it is ETB 10,000. But still this is not adequate and customers need more every time. But due to different risks involved in agriculture, the mission and the capacity of the MFI, the loan size is still very limited and totally not compatible with the customers need. We also leave some urban customers to graduate to banks for bigger loan size, which as an MFI we consider as our success.

4.4.2. Demand Reasons for dropout

The demand reasons for dropout are more related to external problems to the MFI that may arise from clients. These reasons are further subdivided into crises reasons and client maturity which further are grouped into a number of core reasons which lead to client drop out in microfinances. The following figure summarizes the main demand reasons that forced clients of Wasasa Microfinance to leave the organization.

Figure 5: *Demand Reasons for dropout*

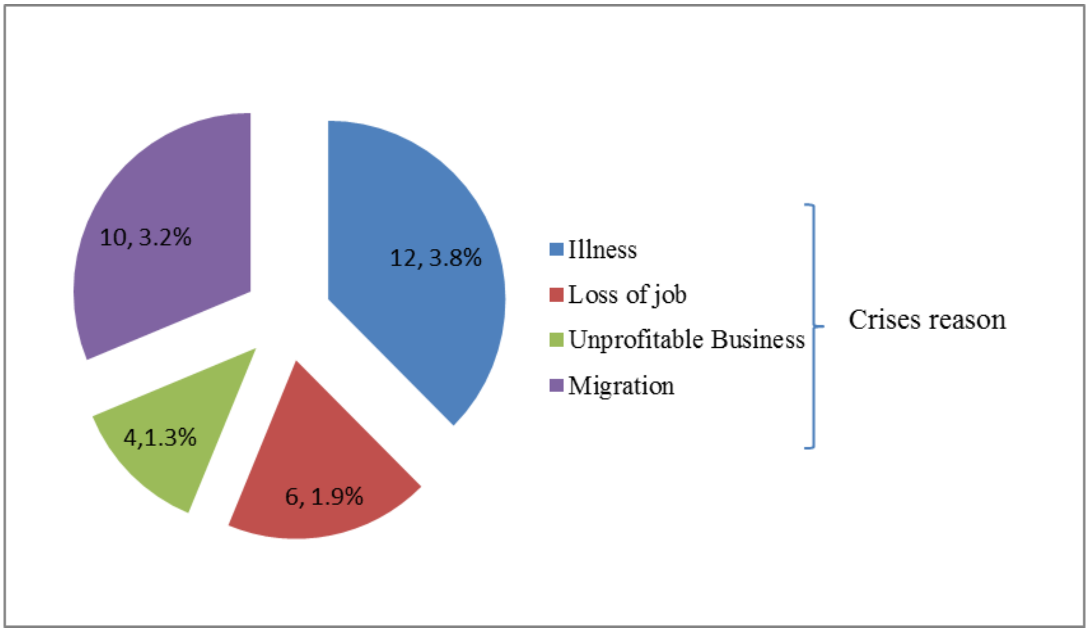


Figure 2 shows the demand related reasons for drop out in Wasasa Microfinance S.C. As mentioned above the demand reasons are categorized into to two but since none of the respondents left due to maturity, we will be dealing with the crises reasons only. Clients leave an organization due to personal crises they face. From the dropouts of Wasasa Microfinance, of the total respondents, 3.8%, which is the highest for demand reason said that they left the organization due to illness. The next core reason for client dropout in the organization is migration of the customers which accounts for 3.2% of the respondents. The least reason answered by the respondents is unprofitable business by the clients.

Some studies have shown that over-indebtedness of many clients, reallocation of loan, clients' delinquency and the decrease of schooling levels that lead to customers' crises (Meyer, 1999). The reason for such conflicting results could be that the poor face unexpected events such as illnesses, death of a family member, the loss of a job, funeral expenses and wedding or children's education (Rutherford, 1999).

With regard to the demand reasons, the operations managers of the organization were interviewed to give their opinion on these reasons and what their organization is doing to overcome such problems of their clients. He said;

> As we tried to mention in the above question, we don't exactly know why customers leave our program. Due to the group collateral we use and the related joint liability, there was a tendency by group members to expel some members who are sick like in HIV/AIDS. So, this was identified through a study and in 2005, the MFI introduced Credit Life Insurance Product (CLI). When customers access loan, they pay percentage of loan as a premium and if there is any deceased member from a group, the liability is covered by the MFI using CLI bought and it will not be transferred to other group members. So, by doing this, sick customers are protected from group members' decision for fear of risk. But if customers leave themselves, so far there is no mechanism to identify and support them in this regard.

