

**Master Thesis in Development Management**

Faculty of Economics and Social Sciences  
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# **Examining Factors Prompting Microfinance Clients' Dropout**

The Case of SEDA and PTF in  
Morogoro Municipality in Tanzania

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## Abstract

This study examines factors prompting clients' dropout in two microfinance institutions: SEDA and PTF in Morogoro Municipality in Tanzania. The study used the sample of about 136 respondents, where 68 respondents came from each institution. The sample was composed of various subgroups of clients such as men and women, current clients and dropouts, old and young clients. The sample was selected using the stratified purposeful sampling procedure. Data were collected using one main method (semi-structured interview) which was supplemented by document analysis.

The study has grouped dropout factors under six categories: organization, business, personal, family, group and competitive factors. These factors were also grouped into two main categories, which are, adverse push factors and promising pull factors using the ideas from the theoretical framework and the Lee's push and pull theory adopted in this study.

The results of the study shows that major factors which had prompted clients' dropout at SEDA and PTF are organization factors followed by other lesser factors under business, personal, family, group and competitive factors as presented in descending order in Chapter Four.

Some of the major organizational factors which had prompted the dropout of clients at SEDA and PTF are: delay in loan disbursement, inaccessible savings, high interest rates, lack of clients care, short repayment period, deducting clients loans, dislike of repayment pressures, problems with group loans, savings do not get interest, weekly repayments, wastage of time in repayment meetings, short repayment period, lack of insurance services, factors related to credit officers, small starting loans, lack of flexibility in loan repayment and lack of training to new replacement clients.

The lesser factors under business category which have affected clients' businesses are: cholera outbreak, rift valley fever, relocation of people from Saba Saba market, seasonality factor, flood, power rationing, fire, theft and selling on credit. Factors under personal category are: multiple loans, misallocation of loan fund, resting, transfer/migration, sickness, pregnancy/giving birth, found job/employment: default, journey/travelling and death. Those under family category are: Sickness: husbands stopped their wives, husbands interdicted, giving money to family members, death and marriage failure. Those under group category are: poor repayment record, unfaithfulness of group leaders, lack of cooperation and lack of trust. Factors under competitive category are: better terms and services in other MFIs.

Therefore, SEDA and PTF need to address the above major organizational factors which are greatly contributing to clients' dropout in their organizations. Since these factors originate from within their organizations it would be relatively easy to address them than other factors outside their organizations.

Other lesser factors outside their organizations such as, business, personal, family group and competitive factors contribute less to dropout. However, there is a need to assist clients affected by these factors to reduce their dropout which may also affect their organizations. Due to increasing competition from other MFIs which are entering the market, there is a need for SEDA and PTF to take proactive measures aimed at improving their services in order to retain their existing clients who may be dropping out to join other MFI due to better terms and services.

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## **Declaration**

“I hereby declare that the thesis: Examining factors prompting Microfinance clients’ dropout- the case of SEDA and PTF in Morogoro Municipality in Tanzania, has not been submitted to any other universities than Agder University College for any type of academic degree”.

Agder--Norway

George Bea Karama

.....

Signature

## **List of Abbreviations**

ASA.....	Activists for Social Alternatives
CEMCA.....	Commonwealth Educational Media Centre for Asia
CETZAM.....	Christian Enterprise Zambia
FINCA.....	Foundation for international Community Assistance
Faulu .....	“Success” in Swahili
FCC.....	Fundo de Crédito Comunitário
GFUSA.....	Grameen Foundation USA
MFIs.....	Microfinance Institutions
MDG.....	Millennium Development Goal
MOREFU.....	Morogoro Rural Revolving Loan Fund
NMB Ltd .....	National Microfinance Bank Limited
OUP.....	Oxford University Press
PULSE.....	Peri-Urban Lusaka Small Enterprise Project
PRIDE .....	Promotion of Rural Initiative and Development Enterprises
PTF.....	Presidential Trust Fund
SEDA.....	Small Enterprise Development Agency
TANESCO.....	Tanzania Electric Supply Company
TZ.....	Tanzania
WFCZ.....	Women Finance Co-operative Zambia

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# Chapter One

## Introduction and Background

### 1.0 Introduction

This chapter provides the background information of the Microfinance Institution (MFIs) in Morogoro Municipality in Tanzania, the problem statement, area of study, purpose of the study, research objectives, research questions, methodology in brief, contribution and the limitation of the study

### 1.1 Background

In Morogoro Municipality, there are six MFIs which are: PRIDE, FINCA, MOREFU, SEDA, PTF and the NMB Limited. The first five MFIs operate using group lending methodologies, while the sixth which is a bank operates by using individual lending methodology. Due to limited time the study focused on two MFIs, i.e. SEDA and PTF both of which use group-lending methodologies for better discussion of data.

The study was conducted in Morogoro Municipality in Tanzania to examine factors prompting the dropout of SEDA's and PTF's clients. The study is expected to increase knowledge about the factors prompting clients' dropout and what could be done to reduce this problem. This may make SEDA and PTF sustainable and achieve their social objectives of reducing poverty and reaching the MDG 1 i.e. halving the number of poor by 2015 (UN, 2005).

### 1.2 Problem Statement

Most microfinance institutions worldwide operate using group lending methodologies developed by Professor Mohamad Yunus in 1976 (Morduch, 2003: 5). Since this methodology has proved to be successful among MFIs, with higher repayment rates (Morduch, 2003: 6), special thanks should go to Professor Yunus, the founder of this methodology. Through this methodology, MFIs have been credited for their ability to reduce poverty and hence enabling the MDG 1 to be reached (Littlefield *et al*, 2003: 7). For this to be successfully achieved, MFIs need to be sustainable. However, this is not the case in that the majority of MFIs are not sustainable as observed by Morduch (1999), who claimed that, 'less than 1% of MFIs have achieved financial sustainability and that perhaps another 5% will do so in the future' (Morduch, 1999: 1587). The issue is what affects the profitability and sustainability of MFIs. Some of the stated factors include: the interest rates that are set below the cost recovery level, inefficient allocation of resources and the clients' dropout (Morduch, 1999: 1588). Though each reason is important, this study explored why clients dropout. This is mostly affecting MFIs, 'because losing clients means losing resources already invested in pre-loan training programmes and the profit which could have been earned if loans had been borrowed by the lost clients' (Wright, 1997a: 3). This problem can also increase due to increasing competition for clients from other MFIs which are entering the market (Navajas *et al*, 2003: 747; Cohen, 2003: 18; McIntosh *et al*, 2005: 987). However the dropout among MFI's clients' varies from place to place. For instance, according to Pagura (2003), the dropout rates are lower among MFIs in Latin America and Asia ranging from 11 to 20% (Pagura, 2003: 22), as compared to dropout rates in East Africa which are higher ranging from 25 to 51% (Mutesasira *et al*, 1999: 1; Wright *et al*, 1998: ii; Musona and Coetzee, 2001: 1).

A study conducted in Dar es Salaam also indicates high client dropout rate in Tanzania of about 50% in one of the MFI studied (Maximambali, Lwoga and Rutherford, 1999: 1). Furthermore, this problem also extends to South Africa in which the dropout rate is even higher than in East Africa and Tanzania as it ranges from 33 to 61% (Stark and Nyirumuringa, 2002: 6).

Hopefully the results of this study can be beneficial to the MFIs and to policy makers, since the identification of factors prompting clients' dropout may direct their efforts in finding solutions to these inhibiting factors. This may help to reduce the dropout rate of their clients' and improve their profitability (World Bank, 2006: 2). This is important for achievement of their financial sustainability otherwise their sustainability may be jeopardized through, 'losing clients which in turn can jeopardize both growth and sustainability' (Gine and Karlan, 2006: 1; Latifee, 2005: 1; Stark and Nyirumuringa, 2002: ii).

### **1.3 Area of study**

This study was conducted in Morogoro Municipality in Tanzania to examine factors that have prompted the dropout of SEDA and PTF clients. (See the map of Morogoro Municipality covering the study area attached as appendix 1. The study area was selected because it is close to the researcher's place of residence which was aimed at reducing costs due to limited budget. The second reason is the positive response received by the researcher from SEDA and PTF management relating to the request to conduct the study in their institutions.

### **1.4 Purpose of the study**

The general purpose of the study is to improve knowledge and understanding of factors prompting the dropout of SEDA and the PTF's clients' in Morogoro Municipality in Tanzania.

### **1.5 Specific objectives**

- To determine push factors from MFIs, group problems, business failures, individual and family problems prompting clients' dropout;
- To determine pull factors such as better terms and services from other MFIs prompting clients dropout;
- To determine the dropout rate in each MFI;
- To identify strengths and weaknesses of each MFI based on clients' views, so that special attentions may be paid to those areas to reduce clients' dropout. This is important for achievement of their social and financial objectives.

### **1.6 Research questions**

- What are push factors from MFIs, group problems, business failures, individual and family problems prompting clients' dropout?
- What are pull factors which prompt clients' dropout?
- What is the clients' dropout rate in each MFI?
- What are the major strengths and weaknesses of each MFI?

## **1.7 Methodology in brief**

A sample of 136 respondents was selected i.e. 68 respondents from each institution, of which 130 were current clients and ex-clients or dropouts and 6 were MFIs staff. The stratified purposeful sampling was used to select various subgroups of clients based on their characteristics such as: current clients and ex-clients or dropouts, men and women, old and new clients, young and aged clients. The data was collected using one main method (semi-structured interview), supplemented with document analysis.

## **1.8 Outline of chapters**

This thesis consists of six chapters. Chapter One describes background information to this study. Chapter Two provides the theoretical framework for analyzing the data. Chapter Three provides the study methodology in detail. Chapter Four presents the empirical findings in the form of text, percentages and tables. Chapter Five is about data analysis and discussion and Chapter Six is about conclusion and possible areas for future research.

## **1.9 Contribution and Limitation of the study**

### **1.9.1 Contribution**

The main contribution of this research is to the academic field. Sharing these findings may help future researchers interested in examining clients' dropout in MFIs to use it as a basis for their studies.

The study can also help policy makers to improve the sustainability of MFIs to enable them achieve both financial and social objectives of reducing poverty. In addition, the findings will no doubt have major policy implications for the MFIs studied and those which may read this report. By better understanding the factors that prompts client's dropout, practitioners will be able to adjust their policies to improve retention rates. This in the short run will dramatically reduce their costs and increase revenue. In the long run it can have a beneficial impact on overall sustainability of these institutions.

### **1.9.2 Limitation of the study**

The major limitation of this study was inadequate financial resources. Some clients openly demanded some tips after the interview dipping further in the limited resources given. This happened probably because Morogoro Municipality is a highly researched area due to the presence of two Universities: Sokoine University of Agriculture and Mzumbe University compared to other Municipalities in Tanzania. In addition to this most respondents seemed to be aware that researchers have unlimited funds for their studies. Some of them also seem to be tired of being asked each time by various researchers from Universities and from other institutions.

Lastly, to some extent the rainy season has also interfered with data collection particularly when it started raining in late February and earlier March 2007.





## **Chapter Two**

### **Theoretical framework**

#### **2.0 Introduction**

This chapter describes the theoretical framework including the taxonomic framework developed from the Lee's push and pull theory, definition of dropout, how clients' dropout can affect MFIs, literature review, building of a theoretical framework for analyzing the data and other relevant literature.

#### **2.1 Definition**

A theoretical framework can be defined as a set of theoretical assumptions that explains the relationships among a set of phenomena (Camp, 2001: 11): Likewise, a theoretical framework has also been defined as a collection of interrelated concepts, assumptions and practices that constitutes a way of viewing a reality (Connelly *et al*, 2000: 3; Borgatti: 1999: 1). As a way of viewing reality (Lasavio, Ortega and Pérez, 2005: 93), a theoretical framework is a lens through which the researcher views the world (Marriam, 1998: 13). Thus it guides his or her way of thinking in answering questions in a research setting and also provides researchers with a systematic way of examining social issues and providing recommendations for change (Connelly *et al*, 2000: 3; Camp, 2001: 14). The taxonomic framework developed from the Lee push and pull theory as presented next has been used in analyzing the data. In this study this framework has helped in the analysis and answering of research questions because, "a theoretical framework is useful since it provides a premise for the study so that a coherent argument can be made for the research questions" (Camp, 2001: 14).

#### **2.2 Definitions of dropout**

The term dropout has been given various definitions by various scholars and there is no consensus on an agreed definition. The reason for not reaching consensus probably is due to the difficulty of determining who is actually a dropout. Because at times some clients who have borrowed their first loan on a first loan cycle might decide to rest after attending long and tiresome weekly repayment meetings. Some of these clients often return on the following loan cycle, and there are also those who neither take loans nor withdraw their savings from the MFIs. So, on the side of borrowing they may be considered to have dropped out, because they have stopped borrowing loans although they may be retaining their savings with the MFIs or they may continue saving or even attending meetings (Musona and Coetzee, 2001: 1). This illustrates the difficulty in deciding whether they have actually dropped out. Below are definitions given by various scholars.

At PRIZMA, in Eastern Europe, dropout was defined as a person who has repaid any type of loan but has not taken any new loan during 90 days (Matul and Vejzovic, 2004: 1).

Another study conducted among three MFIs in Zambia defined dropouts as the former clients of an MFI including those resting, however it excludes those not borrowing but continuing to save and participate in meetings (Musona and Coetzee, 2001: 1).

In a study conducted in Malawi the dropouts were defined as those who have left the MFIs completely i.e. the borrowing relationship has been severed and for all practical purposes are not resting and have no intention of returning to the MFI (Pagura, 2003: 2).

According to the study conducted among MFIs in East Africa the dropouts were defined as people who leave MFIs either voluntarily or through expulsion by MFIs or its staff (Mutesasira *et al*, 1999: i & 5). Likewise Hulme, Kashangaki and Mugwanga (1999), who conducted their study among five MFIs in Kenya defined dropouts as, individuals that leave the programme either voluntarily or through coercion (Hulme, Kashangaki and Mugwanga, 1999: 6). In this study no distinction was made between dropouts due to illness, migration or those who leave the programme to rest and then return and those who leave permanently.

In a study conducted among five MFIs in Uganda the dropouts were placed in three categories: those who leave voluntarily and those who are pushed by MFI's credit officers or by group members (Wright *et al*, 1998: ii). A third category refers to those who are resting from the rigours of borrowing loans repayable on a strict weekly instalments basis and do not think that they have dropped out at all, and perhaps are busy planning how they will use their next loan (Wright *et al*, 1998: ii).

In another study conducted in Dar es Salaam-Tanzania the dropouts are defined as clients who leave the programme before completing all the loan cycles that are offered by the MFIs (Maximambali, Lwoga and Rutherford, 1999: 1)

The above definitions differ probably because each definition serves a particular objective in which it was designed and may also reflect the regulation of a given MFI and how it treats its dropouts and resters. For instance, at PRIZMA clients are considered to have dropped out if they have not borrowed their next loans within 90 days. This implies that the dropouts and resters are considered as clients if they have not completed 90 days since they took the decision to dropout or rest.

To achieve the objective number three of this study, which was to calculate the dropout rate in each MFI a dropout formula was required that reflects how dropouts are defined in each institution.

According to SEDA and PTF, all clients who have left their institutions for whatever reason including resters are considered to be dropouts. Because the moment a client takes his or her savings then his or her membership with the institution ends there. And if the client wants to return then he or she has to start with a smaller loan same as new clients. Therefore it is better to choose a definition that considers resters as dropouts to reflect the systems of SEDA and PTF.

Among the above definitions the relevant definition is the one used by Musona and Coetzee (2001) that defines dropouts as the former clients of an MFI including those resting. However this definition excludes those not borrowing but continuing to save and participate in meetings (Musona and Coetzee, 2001: 1).

This study found that at SEDA and PTF there are no clients who have dropped out but continue to save and participate in meetings. This indicates the need to slightly modify the above definition to conform this study's objectives.

By reflecting the systems of SEDA and PTF dropouts may be defined as, the former clients of MFIs who have left their services for whatever reasons including resters. So the dropout formula to be used needs to be the one which reflects the above definition and which also reflects SEDA and PTF systems where resters are grouped as dropouts. This formula was shown in Chapter Three under document analysis. It is useful for the definition and formula to reflect the system which is used by each institution in order to get the data for calculating the dropout rate. This has enabled me to get the data

for calculating the dropout rate for their institutions. For instance the dropout data at SEDA and PTF does not separate resters and dropouts indicating that resters are grouped as dropouts.

### **2.3 How clients' dropout can affect MFIs**

The majority of MFIs worldwide suffer chronic problems with client leaving their programmes (Wright, 1997b: 2). These dropout problems can affect the sustainability of MFIs that is highly needed for the realization of their objectives of reducing poverty. As such there is a need for MFIs to reduce the dropout of their clients to avoid negative impact on their sustainability. This is in line with Latifee's (2005), argument that dropout is not good for the MFIs since it cannot only cost them but it may also affect the productivity and morale of staff as is argued,

*Dropout is a cost to MFIs both in human and business terms; and it is unwarranted for the institution. No MFI enrolls any member, just to say goodbye. It invests time, energy and money in selecting and training them so that it can have a well-motivated clientele with hopes and determination of overcoming poverty. When someone drops out, it is a loss for the programme as it not only decreases the total number of members and borrowers, but also causes a decrease in the amount of loans outstanding and operating income for the MFI. Dropouts create incomplete groups and, in turn incomplete centres, leading to breakdown of credit discipline and contributing to low productivity of the staff. It sends a wrong signal to other members and a wrong message to the community. It damages its image and it delays sustainability. Dropouts also contribute to the overall lowering of morale within the programme. Not only does the operation of the MFI suffer from the dropouts, but also its progress is hindered and its long-term plans disrupted (Latifee, 2005: 1).*

Clients dropout also has a profound implication to the MFIs in terms of increasing costs and destabilization of groups from which dropout occurs since;

*High dropout rates cost MFIs dearly. The groups from which members drop out are destabilized and must recruit new (less experienced) members, who will qualify for smaller loans thus reducing the overall interest income for the institution. The members who have been with the organization longer, qualify for larger loans, and the newer, replacement members can only get access to smaller ones. Despite this, the newer members have to take a disproportionate risk and guarantee the larger sums taken by their fellow group members, adding further stress to the group guarantee principle. Furthermore, each dropout is a lost client who has undergone lengthy, expensive training. In addition, in the face of frequent or multiple dropouts, some of the groups may disintegrate entirely (Wright, 1997b: 2-3)*

In regard to the sustainability of MFIs Morduch (2003) in Chapter argued, "less than 1% of MFIs have achieved financial sustainability and that perhaps another 5% will do so in future" (Morduch, 1999: 1587). By applying a simple calculation on Morduch's statement, if only 5% of MFIs will achieve their sustainability in the future it means that the rest of MFIs, about 95% are not sustainable mainly due to dropout problems. There may be other factors that may affect the sustainability of MFIs such as delays in loan repayments, narrowly defined financial products and inefficient allocation of resources

(Pagura, 2003: 2). However, dropout can greatly affect MFIs because if clients are lost then resources invested on them through training are also lost. This may in turn retard its growths in that the lost resources could have been used to recruit new members and provide new loans (Stark and Nyirumuringa, 2002: ii).

Worse still if old clients are dropping out then the loss may be bigger to MFIs, because the older clients' with bigger loans pay relatively higher interests. This is in line with the argument that valuable clients to be retained are the ones with extensive credit history and who are accessing larger higher value loans (Wright, 1997b: 2).

Dropouts also increase costs because of the necessity to train new replacement clients as is argued, "a new replacement member must also be given training" (Wright, 1997a: 3).

This indicates that dropout is really a serious problem facing MFIs since it affects not only their profitability and sustainability but also their objectives of reducing poverty as is argued;

*Lost customers place our social agenda in peril. How can the empowering benefits of microfinance take place if our clients flee after one loan cycle? And worse enough we may be losing our poorest clients, those whom we most want to serve (Wilson, 2001: 17)*

Dropout is also a problem particularly when clients are complaining about MFIs services that do not meet their needs. So if dropouts are complaining then they are not only tarnishing the image of the institution but they may be deterring others from joining and accessing its services. This is in line with the argument that, "if desertion is high it is possible to have a market filled with more ex-clients many of whom are likely to complain about your institution than current clients!" (Waterfield, 2006: 2), hence affecting the public image of the institution.

