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Learning from Client Exit

Imp-Act

is a global action research programme designed to improve the quality of microfinance services and their impact on poverty.

Imp-Act promotes the development of reliable social performance management systems, which include impact assessment. These systems reflect and respond to client needs, as well as the priorities of microfinance institutions (MFIs) and their stakeholders.

The programme is a collaboration between 30 MFIs in 20 countries and a team of academics from the UK universities of Bath and Sheffield, and the Institute of Development Studies, Sussex University. The **Imp-Act** programme was initiated by the Ford Foundation, which funds all **Imp-Act** activities.

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What do we mean by Client Exit?

ALL MICROFINANCE institutions (MFIs) have clients who decide to leave their programme. Clients may leave for positive reasons – for example they might have outgrown the size of the loans that the MFI can offer and be graduating to formal sector finance. They may also leave for negative reasons, such as business failure or a bad experience with the MFI. Furthermore, some clients who leave may decide to return at some stage in the future.

How can knowing about client exits help an MFI?

Client exit is often thought of as inevitable for MFIs. Poorer clients may not be protected against crises or shocks. Richer clients may choose to leave a programme whose products and policies are not appropriate for them. No MFI will retain every client it has. However, as this practice note shows, unchecked high levels of client exits can seriously affect both the financial and the social performance of a programme. An MFI which finds out and tracks who leaves their programme and why they leave can avoid those dangers.

First, knowing who is leaving can be an indication of whether MFIs are meeting their social mission goals. If they aim to target and retain poor clients but these poor clients tend to leave, this may be an indication that the products need to be tailored to suit this

group, or that institutional changes need to take place.

Second, knowing who ex-clients are and why they leave is an important part of market research; it helps MFIs to monitor client satisfaction. If clients are leaving because they are unhappy with some aspect of the programme, managers can use this knowledge to make changes and improve the programme. If clients are drawn to the competition, managers will benefit from knowing what the competitors offer that their programme does not. This is vital information in an increasingly competitive market.

How can these Practice Notes help you?

These Practice Notes provide a guide to helping your MFI track and understand client exit, in a simple, low-cost way. They start by looking closely at what client exit can mean for your programme. They go on to show how you can define and measure your MFI's exit rate. The notes then cover a number of tools you can use for finding out who is leaving your programme, and how these tools or other data can help you draw up profiles of the different types of leavers. The next step is to find out why people are exiting from the programme. Finally, the notes explain how to use the information you collect in the most effective way.

Client Exit

1 Why is it important to know about client exits?

Client exit can affect the success of your MFI

A rising exit rate may indicate major problems for an MFI and even threaten its survival. Users may be unhappy with terms and conditions, or relations with staff. They may be switching to competitors, or overall demand may be falling due to a change in the economic climate. Therefore, if you do not research and address exit rates, this can have a serious effect on your MFI's financial performance.

Understanding client exit is cost-effective for your MFI

The cost of attracting new clients is relatively high in microfinance, and you lose part of that investment with each client who leaves your programme after a short time. If you are constantly having to recruit new clients, staff time will be taken up with administration, which adds to the overall cost.

Furthermore, you will not benefit from the faster portfolio growth from longer-term users who might take larger loans.

The longer-term financial dangers of exits are even more significant. High drop-out rates can affect the reputation of your MFI for potential new clients. It can also affect clients' loyalty and willingness to repay. In addition, investors might be scared away (see Case study 1).

Knowing your competitors

Learning from ex-clients can be

invaluable in terms of getting to know the advantages your competitors may have over your MFI. What you learn can enable you to fine-tune your products and policies to the requirements of different types of clients in response to market demand. If MFIs put their clients first, they need to know if their products are those that clients need and want.