4.4.3. Environmental Reasons

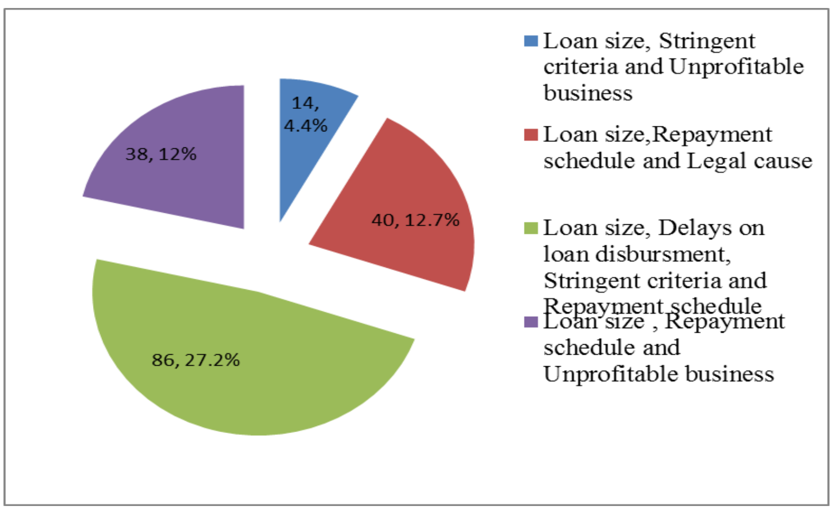
Environmental reasons are linked to downturn in the national economy and adverse climatic conditions. Clients generally served by MFIs have fewer assets and their income is not diversified. Thus, the poor are more vulnerable to financial difficulties due to economic downturns or other crises. All the African MFIs studies have reported that dropout rates increase when there is a bad economic climate, seasonality and natural calamities (Wright et al., 1999; Meyer et al., 2001), because clients have fewer ways of coping with such events and are more likely to drop out.

Even if the literature suggests that environmental reasons can lead to customer dropout in microfinances, none of the respondents said that their reason for leaving the organization is due to these reasons.

4.4.4. Combination of Reasons for Dropout

We have seen that dropped out clients of Wasasa microfinance S.C have responded to the different categories for their reasons to drop out form the program. But most of the time, a single reason can't be a core cause for the clients drop out rather a combination of different reasons from each category force them to leave the organization. Clients were asked to select more than one choice of their reason for leaving the organization. As the results reveal most of the respondents have more than one reason than those who state only a single reason. The following figure, figure 3, summarizes the combination of reasons that the dropped out clients responded for their reason to leave the organization.

Figure 6: *Combination of reasons for dropout*



The responses reveal that the most of the clients have more than one reason for leaving the organization than only a single reason. Loan size, delays on loan disbursement, stringent criteria and repayment schedule reasons account for the majority of the respondents. 86 of them replied that their reason is a cumulative effect of these reasons. The next group of respondents, 12.7%, said that loan size, repayment schedule and legal cause are their reason for dropout. The same combination of reasons, except the legal cause replaced by unprofitable business, is another major combination of reasons for dropout, accounting for 12% of the respondents.

From the combination of reasons loan size is the common one for each number of respondents. As we have also seen on Figure 1 of the supply reasons loan size was the major reason for the clients' dropout. Hence it is possible to conclude that loan size is the core reason for the clients' dropout in Wasasa Microfinance S.C.

4.5. Other Program Joined

The ex-clients were asked whether they joined another microfinance organization after they left Wasasa.

Table 4: *Other programs joined*

		Frequency	Percent
After you left the program did you join other program?	Yes	204	64.6
	No	112	35.4
	Total	316	100

Surprisingly 64.6% said that they have joined and only 35.4% said they didn't as table 2 shows. This result suggests that the only reason that most clients leave is because they are not happy with the service provided, not because they don't want a microfinance service at all.

This was told to the Operation Manager of the organization on what they do with regard to the services provided by their competitors. He said that "at different branches, we overlap with different MFIs. In some of the branches, the competition is more intense from the others. We learn about products and services offered by our major competitors mainly through informal ways. We don't have regular and systematic ways of monitoring our competitors and their services. There are also big MFIs that we can't compete with, like with the regional government owned, due to their size and different competitive advantages that they have. However, we try to compete in our service delivery like fast, being easily accessible and flexible as much as possible to customers".