Matul and Pawlak (2004) have also indicated how dropout can undermine the performance of MFIs arguing that,

*Since success of MFIs depends on their ability to build a long-term relationship with its clients, the loss of clients can undermine the MFIs efforts to maintain these long-term relationships necessary for their successful performance. As a result clients' exits can be considered as an important factor that reduces effectiveness and it needs proper diagnosis, understanding and management (Matul and Pawlak, 2004: 1)*

This shows the need for MFI to reduce clients' dropout through proper management to avoid negative impact on their performance.

Stark and Nyirumuringa (2002), also argue that dropout can affect MFIs in four different ways:

- *Loss of money: the resources invested in a new member are lost.*
- *Loss of income: the income that would have come from the increasing loans are lost because the larger the loan the member would have taken, the greater is the loss to the organization.*
- *Damage to growth: dropouts reduce morale in the centres from where they drop out, and this may make other members to drop out more and above all it may also make it difficult for staff to recruit new members.*

- *Damage to staff morale: high number of dropouts make staff feel that they are failing or not achieving what they hope for and so, low staff morale reduces productivity and leads to poor growth and more dropouts (Stark and Nyirumuringa, 2002: ii)*

The above argument indicates that dropout can seriously affect MFIs if they do not take measures to reduce it. Consequently MFIs should try to be proactive in finding out why their clientele drop out, how costly and damaging it is for their programmes, and how they can reduce dropout rates to protect themselves from its negative impact (Latifee, 2005: 1).

To retain clients Beroff (2000) also argues that, “since the majority of MFIs now seek to make profit and achieve long-term sustainability, efforts should be made to improve the quality of services and to adapt them to demand so as to maintain membership levels” (Beroff, 2000: 7). This can improve the profitability of MFIs and may enable them to offer loans on a sustainable basis.

## **2.4 Literature review**

Literatures about clients’ dropout were reviewed from international and national level. The international literatures reviewed were from Central and Eastern Europe, Latin America, Asia and Africa.

### **2.4.1 Central and Eastern Europe**

In Central and Eastern Europe the issue of clients’ dropout was studied from two MFIs: at PRIZMA a Bosnian MFI and MDF Kamurj. In this part of the world the dropout rate is high. For instance, at PRIZMA the highest dropout rate was 41.5%, which occurred in 2003 (Matul and Vejzovic, 2004: 7). The major factors for clients’ dropout at PRIZMA are: high interest rates, short repayment period, approval of credit in formal financial institutions, small loan size, group methodology and policies, personal and family problems, difficulty of getting money back from other group members, and a big instalment size (Matul and Vejzovic, 2004: 7).

At MDF Kamurj, the factors for dropout includes expulsion by institutions and by solidarity groups, moving to another city, use of other sources of financing, personal problems, group disintegrated, abandoning the group, loan conditions not convenient, and seasonality of business (Matul and Pawlak, 2004: 9). The main factors for dropouts according to this study were grouped in descending order as follows: MFI related factors (45.1%), mixed (28%), external (19.5%) and clients forced out (7.3%) (Matul and Pawlak, 2004: 7)

In this part of the world clients exit is also seen as a problem in MFIs in which it affected DEMOS (the Croatian MFI) where its clients and staff dropped out dramatically by 40% from 1999 to 2000 (Tsilikounas and Kljaic, 2004: 4). This threatened its survival as many of its dissatisfied clients’ switched to other MFIs because its products did not meet clients’ needs (Campion, 2002: 57). This made its unhappy clients to switch to other MFIs (Copestake, 2002: 4; Navajas *et al*, 2003: 747; Cohen, 2001: 18; McIntosh *et al*, 2005: 987). Subsequently, DEMOS conducted clients’ assessment needs and later introduced products needed by its clients. This attracted new clients and above all some dropouts and resters joined its programme again (Tsilikounas and Kljaic, 2004: 8).

So MFIs need to reduce the dropout, which may undermine their performance by impeding the recovery of the costs of initial investments in training new clients (Pawlak and Matual, 2004: 2). To address this, MFIs needs to aim at raising both client retention

and attraction rates which may enable them get relatively big profits since, ‘the greater the loan size, the more profitability to the lender’ (Schreiner, 2001: 21). This may also enable them achieve their financial sustainability (Cohen and Wright, 2003: 1).

#### **2.4.2 Latin America**

At AGAPE MFI in Colombia, the factors for dropout include: inability to attend weekly meetings, inability to continue repaying the loans, inability to meet all the requirements of the institution, conflicts with group members and the smallness of the loan (Machado, 2000: 5-8). The dropout rate at AGAPE is about 34.8%, which occurred in 2000, which was highly reduced from the earlier figure of (62.8%) which occurred in 1998 (Machado, 2000: 5-8). This reduction was achieved through the introduction of exit interviews, which enabled it to identify the needs of its clients, and took measures to address these needs.

At one Microlender in Bolivia, the dropout rate from 1988 to 1996 was 18.3% (Schreiner, 2004: 2). This rate is relatively smaller compared to that of AGAPE above, reflecting improvement in controlling dropout. In Bolivia the dropout is also seen as a problem because it affects profitability of MFIs in that, ‘dropout weakens profitability because the lender loses interest income, which could have been obtained from the borrower’ (Schreiner, 2004: 1)

In Chiapas-Mexico the dropout rate from one MFI (AlSol) ranged from 2.4 to 3.2% from October to December 2004 (GFUSA, 2004: 2) which is even lower than that of Colombia and Bolivia, reflecting improvement in dropout control by employing client focused strategies such as diversified products to meet their needs (Duguet, 2006: 7; MicroBanking Bulletin, 2001: 1; Dunford, 2000: 10). The factors for dropout include: change of residence, no need for more credit, husbands stopped their wives (AlSol clients) from being in debt and from attending weekly meetings and refusal to pay for life insurance (Dunford, 2000: 10)

According to Pagura (2003), the push factors prompting clients dropout in Latin American MFIs originates from MFIs which include: small loan amounts, too rapid repayment schedules, high interest rates, limited access to savings, group problems, length and frequency of meetings, personality conflicts, and an overall dissatisfaction with the joint liability system (Pagura, 2003: 24). Idiosyncratic shocks that prompt clients exit include seasonality factors that influence client’s market activity, business failures, illness and personal problems (Pagura, 2003: 24).

Likewise, pull factors prompting clients to exit in Latin America mainly originate from competition (Pagura, 2003: 23). This is true for Bolivia in which, ‘‘competition from Chilean consumer finance companies caused dropouts to double for large Bolivian MFI offering individual loans’’ (Schreiner, 2001, cited in Pagura, 2003: 24).

#### **2.4.3 ASIA**

In Bangladesh the client exit rate is relatively low ranging from 11 to 20% per annum (Pagura, 2003: 23). The main factors for clients to exit include: poor services, inaccessible savings, low interest on savings, complaints about the frequency and length of group meetings, not wanting to pay for defaulting group members, small loan amounts, high interest rates, negligence of staff and their overall poor quality (Pagura, 2003: 23). Idiosyncratic shock factors that provoke exit include: family problems, migration, death and cash flow problems within the business (Pagura, 2003: 23).

The pull factors prompting clients dropout in Bangladesh MFIs results from competition as seen in Bolivian case, in which former clients shift to other MFIs because of better products and services (Pagura, 2003: 23).

In Bangladesh the study conducted by Wright (1997b) also describes dropout as a threat to sustainability of MFIs because losing more experienced clients who take larger loans means losing bigger interest income. And above all if clients are lost earlier before borrowing their fourth or fifth loan which is a break even point for most MFIs, then a MFI incurs a huge cost it invested in lengthy expensive training which is hard to recover (Wright, 1997b: 2-3).

The study by Hishigsuren (2004), at the Indian MFI (ASA) grouped factors for dropout as follows: factors related to ASA and its policies (46%), problems in members own businesses (36%), no need for capital (12%), problems related to borrowing in a groups (6%) (Hishigsuren, 2004: 10). It can be noted that, the majority of factors for dropout in this study originate from ASA as indicated by a highest percent (46%) above.

The result of this study is in line with the observation that, “most dropouts occur because MFIs do not meet the needs of their markets” (MicroBanking Bulletin, 2001: 16). This reflects the fact that if ASA can address all the dropout factors associated with its policies then dropout can be reduced by a greater percent.

#### **2.4.4 Africa**

The phenomenon of dropout in Africa was examined in some countries and the results indicate higher dropout rate compared to Asia and Latin America. In some places such as South Africa, the dropout rate is also higher than in Central and Eastern Europe. The factors prompting clients dropout in Africa differs to some extent among countries perhaps due to differences in the contexts in which MFIs operates.

For example in a study conducted in Zambia among three MFIs, the factors prompting clients’ dropout can be listed in descending order with the number in brackets indicating the score of each factor after a tally. These factors are: delays in loan disbursement (15), misallocation of loan fund (13), group liability (13), dislike of insurance fund (12), weekly repayment (11), small loan amount (10), higher interest rate (7), poor business (7), and group size (6) (Musona and Coetzee, 2001: 27). According to Copestake, Bhalotra and Johson (2000), about 50% of clients in PULSE MFI in Zambia left the programme only after receiving their first loan for factors related to group enforcement since, “some borrowers were made worse particularly among the 50% who left the programme after receiving only one loan”(Copestake, Bhalotra and Johson, 2000: 27).

The qualitative inquiry conducted by the above study indicated that factors for dropout are related to group enforcement of fixed loan repayment schedules, without regard to income fluctuations arising from ill health, theft, joblessness and fluctuating demand (Copestake, Bhalotra and Johson, 2000: 27).

The study by Cheston (2000) also indicates that the dropout rate at Zambian MFI (CETZAM) is about 25% annually, which seems to be higher than its goal of 15%. The factors for dropout at CETZAM originate from its products and services, bad relationships with loan officers, business problems, repayment pressures, personal and family problems (Cheston, 2000: 10).

In a study conducted among five MFIs in Kenya the dropout rate was found to be 21.42% (Hulme, Kashangaki and Mugwanga, 1999: 8). The dropout factors according to

this study were: business failure, absenteeism, loan diversion, group conflict, programme policies, illness, migration, social problems, found wage employment, legal and political problems (Hulme, Kashangaki and Mugwanga, 1999: 11).

In Uganda the study conducted by Wright *et al* (1998) among nine MFIs the dropout rate was found to be 25%, which was described as higher as is argued, *There is evidence that MFIs operating in Uganda are experiencing high (often in excess of 25% per annum) levels of dropouts amongst the clients. This is significantly in excess of dropout rates amongst the most Asian and Latin American MFIs and has negative implications for efforts to achieve operational and financial sustainability* (Wright *et al*, 1998: i)

According to this study the factors for dropout were arranged in descending order using percentages based on two main groups: factors for voluntary dropout which are: group fund guaranteeing group loans is not refunded (68.0%), savings not withdrawable in emergency (57.3%), other NGOs provide better facilities (49.8%), failure to repay loans (36.6%) and family problems (29.3%) . Factors for expulsion: failure to repay loans (59.6%) and irregular attendance in meeting (27.3%) (Wright *et al*, 1998: iii)

Another study conducted by Mutesasira (1999) in Uganda indicates that the poor clients drop out because of problems they face in repaying their loans and failure to meet savings requirements. For the relatively well-off group the dropout is due to desire for large loans as the maximum loans given by MFIs are too small for their growing business. Other factors include annoyance for delayed loans and frustration with the amount of time they spent in group meetings as one shop keeper stated that, “meeting time is killing my business” (Mutesasira *et al*, 1999: 12)

In South Africa the study by Simanowitz (2000) at one MFI (SEF) grouped factors for dropout into four categories: First, personal factors such as: death in the family, personal or family illness, husband stops a wife from attending meetings, conflict in the family, moving away from the area, found a job, and afraid of credit; Second, business failures because of too much selling on credit: money not re-invested into business, money taken from business for household expenditure or emergency, poor loan utilization and inappropriate loan size; Third, problems in the group/centre: paying on behalf of other group members (“patching”), conflict in group/centre, poor group formation (members don’t know each other and so don’t trust each other well; Fourth, problems with SEF procedures: fortnightly payments, loan period too short, high transport costs, left alone in the group, lack of enough support from field workers and loan too small (Simanowitz, 2000: 123-24)

Another study in South Africa by Stark and Nyirumuringa (2000) indicate the higher dropout rate ranging from 33 to 61%) which is highest in Africa. The factors for dropout in South Africa include: resting, rigidity of the policies, family problems, unprofitable businesses, very competitive environments and to some extent the leniency of the programmes towards delinquency and default (Stark and Nyirumuringa, 2002: 6)

At LAPO MFI in Nigeria the major factors for dropout are related to programme policy and union problems which are: loan amount too small (47%), intervals between repayments too short (32.5%), inefficient loan disbursement (30%), burden of paying for others who had defaulted (29.5%), expelled by programme (25.5%), poor business performance (24.2%), inadequate pre-loan training for clients, disrespect for clients and wrong client targeting (Garuba, 2004: 2).



The largest MFI (FCC) in Mozambique also suffered from high dropout rate of about 51% in its branches in northern and about 46% in its southern branches (Isen, 2004: 65). Some of the factors prompting the dropout of its clients include: difficulty of making profit from the credits, pressure to repay the loans, higher interests rates, strictly fortnightly repayments, poor markets for their products, high transport costs in following loans, and confiscation of personal properties to repay the loans (Isen, 2004: 66-68).

In Malawi the study by Pagura (2003) in one MFI (Piyeri) found that group member repayment behaviors, education and excessive MFIs growth, increase client exit (Pagura, 2003: iv).

In Africa and particularly in East Africa the study by Pagura (2003) which examined dropout among 17 MFIs indicate that factors prompting clients dropout originates from organizational failures, such as: inappropriate loan sizes, short repayment schedules, complicated regulations, compulsory and inaccessible savings, frequency of group meetings and dissatisfaction with the joint liability system (Pagura, 2003:25).

Idiosyncratic shocks such as: business problems, seasonality factors, lack of business skills, death, personal and family illness also contributes to exit (Pagura, 2003: 25). Other factors originate from systemic shocks that affect the whole community such as: drought or excessive rains, the closing of key industries and general macroeconomic downturns (Pagura, 2003: 26).

In East Africa, clients mostly drop out because of push factors originating from organizational failures, idiosyncratic shocks and systemic shocks rather than pull factors such as competition and client maturity (Pagura, 2003: 26). According to this study the dropout due to pull factors such as competition is high in Asia and Latin America due to saturation of market with MFIs as is argued, “microfinance lenders seek to manage dropout especially in places like Bangladesh and Bolivia where markets are saturated” (Ryen, 2001; Evans *et al*, 1999, cited in Schreiner, 2004: 1). Under this globalized world where competition is increasing, MFIs needs to be serious with dropout by improving their products to meet clients need to avoid being out-competed because, “MFIs that fail to make transition from being product driven to being market driven will be driven out of business by competitors leading to eventual failure” (Wright, 1997a: 2; Schreiner, 2000: 424, cited in Stølen, 2003: 8)

## **2.5 National literature**

There are two relevant pieces of national literature about clients’ dropout in Tanzania. The first one was conducted by Mutesasira *et al* (1999) in May 1999 among East African countries of which Tanzania is one. In Tanzania the three MFIs studied are: PRIDE and SEDA (both from Arusha) and PTF from Dar es Salaam.

In this study the annual dropout rate of PRIDE’s clients at its Arusha headquarters was 42% in 1998 (Mutesasira *et al*, 1999: 6). Other relevant issues about MFIs studied in Tanzania are the assessment of dropout in relation to gender and age. For instance, at PRIDE in Arusha the dropout rate among females and younger clients was found to be higher in that out of 4998 clients recruited from 1994 to 1998, 3316 dropped out, in which female clients were 2122 (64%), while male clients were 1194 (36%). Among the young clients aged between 25 to 40 years, dropout rate was 46%, while among the older clients aged between 51 to 60 years, dropout rate was 5.3% and those aged above 60 years, dropout rate was 1.2% (Mutesasira *et al*, 1999: 12)

### **2.5.1 Factors for dropout from the first study**

In this study the major factors for dropout originates from external factors such as natural calamities and the changes in the seasons of the year. Other factors includes: clients being required to keep on borrowing loans regardless of the state of their businesses, neglect of voluntary savings in favour of compulsory savings, lack of product flexibility, the higher costs on clients in terms of interest rates, group guarantees and the meeting times (Mutesasira *et al*, 1999: 14).

The second study was conducted in June 1999 in Dar es Salaam among four MFIs: PRIDE and SEDA from Arusha and the PRIDE and PTF from Dar es Salaam. The results for dropout according to this study are as follows:

#### **2.5.2 Dropouts in PRIDE**

The study indicates the cumulative dropout rate at PRIDE in Arusha was over 50%. Likewise the dropout rate calculated from 1998 to 1999 was found to be 66%; where voluntary dropout was 46.5% and the forced dropout was 53% (Maximambali, Lwoga and Rutherford, 1999: 6-7). According to this study client exit was previously not so much of a concern for PRIDE due to the existence of few MFIs in Tanzania, which resulted in higher demand for its credit. However, according to these authors, there are currently signs of rising concerns at PRIDE about clients' retention so as to reach their goals of financial sustainability.

At PRIDE's branch in Kariakoo in Dar es Salaam it was discovered that the dropout rate is higher among women. The factors stated include: their family roles, attending the sick, joining husbands who have been transferred, poor business skills and maternity reasons (Maximambali, Lwoga and Rutherford, 1999: 13).

#### **2.5.3 Dropouts in SEDA**

The above study indicates that there is limited information about clients' dropout at SEDA because it has no regular contacts with clients since group management is the responsibility of the group leaders. However the estimated cumulative dropout rate at SEDA is about 10 to 20% and as for the period from August 1995 to June 1998 only 15% dropped out (Maximambali, Lwoga and Rutherford, 1999: 8).

#### **2.5.4 Dropouts in PTF**

At PTF the dropouts are recorded at the centre level and according to its staff the dropout rate is low and is believed to be about 10%. However, the analysis of dropout rate made in one of its branches in Dar es Salaam in one loan cycle indicated a much higher dropout rate of 25% (Maximambali, Lwoga and Rutherford, 1999: 7).

According to the above MFIs it is interesting to note that the dropout rate among female clients at PRIDE was higher than among male clients both at its branches in Dar es Salaam and Arusha. This might suggest that domestic activities which are performed by women in addition to their business work might be contributing a lot in their dropout.

#### **2.5.5 Factors for dropout from the second study**

The above study also shows that there are several factors prompting clients' dropout, these include: lack of access to loan insurance fund for PRIDE's clients, strict disciplinary measures for late comers and absentees during weekly meetings, influx of refugees who enter the programme and desert it after accessing loans, use of loans for

unintended purposes and poor customer care among PRIDE's staff (Maximambali, Lwoga and Rutherford, 1999: viii-ix).

Other factors include: short repayment periods, lack of grace periods, narrow range of services and products, rigid products which do not address a wide range of clients needs, delay in loan disbursement, conflicts within groups and paying for defaulters (Maximambali, Lwoga and Rutherford, 1999: 1).

Others are: rigid MFIs policies and procedures which do not consider clients problems and a long pre-loan training programme which gives suspicion to new clients as to whether the MFI will actually give out loans as is argued, "high dropout rates occur even before clients get their first loan" (Maximambali, Lwoga and Rutherford, 1999: 9).

Lack of access to savings until client exits, small loan size which do not meet clients' needs to expand their businesses, higher interest rates and other associated costs such as disbursement and application fees were also cited as the cause of client dropout (Maximambali, Lwoga and Rutherford, 1999:9).

Lack of interest on savings was also seen as a problem. Clients, particularly from PRIDE complained that they did not get interest on their savings and assumed that PRIDE was making some profits from their savings. Consequently, they expected to get some benefits from the profit generated. Compulsory meetings also prompts client dropout as it consumes much of their time and makes it difficult for them to attend to other important activities particularly for those whose business involves travelling (Maximambali, Lwoga and Rutherford, 1999: 11).

Most clients often dropout because of failure to repay their loans caused by the diversion loans to other pressing needs, like school fees and health care with the anticipation that the business will be able to pay, which at times is guaranteed due to changes in demands.