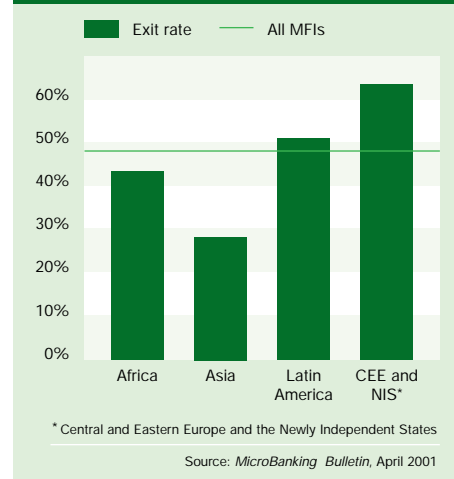
Achieving your social goals

Some clients' departure from programmes will be for positive reasons. It may be due to an improvement in their financial situation, enabling them to reduce their debts or 'graduate' to larger sums elsewhere, such as the formal banking sector. They may also be benefiting from flexible services that allow a break from the loan cycle. However, high or rising exit rates may also indicate that your clients are dissatisfied with the quality of the services you are providing, or that they have been negatively affected or are in debt because of their participation. This should concern MFIs, as the well-being of clients is usually their main priority. In particular, if clients leave early, they may not have a chance to benefit from other services that are built into the design of the loan programme, such as the transfer of healthcare knowledge or business skills.

Assessing the quality of your service

Exit rates can be an indicator of how good your targeting of clients has been, and which clients you are able to retain long enough for them to see positive impacts. This is particularly important for programmes seeking to reach the poorest people.

FIGURE 1
MICROFINANCE CLIENT
DESERTION MAGNITUDE



2 How can you define and measure the exit rate for your programme?

Exit rates need to be relevant to your organisation

As Figure 1 shows, exit rates vary considerably across continents, and across MFIs. This is partly due to the different economic environments, design of products, levels of competition etc. It is also because exit rate calculations are often inconsistent and based on badly-designed surveys. In order to gain a clear and informative picture of exits, a first concrete step is to establish a well-defined exit status for your clients. Below are some important questions to ask in determining your clients' exit status.

At what stage does a member become an ex-member?

Exit and retention (its opposite) rates vary according to the time interval adopted for their measurement. For example, if a village bank provides loans on a routine 16-week cycle, it seems obvious to define the exit rate as the proportion of borrowers in one cycle not taking a loan in the next cycle. However, in reality these cycles are more flexible, because the struggle to repay one loan to the village bank often delays receipt of the next loan. It is therefore better, where possible, to measure exit rates

CASE STUDY 1

SEF, the Small Enterprise Foundation in South Africa, sees client drop-outs as a critical indicator of both impact and operational performance. They found that drop-outs from their Tshomisano project, launched specifically to target the poorest, were often clients who had been in arrears or with portfolio at risk. SEF realised that exits are expensive to reverse and decided to invest in exit

monitoring. SEF combines on-going monitoring with in-depth drop-out studies. In this way, it is able to understand the reasons behind drop-outs, and has been successfully taking immediate corrective measures. As a result of exit monitoring, SEF decreased its drop-out rate from 35 per cent for 1998 to 14 per cent in 1999.

over a standard period, such as one year, or to at least specify the time interval to which a particular statistic refers.

How do you account for temporary exits?

Some users may have only temporarily left your programme, and plan or hope to return at a later time. These people are known as 'resters'. One reason for resting might be the seasonality of many businesses, especially those dependent on a particular agricultural crop. The freedom to 'rest', i.e. not to borrow for a cycle or two, allows clients with such constraints to remain in the programme. When you are calculating exits you need to think about whether or not you want to include resters, or distinguish between them and permanent leavers.

Have the clients really left?

Be careful you do not exclude clients who are still within your system. Take into account clients who have switched groups or dropped out of one type of loan programme within your MFI in order to move to another. Your Management Information System (MIS) might show these clients as being exits, but in fact they are not. These are issues you might need to build into your exit rate calculation, so as not to produce an artificially high exit rate.

Over what time period should you calculate client exits?

There is no blueprint for choosing a time interval for identifying exits. Instead MFIs need to take cultural and organisational factors into account (see Case study 2). Look at the type of clients you target, as well as data held within your MIS. This can be a good first step in assessing the most sensitive and appropriate time interval to adopt for your MFI's definition of a drop-out.

Which services are less popular with clients?

Identify which services clients are continuing to use and those they are opting out of. For example, members may take a loan holiday but continue to make savings into the village bank, attend meetings and participate in internal loan activities. If so, then it could also be argued that cycle-to-cycle membership exit rates are zero between each cycle as well as over the whole period. Therefore any exit rate statistic

CASE STUDY 2

PARTNER, in Bosnia and Herzegovina, found that 75 per cent of all of its exiting clients, if they returned, came back after no longer than 250 days, while 50 per cent came back after no longer than 150 days. After discussion with the staff it was decided to define a drop-out as a client who did not

come back to the programme at all, or came back after one year. In the dynamically changing Bosnian market, annual changes within the institution and outside are significant enough to consider a client returning after one year as a new client.

should refer to the particular service clients have stopped using.