4.6. Suggestions to Improve the Program

Clients of any organization most of the time know what best suits them. They know what is missing from the product or service that they want. Most of the time solution to the problems of product or service, whether practical or not, comes from the customers who actually use the product or service. Hence asking the customers of any organization on how to improve the product or service should be a routine procedure in order to survive in this fast moving market.

In doing so, the dropped out clients of Wasasa Microfinance S.C were asked to give their suggestions on how to improve the services provided by the organization. The following figure summarizes their responses.

Figure 7: *Suggestions to improve the program*

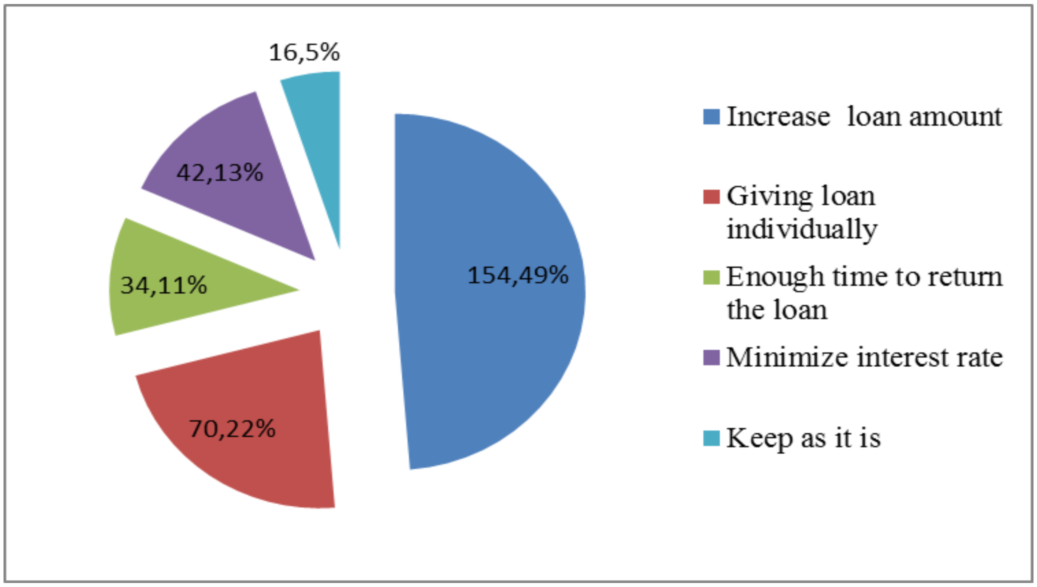


Figure 4 summarizes the responses the dropped out customers of Wasasa Microfinance gave to the open ended question which asks their suggestion to improve the program of the organization. The answers were summarized from each respondent and they all fall into one of the 5 suggestions they made. Almost half of the respondents, 49%, suggested that the organization should increase the amount of loan it provides if it wants to keep its customers for long period. As we recall from figure 3, most of the reason for the customer dropout was the loan size provided by the organization.

22% of the respondents suggest that Wasasa should consider giving loan individually in addition to the group lending it provides. As we have seen in the organization's background, even if it provides loan to all types of clients, its main focus is on those clients who come in groups since it serves as collateral to the organization.

Minimizing the interest rate is another suggested solution in order to minimize the dropped out rate in the organization followed by giving enough time to return the loan which are responded by 13% and 11% of the dropped out clients respectively. Only 5% of them suggested to keep the program as it is.

These suggestions were communicated to the operations department managers of the organization and they said that;

> In the first place, as much as possible, the MFI should be able to understand customers who are dropping with their reasons. For this, we should establish a system like exit customers' interview. Having appropriate computerized or manual regular MIS system for monitoring is important. In addition, different discussions and contacts should be done also with existing customers. Secondly, based on the results of monitoring and other feedback systems; depending on the capacity of the MFI, branch staff, and other local and national micro and macro situations, the MFI will try to make all the necessary actions like adapting new products, customizing the existing ones, and others.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents summary of the findings, conclusion part of the study and recommendations stems from the research results and review of relevant literatures on the subject matter of the study.

5.1. Summary of the Findings and Conclusions

The study was made to assess the determinant factors for borrower drop out in microfinance institutions in the case of Wasasa Microfinance S.C. Three basic research questions were raised as specific objectives which address the overall objective of the study. First, from the total of 28 branches that the organization has 15 branches with the highest dropout rate were selected based on purposive sampling. From these branches list of dropped out customers were collected as a population of which 370 ex-clients were chosen as sample on random basis.