Lending money to friends or husbands who fails to repay the clients has also been cited as a cause of dropout. Lack of adequate business skills among clients also contributes to dropout. This happens particularly when loans are taken to expand the business without adequate consideration of the capacity of the business to generate cash to repay the loan (Maximambali, Lwoga and Rutherford, 1999: 11). In this case MFIs needs to assist their clients by giving them training on business skills and basic business management methods to improve their business as is argued, "clients need to be trained by the MFIs in basic business management methods before they are advanced any funds" (Konkiko, 2005: 10)

Lack of financial discipline also contributes to dropout. This mostly happens among young clients who often fail to repay their loans because of spending their money on non-essential items. Seasonal businesses also contribute to dropout, particularly during farming seasons where many clients leave the programme to attend to their farms. This in turn results in low demand of business products during farming seasons because evidence shows that, 'businesses perform better in July through December, during this period they comfortably repay their loans, while the rest of the year is more difficult' (Maximambali, Lwoga and Rutherford, 1999: 11)

A culture of non-payment has also been cited as a factor for dropout. In the past Tanzanian small-scale farmers and operators in the informal sector were given subsidized credit by donors, through government, most of which was never repaid. So new clients joining MFIs often expects that repayment will not be a serious issue. When clients

register in a pre-loan training the majority leave the programme after realizing that MFIs are serious about repayments. This has happened at PRIDE in Arusha in which about 40% of its new clients dropped out during the training period after realizing that PRIDE is serious about repayments (Maximambali, Lwoga and Rutherford, 1999: 12).

The study also found that both the poor and the relatively better-off clients' dropout due to several factors: the poor often drop out because they have too small businesses to generate enough profit to facilitate repayments. Also they often consume their working capital thus affecting their borrowed capital. As a result they often face repayment problems that lead to expulsion or voluntary dropout. Similarly the better-off clients also drop out because they are too busy with their businesses, which often involve travelling to procure supplies. As a result they are unable to attend weekly meetings, which are time consuming and so they decide to drop out. For those whose businesses have expanded they find that micro-loans are not adequate for greater expansion of their businesses. So they exit in search for bigger loans in other financial institutions such as banks because, 'some of their businesses have already grown to levels where PRIDE's loan sizes are no longer sufficient' (Maximambali, Lwoga and Rutherford, 1999: 13).

Other factors include the natural calamities such as the heavy El Nino rain in 1997/1998 affected clients' lives and their businesses, which made them fail to repay their loans, and ultimately forced them to drop out. For example at PRIDE 75% of their clients left during the second half of 1998 due to negative impacts resulting from the El-Niño rains which devastated their crops and their businesses.

Other lesser factors include competitions in which a few PRIDE's clients, shifted to SEDA in Unga Limited and Daraja Mbili in Arusha (Maximambali, Lwoga and Rutherford, 1999: 12).

The above study has indicated several factors prompting clients' dropout. However, the major factors originate from the MFIs policies which impose various requirements which most clients find it hard to meet. These requirements are: strict weekly meetings, strict weekly repayments and short repayment period because it has been observed that, "in many cases it is actually the institution that makes a client leave and not the clients themselves making the decision" (Matul and Pawlak, 2004: 3).

## **2.6 Building a theoretical framework for analyzing the data**

In this study the theoretical framework comprising of ideas, concepts, theories and models to be used in analyzing the data was created. The ideas and concepts from the Lee's push and pull theory (Varela, 1998: 2) which has been popular in the analysis of rural-urban migration was used for two reasons. First, there is no theory about clients' dropout in MFIs to date and the second, factors prompting clients to leave MFIs relates to factors that prompt people to migrate from rural areas. It is the case that people normally leave rural areas because there are factors which push them (adverse push factors) such as poor economic conditions which make rural life difficult and unattractive to people. In the same vein clients cannot just leave MFIs and so there must be factors pushing them (adverse push factors), which make them find it hard to tolerate MFIs conditions.

The concepts of the above theory indicate that people leave rural areas because there are factors pulling them to urban areas. These factors termed pull factors include, "greater employment opportunities and better social services" (Varela, 1998: 2). People decide to migrate from rural areas to seize promising opportunities in urban areas. Likewise clients leave MFIs because there are factors pulling them to where they are

going e.g. to other MFIs. These factors are also termed pull factors. These are better terms and services provided by other MFIs. In this study the term pull factors has been slightly modified to suit the context of the study because in actual sense pull factors are promising to the clients i.e. they give more hope to them. These factors can play a major role under competitive environment where several lenders compete for clients because as more MFIs enter the market, the competition for the same clients (McIntosh, 2005: 987), becomes more intense and this can cause a sharp increase in dropouts (Schreiner, 2004: 2).

The increase in competition can cause clients to shift to other MFIs that offer relatively better services (Murray, 2001: 20; Cohen and Wright, 2003: 1). This is not disadvantageous since it provides a challenge to MFIs to improve their products and services to retain their clients and even attract new ones. Because it has been argued that, “competition will ensure that service providers operate efficiently and provide high quality services” (Tanzania, 2000: 9)

To develop a framework for analyzing data the factors prompting clients’ dropout were grouped into two major categories: adverse push and promising pull factors in order to create a linkage with the objectives and research questions. This position is in line with the argument that, in formulating a theoretical framework, the writer must build conceptual linkages showing how the theoretical assumptions lead directly to the purpose, objectives and questions of the study” (Camp, 2001: 8). Hence these factors were classified into adverse push and promising pull factors by using ideas and concepts from the push and pull theory to form a taxonomic framework to be used in analyzing the data. The term taxonomy is mainly used in biology meaning to classify. As such this taxonomic framework as shown next classifies factors prompting clients’ dropout into two groups: adverse push factors and promising pull factors.

There are several adverse push factors prompting clients’ dropout and these can be grouped into three subcategories: organizational factors, idiosyncratic shocks and systemic shocks.

Organizational factors are the adverse push factors which push clients out of MFIs. These originates MFIs such as small loans sizes which do not satisfy clients business plans, inaccessible savings, higher interest rates, lack of flexibility in repayments, tiresome weekly meetings and weekly repayments.

The second subcategory of adverse push factors originates from idiosyncratic shocks such as business failure, fire, theft, illness, death and economic difficulties of clients and their families. The term idiosyncratic means peculiar to an individual. These can also be called individual shocks or factors affecting individual clients.

The third subcategory of adverse push factors originates from systemic shocks affecting the whole community such as severe weather conditions which affect clients’ economic conditions making them fail to repay MFIs loans hence leading to dropout.

The second major category of factors prompting clients dropout are the promising pull factors which pull clients to other MFIs which have relatively better terms and services or to concentrate on their bigger businesses. These factors can also be classified into two subcategories: clients’ maturity and competitive microfinance industry.

Clients maturity factors tend to pull clients out of MFIs. These include, growth of businesses which no longer need micro-loans for expansion, sufficient retained earnings, graduation into individual loans either with other MFIs offering individual loans or

formal financial institutions such as banks which offer bigger loans, and the risk management reasons e.g. to avoid the risk of paying for other group members who fail to repay their loans.

The second subcategory of factors pulling clients out of MFI are the competitions in the microfinance industry in which clients are pulled to other MFIs which have relatively improved their services, terms and conditions.

The factors prompting clients dropout which has been classified into two major categories of adverse push and promising pull factors were placed in Table 2.1 below to form a model i.e. a “symbolic representation of a set of concepts to depict relationships” (Liehr and Smith, 2001: 4) or a taxonomic framework to be used in analyzing data. The framework below has also been used by Pagura (2003), in her study which examined clients’ dropout in one MFI (Piyeri) in Malawi. However, this framework has been slightly modified to suit the need of this study.

**Table 2.1: Taxonomic framework to be used in analyzing the data**

A: Adverse Push Factors	B: Promising Pull Factors
<p>Organizational Design and Policy Failures</p> <ul style="list-style-type: none"> <li>• Loan sizes and inappropriate terms</li> <li>• Forced and inaccessible savings</li> <li>• Poor staff quality</li> <li>• Deficient operational policies</li> </ul> <p><u>Idiosyncratic Shocks</u></p> <ul style="list-style-type: none"> <li>• Business failure</li> <li>• Competition/loss of market</li> <li>• Fire/theft</li> <li>• Illness/death</li> <li>• Ceremonies</li> <li>• Economic difficulties of family members</li> </ul> <p>Systemic Shocks</p> <ul style="list-style-type: none"> <li>• Severe weather</li> <li>• Economic recession</li> <li>• Civil unrest</li> </ul>	<p>Client Maturity</p> <ul style="list-style-type: none"> <li>• Business growth</li> <li>• Sufficient retained earnings</li> <li>• Risk management reasons</li> <li>• Graduated into individual loan program, either with new MFI or a formal bank</li> </ul> <p>Competitive MF Industry</p> <ul style="list-style-type: none"> <li>• Better terms and conditions received with another institution</li> </ul>

## 2.7 Other relevant literature

Other relevant literature relates to the concept of sustainability and how research should be directed (Karama, 2006: 1). In this study the phenomena of dropout was examined in relation to the concept of sustainability of MFIs which is very important due to decreasing donor funding as is argued, “it is true that donor funds are limited and that donors can be fickle, faddish, and unreliable” (Woller, Dunford and Woodworth, 2004: 6). Subsequently MFIs need to be sustainable so as to reduce the negative impacts on their institutions as a result of decreasing donor funding.

The term sustainability in MFIs is defined as, “an ability to reach goals in the short-term without harming the ability to reach goals in the long-term” (Woller, Dunford and Woodworth, 2004: 7). Since donor funding is decreasing the MFIs needs to ensure that they take steps to reduce the dropout of their clients to avoid the negative impact on

their sustainability. It has been argued that, “institutions dedicated to achieving sustainability do not want their most successful clients to drop out and join other financial institutions (Wright, 1997b: 2). Thus MFIs need to improve their services and client care to reduce dropout to avoid being out-competed by other MFI entering the market.

To achieve these, MFIs should devise strategies which can retain their existing clients and to attract new ones. This can make their financial resources to be exploited by the majority of people. This can in turn enable them to reap more profits, which is useful for their long-term sustainability.

Since MFIs profitability and sustainability depends on effective utilization and exploitations of their financial resources by clients, there is a need for future research to be directed to finding ways to make MFIs resources to be effectively exploited by their clients. The implication of this is that, “research needs to be directed towards improving ways of exploiting resources” (Wilkinson, 1973, cited in Brookfield, 1991: 50).

This is useful in facilitating greater access to financial resources to many people particularly the majority of the world’s poor (FAO, 2005: 1). This can make MFIs achieve both their financial and social objectives of reducing poverty and reaching MDG 1, i.e. the goal of cutting absolute poverty in half by 2015 (Harris, 2004: 30)





## **Chapter Three**

### **Methodology**

#### **3.0 Introduction**

This chapter provides the definition of methodology, the sample, the sampling procedure, data collection methods including, conducting semi-structured interview, recording data, data analysis procedure, controlling bias from the results and generalizability of the findings.

#### **3.1 Definition**

Methodology is defined as a general approach to studying a research topic e.g. quantitative or qualitative (Silverman, 2001: 3-4; Ryen, 2006: 3). In this study the approach used is qualitative approach, which is descriptive and interpretive in nature in that, 'a qualitative research is descriptive and has an interpretive character aimed at discovering the meaning as it refers to individuals who experience them, and the interpretations of those meanings by the researcher' (Hoepf, 1997: 49).

However some numbers have also been used to indicate some quantitative aspects useful in any research such as the number of current clients in each MFIs, the number of men and women, the groups and centres from which the sample was drawn, the number of respondents, the dropout rates, percentages of respondents, their loans and their age.

These numbers have been used because it is accepted in qualitative studies on the basis that, "simple counting technique can offer a means to survey a whole corpus of data ordinarily lost in intensive qualitative research" (Silverman, 2001: 241). Regarding the usefulness of numbers in qualitative studies Silverman (2001) has also argued that, "instead of taking the researchers word for it, the reader has a chance to gain a sense of flavour of the data as a whole" (Silverman, 2001: 241).

#### **3.2 Sample**

The sample is a small section of the total population to be included in the study. In this study the sample was drawn from the current clients, the ex-clients or dropouts and few staff from the MFIs. The sample had a total of 136 respondents, where 68 came from each MFI. For both SEDA and PTF the current clients were 86 (63%), the dropouts were 44 (33%), and MFIs staff were 6 (4%). At SEDA alone the current clients were 44, the dropouts were 21, and the MFIs staff were 3. At PTF alone the current clients were 42, the dropouts were 23 and MFIs staff were 3. In this study the sample of the dropouts is smaller as compared to that of current clients. This does not mean that they are less important but because it was hard to trace them as they do not come to the MFIs as current clients do. Another difficulty was that most of the respondents also did not have communication with all those who dropped out from their groups.

SEDA has about 963 clients in 110 groups of 6 to 25 clients. At SEDA men are about 8%, while women are about 92%. On the other hand PTF has about 1500 clients in 39 centres with 30 to 50 clients in each centre. Each centre has a maximum of 10 groups of 5 clients in each group. Men are about 7% and women are about 93%.

#### **3.3 Sampling procedure**

Sampling is defined as a process of selecting a sufficient number of elements from a population to represent the properties or characteristics of that population (Sekaran, 1992: 226-227).

In order to include different subgroups of clients in the sample such as current clients and dropouts, men and women, old and new clients, young and aged clients, stratified purposeful sampling was used. This procedure is useful in getting views about factors prompting clients' dropout from different subgroups having different characteristics since, "stratified purposeful sampling illustrates characteristics of particular subgroups of interest" (Ryan and Monica, 2004: 33)

By using the stratified purposeful sampling 65 respondents at SEDA excluding 3 MFIs staff were selected from 42 groups which is equivalent to 38% of its total 110 groups. The majority of SEDA groups are in the centre and few are in the outskirts of the Municipality and in Mzumbe. The subgroups of clients from the above groups were obtained by using their telephone numbers given to me by the credit officers.

These clients were visited in their homes and after the interviews some of them directed me to other group members who were also followed in their homes for interviews. Those who were not found in their homes were waited at the SEDA office located within the centre of the Municipality. This was possible because the credit officers gave me their repayment dates. Other clients were interviewed at the SEDA office after finishing their repayments. Those who were in a hurry were escorted and interviewed at various resting places in the Municipality such as in restaurants.

The dropouts were obtained by asking the group leaders and other group members who knew those who dropped out from their groups. These dropouts were then followed in their homes for the interview with the assistance of the group leaders and group members who knew their homes. Other dropouts were found at the SEDA office when following their savings after they had dropped out. Others were just recognized as dropouts through the interview process when approaching one client after the other. The credit officers and some clients assisted in identifying the dropouts for the interview.

The 65 respondents at PTF excluding 3 MFIs staff were also selected using the stratified purposeful sampling from 31 centres, which is equivalent to 79% of its 39 centres. PTF has few centres in the centre of the Municipality, in Mzumbe and Melela which are served from the Municipality because of being close to it. The majority of its centres are in the outskirts of the Municipality.

The interviews with respondents were held at the PTF office during their repayment meetings. The old clients who are repaying at the PTF office were easily obtained for interview because they had their special repayment day each week. The young PTF clients' repaying at the PTF office, were obtained easily as they also had their specific repayment days each week.

The majority of PTF clients are repaying in their centres. These clients were followed in various centres which are mainly located in the outskirts of the Municipality. In some of the centres visited, the old clients were easily obtained for interview because they had their specific time of repayment earlier than young clients.

The dropouts were obtained with the assistance of the centre leaders who collected the dropouts and brought them to the specified centres for interviews on an agreed date. Other dropouts were obtained at the PTF office when following their savings after they had decided to dropout.

So the above is the procedure used in selecting different subgroups of 65 respondents from SEDA from its 42 groups, and 65 respondents from PTF from its 31

centres. Clients from the above areas were included in the sample as the map of the Municipality in appendix 1 covers those areas.

### **3.4 Data collection methods**

A method is a specific research technique for collecting data such as interview (Silverman, 2001: 3; Ryen, 2006a: 3). Data was collected by using one main method i.e. a semi-structured interview, supplemented by document analysis. The reasons for choosing these methods were explained below. These two methods helped to verify some of the information from the respondents with those written in MFIs documents as is argued, “qualitative research uses multiple methods to measure the same qualities one verifying the other” (Fidel, 1993: 6).

#### **3.4.1 Semi-structured interview**

The semi-structured interview is a qualitative technique of interviewing that combines the elements of structured and unstructured interviewing (Hill *et al*, 2003: 63; Smale, 2005: 6). The semi-structured interview has been used because of this flexibility it offers of using two types of questions i.e. the set of structured questions to be asked for each topic to be covered in the study and the less structured questions for exploring the responses in greater depth (Meho, 2006: 1290). Then as an interview progresses the unstructured questions which are normally open ended were used for probing purposes to get clarifications, explore details and cross-verifying responses given by respondents (Jackson, 2006: 2). Regarding usefulness of the semi-structured interview, Wilson (1999) argued, ‘the format of the semi-structured interview allows supplementary questions for clarification and for tracking interesting issues which arise during the interview’ (Wilson, 1996, cited in Mann and Stewart, 2000: 75). The flexibility offered by the semi-structured interview which permits asking both specific questions in the interview guide and the open-ended questions for elaboration (Knuth, 1998: 5) was found to be appropriate for this study.

The structured questions from the semi-structured interview which are closed and which produce quantitative data (Grinter, 2006: 3) were mainly used to get quantitative data such as age, the amount of loans the clients had borrowed from their MFIs, number of loan cycles and the years the clients have served with the MFIs. These structured questions are also used in qualitative studies to get some supplementary quantitative data in that, “certain kinds of quantitative measures may sometimes be appropriate in qualitative research” (Silverman, 2001: 40).

The semi-structured interview allows the researcher to prepare various themes to be covered in the field (Jackson, 2006: 1), such as organizational, business, personal, family and group factors prompting clients dropout. This is in line with the argument that, ‘semi-structured interview enables organizing of data into specific thematic areas’ (Mann and Stewart, 2000: 75). This procedure enabled me to get the data I needed according to each theme of the topic under the study.

The Semi-structured interview has also been used because it allows a space to be provided between questions for quick jotting down of responses (Jackson, 2006: 1; World Bank group, 2006: 1). Likewise, if responses are expected from discussions, then the semi- structured interviews allow for responses to be written in a separate sheet of paper as is argued, “for questions designed for discussions the responses can be recorded separately because you don’t know how much space will be needed for taking good notes” (Jackson, 2006: 5). This possibility of additional space offered by semi-structured

interview enabled me to prepare notebooks which were used to record the detailed information from the clients such as family factors which prompted their dropout.

The semi-structured interview was also used in this study due to the nature of the topic as is argued, “your topic should be the main criterion for your choice of method” (Ryen, 2006b: 1). Since the topic was about the phenomenon of dropout that is to a large extent a personal issue, the semi-structured interview allowed the face-to-face communication between the researcher and the respondent. This procedure was found to be appropriate to the study because it gave clients the opportunity to express their problems from their own perspectives (emic perspectives) (Sorensen, 2003:2; Silverman, 2001:227). It has also been observed that, “a semi-structured interview being less formal is a better way of catching the point of view of people and getting inside information” (CEMCA, 2001: 36). Since the semi-structured interview enables face-to-face communications between the researcher and the participants it also satisfies the goal of qualitative research whose objective is to understand the phenomena from the point of view of those who live in it (Clark, 2004:2).

The semi-structured interview has also been used because it enabled the realization of the study objectives which were among others aimed at establishing specific issues causing clients dropout under study which were: organisational, business, personal, family and group factors prompting clients’ dropout.

This method has also been selected because the researcher began the investigation with a clear focus on the study as observed that, “if a researcher is beginning the investigation with a fairly clear focus, rather than a very general notion of wanting to do a research on a topic, it is likely that the interview will be a semi-structured ones so that more specific issues can be addressed” (OUP, 2004: 315).

The semi-structured interview was also used because it is a data collection method widely used in qualitative studies about clients’ dropout in MFIs. It has been used at PRIZMA a Bosnian MFI as is argued, “a semi-structured interview design with in-depth probing allows better understanding of dropout issues through the dissecting of a wide range of exit reasons and prioritizing their importance for the exiting client” (Matul and Vejzovic, 2004: 10)

Finally the rationale for choosing the semi-structured interview is based on the underlying belief system or assumptions of the, ‘qualitative paradigm guiding qualitative researchers in search for knowledge (Butryn, 2006:1; Kuhn, 1970:113), as is argued, “provide the rationale for the choice of methods based on the research tradition/paradigms, indicating a connection with the epistemological, ontological and methodological assumption of a selected research paradigm” (Collins, 2005:1)

Paradigm is a whole framework of beliefs, values and methods, which guides researchers (Kuhn, 1970:113; Guba & Lincoln, 1994:105). Paradigms are also used by researchers as lenses for seeing and making sense of the world (Butryn, 2006:1; Williams 1998:2). Thus as a lens which guides research, paradigms provide recommended methods for achieving social knowledge because it is argued, “you NEVER just choose a method without taking into account the philosophical considerations that accompany it” (Butryn, 2006:1). This means that researchers in the same paradigm use the same standard and methods recommended as is argued, “researchers in the same paradigm are committed to rules and standards for a scientific practices” (Kuhn, 1970:11). Thus it is important for

researchers to understand the existing paradigms and its associated assumptions to enable them select appropriate methods for their studies.