What is an acceptable exit rate?

There is no universal figure below which you must get your MFI's exit rate. You need to decide what is right for your MFI and the environment in which it operates. What is acceptable to an MFI in terms of social performance will depend on what the programme is trying to achieve, who is leaving the programme, when and why, and what impact both the participating and leaving has had. For example, high exit rates might be accepted by an organisation such as SHARE in India, if it helps to sustain zero portfolio at risk.

When?

You also need to know when clients are leaving. How many months or cycles have they been within the programme? Are they anticipating their repayment so as to leave before a cycle is finished? Are exits concentrated at specific times of the year?

Why?

Even though you may be able to produce statistics that tell you who is leaving and when, they do not tell you why clients leave or for how long. The best way to know about clients' past experiences, and whether they intend to rejoin, is to ask them (see section 6 for more information).

Building ex-client profiles

One way to start building profiles of exiting clients is to sort them into categories. This will enable you to establish patterns and make comparisons between categories, groups, branches or different MFIs (see Case study 3). The categories you choose will differ according to the MFI, but where possible it is useful to clarify whether client exits are due to negative

3 Profiling ex-clients: who, when and why?

Who?

It is important to know who is leaving – is it older or younger clients? Is it first-time borrowers or mature clients? Is it men or women? Are those leaving concentrated in a particular location or business sector?

CASE STUDY 3

Prizma, an MFC (Poland) partner organisation also registered in Bosnia and Herzegovina, classifies its exit clients into five categories:

1. Voluntary, satisfied clients leaving for external reasons
2. Sleepers
3. Voluntary, dissatisfied clients who might return subject to changes in policy
4. Voluntary, dissatisfied clients lost to the competition
5. Forced out clients.

This allows Prizma to arrange focus group discussions with people who have left for similar reasons. Using information from their MIS for further segmentation, Prizma has been able to find out more details about the characteristics of leavers in each category. For example, it found that the voluntary, dissatisfied leavers were most likely to be Serb nationals, among whom older women were the most likely to be lost to competition.

or positive/neutral experiences of services, and whether they are permanent or temporary losses. You may also want to distinguish between voluntary leavers, whether these are satisfied or dissatisfied clients, and those who are forced out by the MFIs or their fellow-borrowers. Another issue is to find out whether ex-clients have been lost to competition or not.

4 Getting information on exits

Think about how you will get the data

Do not rely on staff or remaining clients' informal explanations for client exit; they may be biased. For example, clients who have left because they are unhappy with programme staff may be uncomfortable saying so. You need to develop ways to systematically access reliable information about who is leaving the programme, and why.

In-depth information or a survey?

The two main types of research methods are quantitative, such as a survey, and qualitative, where clients are asked to describe their situation in more detail. You need to decide whether to use one or the other, or a mixture. One of the main advantages of quantitative measures, whether routine exit forms or surveys such as the SEEP-AIMS exit survey questionnaire, is that they can give a good picture of drop-out patterns. This can reveal a lot to an MFI about both operational and impact issues. The drawback of a survey approach to exit research is that it can fail to provide the necessary detailed information on why something has happened and how programmes can be changed to avoid the same thing happening again.

Qualitative approaches, such as in-depth case studies or focus group discussions, can provide a fuller picture (see *Imp-Act* QUIP Practice Note for more information). They allow the MFI to build up a complex picture of the situation. However, tools such as these need to be carefully managed, through participant selection and skilled facilitation, to enable all voices to be heard, not only the loudest.

Aim to see both patterns and depth

To be able to usefully monitor and understand exits, MFIs should ideally

be doing two things:

1 Routinely monitoring how many people are exiting and what sort of people these are. This needs to be an on-going process conducted quarterly or every six months at least. This will enable MFIs to identify worrying trends early and act before they grow into significant problems.

2 Following-up this monitoring information with **in-depth studies** to address why they are leaving. Such information can be gathered from routine exit forms, sample surveys, focus group discussions or QUIP-type studies (see Resources), and can be broad-sweeping or narrower in focus.

A good compromise can be to combine different types of approaches. SEF, in South Africa, undertakes drop-out monitoring on an ongoing basis through group discussions. It follows up with individual interviews of the ex-clients, combined with data from their files and interviews with the field worker.