The study has revealed about the main determinant factors for the customer dropout in Wasasa Microfinance S.C. The respondents of the study were ex-clients of the organization from the 15 branches with high dropout rate and the operations department managers of the organization who are responsible for the overall execution of the operation. 370 questionnaires were distributed to ex-clients of which 316 has been properly filled and returned. Interviews were held with the Organization’s operations department managers.

From the preceding discussions, considering the personal background of the respondents, there is no such significant difference between the number of male and female clients. Regarding age distribution, most of the respondents fall between 18-40 groups which are the productive and active age group. Most of the clients are farmers who live in rural areas who want to improve their productivity. The length of stay of most of the respondents is only the first few years after they joined the organization which suggests that they only take the first one or two rounds of the loan. The loan size in Wasasa increases progressively as the loan cycle increases. That means the loan size is attached with duration of clients with the MFI. Therefore, the loan size in the first & second rounds are usually small compared to those who took for many cycles & stayed for longer periods.

The reasons for dropout were divided into three broad categories namely supply reasons, demand reasons and Environmental reasons. These categories were further subdivided to different groups which specify the core reasons for the clients to leave the organization. Taking into consideration of the broader categories of reasons for dropout, the supply reasons in general take the majority of the responses. None of the respondents left the organization because of the environmental reasons.

From the supply reasons, in-adopted products and services (loan size, stringent criteria, repayment schedule, delays in disbursement), quality of service (staff attitude) and competitive environment were the categories identified of which in-adopted products(mainly loan size) account for the major cause for the clients to leave the organization.

From the demand reasons for drop out, crises and maturity are the sub categories which can be identified from which crises reasons account for the reason for the clients to leave the organization. None of the respondents leave the organization due to maturity.

Environmental factors were not the major cause for the clients of Wasasa microfinance to leave the organization even if different literatures support this argument.

Most of the time, one reason can’t be enough for clients to leave an organization. Combinations of the different reasons from the three categories were provided by the respondents. From these combination reasons, loan size, delays on loan disbursement, stringent criteria and repayment schedule reasons account for the majority of the reasons for the clients to leave the organization.

The respondents were asked whether they joined another MFI program and almost all of them have joined other MFIs which suggest that they did not like the service of Wasasa but not the service of all microfinances in general.

The ex-clients were asked on to give their suggestions to improve the program of the organization, which might have kept them in the organization, and most of them suggest that increasing loan size, providing loans individually, minimizing the interest rate and giving them enough time to return the loan are some of the suggestions they made.

5.2. Recommendations

The dropout rate situation demands introduction of innovative microfinance products. It is seen that most of the causes for client dropout are related to the products and services offered by the organization. In order to overcome such problems the following guidelines are provided:

Although there have been an improvement due to the increasing competition, the majority of products and services and their delivery approaches in Ethiopian MFIs are either copied from MFIs in the world or from other local MFIs who have been in the market for long. Therefore, there is a general tendency of considering MFIs market as homogenous and as a result there is high propensity of assuming all farmers or traders here and there have the same financial need.

- Suitability of the terms and conditions of the microfinance products against the use to which the product will be put by the borrower; trying to understand the actual need of the customers and design the product accordingly rather than simply providing what is on the book. The following points can be raised as recommendations related to the product and service issues of the organization.
    - Conformity with the real need and repayment ability of the borrower;
    - Security (in the form of guarantees or other means)
    - Business responsive products;
    - Build client loyalty through range of services;
- Importance of monitoring dropouts: there is no simple answer as to why people leave, and consequently there is no simple solution. People's reasons for leaving are complex and often the decision to leave may be a combination of a number of issues. It is, therefore, not possible to magically reduce drop-outs, but drop-out understanding can have a very significant impact on program performance. The following points can be raised as recommendations related to the management of dropouts in the organization.
    - MFIs to be sustainable organizations have to make decisions on sound economic basis.
    - Introduce appropriate staff incentives and training;
    - Developing and running a customized Management Information System to develop borrower based data base that would help to monitor dropouts and include as part of performance indicator.

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APPENDIX

Appendix 1: Questionnaire to Dropout Clients of Wasasa MFI-English version

ST. MARY's UNIVERSITY

DEPARTMENT OF GENERAL MBA

The purpose of this study is to investigate the determinants of borrower dropout in microfinances the case in Wasasa Microfinance S.C. Hence, you are kindly requested to provide only thoughtful and honest responses that will give the most valuable information for the research. The researcher wants to assure you that this research is intended fully for academic purpose and all information that you provide will be used only for research purpose and kept confidential.