These philosophical assumptions have three levels, which are: ontological, epistemological and methodological assumptions. These are closely related (Ryen, 2006a: 3) and influence data collection methods as explained below.

Ontology refers to the nature of reality and it recognizes the multiplicity of realities socially constructed, i.e. constructed by human beings from their own perspectives by experiencing the phenomena of interest. Epistemology refers to the nature of knowing and construction of knowledge (Williams, 1982: 2). Under qualitative paradigm it is assumed that the knower and the known are interdependent (Williams, 1982: 2), i.e. the researcher has to be close to the participants to be able to learn from them. Methodological assumptions on the other hand address how we come to know that reality i.e. approach and methods to be used to obtain such knowledge. As explained above these assumptions are closely related in that since ontology involves the nature of reality, epistemology addresses how we come to know that reality, while methodology identifies the approach and specific methods to be used to obtain such reality or knowledge. This conforms to the argument that, “these epistemological and ontological assumptions are then translated into distinct methodological strategies” (Krauss, 2005:764). Regarding this relationship, Ryen (2006a) also argues, “your ontological and epistemological standpoint has consequences to methodology” (Ryen, 2006a: 3).

Hence the researcher’s assumptions about a reality, ontological assumptions and how such reality can be known i.e. the relation between the researcher and the participants, whether close or distant, epistemological assumptions, influences the choice of methods (methodology) to be used to get such reality or knowledge. This conforms to the argument that, “epistemology is intimately related to ontology and methodology; as ontology involves the philosophy of reality, epistemology addresses how we come to know that reality while methodology identifies the particular practices used to attain knowledge of it” (Krauss, 2005:758-759).

Consequently the semi-structured interview was chosen because it is among the methods used in qualitative studies under qualitative paradigm where knowledge is believed to be sought from the perspectives of the clients (Stevens, 2005: 12; Silverman, 2001: 227)

The above philosophical assumptions shared by researchers under the qualitative paradigm regarding the appropriate methods have also influenced the choice of the semi-structured interview as a relevant method in this study. This is in line with the argument that, “at the most concrete level, your position in philosophy of science will influence your way of working with the methods” (Ryen, 2006a: 3).

The structured and unstructured interviews have not been used because they have some weaknesses as explained below.

### **3.4.2 Structured interview**

This method has not been chosen because it is inflexible in that it does not allow the use of probing questions which are useful in this study to get clarification for unclear responses from the respondents as is argued, “the disadvantage of structured interview is that it does not allow the probing of interesting responses” (Jackson, 2006: 1).

Since the structured interview use closed questions that binds respondents to choose answers determined in advance like ‘yes and no questions’ in quantitative studies

(Jackson, 2006: 1) it cannot be appropriate in this study which needs flexibility in learning from clients perspectives. Thus a structured interview is not suitable in this study which intends to understand the factors for dropout from the clients' perspectives, which mainly rely on probing questions for tracing responses in greater depth. The probing questions are useful because very often respondents do not directly say the truth of what has caused their dropout and so the probing questions can achieve this. Due to these weaknesses the structured interview cannot be used because it does not offer the flexibility of using probing questions.

### 3.4.3 Unstructured interview

The unstructured interview is a qualitative method. But it cannot be used in this study because it is often used for collecting general information about a problem to be studied (Menks, 2000: 2). Therefore it is not appropriate in this study, which aims to know specific issues about each theme of topic as is argued, "an unstructured interview is like a conversation with neither a predetermined format nor an interview guide" (Ding and Dac, 2003: 8; Kajornboon, 2004:7; GIT, 2006: 3). This is also in line with the argument that, "in unstructured interview no interview guide is used because it is seen to block the genuine access to the world views of people sharing common attributes" (OUP, 2004: 315). Due to these weaknesses the unstructured interview is not appropriate in this study which needs prior preparation of some structured and unstructured questions for each theme of the topic. Information generated from unstructured interviews are also difficult to analyze in that they lack proper planning since, "unstructured interview are the most difficult to do well because most of the questioning is done extemporaneously and there are many barriers to effective communications" (Jackson, 2006:2).

Due to the above weaknesses of the structured and unstructured interviews the appropriate method for data collection in this study is the semi- structured interview for the reasons explained above. This method was supplemented by document analysis as explained below.

To be able to calculate the dropout rate in each MFI this formula was used:

$$DR = \frac{(AC \text{ begin} + NC - AC \text{ end})}{AC \text{ begin}}$$

Where: DR = Dropout rate

AC *begin* = the number of active clients at the beginning of the period

NC = the number of new clients entering during the period

AC *end* = the number of active clients at the end of the period (Rosenberg, 2001: 27)

To get the data such as the number of active clients at the beginning of each year i.e. 2004, 2005 and 2006, the number of new clients entering in those years and the number of active clients at the end of specified years the second data collection method was needed and this was a document analysis

### 3.4.4 Document analysis

This is a method of analyzing written documents so as to get secondary data relevant to the study. To get the data to calculate the dropout rate for each MFI the documents of SEDA and PTF were analyzed which included, annual and monthly statistical reports, training manuals, lending regulations and procedures and various loan forms such as loan application forms, savings applications forms, loan contract forms and

some printed documents from their databases. These documents gave birth to the dropout rates for SEDA and PTF which were obtained using the above formula.

The dropout rates for SEDA and PTF were calculated for the past three years: 2004, 2005 and 2006, to verify the arguments of previous researches that, 'clients' dropout rate is higher among MFIs in East Africa' (Pagura, 2003:22; Mutesasira *et al*, 1999: 1; Wright *et al*, 1998: ii; Musona and Coetzee, 2001: 1). This is because the dropout rate of one year in each MFI may not provide a reality because of environmental changes, which may either increase or decrease the dropout rates thus hiding the realities in other years. The researcher decided to verify the above arguments because the study area is in Tanzania which is in East Africa.

The dropout rates at SEDA for 2004, 2005 and 2006 were: 26%, 12% and 52% (SEDA, 2006c: 3). At PTF the dropout rates for the above three years were: 14%, 11% and 16% (PTF, 2006: 1; PTF, 2007: 5). The dropout rates may not be comparable due to differences in factors for dropouts from one MFI to the next. However some comments are needed as done by other researchers to give the general picture of the situation.

The above data indicates that the dropout rate at SEDA is relatively higher than at PTF though in 2005 their dropout rates are approximately the same, i.e. at SEDA the dropout rate is 12% and at PTF is 11% respectively. But at SEDA the dropout rate is still high by 1 % for the year 2005.

This shows that the findings from previous researchers that the dropout rate was higher among MFIs in East Africa is also true for the case of SEDA, which has a higher dropout rate. Since the dropout rate at PTF is relatively low it implies that the dropout rate may differ significantly among MFIs, may be due to reasons within each MFI such as differences in policies and culture that influence the interaction between credit officers and clients. These differences imply that the dropout rate is not always higher for each MFI in East Africa

The dropout rate among MFIs in Latin America and Asia ranges from 11 to 20% per annum, which is considered low (Pagura, 2003:22; Mutesasira *et al*, 1999: 1; Wright *et al*, 1998: ii; Musona and Coetzee, 2001:1). Therefore it is reasonable to argue that the dropout rate at PTF is also low because it ranges from 11 to 16% which is within the above range of 11 to 20% for Latin America and Asian MFIs. I'm not surprised of the low dropout rate at PTF which seems to be an exception as compared to dropout rate among other MFIs in Africa, because even previous studies at PTF have indicated a relatively lower dropout rate of 10% per annum as indicated in Chapter Two.

However in one loan cycle at PTF branch in Dar es Salaam the dropout rate was found to be relatively big i.e. 25%. Since the 25% dropout rate was found in one loan cycle, still there are some truths that on average the dropout rate may be lower at PTF,

The study by Wright *et al* (1998) conducted among nine MFIs in Uganda found a lower dropout rate in one MFIs i.e. Faulu as is argued, "Faulu's dropout rate is lower and has fallen to around 17% since the introduction of a more liberal savings withdrawal policy implemented a few months ago" (Wright *et al*, 1998:i). This shows that PTF is not only an exception for having a low dropout rate in East Africa, implying that it is possible for MFIs to reduce the dropout rate among their clients.

The second reason why dropout rates were calculated for three consecutive years was to find a range i.e. the highest and lowest dropout rate. This is useful to give a true picture to the readers and to the MFIs studied than giving a dropout rate for one year

which may not be convincing due to environmental changes which may either increase or decrease the dropout rate in one year thus hiding the realities in other years. These dropout rates may enable the SEDA and PTF to see the status of the dropout of their clients in past three years. This may enable them take measures to reduce the dropout of their clients in the future for the benefits of their institutions.

### **3.5 Conducting the Semi-structured interview**

In each MFIs the researcher was introduced to the clients by the credit officers. The clients were told to be free to explain whatever they will be asked by the researcher, as the exercise was useful to them and to their institutions. This made the respondents to feel free and relaxed during the interview as they saw me as a useful person to them. Before starting the interview I introduced myself to the respondents and the purpose of the study. The respondents were assured that nothing wrong would happen to them. Rapport was also established by starting with general questions to make respondents feel free in answering questions. This put the respondents at ease and enabled me to get the useful information for my study.

The ethical issues such as the *informed consent*, *confidentiality* and *trust* (Ryen, 2004: 231-234), were observed. To get their consents, the researcher requested the respondents to participate in the interview. Most of them agreed but there were those who were hesitant but they later agreed when they saw that their group members were participating freely.

Among the respondents some did not like to mention their names particularly the current clients who were still members of MFIs for fear that they might be in trouble if identified by the credit officers. But the majority of dropouts did not mind to mention their names arguing that they have nothing to hide, as they do not expect to go back to the MFIs. Due to this fear the researcher stopped asking their names to protect their confidentiality. So the names of respondents used in this study are fictional in order to protect their confidentiality.

To show the trust the researcher had lunch together with some of respondents in some of the restaurants in the Municipality where the interviews were conducted. This made most of them happy and increased their trust and confidence to the researcher. This in turn enabled the researcher to access data on personal and family problems which have caused some of them to drop out. This is in line with the argument that, “if researcher and the subjects have established a good rapport, subject will be cooperative and will have enough confidence to the researcher to pass on information about themselves ranging from the details of daily life to sensitive matters” (Sharrif, 1991; Dean, Eichhorn and Dean, 1969; Wax, 1971, cited in Ryen, 2002: 337).

The interviews ranged from 30 minutes to 3 hours: with 40 questions for the management, 18 for the credit officers, 178 for the current clients and 155 for the ex-clients as indicated in appendix 12 to 15. These questions were broken down under themes of the topic such as loans, interests, repayments, group problems, business, savings and meetings.

Although it is difficult to avoid bias in qualitative studies due to its subjective nature, I have reduced it. The leading questions were avoided which could have influenced the respondents replies as is argued, “leading questions may lead the interviewee to answer the questions according to what you expect to hear rather than how they really feel” (Herman and Bentley, 1993: 5; Tanford, 2003: 32-34). The researcher



also tried to remain calm to avoid showing reaction to the respondents' replies as this may introduce bias in the results as is argued, "bias may also be introduced by your reaction to the client's answers and what ends up in your memory may not be what the client told you" (Tanford, 2003: 33).

The act of interrupting respondents was also minimized to reduce bias and distraction of respondents' explanations. However, few respondents were interrupted to bring them back to the topic under the interview. After the interview each respondent was thanked for his or her contribution and for the willingness to participate in the interview.

### **3.6 Recording the data**

This is the process of writing down field data in a sheet of paper, notebook or any other medium for future analysis. In this study the data from the semi-structured interviews were recorded in the space provided between each question in the interview guide. Where the space has was found to be insufficient data were recorded in notebooks prepared for field work as is argued, "for questions designed for discussions the responses can be recorded separately because you don't know how much space will be needed for taking good notes" (Jackson, 2006: 5).

The notebooks were used to record detailed information from the respondents, which had prompted their dropout such as personal, family and group factors.

After each interview, a summary was made particularly for the detailed information recorded in the notebooks which mainly came from open-ended questions. This was done in order to put together important points from the interviews in order to facilitate data analysis

### **3.7 Data analysis procedure**

Data analysis is defined as a process of making sense of the responses you have received as a result of using various methods of data generation with the aim of generating patterns and processes, develop meanings and to try to understand and explain contradiction and multiple versions of meaning generated by participants (Everitt *et al*, 1992: 105) cited in D'Cruz & Jones (2004: 136). In analyzing the data the concepts from the above definition were used.

In this study, data were analyzed and presented in tables, percentages and in the form of texts. The tables are accepted in qualitative studies as is argued, "the proper use of simple tabulations can remove the researchers and the readers nagging doubts about the accuracy of their impression about the data" (Silverman, 2001: 241). In analyzing the data five-step procedure developed by Powell and Brenner (2003: 1-5) was followed as presented below:

#### **3.7.1 Knowing the data**

To be familiar with the data, the field documents with data such as interview guides and notebooks were read several times. This enabled me to fully understand the data.

#### **3.7.2 Focusing the analysis**

At this stage all the data from SEDA and PTF were compiled.

#### **3.7.3 Coding and categorizing information**

This stage deals with labelling or marking the data with symbols after being compiled in the second stage. In this stage, the factors for dropout from each respondent were coded. Different factors given by each respondent were listed down. If the respondents had repeated the factors these were written down only once. Thereafter, the

factors which fall under each category among the five categories of organizational, business, personal, family and group factors prompting clients' dropout were identified. Later on it was discovered that some factors needed another category which was missing among the above five categories. That category was formed and was named competitive factors in order to list below it all competitive factors prompting clients' dropout such as better terms and services in other MFIs.

After establishing the above six categories all the dropout factors under each category were listed down and the results are as follows: at SEDA the organization factors were 16, business factors 7, personal factors 7, family factors 3, group factors 3 and competitive factors were 2. At PTF the organization factors were 17, business factors 5, personal factors 10, family factors 5, group factors 2, and competitive factors were 2 as shown in Chapter Four.

Then each factor was coded by using tallies to know the number of respondents who had mentioned each factor. This enabled the identification of the factors which had been repeatedly mentioned by many respondents. These factors were then listed down under each category in descending order starting with the first one mentioned by many respondents to the last one for all six categories. A percent of each factor was then calculated by dividing the number of respondents who stated the factors in each category by the total number of respondents (65) in all six categories.

By using this analysis procedure, this study has identified the most important factor for dropout in each category represented by a highest percent at the top, followed by other factors to the last one. The dropout factors listed under each category are presented in table 4.3 to 4.8 for SEDA and table 4.12 to 4.17 for PTF in Chapter Four

One table which is a summary of table 4.3 to 4.8 for SEDA and table 4.12 to 4.17 for PTF was formed for each MFI i.e. table 4.9 and 4.18 for SEDA and PTF respectively. These tables have four columns, one represent numbers 1 to 6, the second represent six smaller categories, the third represent number of factors in each category and the fourth represent a percent for each category.

The percent of each category was obtained by dividing the number of factors in each category by all factors in all six categories, i.e. 38 for SEDA and 40 for PTF. This helps to indicate which category greatly contributes to clients' dropout. It can be noted that organizational factors mainly contribute to clients' dropout in both institutions followed by other factors in descending order as shown in Table 4.9 for SEDA and Table 4.18 for PTF in Chapter Four.

Finally all factors from all six categories were then grouped into two major factors: adverse push factors and promising pull factors using the ideas from the theoretical framework in Chapter Two, in order to determine dropout due to push and pull factors. It can be noted in Table 4.19 that there are more adverse push factors than promising pull factors. This reflects that the former plays a greater role in prompting clients' dropout than the latter.

### **3.7.4 Identifying relation within and among categories**

#### **Relation within categories**

To identify relation within categories all the data pertaining to each category were assembled i.e. the factors for dropout which were found to be related were put together to form their own category. When all related factors were put together, six smaller categories emerged which are: organizational, business, personal, family, group and

competitive factors. Finally all the six smaller categories were grouped into two major categories: adverse push factors and promising pull factors. This system of categorizing data was useful as it establishes why a particular ex-client has dropped out and what are the major factors for their dropout. This is in line with the argument that, “such connection are important since they can help to describe why something occurs” (Powell and Renner, 2003: 5).

To identify the relative importance of each category the factors for each category were listed down under each smaller category as shown in Table 4.3 to 4.8 for SEDA and Table 4.12 to 4.17 for PTF. Finally the smaller categories were listed in descending order based on the number of factors each category has, with the most important one appearing at the top with many factors, followed by other categories to the last one as shown in Table 4.9 for SEDA and Table 4.18 for PTF. Each category was also given a percent based on the number of factors it has, divided by the number of all factors in all six categories mentioned above.

### **Determining relation among categories**

In this study, smaller categories which are: organizational, business, personal, family, group and competitive factors were established, each having its own factors prompting clients dropout. The relations among these categories were examined and it was found that organizational, business, group, personal and family factors are related and hence were grouped to form adverse push factors, while competitive factors such as shifting to other MFIs due to better terms and services were grouped into promising pull factors.

This knowledge of determining relation among categories is useful in the formulation of effective arguments by finding opposing and supporting argument for each factor. This is useful to enable one to learn more and enable readers to have confidence in the analysis as is argued, “the readers feel more confident about the analysis if deviant cases are cited and explained” (Strong, 1979a, cited in Silverman, 2001: 35). In connection with this, Powell and Renner (2003) also argued, ‘every one sees the data through his/her own lenses and filters and that it is important to pay attention to both factors and not only that which supports ones interests or point of view to make the results more credible’ (Powell and Renner, 2003:9). Further discussion on this is found in Chapter Five where those factors have been discussed highlighting the management and clients’ perspectives which are at times in conflict including the researcher’s views.

### **3.7.5 Bringing it together and interpreting the findings**

Interpreting the findings is the process of attaching meaning to the analyzed data (Powell and Renner, 2003: 5).

In this study the findings were interpreted using data from document analysis and interviews. Some of the data from the interviews tallied with those in the documents. This verified the truth of the data in the study and assures the readers as is argued, “you might combine one-on-one interviews with information from written documents and if data from these different sources point in the same direction you will have more confidence in your results” (Powell and Renner, 2003: 9).

In these findings, the major factors prompting clients’ dropout are organizational factors appearing at the top followed by other factors as shown in Chapter Four. This

shows that if SEDA and PTF can address those factors that are within their reach they can greatly reduce the problem of clients' dropping out from their institutions.

Other factors which follow after organizational factors are: personal, family, business, group and competitive factors. These factors have smaller percentages compared to organizational factors reflecting that their contribution to dropout is smaller. However, this does not mean that they are less important but the arrangement of the factors in descending order were meant to indicate which factor needs special attention and which one follows. So the smaller factors with smaller percentages also need to be addressed because they may also affect their institutions.

In this analysis the factors for dropout emerged from the data and so the knowledge were gained from the clients' perspectives or bottom-up as is argued, 'in qualitative inquiry the knowledge is gained from bottom-up (inductive) rather than top-down' (Butryn, 2006: 4). This conforms to the epistemological assumption in qualitative studies on how knowledge is obtained and constructed (Ryen, 2006a: 40; Williams, 1998: 2; Krauss, 2005:7)

### **3.8 Controlling bias from the results**

In most qualitative studies the concern of most readers is the issue of bias which seems to be difficult to control. By recognizing this, the following steps were taken to reduce bias: avoiding leading questions, interrupting the respondents and reacting to their responses (Tanford, 2003: 32-34; Crawford, 1997: 5-6) as explained in Chapter Three. In addition to this few copies of this study were given to few people for comments. Based on their valuable comments corrections were made and some items were added and others removed. This increased the confidence in the results because it is a procedure that helps not only in reducing bias but also in enhancing the credibility of the qualitative studies (Lincoln and Guba, 1985: 313-316). Giving ones work to others for critique is also useful to determine some possible errors and bias which may be hard for the researcher to notice as is argued, "...review by others can filter out biases and identify oversights, omissions and inconsistencies" (Whitehouse, 2004: 3).