Decide who you will interview

If you have a large client base, you will not be able to interview everyone or indeed want to, as this would be too costly and time-consuming. This leaves the problem of how you make sure different views are included in your data. Sampling is one way to solve this problem; you can reflect the diverse experiences of clients by randomly selecting a fairly large sample of individual leavers or groups for interview. The size of sample will depend on the total number and diversity of clients. Even a very small sample is better than relying on anecdotal information only. You can then increase the sample size in later rounds, to see whether the extra effort results in greater insights.

Encourage ex-clients to participate

You may find that some ex-clients do not wish to participate in surveys or studies because they left for negative reasons, or are simply not motivated to do so. The only real way to avoid this situation is to routinely collect information from clients at the moment of exit. However, if this is not possible, MFIs need to be creative. Promujer, in Peru, approached the problem by proposing a raffle to survey respondents, with household goods as prizes.

Decide who should collect data

Again, there is no right or wrong answer. If you decide to use field staff to collect data, they will learn more about clients' lives and will feel a greater sense of involvement. On the other hand, clients may not be as honest and open with people they know. Some MFIs such as ODEF in Honduras have addressed this problem by switching staff from one branch to another for exit studies. It is also important to choose staff with the time and experience to conduct in-depth exit interviews.

Decide when to collect data

Again, there is no set rule on when to collect data. If you collect data at the point when clients leave the programme, you will have fewer problems in tracing them or motivating them to gather for a group discussion. On the other hand, their responses might be biased if they are interviewed at exit, particularly if they are keen to keep their options open and not displease the MFI with negative opinions. Furthermore, a delay may help them to think more about the reasons why they left.

5 Choosing methods of data collection

Decide which method suits your needs

A range of available methods is available to help you collect information on client exits, some of which are detailed below. You need to weigh up the benefits and draw-backs of each and decide on one approach or a mix of them that will best meet your MFI's needs, resources and time available. You also need to make sure you do not spend time collecting information that already exists in your MIS. Finally, the method you choose should be easy to repeat at a later stage.

Focus group discussion

Focus group discussions (FGDs) are useful because they enable you to collect in-depth qualitative information on particular issues. The discussions can be fairly open-ended, meaning that participants might bring up reasons for exit that you had not previously identified. However, FGDs are not always easy to manage. For a group discussion to really work, the participants need to be from similar backgrounds and to trust each other.

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Those leading the discussion need to be skilled facilitators and experienced in this kind of research. Even when a group is going well, it may be difficult to bring up certain sensitive issues. Finally, convincing ex-clients to participate in the group may be difficult; they may not be motivated, have limited time to do so, or even feel hostile towards the programme if they left for negative reasons.

Individual unstructured and semi-structured interviews

Holding *unstructured*, one-to-one interviews with ex-clients is a way to collect detailed descriptive information on particular issues, including more sensitive ones. The drawback is that these interviews take time and are thus usually limited in number, making it less likely that you will identify a wide range of reasons for exit.

Semi-structured interviews have a basic structure but the questions leave some room for the interviewee to give a longer, more descriptive answer. This kind of interview can provide rich, unexpected information and is less difficult to administer than the unstructured individual interview described above. The interview can be kept short, as much of the information you need, such as credit history, can be found in the MIS.

In both cases, interviewers need to be skilled in qualitative interviewing, and follow a standard process, so that the interview data can be compared. Skill is also needed for analysing the information.

Structured interviews

A structured interview is based on a set of pre-written questions to which only a short answer is expected. As with the semi-structured interview, much of the client information can probably be taken

from the MIS, so the interviews can be short. The drawback is that a structured interview is not flexible enough to pick up on unexpected responses. It also requires someone with quantitative analytical skills.

Self-completion survey

The main benefit here is the low cost of data collection because there is no need for interviewers. It is a good way to avoid bias or embarrassment, as respondents may remain anonymous. In addition, this type of self-administered survey lends itself to ongoing monitoring processes. However, there is no way to monitor who is actually filling out the forms. In addition, the forms need to be carefully piloted so that they are clear for clients to understand and use.

Using the management information system

Centralised organisations keep computerised records of services being used by individuals from which exit rates can be generated. These are known as Management Information Systems (MIS). This information may also be supplemented with information from exit forms that leavers are required to answer before having savings returned to them. In addition to providing data for one-off surveys, access to information from an MIS facilitates the process of ongoing monitoring.