NB: Please do not write your name in any part of the questionnaire.

Thank you in advance for your cooperation!

Teklemariam Awoke

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1. **Personal Characteristics**

1.1. Gender

1.1.1. Male

1.1.2. Female

1.2. Age(year):

1.2.1. 18-30

1.2.2. 31-40

1.2.3. 41-55

1.2.4. Above 55

1.3. Occupation:

1.3.1. Farmer

1.3.2. Trader

1.3.3. Employee

1.3.4. Uncertain job

1.4. Address:

1.6.1 Urban

1.6.2 Rural

1.5 Length of stay in the MFI(years):

1.7.1 1-3 yrs

1.7.2 4-7 yrs

1.7.3 8-10 yrs

1.7.4 11& above yrs

1.6 Type of Loan product:

1.8.1 Individual loan

1.8.2 Large Group loan

18.3 Employee loan

1.8.4 Enterprise loan

2. CIRCUMSTANCES OF DEPARTURE

2.1 Who made the decision that you will no longer be participant in the program?

2.1.1 I made the decision ----------------

2.1.2 Someone else ---------------

2.1.3 Group ---------------

2.1.4 MFI………………

Why?……………………………………………………………………………………………

2.2 Underline or circle the reasons why you left the program? (Multiple responses are possible)

2.2. 1 Amount (Loan size)

2.2.2 Delay in loan disbursement of the loan

2.2.3 High cost of loan (become expensive)

2.2.4 Repayment schedule

2.2.5 Group lending

2.2.6 Stringent Loan eligibility criteria

2.2.7 Staff attitude

2.2.8 Illness

2.2.9 Loss of job

2.2.10 Unprofitable businesses

2.2.11 Migration

2.2.12 Competitive environment

2.2.13 Legal cause

2.2.14 Natural calamities

2.2.15 Downturn in national economy

2.2.16 Others (please precise)…………………………………………………………………

2.3 Can you explain why more in details why you circle or underline this (these) reason (s)?

…………………………………………………………………………………………………

3. SUGGESTIONS TO IMPROVE THE PROGRAM

3.1 After you have left the program, did you find any other program with better terms?

3.1.1 No: ---------------

3.1.2 Yes: -------------- Which one ? …………………………………………..

3.2 What could be your suggestions to be improved by Wasasa MFI:……………………………..

Appendix 2: Questionnaire to Drop out Clients of Wasasa Microfinance S.C- Oromifaa Version

ST. MARY's UNIVERSITY

DEPARTMENT OF GENERAL MBA

Kaayoon qoranoo kana, Dhaabata Liiqaafi Qusanoo Wasaasa gidugaleesa godhacuudhaan, liqeefatooni tajaajila liiqaa'raa fayadamaa turaan sababoota isaan dhisanii kesa bahanuuf adda baafachufidha. Kanaafuu, deebi keesan isa amanamaafi sirii ta'ee akka nuuf keenitanu kabajaan isiin gaafana. Namni qoranoo kana gageesu kuun, faayidaan qoranoo kana barumsaa duwa kan walqabatte ta'uu issaa ibsaa, odeefanoon hundumttuu kan iicitiidhan qabamuu ta'uu isaa isnii ibsa.

Hubachiisa: Maaqaa keesan waraaqqaa deebii kana iratti hinbarreesina

Duraaan dursee, deebi kana nuukeenu keesaniif glata argadhaa

Taklamariyaam Awaqaa

---

1. Eenyuummaa
    - 1.1 Maqaa Riijjinii/Damee/RSF: ___________
    - 1.2 Lakk. Eenyummaa Maammilaa: _________
    - 1.3 Umurii:
        - 1.3.1 18-30
        - 1.3.2 31-40
        - 1.3.3 41-55
        - 1.3.4 55 oli
    - 1.4 Hojii irraatti boba'aan:
        - 1.4.1 Qonnaan bulaa
        - 1.4.2 Daldaala
        - 1.4.3 Hojjetaa
        - 1.4.4 Kan biroo
    - 1.5. Saala
        - 1.5.1 Dhiira
        - 1.6.2 Dhalaa

1.7 Teessoo:
   1.6.1 Magaala
   1.6.2 Baadiyyaa
1.8 Waggaa meeqaaf Wasaasaa keessa turtan
   1.7.1 1-3
   1.7.2 4-7
   1.7.3 8-10
   1.7.4 11 oli
1.9 Gosa liqaa itti faayyadamaa turtaan:
   1.8.1 Liqaa dhunfaa
   1.8.2 Liqaa garee(large group)
   18.3 Liqaa hojjetaa
   1.8.4 Liqaa Inteerpiraayizii