### **3.9 Generalizability of the findings**

The researcher is aware that most qualitative studies are not expected to generalize findings to the population from which the sample was drawn due to reasons such as smaller and unrepresentative samples. However, the results of this study may be partially generalized due to the reasons explained below:

The sample taken for this study may be small compared to the number of clients in each MFI as indicated in Chapter Three. But in this study the sample of clients excluding 3 staff from each MFI was not drawn on the basis of number of clients in each MFI but on the number of groups and centres at SEDA and PTF respectively. At SEDA the sample was 38% of its total groups and at PTF the sample was 79% of its total centres as indicated in Chapter Three. The average percent of both samples at SEDA and PTF is 59%. This sample is not too small to be considered for generalization as it is above 50%.

The second reason is that the sample taken for this study is to a large extent representative as it has important characteristics of existing subgroups in the population (Arber, 1993: 70, cited in Silverman, 2001: 248). Because, it was constituted by men and women, current clients and the ex-clients or dropouts, old and new clients, young and aged clients. Consequently the ideas from these subgroups may represent ideas of those not interviewed since they share the same characteristics.

Likewise during data collection sampling was stopped after realizing that nothing new was coming out based on the responses produced from the interviews. This suggests that even if the rest of the population is included in the sample nothing new could be obtained from them. Since the remaining population have nothing new to add, it may be reasonable to argue that what has been collected is what came from the whole population because they were just repeating what had been stated by those sampled, implying that all factors for dropouts had been exhausted. In this way the result may be partially generalized to the population from which the sample was taken as is argued, “partial generalizations may be possible to similar populations” (Myers *et al*, 2000: 2). This is because the subgroup of clients like old clients in higher loan cycles have been noted to have similar interest i.e. they all like individual loans both at SEDA and PTF.

PTF has also recognized this that is why it has allowed its old clients accessing bigger loans in higher loan cycles to re-group. Hence, the result of interviews from few old clients may be partially generalized to other old clients not interviewed since they share the same interest regarding liability systems i.e. individual or group. In this way partial generalization may be possible as stated above. This also indicates the possibility of generalizing qualitative studies despite some resistance from quantitative school of thought as is argued, “qualitative research should therefore produce explanations which are generalizable in some way, or which have a wider resonance” (Mason, 1996: 6, cited in Silverman, 2001: 249).



## Chapter Four Empirical findings

### 4.0 Introduction

This chapter presents the data collected from two MFIs i.e. SEDA and PTF. These data provide the background information of each institution, the group and centres from which the sample was drawn, the loans structures of each institution and the factors for dropout presented in tables and percentages.

### 4.1 Data from SEDA

SEDA: the term SEDA is an abbreviation of Small Enterprise Development Agency. It is a microfinance institution established in 1996. Its head office is in Arusha-Tanzania. SEDA operates in eight regions in Tanzania: Arusha, Dar es Salaam, Kilimanjaro, Morogoro, Mwanza, Tanga, Tabora and Shinyanga. The Morogoro field office where the study was conducted was established in 2003. The SEDA field office has three credit officers including a field coordinator and one office assistant. SEDA has about 963 clients in 110 groups of 6 to 25 clients each. Men are few about 77 which is equivalent to 8%.

According to SEDA's regulation a starting group must have not less than 10 clients in the range of 10 to 25 clients. However after the group has taken a loan, clients are allowed to drop out up to 6 and below 5 a group is not allowed to borrow loans unless it finds a replacement. The organisational structure of SEDA and some its photos have been attached in appendix two, three and four. Appendix two is the organisational structure of SEDA, appendix three is the front view of SEDA office and appendix four is the photo of some of its clients men and women in front of the office.

#### Groups from which the sample was drawn:

The 65 respondents at SEDA came from 42 groups shown in table one below:

**Table 4.1: Forty two groups of SEDA from which respondents came from**

Twimanye	Gloria	Zabibu	Busara	Faraja	Obey	Jitegeme
Mbawali	Mwanakanya	Bigwa kisiwa	Nguvu mpya	Mindu vuvi	Ujirani mwema	Changarawe
Lusangi	Safina	Ari Mpya	Shujaa	Arasini	Muungano	Kazi njema
Riziki	Chemckeni	Tembo	Bwawani	Mcheni	Nyota	Amani
Mindu	Rehema	Tegemo	Harambee	Harakati	Alfa	Lugano
Tumaini	Saba Saba	Kingolwira	Mahedu	Ujasiri	Mshikamano	Mkwajuni

**SEDA Loan Structure:**

The Table 4.2 below indicates the SEDA loan structure with its associated loan cycles, repayment frequency and repayment period.

**Table 4.2: SEDA loan structure**

Loan cycles	Loan sizes Tanzania shillings.	Repayment frequency	Repayment period Months
1	50,000-150,000	Monthly	6 months
2	150,000-300,000	Monthly	6 months
3	300,000-450,000	Monthly	6 months
4	450,000-600,000	Monthly	6 months
5	600,000-750,000	Monthly	6 months
6	750,000-900,000	Monthly	6 months
7	900,000-1,050,000	Monthly	6 months
8	1,050,000-1,500,000	Monthly	6 months

Source: SEDA, 2005, Internal Memorandum, 10<sup>th</sup> November.

**Factors for dropouts:**

The factors for dropout at SEDA are presented in descending order, according to the smaller categories of organizational business, group, personal, family and competitive factors.

**Table 4.3: Organizational factors at SEDA**

\* Number of all respondents= 65

	Organizational factors	No. of Respondents stated each factor	Percent (%)
1	Delay in loan disbursement	37	57
2	Lack of clients care	31	48
3	Higher interest rate	24	37
4	Inaccessible of savings	21	32
5	Short repayment period.	19	29
6	Loan insurance do not help clients	15	23
7	Delay in savings disbursement	15	23
8	Savings do not get interest	12	19
9	Dislike of group loans	12	19
10	Deducting clients loans	11	17
11	Group size	9	14
12	Factors related to credit officers	6	9
13	Dislike of repayment pressures	6	9
14	Small starting loan	6	9
15	Lack of flexibility in loan repayment	2	3
16	Lack of training to new replacement clients	2	3

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is more than 100 because some respondents mentioned more than one factor under this category.



**Table 4.4: Business factors prompting clients' dropout at SEDA**

\* Number of all respondents= 65

	Businesses affected by	No. of respondents stated each factor	Percent (%)
1	Cholera outbreak	21	32
2	Seasonality factor	12	18
3	Relocation of people from Saba Saba market	9	14
4	Power rationing	6	9
5	Selling on credit	3	5
6	Fire	1	2
7	Theft	1	2

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is more than 100 because some respondents mentioned more than one factor under this category.

**Table 4.5: Personal factors prompting clients' dropout at SEDA**

\* Number of all respondents= 65

	Personal factors	No. of respondents stated each factor	Percent (%)
1	Multiple loans	11	17
2	Misallocation of loan fund	8	11
3	Resting	8	11
4	Transfer/migration	5	8
5	Sickness	4	6
6	Pregnancy/Giving birth	4	6
7	Found job.	1	2

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is more than 100 because some respondents mentioned more than one factor under this category.

**Table 4.6: Family factors prompting clients' dropout at SEDA**

\* Number of all respondents= 65

	Family factors	No. respondents stated each factor	Percent (%)
1	Sickness	4	6
2	Death	2	3
3	Husbands stopped their wives	2	3

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is less than 100 because some respondents did not mention factors under this category.

**Table 4.7: Group factors prompting clients' dropout at SEDA**

\* Number of all respondents= 65

	Group factors	No. of respondents stated each factor	Percent (%)
1	Poor repayment record	8	12
2	Unfaithfulness of group leaders	3	5
3	Lack of cooperation	1	2

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is less than 100 because some respondents did not mention factors under this category.

**Table 4.8: Competitive factors prompting clients' dropout at SEDA**

	Competitive factors	No. of respondents stated each factor	Percent (%)
1	Better terms and services in other MFIs	4	6

NB. In Table 4.8 the two competitive factors i.e. better terms and better services have not been separated because they are closely related and the clients did not show a distinct difference between them. However, in Table 4.9 and Table 4.18 these two factors have been indicated to give clarification to the readers.

**Table 4.9: Summary of table 4.3 to 4.8 at SEDA which combines factors**

\* Total number of factors from all six categories = 38

	Smaller categories	No. of factors in each category	Percent (%)
1	Organizational factors	16	42
2	Personal factors	7	18
3	Business factors	7	18
4	Family factors	3	8
5	Group factors	3	8
6	Competitive factors	2	6

NB: Percentages were obtained by dividing the number of factors in each category by the total factors in all six categories 38 above. Also the sum of percentages adds to 100 because the number of factors in each category brings the total of 38 factors above.

## 4.2 Data from PTF

PTF: the term PTF is an abbreviation of Presidential Trust Fund for self-reliance. It is a microfinance institution established by the government initiatives in 1984, with the objective that it will eventually operate as an independent body. It was incorporated under the Trustees Incorporation Ordinance of 1956, Chapter 375 of the laws of Tanzania. It was registered as a Trust Fund on 2<sup>nd</sup> August 1988. PTF is mandated to operate throughout Tanzania and its head office is in Dar es salaam.

PTF has about seven branches in five regions in Tanzania. It has two branches in Dar es Salaam (Ilala and Kinondoni), two in Morogoro region, (Morogoro Municipality

and Turiani), two in Coast region (Kibaha and Chalinze) and one in Iringa region (Makambako). The PTF branch in Morogoro was established in 1993, and has seven credit officers including a Branch Manager. PTF has about 1500 clients in about 39 centres with 30 to 50 clients in groups of 5 clients. Men are few about 105, which is equivalent to 7% to the total client population.

The organisational structure of PTF and some of its photos have been attached in appendix five, six and seven. Appendix five is the PTF organisational structure, appendix six is the front view of PTF office, appendix seven is Nane Nane centre composed of women with their Branch Manager in a repayment meeting and eight is a Kasanga Centre with both men and women with their credit officer in their repayment meeting.

**Groups from which sample was drawn:**

The 65 respondents at PTF came from 31 centres shown in table 4.10 below:

**Table 4.10: Thirty one centres of PTF from which respondents came from**

Mindu A	Kibandani	Mafiga A	Mafiga B	Sultani	Magorofani B
Kilakala A	Kilakala B	Kilakala C	Melela A	Melela B	Kigurunyembe
Kasanga	Bigwa A	Bigwa, B	Bigwa C	Bigwa kswn	Kingolwira
Kingo	Nane Nane	Modeco B	Nyandira B	Makuti	Bungo
Mji mpya A	Mji mpya B	Mzumbe A	Mzumbe B	Hospitali	Utaifa
Mafisa					

**PTF Loan Structure:**

Table 4.11 below indicates the PTF loan structure with its associated loan cycles, repayment frequency and repayment period.

**Table 4.11: PTF loan structure**

Loan cycles	Loan sizes in Tanzania Shillings	Repayment frequency	Repayment period Months
1	50,000-100,000	Weekly	4 Months
2	100,000-200,000	Weekly	4 Months
3	200,000-400,000	Weekly	6 Months
4	400,000-600,000	Weekly	6 Months
5	600,000-800,000	Weekly	8 Months
6	800,000-1,000,000	Weekly	8 Months
7	1,000,000-1,500,000	Weekly	10 Months
8	1,500,000-2,000,000	Weekly	10 Months
9	2,000,000-2,500,000	Weekly	10 Months
10	2,500,000-3,000,000	Weekly	10 Months
11	3,000,000-3,500,000	Weekly	10 Months
12	3,500,000-4,000,000	Weekly	10 Months

Source: PTF statistical report 2006

**Factors for dropouts:**

The factors prompting the dropout of clients at PTF are presented in table 4.12 below in descending order, according to the smaller categories: Organizational, business, group, personal, family and competitive factors as follows:

**Table 4.12: Organizational factors prompting clients' dropout at PTF**

\* Number of all respondents= 65

	Organizational factors	No. of respondents stated each factor	Percent (%)
1	Delay in loan disbursement	37	57
2	Lack of clients care	31	48
3	Higher interest rate	24	37
4	Inaccessible of savings	21	32
5	Short repayment period	19	29
6	Loan insurance do not help clients	15	23
7	Delay in savings disbursement	15	23
8	Savings do not get interest	12	19
9	Dislike of group loans	12	19
10	Deducting clients loans	11	17
11	Group size	9	14
12	Factors related to credit officers	6	9
13	Dislike of repayment pressures	6	9
14	Small starting loan	6	9
15	Lack of flexibility in loan repayment	2	3
16	Lack of training to new replacement clients	2	3

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is more than 100 because some respondents mentioned more than one factor under this category.

**Table 4.13: Business factors prompting clients' dropout**

\* Number of all respondents= 65

	Businesses affected by	No. of respondents stated each factor	Percent (%)
1	Cholera outbreak	11	17
2	Rift Valley Fever	8	12
3	Relocation of people from Saba Saba market	6	9
4	Flood	6	9
5	Seasonality	4	6

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is less than 100 because some respondents did not mention factors under this category.

**Table 4.14: Personal factors prompting clients' dropout at PTF**

\* Number of all respondents= 65

	Personal factors	No. of respondents stated each factor	Percent (%)
1	Resting	12	19
2	Misallocation of loan fund	11	17
3	Multiple loans	8	12
4	Pregnancy	7	11
5	Sickness	6	9
6	Transfer/Migration	4	6
7	Default	3	5
8	Found Job	2	3
9	Journey	2	3
10	Death	1	2

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is more than 100 because some respondents mentioned more than one factor under this category.

**Table 4.15: Family factors prompting clients' dropout at PTF**

\* Number of all respondents= 65

	Family factors	No. of respondents stated each factor	Percent (%)
1	Sickness	6	9
2	Giving money to family members	4	6
3	Husbands stopped their wives	2	3
4	Marriage failure	1	2
5	A husband interdicted	1	2

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is less than 100 because some respondents did not mention factors under this category.

**Table 4.16: Group factors prompting clients' dropout at PTF**

\* Number of all respondents= 65

	Group factors	No. of respondents stated each factor	Percent (%)
1	Lack of cooperation	6	9
2	Lack of trust	2	3

NB: Percentages were obtained by dividing the number of respondents stated each factor by the total i.e. 65 above. Also the sum of percentages is less than 100 because some respondents did not mention factors under this category.

**Table 4.17: Competitive factors prompting clients' dropout at PTF**

\* Number of all respondents= 65

1	Competitive factors	No. of espondents stated each factor	Percent (%)
1	Better terms and services in other MFIs	7	11

NB. In Table 4.17 the two competitive factors i.e. better terms and better services have not been separated as it appears in table 4.8 above because they are closely related and the clients did not show a distinct difference between them. But in table 4.9 and 4.18 these factors have been indicated to give clarification to the readers.

**Table 4.18: Summary of table 4.12 to 4.17 at PTF which combines factors**

\*Total number of factors from all six categories= 40

	Smaller categories	Number of factors in each category	Percent (%)
1	Organizational factors	16	40
2	Personal factors	10	25
3	Business factors	5	12.5
4	Family factors	5	12.5
5	Group factors	2	5
6	Competitive factors	2	5

NB: Percentages were obtained by dividing the number of factors in each category by the total factors in all six categories 40 above. Also the sum of percentages adds to 100 because the number of factors in each category brings the total of 40 factors above.

**Table 4.19: Grouping of all factors into adverse push and promising pull factors**

A: Adverse Push Factors	B: Promising Pull Factors
Organizational policies Business failures Group problems Personal problems Family problems	Competitive factors

NB. It should be noted that the format of this table was derived from Table 2.1 in Chapter Two. However, this table slightly differs with Table 2.1 in Chapter Two because it has not included some terminologies used in that Table such as idiosyncratic and systemic shocks. This was done to maintain consistency with the grouping of these factors as stated in the objectives of the study. However, the factors represented by those terminologies are also found in the above groupings as stated in Chapter Two where those terminologies were defined and the types of factors associated with them were indicated.

## **Chapter Five**

### **Analysis and discussion**

#### **5.0 Introduction**

This chapter dwells on the analysis and discussion of data and the lessons learned about the dropout factors. The factors for dropout were presented including some significant cases followed by discussion.

This procedure of presenting cases which represents clients' reality including direct quotation from them, enhances interpretive validity of the study (NIU, 2003:16) as it allow the reader to experience the participants' perspectives hence improving his/her understanding of the phenomena studied.

#### **5.1 Factors prompting clients' dropout at SEDA**

At SEDA there are several factors prompting clients' dropout as indicated in Chapter Four. These factors were grouped into organizational, business, personal, family, group and competitive factors.

By using the ideas from the theoretical framework in Chapter Two developed from the Lee's push and pull theory those factors were grouped into push and pull factors. According to this framework, the organizational, business, personal, family and group factors were grouped into adverse push factors, while competitive factors were grouped into promising pull factors as indicated in Table 4.9 in Chapter Four above.

The organizational push factors prompting client's dropout at both SEDA and PTF are 16 as shown in descending order in Table 4.3 and 4.12 in Chapter Four respectively. These factors are discussed below.

#### **5.2 Organizational push factors at SEDA and PTF**

**Delay in loan disbursement:** this is the first factor prompting client's dropout at SEDA as stated by 57% of its respondents in Table 4.3. According to the respondents, the loans at SEDA get delayed for about 2 to 4 weeks. In some cases the delay may occur beyond one month which is seen as a grave problem as explained by a respondent below:

**Case No. 5.1: Delay in loan disbursement at SEDA is seen as a grave problem**

Ramadhani Ali from Mshikamano group is 43 years of age and is educated to primary level. Currently Ramadhani and his group have dropped out from SEDA due to delay in loan disbursement. He stated that their first loan was delayed for 12 weeks and the second one for 5 weeks. This is contrary to SEDA's regulation that if clients complete their repayment they can get their loans within that month of repayment, i.e. if repayment date is 10<sup>th</sup> December then they are supposed to get their next loan within December. He continued to state that in their area at Mindu village about 20 people who showed interest to join SEDA as they did. But after they got negative information from them about SEDA regarding the delays in loan disbursement the prospective clients are now planning to join PTF which has a centre at Mindu.

According to this client, it can be noted that delay in loan disbursement can lead not only to dropout but it may also discourage others from joining its services. This is because they got negative information about SEDA services from the dropouts. This indicates how dropout can cause negative impact on the organization both to the existing clients and to others in the society by spreading bad new about the organization services.

This has been observed to be the case as is argued, “dropout sends a wrong signal to other members and a wrong message to the community thus damaging its image and hence delays its sustainability” (Latifee, 2005: 1).

Delay in loan disbursement may also prompt clients’ dropout due to negative impact to clients’ business plans and their families. This is in line with the argument of SEDA’s client that, “loan is her salary as the salary is to the employee, so its delay can affect not only her business plans but also the well-being of her family” (Miss Juliana who is 27 years of age and educated to secondary level from Arasini group on 21<sup>st</sup> January 2007).

Due to this, SEDA needs to revisit its loan disbursement regulations with a view of shortening its long process since the loan applications are sent from Morogoro to Dodoma and finally to Arusha head office for approval. At SEDA, the loan application forms have to pass those stages because the field office in Morogoro is not yet a branch and so it does not have the authority to process and issue loans.

If this is addressed, it may help SEDA to avoid losing more clients in the future which can affect its sustainability because, “delay in loan disbursement is damaging the reputation of MFIs and negatively impacting on sustainability and growth” (Musona and Ceetzee, 2001: 29).

The problem of delay in loan disbursement and how it can lead to dropout and deter others from joining the MFIs has been noted by some studies in Chapter Two, “if desertion is high it is possible to have a market filled with more ex-clients many of whom are likely complaining about your institution than current clients!” (Waterfield, 2006: 2). Thus under this situation SEDA needs to address this delay by improving the speed of disbursing loans to its clients to satisfy them as is argued, “various clients satisfaction studies indicates that speed of disbursement is extremely important for borrowers” (Hall, 2006: 7). Since this is the first factor prompting the dropout of its clients’ there is a need for SEDA to address this problem to avoid negative impact on its growth and sustainability.

At PTF, the problem of delay in loan disbursement has been controlled and now clients can get their loans within one week. This has been possible mainly because the PTF head office in Dar es Salaam where loan application forms are sent for approval is nearer compared to SEDA branch office in Dodoma and SEDA whose head office in Arusha. At PTF, the delay has also been reduced because it is a branch office and so a greater part of loan processing is done in Morogoro compared to SEDA, which is a field office where its loan application forms must be sent to the branch office in Dodoma for processing which is also far from the clients.