6 Finding out why clients leave

Framing and analysing questions

Even when interviewed alone, clients may be unwilling to give the full story of why they left, particularly if the questioner is a member of staff. They may feel bad about admitting that their

many cases, the reasons they gave indicated deeper problems. They pointed to the fact that participation in the programme had changed power relations within the family, or they indicated financial difficulties, and associated shame, due to business failure.

CASE STUDY 5

At SHARE in India, a first exit study in one branch concluded that the main reason for client exit was migration out of the area, a finding primarily based on staff opinion. A repeat exit study two years later looked more closely at the matter and found that migration was not a main reason for leaving. It found a more complex set of reasons for client exit, including local market saturation, poor health, unavailability of work, and the closure of groups due to poor meeting attendance by some members. Some of these reasons had led to clients migrating from the area.

business has failed or that they experienced problems as a direct result of breaking an MFI's policies over loan utilisation, for example. Asking the direct question: 'Why did you leave the programme?' will not result in accurate information, nor does it expose the underlying reasons for exit (see Case study 4). Only with patience and growing trust can these problems be overcome. Extensive piloting of questions is essential, as is careful training of interviewers. Particular care is needed when questions have to be translated, to ensure that the meaning is not lost. Other situations, such as cases

CASE STUDY 6

In Nigeria, LAPO's first organisation-wide exit research and client satisfaction studies seemed to indicate that clients were leaving mainly because loan sizes were too small for any sort of productive use, as this is what 47 per cent of leavers claimed. However, when a more in-depth analysis was conducted, it appeared that it was in fact mainly richer, urban clients with strong businesses, who were leaving after just one cycle. The study found that loan size was not a concern for the poorer, longer-term exiting clients, who instead reported difficulty in making payments and a decline in their businesses.

CASE STUDY 4

SEF, in South Africa, tries to build up a picture of the ex-client's experience, starting with the least sensitive issues and building slowly to the reasons he or she left the programme. SEF found that ex-clients' standard responses to direct questions about leaving were that leavers were 'resting', had 'family problems' or had 'found a job'. In

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of client dissatisfaction with field staff, will also require delicate handling.

There is usually more than one reason for client exit

An important point is that exit is never due to one single cause. However, for operational purposes, your MFI will need to know which factors were particularly important in pushing clients to leave (see Case study 5). You can do this with ranking or scoring methods. However, if your information is from a focus group discussion, the participants need to reach a collective decision on the main reasons.

Reasons for exit are different for everyone

One of the challenges of investigating exits is that for each client or group of clients there may be a different explanation. In-depth studies to follow-up routine exit monitoring can provide more details of each individual case (see Case study 6).

7 Collecting and using exit data

Link exit monitoring to other data

If your MFI is committed to tracking and researching exits, it will need to institutionalise the way in which the data is both collected and used. A first step is to look at how you can make the most of your information. Below are some ways in which this can be done:

- If your MIS is effective, it may be possible to merge data to create a single

CASE STUDY 7

CARD, a Philippines MFI with a very advanced exit monitoring system, has investigated and experimented with a number of approaches since it first started monitoring exits in 1996. One of its most striking findings, after undertaking regular exit surveys and 'progress tracking' action-research, was that a large number of its exiting clients were the poorest members. They were either being pushed out by other group members, or were dropping out as the result of crises and shocks. CARD found that, as a result, its staff were increasingly tempted to attract less poor clients,

who in turn were unwilling to let the poorest enter (or re-enter) their solidarity groups. As a response to this situation, CARD has tackled the problem in two main ways. First, it has introduced the BalikCARD programme for returning, vulnerable clients, who form their own groups and receive special training and support from staff. Second, it has addressed organisational structure and staff development by updating operational guidelines and training staff in approaches with vulnerable clients.

larger database. For example, by merging exit and entry data for the same sample of clients, the characteristics of leavers may be examined in more depth.

- If you use the same data collection methods in several areas, you will be better able to make comparisons.
- The use of more than one method can be complementary. For example, the sample survey may indicate the relative importance of different reasons for exit, while in-depth interviews indicate the reasons why things happened.
- Differences revealed in overlapping findings may raise issues for further investigation. For example, independent

rankings of reasons for exit by staff and user groups may highlight important differences in their points of view.

Organisational learning and institutionalisation

A main goal of your exits work should be to record, analyse and present the information to management in a digestible form with clear implications for policy, products and services (see Case Study 7). For this to be possible, you will need to make sure that senior management understand and support what you are doing, that operational staff are motivated to take on the work, and that there are clear guidelines for decision-taking.

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