2. Haala akka addaa baataan isin godhee

2.1 Sagantaa kana keessa akka hin ture; akka murteesitaan kan isin godhee eenyuu?

2.1.1 Ofii koo murteefadhee----------------

2.2.2 Nama biraati ---------------

2.3.3 Garee---------------

2.4.4 MFI………………

Maaliif?……………………………………………………………………………………………

2.2 Sagantaa kana maaliif akka dhiistee sabaaba kan ta'e jala murii ykn itti marii? (Deebiin keessaan tokkoo oli ta'uu ni dandaa'a)

2.2. 1 Hamma Liqaa

2.2.17 Kenniinsi liqaa turuu(liqii dafanii argachuu dhabuu)

2.2.18 Dhali liqaa fi baasiin addaa addaa dabaluu isaa

2.2.19 Sagaantaa liqii deebisuu(haali kafaltii liqaa mijataa ta'u dhiisu)

2.2.20 Gareef wabummaaa fudhachuu

2.2.21 Ulaagaalee Liqaa cimaa ta'uu

2.2.22 Ilaalchaa hojjeetoota(sabaaba hojjeetootan)

2.2.23 Dhukkuubaan

2.2.24 Hojii dhabuudhaan

2.2.25 Hojiin hojjechaa ture bu'aa dhabuu isaa

2.2.26 Godaansa

2.2.27 Wal-dorgoommii naannoo keessa jiru

2.2.28 Sabaaba Seera qabeessummaa(dhorkii seeraa)

2.2.29 Balaa Uumammaa

2.2.30 Kufaati dinaagdee biyyaa

2.2.31 Kanbiroo(gabaabinaan ibsii)…………………………………………………………………

2.3 Sabaabaa/iiwwaan kana maaliif akka jala murtee ykn itti martee bal’inaan ibsi.

…………………………………………………………………………………………………

3. Yaada sagantaa kana fooyyeessu

3.1 Ergaa sagantaa kana dhiistee, sagantaa biraa kan wantaa gaarii qabuu argatee?

3.1.1 Lakkii: ---------------

3.1.2 Eeyyee: --------------Baankii/MFI Kam innii? …………………………………………..

3.2 Gorsaa ykn yaada Wasaasaan Dhaabbaatni Qusannaa fi Liqaa Lixiqqaa fooyyeefachuu qabaa jettaan:………………………………………………………………………………..

Appendix 3: Interview Questions for the Management of the MFI

1. How do you describe the composition of your clients? What type of products does your organization offer? What types of clients do you focus on?
2. How do you design your products?
3. From the data I gathered from your organization, the dropout rate of clients seems to be increasing from year to year. Is the organization doing anything to overcome this problem?
4. Focusing on the products offered by your organization, most of the respondents said that their reason for leaving the program is due to the small loan size that you offer. What is your say?
5. For those clients who leave the program due to their personal reason like illness, what kinds of considerations do you make (if any)?
6. Almost all of the respondents said that they have joined other MFIs after they left Wasasa. Does the organization try to identify the services which are offered by the competitors that made clients prefer them?
7. What kinds of measures does the organization plan to take in order to minimize the dropout rate?

Appendix 4: Categories of Reasons for Dropout and Response Rates

No	Group of reasons	Main Variables	Categories of variable	Frequency	Percent
1	Supply Reasons	Inadapted products and services	Loan size	58	18.4
			Delays in loan disbursements	12	3.8
			High cost of loan	6	1.9
			Stringent eligibility criteria	0	0
			Repayment schedule	10	3.2
			Group lending	14	4.4
		Quality of Service	Staff Attitude	2	0.6
		Competitive Environment	Competitive environment	4	1.3
2	Demand Reasons	Crises Reason	Illness	12	3.8
			Loss of job	6	1.9
			Unprofitable Business	4	1.3
			Migration	10	3.2
		Client Maturity	Client Maturity	0	0
	combination of supply & demand reasons		Loan size, Stringent criteria and Unprofitable business	14	4.4
			Loan size,Repayment schedule and Legal cause	40	12.7
			Loan size, Delays on loan disbursment, Stringent criteria and Repayment schedule	86	27.2
			Loan size , Repayment schedule and Unprofitable business	38	12
3	Environmental Reasons		Natural calamities	0	0
			Legal Cause	0	0