As a result of this at PTF head office in Dar es Salaam the loans do not take too long because a greater part of loan processing has been done by its branch office in Morogoro. As shown in Table 4.12 no client has complained about delay in loan disbursement at PTF and none has been said to have dropped out due to delay in loan disbursement. Also among the dropouts interviewed no one stated that he or she has dropped out due to delay in loan disbursement. Hence, improvement in loan disbursement is one of the strengths of PTF compared to SEDA in which delay in loan disbursement seems to be its major weakness.

If this problem is not addressed earlier at SEDA, loss of more clients to its competitors is certain in the future.



For instance among the MFIs in Morogoro Municipality which offer loans earlier than SEDA are: PRIDE within one day for repeat loans, MOREFU within one week, FINCA within one week and PTF within one week. Therefore it can be noted that SEDA might be out-competed if it doesn't solve the problem of delay in loan disbursement because its clients may decide to join the competitors who provides loans timely.

Clients are the most important people in MFIs in that, “without clients there is no MFI” (Edington, 2001: 7). Thus, there is a need for SEDA to address the above problem earlier to retain its clients who are useful for its growth and sustainability. Since the delay is mainly about the longer process as explained above, this may be solved by giving its field office in Morogoro a status of a branch so that loans application forms pass straight from Morogoro to Arusha head office for approval without going to Dodoma then to Arusha. If this may not be done earlier due to financial and administrative matters then management should find an alternative approach to tackle this problem. For instance clients with repeat loans may be allowed to start loan applications earlier e.g. one month before the last repayment date so that when they complete their repayment they also get their next loans without waiting too long. If delay is due to lack of funds it may be better to inform the clients accordingly and to advise them to start loan applications when funds for lending are available.

The importance of providing loans timely to clients is very relevant at this period of globalization in which competition for clients is increasing day after day.

**Lack of clients care:** this is the second factor prompting clients' dropout at SEDA as stated by 48% of its respondents. According to them the new management at SEDA is too strict in following regulation without considering clients' problems. Some of them praised the former management team arguing that at times they take clients loans in their areas for disbursement, which is useful since it reduces costs and time spent in following loans at the SEDA office. They stated that the new management is too harsh to them and at times gives them double penalties, i.e. one is fine for delaying a loan repayment which is ok, but the second one which they do not agree with is to be forced to accept a smaller loan of the previous loan cycle and not the amount the client has requested. They also stated that there are incidences where a credit officer can provide a loan application form to the clients and then refuse to give loans after they have lost their time and money in filling forms as stated by a respondent below.

**Case No.5.2: Lack of clients care at SEDA annoys some clients**

Mrs Amina Ngodo from Ujirani Mwema group is 32 years of age and is educated to primary level. She stated that their whole group dropped out because of lack of clients' care. She said that they had some problems in their group which they rectified and asked for forgiveness from the credit officer. Then they were given loan application forms which they filled but when the loan applications were brought to the credit officer they were told that they could not get the loan. They earnestly requested him to change his mind but he was adamant. They told him that he should have told them earlier about this. They complained that why he left them to incur the costs by filling the forms, waste their valuable time and refuse in the last minute? When their efforts to get the loans failed, they decided to dropout and claimed their savings. They were told to wait for one month but they boycotted claiming that they have been dropped out suddenly without a notice. Then they demanded a telephone number of the Director of SEDA who latter ordered that they be paid within 10 days.

According to the above client it can be noted that lack of care to clients can contribute to their dropout. Since clients are the most important people on whom the survival of MFIs depends, there is a need for SEDA to improve its care to the clients to reduce their dropout which can threaten its sustainability. The new management may be quite right on its side in that they are achieving their objectives, fulfilling employer's interests and safeguarding their employment. But they also need to see clients as customers who are paying for the services and also as human beings they at least need some respect.

I'm aware that clients may generalize about the entire organization based on a few or even one bad interaction. But as long as this has been stated by a substantial number of clients who are 48% of the respondents as indicated in Table 4.3 there is evidence for this to be a problem. This may also imply that credit officers have forgotten the regulation of SEDA which states that, "SEDA cares for its clients" (SEDA, 2006b: 6).

Following this explanation I also think that SEDA's interest is not to get higher dropout each year which can jeopardize the very sustainability they are looking for in the future. Hence SEDA's top management has to address this problem to reduce clients' dropout

At PTF the problem of dropout due to lack of clients care has not emerged as indicated in Table 4.12. This probably is due to the influence from the government about clients which forbids them from being harassed in response to the complaints raised by politicians in the parliament that government employees are harassing the citizens. In response to this, PTF as a government NGO may have advised its staff to rely mostly on smooth language in demanding repayments to avoid harassing their clients.

Likewise the objectives of the government are to assist the poor to get out of poverty. PTF as a government NGO entrusted with assisting the poor it might have improved care to its clients in demanding repayments from those who fails to repay. This is because there are perceptions that if clients' assets are confiscated each time they face repayment difficulties may make such clients poorer thus going against their social objectives of reducing poverty. To some extent, PTF staff are considerate to their clients and the confiscation of assets is rarely done which is a last resort when all other measures

of loans recovery have failed. In comparison, at SEDA there is a system of loan follows up before the end of each month, which is associated with confiscation of assets if clients have failed to repay. This is in accordance with their operational policy that, “SEDA loans shall be followed immediately after they fall due” (SEDA, 2006b: 21).

So SEDA needs to solve this problem to reduce the dropout of their clients and this may not be difficult because it is within its reach.

**Higher interest rate:** about 37% of respondents at SEDA stated that the interest rate was high. SEDA charges interest of 3% per month, which is equivalent to 36% per annum (SEDA, 2006b: 10). They stated that the above interest is higher making their monthly repayment difficult, especially when combined with other costs such as compulsory savings of Tsh 3000/= per month, commission of 5%, and the loan insurance of 0.3%.

PTF also charges the same interest like that of SEDA i.e. the interest of 3% per month equivalent to 36% per annum. At PTF about 32% of its respondents in Table 4.12 stated that higher interest is contributing to repayment problems. This percent is almost the same as that of SEDA indicating that the same interest is seen as a problem by more or less the same number of respondents in each MFI. The complaint about higher interest rate has also been noted among MFIs reviewed in Chapter Two indicating that it is a common problem among most MFIs. The main reason why interest is seen to be high is because most MFI's clients are poor and own small business which does not produce enough return to meet their repayments. This makes them end up facing repayment problems each time they borrow a loan.

As shown above, almost one third of clients at SEDA and PTF complain about higher interest. This percent is not too small to be considered for adjustment. So SEDA and PTF needs to consider reducing interest to reduce the burden of high interest faced by their clients

Charging of higher interest is helpful to SEDA and PTF as it enables them to meet their operational costs and increases their profitability. But there is a need for SEDA and PTF to examine the impact of reducing interest on their profitability to see if it can have some beneficial impacts to their institutions.

If a small reduction in interest can attract many clients to join their services, then it would be desirable to reduce interest rates to attract more clients. It is better to have a greater number of clients who are paying low interest. Because the dropout will be lower as the low interest is expected to be affordable among the majority of clients who are poor. It is not desirable to have few clients who are paying higher interest and at the same time complaining about it. This is because the dropout may also be higher as the majority of them do not seem to afford higher interest.

However, if MFIs are worried of reducing interest for fear of affecting their profitability then the government, through its Ministry of Finance may help to design policies that can encourage financial institutions lending to MFIs to reduce their interests. This may enable them to reduce the interest for their clients with less impact on profitability and sustainability of their institutions

Due to increasing competition among MFIs there is also a need for SEDA and PTF to be aware of the interest charged by other MFIs in the market. This may enable them adjust their interest rates where necessary to retain their clients and avoid losing them to competitors.

**Inaccessible of savings:** this is another factor prompting client's dropout at SEDA stated by 32% of its respondents. The majority of clients stated that they face repayment difficulties on the last month of their repayments. This is mostly because the money invested has not made profit. And so the repayment (interest) charged above the loan becomes difficult to repay. Due to this, clients prefer to use their small savings they have accumulated by depositing Tsh. 3000/= each month in their group account to help them during repayment difficulties.

For those who totally fails to repay in the last months like SEDA to balance out their outstanding loans by deducting from their savings the amount they require and return what is left to them. But the regulations of SEDA do not allow this on the ground that loan contracts have to be honoured and that no saving will be taken unless all group members complete their repayment as prescribed in the loan contracts. As noted though not stated by a credit officer, the saving seems to be used as a security for the loans taken by the group. In a sense SEDA needs to see its loan back so that it can pay their savings peacefully. This is not bad as it reduces the risk of loan loses, but most clients are not aware of this and so clarification is needed about this to reduce complaints from them. One study in Kenya also found that clients were complaining about inaccessible savings and its researcher found that, clients where not told the reason why they could not access their savings as is argued, "savings-as-collateral requirement was either not clearly explained to the girls or they did not understand the explanation which caused mistrust and increased the dropout rate" (Hall, 2006: 5).

Most respondents are not satisfied with this system of blocking their savings arguing that savings belongs to them and so they should be used help them during repayment difficulties as illustrated by a respondent below.

**Case No.5.3: Inaccessible savings at SEDA frustrate some clients**

Marselina Mollel from Safina group is 48 years of age and is educated to primary level. She said she is an old and faithful client at SEDA and that she has never had any repayment difficulties before. She borrowed Tsh 300,000/= from SEDA and her monthly repayment was Tsh 62,500/=. She got a family problem i.e. her daughter got sick and was admitted to hospital close to the repayment date. She then used Tsh. 2000/= for the treatment of her daughter. On the repayment date she brought Tsh. 60,500/= instead of Tsh 62,500/= which was rejected because Tsh 2000/= was missing. She told the credit officer the problems and requested him to deduct the missing amount from her savings of Tsh 54,000/= she had accumulated in her three loan cycles but the credit officer refused. The following day she got a letter that her properties listed in her loan contract will be confiscated. She then borrowed the missing Tsh.2000/=from another source and completed her repayment. Thereafter she dropped out. She complains that SEDA knows no sickness. She said that the system of confiscating clients' properties while their savings exceeds the needed amount is illogical and unfair. She said that SEDA needs to value its old clients with genuine problems by giving them access to their savings during repayment difficulties as it is done at PRIDE.

According to this client, it can be noted that SEDA is strict in honouring loan contracts. This strictness may be useful on the part of SEDA to avoid affecting the reporting system of its credit officers. However, under certain circumstances if a client

has completely got stuck with no alternative and he or she needs to dropout, there is a need to relax the regulations to help such a client if a group is not ready to contribute. This can help SEDA to avoid losing clients to its competitors like PRIDE which allows its clients to access their savings during repayment difficulties as explained by the above client.

At PTF the inaccessible savings is the first factor prompting clients' dropout stated by 51% of its respondents' in Table 4.3. Like at SEDA, PTF clients also do not get access to their savings as stated by a respondent below.

**Case No.5.4: Inaccessible savings at PTF hurts clients**

Zainabu Mabira from Mafiga B centre is 27 years age and is educated to primary level. They were six in their group but four clients failed to repay due to business problems. So the two remaining including her, are contributing for the four who have failed to repay. Due to this problem they wanted PTF to take the savings of all group members, deduct the amount they need and tell them the remaining amount if their saving has not been sufficient to recover its loans. They wanted to use their savings to lessen the burden they had of contributing for four clients which was very painful. But PTF was reluctant as its regulation does not allow the use of savings before completing repayments

According to these clients, it can be noted that it is painful for few clients to contribute if many in groups have failed to repay. Under these situations, there is a need for PTF to be considerate to its clients rather than sticking to the regulations. So PTF needs to allow its clients to get access to their savings and this is possible through good policies as it is done in other MFIs as is argued, "some microfinance programme allow their clients to withdraw their savings within limits during the loan term" (Hall, 2006: 7). This system of allowing clients to get access to their savings as done by other MFIs is in accordance with the best practices in MFIs regarding clients' savings which stipulates that, "savings should be voluntary and accessible" (Hall, 2006: 6)

Hence, is good for SEDA and PTF to try out what is done by other MFIs to avoid losing more clients to their competitors like PRIDE which allow its clients to access their saving during emergencies. Failure to adjust regulations which clients are not satisfied with, may make them join competitors thus making them stronger than the institution from which they drop out. So, it is better for SEDA and PTF to reduce their clients' dropout which may have negative impacts on their institutions.

To be able to compete effectively in the lending market, MFIs regulation should not be equated with those in the bible which cannot be changed. Their regulation should be adjusted according to the clients needs in order to retain them otherwise they would loose more clients to their competitors with better terms and services. The majority of the respondents stated that PTF, as an oldest MFIs in Tanzania established in 1984 needs to be active in introducing changes desired by its clients to avoid the risk of being out competed by other young MFIs entering the market.

However, compared to SEDA, at PTF some assistance can be given under special circumstances as stated by the PTF Branch Manager on 1<sup>st</sup> March 2007 in one repayment meeting at Nane Nane centre. When he was asked by some clients as to why his institution does not allow clients to access their savings during difficulties. He responded that if a client has completely failed to get any alternative he/she can be assisted under

special circumstances. He gave an example that he once used Tsh. 50,000/= from his pocket to help his client who dearly needed help from him.

This was a good message to the clients on that day. If a client has completely failed to complete his/her final repayment and his/her savings can cover the missing amount, there is a need to relax the regulation to help such client. Because it is much easier and less costly to help such client and retain him/her than expecting new ones for replacement who may be having more problems than the one who drops out. Above all, dropout may be costly due to the difficulty of recovering the resources already invested on clients through training (Wright, 1997b: 3) as explained in Chapter Two.

This problem of blocking clients saving has also been found to be a second factor for clients' dropout in Uganda as shown in Chapter Two. What can be noted here is that under the group liability system clients' savings are used as a security for MFIs loans as is argued, "in this microfinance model, savings serve as collateral for the loans and the only way that a girl could use her savings is to withdraw from the programme" (Hall, 2006: 5). This may not be bad on the side of SEDA and PTF to enhance the security of their loans but on the other hand, clients' needs to be well informed about this to reduce their discontent which may lead to dropout.

However, since clients need something to help them during emergencies, SEDA and PTF may design an alternative system which can help their clients. For instance, they can introduce a second account where clients can make voluntary deposits to enable them access to those savings during emergencies as it is done by other MFIs (Campion, 2002: 61) as is argued, "five of the Grameen MFIs also offer a voluntary savings product which is flexible in amount and withdrawable" (EDA Rural, 2005: 15). Regarding the accessibility of savings Nagarajan (2006) has also argued, "many MFIs promote savings through mandatory and sometimes voluntary schemes to help the poor accumulate cash resources to reduce vulnerability to crises" (Nagarajan, 2006: 1)

This indicates the need for SEDA and PTF to learn from other MFIs by allowing their clients to get access to their savings particularly during repayment difficulties. This may allow their clients to repay their outstanding loans as is argued, "some MFIs allow clients to use their savings at the end of term to pay off their loan balances" (Hall, 2006: 8). Giving clients access to their savings is useful to show a signal that MFIs cares for when confronted with problems and this may reduce their dropout, hence enabling SEDA and PTF to compete effectively in the lending market.

This indicate the need for SEDA and PTF to follow the best practices in MFIs regarding clients' savings which stipulates that, "savings should be voluntary and accessible" (Hall, 2006: 6). This can enable them assist their poor clients who are useful for the growth and sustainability of their institutions.

**Short repayment period:** This also contributes to dropout as stated by 29% of SEDA's respondents. At SEDA the repayment period is six months for both small and big loans. This system is better for clients borrowing smaller loans but unsuitable for those borrowing bigger loans. This is because as loan increases from one loan cycle to the next as shown in its loan structure in Table 4.1, the repayment amount also increases because the repayment period is fixed. As such the older clients borrowing bigger loans shoulder the burden of huge repayment each month. This may increase the dropout as is argued, "dropout tends to rise during the later loan cycles primarily from clients facing problems with higher repayments as loan size increases without a corresponding

extension of the loan repayment term” (CGAP, 2000: 3). This fixed repayment period has made some clients afraid of bigger loans as illustrated by a respondent below.

**Case No.5.5: Short repayment period at SEDA affect some clients**

Ruth Msengi from Harambee group is 46 of age and is educated to primary level. She is an old client at SEDA who has reached the sixth loan cycle with a loan range of Tsh. 750,000/= - 900,000/=. However her current loan was Tsh 300,000/=. When I asked her why she did not borrow Tsh. 900,000/= offered in the sixth loan cycle, she said she cannot afford its repayment amount which will be too big to her. She said if the repayment period is increased from 6 to 12 months for bigger loans as done at PRIDE it will help to reduce the burden because the repayment amount will be smaller. She said under the current system, clients who are moving to higher loan cycles with bigger loans suffer most from increasing repayment amount.

According to this client, there is a need for SEDA to increase the repayment period for the older clients to reduce the repayment burden they face and to encourage more clients to borrow bigger loans. One of the impacts of short repayment period at SEDA is that there are very few groups with bigger loans ranging from Tsh. 700,000/= - 900,000/=. This is mostly due to fear of bigger repayment as stated by the above client. At PTF about 6% of the respondents stated that short repayment period contributes to dropout. This percent is smaller compared to that of SEDA because it has several repayment periods i.e. 4, 6, 8 and 10 months. So unlike at SEDA, PTF's clients have some flexibility in choosing the repayment period they like depending on the amount of loan they borrow. However, the few clients who talked about the short repayment period at PTF are those in the 6<sup>th</sup> to 12<sup>th</sup> loan cycles with bigger loans ranging from Tsh.1, 000,000/= - 4,000,000/=.

These clients need the repayment period be extended to 12 months in order to reduce their repayment amounts because the repayments get spread over a longer period. On the other hand MFIs claim that if the repayment period is increased then the interest also increases. This is true but the reality is that even if the interest increases, the amount to be repaid will still be smaller which is helpful as it reduces the burden of bigger repayment faced by older clients. It is therefore better to have several repayment periods, both shorter and longer to enable clients to choose the kind of repayment period they like rather than one that is restrictive. Compared to SEDA, PTF has a grace period of three weeks which allow its clients to start repayments after three weeks. This is a good period since it enables them to rest for a while before starting repayments. This is the strength of PTF compared to SEDA. However at SEDA there was no complain about the grace period probably because its system of monthly repayments enables client to get enough time to rest before starting repayments.

One of the impacts of short repayment according to some respondents is that they keep part of their loans to repay the first instalment which affects their business as it reduces the amount to be invested. This is a negative impact to the clients who are required to repay the loan with interest because they return the loan which has not been productive.

As explained above, there is a need for SEDA and PTF to consider the increase of repayment period for their clients to give them enough time to invest their loans and be able to repay the loan with interest and keep part of the profit generated for their families.

This can enable them reap the benefits of loans rather than feeling that they are just working for the MFIs as one client from SEDA who said that, the moment you finish repayment, all the money is also no longer there. It is as if you are working for SEDA.

**Loan insurance not helpful to clients:** About 23% of SEDA respondents were dissatisfied with loan insurance fund. Most of them stated that SEDA's loan insurance does not solve their problems such as death, fire or theft. They also ask why part of the insurance is not paid back to clients when they exit the MFIs safely without debts as is done by insurance companies. They gave an example of the insurance at PRIDE in which if a client dies his/her family is paid Tsh. 600,000/= . The loan insurance in itself is not bad because it has been put in place to control the loss of SEDA loans. However, the problem is that clients do not understand different types of insurance such as life insurance, loan insurance and their purposes. Hence, there is a need to thoroughly train clients on this so that they aware and know the benefits of the existing insurance to them and to their institutions. They also need to be given clarification why part of their insurance contribution is not refunded when a client leave the SEDA with good repayment record. This may reduce unnecessary complaints and discontents from clients which can be a source of dropout.

PTF does not have insurance service which also prompts clients' dropout. This was stated by 6% of its respondents in Table 4.12. For PTF if a client dies within the loan contract period, such a loan is considered a loss to PTF and neither the group nor his/her family will be forced to repay. However, some clients from Mindu village do not agree with the PTF statement above. They state that if a client dies while holding the PTF loan, PTF does not looser, but freezes the savings of such client without giving it back to his/her family. They gave an example of the late Fatuma Mustafa from Muungano group in their Mindu centre who died in May 2006. Her savings were not paid back to her family. The late Fatuma left two children. One client, Mchopa Hamisi, stated that some clients took their savings to rest for fear that if they die PTF may not give their savings to their families. This is a thing which PTF has to make it clear to remove fears surrounding clients from Mindu centre which may prompt more dropouts. Since clients from both institutions need insurance services that are beneficial them, there is a need for SEDA and PTF to explore measures that can be taken to meet their clients' needs to avoid losing them to competitors like PRIDE which provides those services.

**Delay in savings disbursement:** This affects mostly those who are dropping out or resting. At SEDA delays in releasing clients' savings was stated by 23% of its respondents in Table 4.3. The impact of the delay is that it annoys not only those who are dropping out or resting but it also discourages the dropouts, resters and new clients from rejoining its services. The new clients can be discouraged due to negative information they get from the dropouts, resters or other clients borrowing loans, whose savings have been delayed as clearly illustrated below by one of the respondents.



**Case No. 5.6: Delay in savings disbursement at SEDA annoys dropouts/resters**

Hamisi Bakari from Mindu Vuvi group is 47 years of age and is educated to primary level. He stated that their group completed repayment in November 2006 and thereafter they filled forms to claim their savings. He stated that till to date 23<sup>rd</sup> January 2007, they have not received their savings which is approximately three months since they filled their forms. He was annoyed and disturbed when he was told to come the following week each time he makes follow up of his savings.

According to this client there are delays in disbursing clients' savings at SEDA. These are caused by the long process which savings application forms have to go through as they are dispatched from Morogoro to Dodoma branch office and finally to the head office in Arusha and back to Morogoro as explained above. SEDA needs to address this problem to reduce this delay in releasing clients' savings. If this is solved it may encourage the dropouts and resters to rejoin its services for its future benefits.

At PTF there is also a delay in savings disbursement which was stated by 22% of its respondents in Table 4.12. The 22% at PTF is almost the same with 23% at SEDA showing that this problem bears the same weight in both institutions. Hence, there is a need for SEDA and PTF to disburse savings timely to its clients who are dropping out or resting to encourage them to rejoin their services in the future. This may also make the dropouts and resters to communicate positively about the two MFIs to friends in their areas about their services. This in turn may attract new clients to join their services for their future benefits.

**Savings do not get interest:** about 19% and 20% of respondents at SEDA and PTF respectively stated that savings do not get interest. Most respondents at SEDA stated that their savings stay for several years with SEDA without earning interest or bonus. They suspect that SEDA is making some profit using their savings which is deposited in the banks, but clients do not gain anything. The impact of this is that clients may be dropping out to take their savings which seems unproductive if it stays with SEDA. Since there are other MFIs in Morogoro Municipality which have begun to motivate their clients by giving them bonuses there is a need for SEDA to introduce something of that kind to motivate its clients as it is done by PRIDE and PTF. The purpose of this is to retain its clients and to avoid losing them to other MFIs with attractive packages.

At PTF client also complain about lack of interest on their savings. However, PTF has started offering bonuses instead of interest to motivate its clients. But not all clients got the bonus. This points to the need for to clarify this issue to its clients in order to reduce their complaints which may lead to dropout. In addition among those who get bonus many of them complain that the bonus they got is too small compared to the duration their savings in the custody PTF. This is complaint is well illustrated by a respondent below.

**Case No.5.7: Bonus at PTF seem too small to clients**

Amina Mashaka from Modeco B centre is 37 years of age and is educated to secondary level. She had savings of Tsh. 400,000/= after she had stayed with PTF for five years. She said that she got a bonus of Tsh. 4,000/= which she thinks was too small compared to the duration her savings had been in the hands of PTF.

However, according to the Branch Manager PTF offers a bonus of 1% annually. Since not all clients have got bonus, it is better for this issue to be thoroughly explained to clients to remove their doubts which can be a source of dropout.

Since PTF has started offering bonuses there is a need for it to be aware of the percentages of bonus offered in other MFIs in the market so that it can make the necessary adjustment to avoid losing its faithful clients to its competitors. Furthermore SEDA and PTF needs to consider the best way to motivate their clients either through bonuses or interest on their savings as is done in other MFIs to be competitive.

These institutions need to design a system which can enable their clients to get access to their savings without necessarily dropping out. For instance clients may be advised to leave part of their savings to retain their membership with the MFIs. This may enable them borrow bigger loans in the future when they rejoin without starting with smaller loans. Because under the present system if old clients drop out or rest when they decide to rejoin they are forced to borrow smaller starting loans, same as new clients. This discourages older clients to rejoin if they want to do so.

**Dislike of group loans:** the problem of group loans was stated by 19% and 18% of respondents at SEDA and PTF respectively. These percentages are almost the same indicating that the dislike of group loans bears the same weight in both institutions. According to the respondents, group loans are disliked because of several problems. Some of these include: repaying for those who fail to complete their repayments (Musona, and Coetzee, 2001: 29), stopping clients from borrowing next loans earlier than other group members and clients not allowed to take their savings until the whole group has completed repayments.

Group loans also encourage non-payment because unfaithful clients know that, “if they do not repay, others would repay for them and MFIs may not care for their non-repayment because they would still get back their money from other group members” (Gine and Karlan, 2006: 3).

Another problem is that as groups move from one loan cycle to the next (Musona and Coetzee, 2001: iii) not all members will be borrowing the same loan size due to various factors related to their business. So the differences in loan sizes may make some members, “reluctant to guarantee those with bigger loans” (Gine and Karlan, 2006: 3). These clients may either dropout or join other groups with smaller loans or they may decide to borrow larger loans, in order to keep pace with other group members without considering the size of their business. This may contribute to dropout because the loans which do not reflect the size of the business often bring repayment difficulties leading to dropout.

Some of the SEDA and PTF respondents disliked group liability saying that they shoulder burden of debts of other members especially in a situation where a group member has borrowed a bigger loan greater than his/her savings making it difficult for them to recover what they had repaid for him/her. Under the group liability system, other group members often agree to repay for defaulters not because of peer pressures alone but mainly because their repeat loans are threatened. This has been noted in Muungano group at SEDA in which one client was found convincing others to contribute for the defaulter. The client was telling the group members that if they do not contribute for the defaulter then they will not get their next loans which she desperately needed in order to pay her son’s school fees.

However, the reality shows that some clients will not tolerate repaying for others for ever and ever, as one PTF client from Bigwa Kisiwani centre stated, she is tired of keeping some money aside every week for topping up the missing amounts. Under this situation at time will come when some clients will find an alternative whether a good or bad one, as it happened to Wamo group at PTF's Makuti centre in which some respondents reported that the whole group defaulted after two members who were repaying for the three decided to default too. This is an option which was taken by this group. They disappeared with PTF's loans, and also they forfeited their savings to PTF. However it is not known if it is PTF or the group which has incurred more loss because this was not followed due to time constraints.

The second alternative which may be taken is the need for individual liability particularly by the older clients who often do not prefer group meetings because of being too busy with their business. This may imply that group liability is effective as the group matures, i.e. as members receive bigger loans as is argued, "despite all the rhetoric, the effectiveness of group guarantee principle is limited to the first few loan cycles" (Wright *et al.*, 1998: ix).

It can be noted that group loans are more costly for some clients who faithfully repay their loans because they are often required to repay the loans of their peers" (Gine and Karlan, 2006:3). This may lead not only to dropout but may also discourage new clients from joining thus jeopardizing growth and sustainability as is argued, "this may lead to higher dropout and more difficulty attracting new clients" (Gine and Karlan, 2006:1-3)

For these reasons, group liability can greatly contribute to dropout particularly if the tension for repayments heats up in the group (Wright *et al.* 1998:12). This may not only trigger voluntary dropout (Gine and Karlan, 2006:3) but may also lead to the disintegration of the group as it occurred at Gloria group at SEDA.

PTF has recognized this problem and has introduced a system which allow those with bigger loans ranging from Tsh. 1,000,000/= - 4,000,000/= approximately (USD1,000- 4,000/=), to re-group and they have been given a specific time per week for repayments. This has helped to shorten the repayment time for older clients who do not prefer to waste much time because of being busy with their businesses which have relatively grown up. Although this has helped some respondents prefer individual loans claiming that it is much better to be individually responsible for the loan than facing the risk of paying for others.

To satisfy clients preferences, SEDA needs to re-introduce its individual loans which have been postponed for its older clients with loans above Tsh. 1,000,000/=. This can enable them to choose which loan liability they want between group and individual. PTF also needs to introduce individual loans to enable its older clients to get access to them. Since PTF has weekly repayment this may most likely attract those who are tired of weekly meetings to join the individual loans whose repayment is often monthly which may not be so tiresome

The group loans are preferred by MFIs mainly because it save costs i.e. a group of clients can be paid using one cheque than each client receiving his/her own cheque thus reducing transaction costs (Musona and Coetzee, 2001: iii). This is in line with the argument that, "by grouping people and then disbursing and recovering loans in groups, the costs of MFIs are lower than if they disbursed to individuals" (Hall, 2006: 8)

Group liability also reduces cost of loans follow up, because repayment is enforced by members themselves (Gine and Karlan, 2006: 2) and those who fail to repay, their assets may be confiscated or threatened to face legal action which forces them to repay. This system is good since it enables MFIs to easily recover their loans even if some clients' defaults from the group. But the group loan system are more costly to faithful clients who repay for defaulters as is argued, "many MFIs do not use the guarantee for their group lending for the reason that it penalizes the best clients" (Hall, 2006: 9)

Above all, if a faithful client does not have money to repay for the defaulters then he/she will be forced to borrow from other sources, particularly from the money lenders whose loans are easily obtainable with less restriction but with higher interest thus adding more burden on faithful clients

To help lessen this burden, SEDA and PTF may introduce a system which permits the savings of the default members to be taken first before enforcing the faithful members to make repayment for the defaulters (Musona and Coetzee, 2001: iii). The second priority should be to collect defaulter's assets listed in his/her loan contract and the final step would be for the group members to contribute if the savings and collected assets of the defaulter are not sufficient to recover the loans of SEDA and PTF.

This approach is helpful to faithful clients, who are given the opportunity to avoid repaying for defaulters as is argued, "the merit of this approach is that good clients are offered an opportunity to avoid paying for others" (Musona and Coetzee, 2001: iii). This may make clients that MFIs values them and that group liability is not so bad. Clients may also be, "sensitized to the importance of selecting the right group members" (Musona and Coetzee, 2001: 29) to reduce future defaulters.

However, the main solution should be to introduce individual loans particularly for clients in higher loan cycles. This is possible because these clients are less risky compared to the new clients in the lower loan cycles. The main reason is that as clients move from one loan cycle to the next more information is obtained about them, their assets, homes and their businesses. This can enable MFIs to easily provide loans on individual basis as banks do because they have a complete profile of clients and in case of any problem they can easily get back their loans by tracing them and confiscating their assets to recover their loans.

As clients move to higher loan cycles and as more information is obtained about them there should be less emphasis on group liability (Musona and Coetzee, 2001: iii). However, for new clients in the lower loan cycles SEDA and PTF may continue using group liability because they do not have full information about them which makes them risky compared to the old ones.

According to the above explanation, it can be noted that group liability is unsuitable for the older clients in higher loan cycles who are accessing bigger loans. However, further research is needed to come up with suggestions as to why group liability is unsuitable for older clients in higher loan cycles.

**Deducting clients' loans without their consents:** about 17% and 18% of respondents at SEDA and PTF respectively stated that the system of deducting clients' loans contributes to dropout. Most respondents at SEDA stated that they dislike the system by which credit officers deduct their loans. They claim that if a group has accepted and is ready to guarantee a client, there is no need for the credit officer to deduct

clients' loans because at the end of the day if there is a problem it is a group which will pay for the client and not the credit officer. The system of deducting client's loans can affect their business plans and may also contribute to dropout as stated by a respondent below.

**Case No.5.8: Deducting clients' loans at SEDA affects their business plans:**

Marietha Labia is 41 years of age and is educated to primary level including a nursing course. She is an ex-client of SEDA. She joined SEDA in 2003 and her seventh loan was Tsh. 800,000/=. She said they were six in her group and one decided to rest so the whole group disintegrated because SEDA's regulations do not allow five people in a group. Since she wanted to keep on borrowing at SEDA she formed a new group with few of her former clients. When the group was completed there was a change of management at SEDA. The former coordinator was transferred and the new one brought in. She applied for her next loan of Tsh. 1,000,000/= which she deserved, but she later found that it was deducted and she was given Tsh. 150,000/= almost equal to her savings of Tsh.136, 000/= she had accumulated in four years she had been with SEDA. She earnestly requested the credit officer to change his mind but he was adamant. She said that she dropped out because she felt that to be given Tsh. 150,000/=, is the same as being forced to borrow her savings and pay interest. She also felt that to accept a smaller loan, same as starting clients was very unfair for the whole period she had been with SEDA. She said the amount given was too small to her business which greatly affected her business plans.

The explanation of the above client shows that it is painful if a loan given does not meet the clients business objectives. So SEDA needs to avoid reducing a bigger percent of clients' loans as this can affect clients' business plans and may also lead to dropout. Also older clients known to SEDA needs to be treated differently compared to new clients.

At PTF there is also a system of deducting clients' loan by credit officers in the office after the loan has been discussed and approved by the centre as stated by 18% of its respondents. Most clients stated that they dislike this system claiming that if a centre has accepted and guaranteed the client there is no need for the credit officer to deduct clients loans because it affects their business plans and may also contribute to dropout. This situation is illustrated clearly by a respondent below.

**Case No.5.9: Deducting clients' loans at PTF contribute to dropout**

Marselina Kombo from Mzumbe A centre is 42 years of age and is educated to secondary level. She is an ex-client of PTF. She stated that she approached the credit officer because she wanted to borrow Tsh.1, 000, 000/= , but she was advised to borrow Tsh 600,000/= which she accepted. The centre discussed and approved her loan. She was then told to open a bank account as per PTF regulation that loans above Tsh 500,000/= be received through the bank which she did. When she went to collect her loan on the specified day she couldn't find her loan in her bank account. When she phoned PTF she was told to collect her loan from the office as it was deducted and that she will receive Tsh. 490,000/= instead of Ths 600,000/=. She said she was so annoyed that she went home without going to the PTF office to collect the loan.

The centre leader later revealed that Marselina was forced to take the loan after she was told that she may lose all her savings if she won't take the loan. She then took the loan and later dropped out after completing her repayments. Marselina was really fed up with PTF in that when I told her that I'm from PTF she started attacking me before the centre leader who took me to her home. She said she is fed up with PTF system of deducting clients' loans without their consent. She said she does not know very well why her loan was deducted because the assets she listed in the loan application form are worth over a million, which include two big refrigerators and a big radio. Marselina is a relatively rich person in Mzumbe centre. Her husband owns a tractor, a descent house, cattle and big farms. She thought that there might be someone from the centre who was jealous of her achievement, who she thought went to the PTF office to spread the gossips. She advised that PTF should not entertain the system of listening to gossips from some individuals at the centre after the centre has guaranteed the client.

This shows that the system of deducting clients' loans can greatly contribute to dropout as clients may at times reject the smaller loans which do not meet their business plans after it has been deducted. Since the percentages of respondents at SEDA and PTF are almost the same i.e. 17% and 18%, it implies that the problem of deducting clients' loans has the same degree of weight from both institutions in prompting clients' dropout.

SEDA and PTF should therefore find a solution to this problem to reduce clients' dropout from their institutions which can affect their reputation, growth and sustainability as is argued in Chapter Two, "dropout damages its image and it delays sustainability"(Latifee, 2005: 1).

**Group size:** about 14% of respondents at SEDA stated that the problem with group size forces some clients to dropout against their wishes. This mostly happens when a group has 6 clients and one takes the decision to dropout suddenly without telling the group members earlier so that they can find replacement. In such a situation if replacement is not found then the remaining 5 clients are forced to dropout, because SEDA regulations do not allow 5 clients in a group. According to some respondents there are several groups which have disintegrated due to the problem of group size such as Gloria and Queens Women Group. In Zambia the problem of group size was the 9<sup>th</sup> factor that prompted the dropout (Musona and Coetzee, 2001: 27). This indicates that the group size is a problem in some MFIs in Africa.

According to this system at SEDA it is not easier to form a new group because of difficulty of finding ten people who are faithful as stated by a respondent below.

**Case no 5.10: Difficulty of forming groups at SEDA discourage some clients**

Daffa Matembo is 26 years of age and is educated to primary level. He said he started to find ten members so as to form a group two months ago but has not succeeded to form a complete group. He said whenever he gets some members and keeps on finding others he finds that those who promised to join him have changed their minds. He said he has so far tried three times to form a group without success. He said it is too difficult to get ten people you know thoroughly and who are faithful in ones neighbourhood without going to other areas, which is also risky.

According to this system it is also difficult to form a new group because ten people in a group is relatively a bigger number.

So due to this problem it is better for SEDA to revisit its system of having a minimum of ten people for a starting group. It is better for the number to be reduced to make it easier for people to form groups as done at PTF in which it is relatively easier to form a group because their requirement is five clients in group. This might be the reason why group size has not appeared as a problem at PTF. Since this has not appeared at PTF this problem seems to be specific to SEDA. So there is a need for SEDA to make it easier for new entrants to form groups by reducing the group size preferably below ten for a starting group.

**Factors related to credit officers:** credit officers also contribute to dropout as stated by 9 % of SEDA's respondents. Some respondents stated that they dropped out because they have been expelled or had poor relation with credit officers as explained by a respondent below.

**Case No.5.11: Credit officers at SEDA contribute to dropout**

Mwantumu Saidi from Busara group is 31 years of age and is educated to secondary level. She stated that she has been with SEDA for two years and that she took three loans without repayment difficulties. In her fourth loan, she experienced difficulties twice due to transport problems which delayed her products (clothes) from Zanzibar. She later repaid the loan together with fine for a delay. She applied for a fifth loan but the credit officer refused stating that she has disturbed her group a lot because of delaying her loan repayment. She asked for forgiveness for the delay and stated that she dearly needed a loan for her business, which supports her two children who are schooling but the credit officer refused. She said, since her group trusted her as an active client due to her faithfulness, they approached the credit officer together with the group but the credit officer refused to change his mind. She then decided to drop out. This annoyed her husband wanted to take the case to the SEDA top management. The husband suspected that there might be other reasons because if it is an issue of repayment then it is punishable through a fine which his wife had paid. Mwantumu stated that she wanted to write her complaints in a suggestion box but later stopped after she thought that since it is being opened by the same staff, her problem would not be fairly treated. She requested to help her to return to SEDA but I told her it would be difficult and that the management will get her opinions through the report and hopefully they may act on it. She advised that SEDA suggestion box be opened by the SEDA top management on a specific date in a month so that clients who have presented their problems may feel assured that their issues would be attended fairly.

At PTF 5% of its respondents stated that they dropped out due to factors related to credit officers such as poor relation, payment of double penalties and being denied a loan as stated by a respondent below.

**Case No.5.12: Credit officers at PTF contribute to dropout**

Salum Saidi from Ushirika group in Mindu centre is 42 years of age and is educated to primary level. He stated that when the centre started it had 10 groups but currently there are only 3 groups. The majority of groups dropped out due to factors related to credit officers. He gave an example of two groups: Ushirika and Muungano, which were given double penalties by a credit officer. First the 25% of their savings were deducted as a fine for a delay of repayment which was okay, but later they were told to wait for six months without a loan as a punishment. The groups disliked the second punishment claiming that it was unfair.

This study revealed that dropout factors originating from the credit officers exist both at SEDA and PTF. SEDA and PTF should therefore address this problem to reduce their clients' dropout. This may not be difficult because the credit officers are their staff who can be directed to avoid causing unnecessary dropout which may cost the institution.

**Dislike of repayment pressures:** this also contributes to dropout as stated by 9% of SEDA's respondents. Respondents stated that they dislike repayment pressures which at times are associated with harassments and bad language which lowers their dignity in their societies. They claim that they are mostly embarrassed during confiscation of assets which is carried out when clients have failed to repay their loans.

At PTF about 6% of its respondents stated that they dislike repayment pressures. This percent is smaller compared to that of SEDA mainly because of strict system of follow up of delayed loans at SEDA before the end of each month to ensure that delays do not cross the following month for better reporting purposes. In the case of PTF this strictness is relatively low compared to SEDA probably because their repayment system is different and as well as their reporting system. Another reason is probably due to the nature of the establishment of this MFI. The government which introduced this MFI might have directed the PTF staff to avoid harassment of its clients emanating from repayment pressures. Since dropout can affect MFIs, SEDA and PTF may therefore take measures to ensure that loans borrowed are repaid at the least cost of dropout to avoid the negative impact on their institutions.

**Small starting loan:** about 9% of SEDA and 15% of PTF respondents raised the concern about a small starting loan of Tsh 50,000/= offered by each institution. They claimed that Tsh 50,000/= is too small to be used as capital because the prices of most of items have increased which in turn has reduced the purchasing power of Tanzania Shillings. This is due to the impact of 2006/2007 budget, in which the government of Tanzania increased the budget of the President's Office-Public Service Management, by 47.22% (Ghasia, 2006: 36). This enabled the government to increase the salaries of civil servants by 15.9% for the lower level staff and by 50% for the professional staff (Ghasia, 2006: 36). This good news for the government employees spread by most newspapers, resulted in an increase in prices of most items which reduced the value of Tanzania Shillings. Due to this concern which is valid there is a need for SEDA and PTF to raise the minimum loan to enable them get enough capital for their businesses

The range of Tsh. 50,000/= - 150, 000 as shown in Table 4.1, gives options to clients to borrow any amount within that range. The above range also has some disadvantages to clients in that it also gives options to credit officers to reduce the requested loans to the minimum i.e. Tsh. 50, 000/=, thus affecting their business plans.



Clients suggest that it is better for the minimum amount to be raised so that even if the credit officers deduct the amount requested then they may not be greatly affected because the minimum amount would be relatively big.

In view of this SEDA and PTF need to revisit their starting loans in order to be to attract more clients and reduce the dropout of the existing clients due to their unmet needs as is argued, “clients dropout rate is a more precise indicator of whether microfinance are meetings financial needs of its clientele” (Simtowe, 2005: 3). SEDA and PTF should therefore raise the starting loans so as reduce the dropout of their clients which may negatively affect their long-term plans aimed at achieving growth and sustainability as is argued in Chapter Two, “not only does the operation of the MFI suffer from dropout, but also its progress is hindered and its long-term plans disrupted” (Latifee, 2005: 1).

One of the impacts of small starting loans is that it mainly discourages the older clients who have dropped out or rested from rejoining. This is because when an old client has rested or dropped out. If he or she wants to rejoin, then he/she has to start with a small starting loan, same as a new client. This greatly discourages them because they were used to bigger loans. On the other hand, to attract older clients who have dropped out or who have rested there is a need for SEDA and PTF to examine the possibility of older clients to start with the amount of loan they like as long as they fulfil the requirements which enables them to get the amount they want. In the case of SEDA the requirement is 20% and for PTF it is 25% of the loan requested.

**Lack of flexibility in loan repayment**, this also contributes to dropout as stated by 7% of SEDA’s respondents. The SEDA’s regulation does not allow individual clients from their groups to complete repayment quickly by doubling so that they can borrow the next loan earlier than the other group members. Some of the ambitious respondents are not satisfied with this system. For instance, Mr. Kombe Mtago asked some questions: “if I have finished my repayment earlier by doubling why am I not allowed to borrow the next loan? Why should SEDA not introduce this system of completing repayment earlier by doubling to enable clients to borrow next loans earlier without waiting for others in the respective group as is done at PRIDE?”

At PTF about 5% of its respondents stated that lack of flexibility in loan repayment also contributes to dropout. Unlike at SEDA, PTF repayment system allows clients to complete their repayment earlier and to borrow the next loan. But one of the conditions that is disliked is that clients are obliged to complete the repayment of the second loan within the same contract of the first loan. This is practically difficult particularly if the repayment period is short. It seems these clients need flexibility in repayment as it is done at PRIDE.

Another flexibility needed by PTF clients is to allow group members to make repayment on behalf of others with personal, family or business problems who fail to attend the repayment meetings. The main reason why this flexibility is needed is probably due to the weekly repayments which are unnecessarily tiresome. The percentages of respondents at SEDA and PTF who preferred flexibility is almost the same indicating that this problem has almost the same weight in both institutions.

In this case, SEDA and PTF need to introduce some flexibility which their clients need in order to motivate them and to reduce their complaints which may lead to dropout.

**Lack of training to new replacement clients:** this has also been stated as contributing to dropout by 3% and 5% of respondents at SEDA and PTF respectively. At SEDA there is no specific system of training new clients incorporated in the groups to replace those who have dropped out or rested. These clients often get inadequate information about MFIs and their services from their group members. This information may not be sufficient for them to thoroughly understand MFIs regulations regarding the proper use of loans and type of business not recommended to invest loans. This made some of them to use loans in non productive activities such as consumption and paying school fees leading to repayment problems and finally dropout

To address this problem, SEDA needs to plan how it can help these clients to get adequate training for its future benefits. The training of new clients at SEDA Morogoro is also done from two to three days contrary to the regulation that, “clients orientation and training prior to receiving loans shall take a minimum of two weeks and a maximum of four weeks” (SEDA, 2006b: 14). This period of 2-3 days is too short to enable new clients to understand all the things they would like to know about SEDA. According to SEDA’s training regulation, one important aspect which has to be taught to new clients is record keeping at group level. This is not done at Morogoro as observed in some of the training sessions attended by the researcher. So there is a need to train new clients ‘on record keeping, which can help improve their business skills for their future benefits and of their institutions.

Like at SEDA, PTF also does not have a specific procedure of training new replacement clients. Lack of training can prompt the dropout, particularly of new clients which according to the credit officer happened at Mzumbe A centre in which about 20 new clients dropped out in 2006. The main reason is that most of them did not use their loans in a productive way such as in farming activities. If these clients had been given training particularly on how loans should be used as per PTF regulations, this could have made them put to good use the loans. Under normal condition, it is difficult to group together new clients from each group for a training purpose. But since dropout has a negative impact to the MFIs, there is a need for SEDA and PTF to plan how to train their new replacement clients to minimize dropout for their future benefits.

**Lack of safe place for repayment:** about 3% of PTF respondents from Mindu A, Modeco B and Nyandira B centres stated that their centres do not have safe places for repayments as they make their repayment meetings under the trees. They claim that lack of building is risky to their lives and that of PTF staff too due to the possibility of being invaded by robberers. This problem is specific to PTF because at SEDA repayment is made by clients in the bank and at some other times at the SEDA office. There is therefore a need for PTF to find a safe place for making repayment meetings to reduce clients complaints which may lead to dropout.

**Wastage of time in weekly repayment meetings,** about 3% of PTF respondents stated that they waste about 3 to 4 hours each week in their repayment meetings which affect their business as stated by a respondent below.

**Case No.5.13: Weekly meetings at PTF waste lots of time**

Maria Joseph from Bigwa Kisiwani centre is 36 years of age and is educated to secondary level. She stated that the repayment meeting consumes lots of her time and that she has completely set aside each Friday from her business schedule because it is their repayment day. She stated that she now works for six days in a week instead of seven days and that this affects her business because almost a whole day is spent in repayment meetings including the time spent on transport to and from the meetings centre.

According to this client, PTF need to plan how it can minimize time spent in repayment meetings to reduce its client's complaints which may contribute to dropout.

**Weekly repayment:** about 32% of PTF's respondents stated that they dropped out because of tiresome weekly repayments. Due to this, some clients drop out to rest and later return and others drop out completely. According to the respondents, the period of one week is too short to enable them do business and get repayments. Some of them claim that what they get in their daily sales is very small and in a week the accumulation is too small and inadequate to cover their weekly instalments. This makes them end up paying fines for delays particularly because PTF does not accept incomplete repayments obtained in a week.

These views indicate that a week is really a short period to enable clients to generate enough money for repayments from their small business. Under this situation, it is better for PTF to introduce fortnightly repayments, which was suggested by majority of its clients. Otherwise clients suggest that if they delay repayment for one week i.e. if they brought repayment after two weeks then they should not be fined because it is due to the business problems and the short repayment period which makes them fail to get adequate repayment funds per week.

At SEDA the repayment is monthly and most clients are satisfied with it except the system of forcing the repayment to be made some days before, if it falls on weekends or on public holidays. Respondents do not like this because it makes them start repayment earlier before 30 days, which is their right under the SEDA monthly system.

Therefore PTF needs to reconsider its weekly repayment to avoid losing clients to other MFIs which operate fortnightly or monthly repayment schedules. Likewise, SEDA needs to re-examine its systems of forcing clients to start repayments earlier than the 30 days if it falls on weekends or on public holidays to reduce their complaints which may contribute to dropout

### **5.3 Business factors prompting clients' dropout at SEDA and PTF**

At SEDA and PTF there are ten factors prompting dropout. These include: cholera outbreak, seasonality factor, re-location of people from Saba Saba market: power rationing, theft, selling on credit, rift valley fever, flood, theft and fire.

**Cholera outbreak:** at SEDA, 32% of its respondents stated that they dropped out because their businesses were affected by the cholera outbreak. The Cholera outbreak in Morogoro Municipality occurred in June- September 2006. This made the Municipal authority to prohibit foodstuff and fruits businesses established in unauthorized areas. Most of those businesses established in unauthorised areas such as along the roads and near the bus stand were pulled down. This caused the dropout of many clients whose businesses were affected

In the case PTF, the cholera outbreak affected about 17% of its respondents. The reason why majority of clients have been affected from SEDA, i.e.32% compared to 17% at PTF is that the majority of SEDA groups are located in the centre of the Municipality, which was severely hit by the cholera outbreak. The centre of the Municipality is also an area where the Municipal authority did great damage to people's business.

At PTF few clients were affected because the majority of its centres are located at the outskirts of Municipality where the Municipal authority did not extend the ban on foodstuff vending and supply. The notice of the Municipal authority warning people on cholera and banning some foodstuff vending businesses is attached in appendix 9-10. The reason why the majority of PTF clients are at the outskirts of the Municipality is due to its mission statement which wants to assist the disadvantaged groups of the population both in urban and rural areas. And since there are several institutions saving the urban population, PTF might have prioritized and decided to assist the disadvantaged groups in the outskirts of the Municipality by establishing several centres in those areas.

**Seasonality factor:** The change in the season of the year from dry to rain season affected most fruit businesses which are seasonal. Majority of these clients have rested or dropped out due to lack of fruits. According to the respondents, those affected by seasonality at SEDA are 18% and 14% at PTF. The impact of dropout is bigger among SEDA clients because most of their fruits business is concentrated in the centre of the Municipality where the population is high.

**Relocation of people from Saba Saba market:** The business of clients who have been relocated from Saba Saba market to Mawenzi, Mazimbu and Nane Nane areas was greatly affected as stated by 14% and 9% of respondents at SEDA and PTF respectively. The respondents who had their business at Saba Saba market stated that due to the relocation exercise, they failed to do their business for about a week, hence leading to dropout. The act of shifting, finding a new business area and erecting new business huts has cost them financially and waste lots of valuable time. The reason why the impact of dropout is high at SEDA 14% and lower at PTF 9% is most probably due to the fact that SEDA has many clients at Saba Saba market compared to PTF's clients. The selected pages of a court order which has preceded the relocation exercise of people from Saba Saba market are attached in appendix 11 (i-v)

**Power rationing:** the reduction of water level at Mtera Dam which is the source of hydroelectric power has made the Tanzania Electric Supply Company (TANESCO) to introduce power rationing in various regions in Tanzania including Morogoro. This has affected the business of some clients about 9% particularly those of SEDA in the centre of the Municipality. The example of business affected are those which mainly depend on power supply such as saloon business (haircutting and hair dressing saloons), water and juice business. Some of the clients operating these businesses dropped out from SEDA due to negative impact on their businesses which affected their repayments. At PTF power rationing was not a factor for dropout, probably because their clients run businesses which do not require electricity. The schedule of power rationing from TANESCO for areas within and outside the Municipality is attached in appendix 12-13

The above data indicates that the year 2006 has not been a good year for business because of cholera outbreak, relocation of people from Saba Saba market, power rationing and the Rift Valley Fever which has greatly affected clients business leading to

dropout of many clients. The above impacts may also be a reason why the dropout rate was higher at SEDA and PTF in 2006 than in the other past years.

**Theft:** About 2% of respondents at SEDA stated that they dropped out because their businesses were stolen. At PTF, theft has not appeared among the factors prompting clients' dropout, indicating that no one has dropped out due to the impact of theft.

**Fire:** At SEDA 2% of its respondents dropped out because the fire devastated their businesses. At PTF no dropout due to fire was reported by its respondents.

**Selling on credit:** about 5% of respondents at SEDA dropped out because they sold their business products (clothes) on credit. This mostly faces those clients who sell clothes on credit by following customers in offices and in their homes. The problem with this system is that customers often do not pay on agreed dates. This delay affects the clients' repayment leading to dropout. At PTF no client has been reported to have dropped out due to selling on credit.

**Flood:** this has also prompted the dropout of 9% of respondents at PTF. The flood affected the fishing business of PTF's clients at Mindu Dam area in the Municipality. The flood also affected the output of fish and above all the client's fishing nets were washed away by flood leading to dropout of some clients. At SEDA the flood was not mentioned among factors for dropout probably because there were no clients doing fishing business among its respondents.

**Rift Valley Fever:** this has mainly affected clients with meat business as stated by 12% of PTF's respondents. The Rift Valley Fever which crossed from Kenya to Tanzania in February 2007 killed larger number of cattle and some people due to meat consumption. This has greatly affected the meat business in Morogoro Municipality including those of PTF's clients leading to their dropout. Many people were shocked when they heard that the disease had reached Kilosa district in Morogoro region and was responsible for the death several cattle and two people. This adversely affected the meat business because many people stopped eating meat and shifted to eating fish and chicken which in turn registered a great increase their prices. The impact of Rift Valley Fever as a factor prompting clients' dropout has not been mentioned at SEDA because the disease entered in Tanzania in February 2007 when the researcher was through with data collection at SEDA. The newspaper report about Rift Valley Fever in Tanzania is attached in appendix 14

#### **5.4 Personal factors prompting clients' dropout at SEDA and PTF**

There are ten personal factors prompting dropout at SEDA and PTF which include: multiple loans, misallocation of loan fund, resting, transfer/migration, sickness, pregnancy/giving birth, found job, default, journey and death as discussed below:

**Multiple loans:** about 17% of respondents at SEDA dropped out due to borrowing loans from more than one MFI. Respondents stated that they borrow loans from more than one source in order to supplement their small loans which are not sufficient as a capital. The problem of this is the bigger repayment amount which clients face during repayments. Also when repayment dates collide then a client ends up paying fines as he or she may not be able to make repayment to multiple institutions which later leads to dropout. Below is an example of a client with multiple loans

**Case No.5.14: Multiple loans a source of dropout at SEDA**

Mr. Christopher James from Mahedu group is 41 years of age and is educated to primary level. I found this client at the SEDA office arguing with the credit officer as to why SEDA do not like to use clients saving to recover its loans when a client has totally failed to repay. I later interviewed this client and found that he was still a PRIDE's client but he said he joined SEDA to supplement his small loan he got from PRIDE. He said since SEDA's repayment schedule, is monthly it is easier to manoeuvre repayment with PRIDE which is weekly. He said as a chairman of his group at PRIDE he some advantages in ensuring that the repayment date at SEDA and PTF did not collide. As the chairman he said he succeeded to change the meeting time of his group and which currently starts meeting from 9.00-10.00 am every week. Thereafter he gets time to make repayment at SEDA which does not have specific time but it requires repayment to be made before the end of working hours, i.e.4.00 pm. However I later got the information from one of his group member that Mr. Christopher has dropped out after he was found to have used his group members' savings to make his own repayment without depositing it in the bank after collecting it from his group members. So the actual cause of dropout is the failure to service two loans from SEDA and PRIDE which made him misuse his group members' savings to make his own repayment.

This indicates how the tendency of borrowing loans from various sources can lead to dropout than solving the problem it intended to.

The percent of dropout due to multiple loans is high at SEDA, i.e. 17% than at PTF 12% probably because the majority of SEDA clients are concentrated in the centre of the town where financial institutions are located. So it is relatively easier for them to borrow loans from different MFIs because they are nearer. This enables them to get to MFIs offices easily even on foot than the majority of PTF clients who reside in the outskirts of the town which is relatively far.

**Misallocation of loan fund:** About 11% and 17% of respondents at SEDA and PTF respectively stated that the use loans for needs other than business contribute to dropout. Some of them acknowledged that they used their loans for other pressing needs such a paying school fees, medical costs, consumptions, paying debts and in farming activities. As a result, they faced repayment difficulties, which lead to dropout. As indicated above the problem of misallocating loan fund has prompted more dropouts at PTF than at SEDA. The reason may be due to few opportunities of making money in the outskirt of the Municipality where the majority of PTF's clients reside. For instance, is a PTF's client has used his or her loan for the purpose other than business then being in the outskirt of the Municipality where business opportunities are relatively few compared to the middle of the town it becomes difficult for them to replace. In the case of SEDA clients who mainly reside in the centre of the Municipality may easily find money for replacement if they misallocate their loans because the centre of the Municipality has relatively more business opportunities than the outskirt of the Municipality.

This problem of using loans for uses other than the business in the loan application is a second factor for clients' dropout among MFIs in Zambia (Musona and Coetzee, 2001: 27). It is not so easy to control this problem because after getting a loan it is a client who plans how to use it. However, something can still be done by SEDA and

PTF to reduce loan misallocation by thoroughly training their clients about the productive use of those loans.

**Resting:** about 11% and 19% of respondents at SEDA and PTF respectively, stated that they dropped out because they wanted to rest as they were tired of repayments. According to SEDA and PTF regulations, all clients who have dropped out due to resting reasons are no longer considered as part of their clients because their memberships ends the moment they receive their savings. Even if these clients' want to return they do not have any right, i.e. they do not have special privileges. When they return they are obliged to borrow a smaller starting loans same as new clients indicating that they are not recognized. That is why even in calculating the dropout rate at SEDA and PTF, the dropout formula selected was the one which does not make adjustment for resters because they are not considered to be part of their current clients. The choice of the dropout formula in Chapter Three is also in accordance with the definition for dropout adopted for this study in Chapter One.

There is therefore need for SEDA and PTF to design a system, which can encourage their faithful clients who have dropped out to rejoin their services for the benefits of their institutions. As indicated above the percent of resters is higher at PTF mainly because the tiresome weekly repayments than at SEDA whose repayment is monthly which is not as tiresome.

**Transfer/migration:** About 8% and 6% of respondent at SEDA and PTF respectively stated that some clients in their groups dropped out due to migration and transfer to other regions. The SEDA and PTF clients who dropped out due to transfer are those employees who are low-income earners like primary schools teachers. Some of the clients at SEDA also dropped out because their spouses got transferred and hence were forced to follow their spouses. The percentages of dropout due to transfer/migration at SEDA and PTF are almost the same reflecting relatively the same impact in both institutions

**Sickness:** about 6% of SEDA and 9% of PTF respondents stated that they dropped out due to personal sickness which made them fail to conduct their business successfully. These clients dropped out from among the groups at PTF and SEDA where the sample was drawn as shown in Chapter Four. The percentages of dropout due to sickness at SEDA and PTF were approximately similar reflecting more or the less the same impact for both in both institutions.

**Pregnancy/giving birth:** this was stated to be the cause dropout by 4 % and 9% of respondents at SEDA and PTF respectively. The reason why the percent of dropout is high at PTF probably is because of tiresome weekly repayments, which make it difficult for pregnant women and those who have just given birth to attend. Contrary to SEDA where the repayment is monthly, which is not so tiresome.

Another reason why the dropout among pregnant women and those who have given birth is low at SEDA is that its repayment is usually made in the bank by one group member (a group treasurer). Hence it is not necessary for other clients in a group to make their repayments in person by travelling to the SEDA office. Under this system, it is easier for clients with problems like pregnant women and those who have given birth to stay at home after they have given their repayment instalments to their group treasurers who then deposit it in the bank. This reduces dropout because it is not necessary for all group members to travel for repayment purposes.

**Found job:** About 2% of SEDA and 3% of PTF's respondents dropped out from their groups because they got employment. Since the percentages of dropout due to employment are approximately the same for SEDA and PTF, this indicates the same impact both at SEDA and PTF.

**Default:** About 5% of PTF's respondents stated that some clients defaulted from their groups due to personal problems which made them fail to repay. At SEDA no client has been mentioned to have defaulted among its respondents. This may reflect that the monthly repayment at SEDA gives clients relatively enough time to do business and to look for money for repayments from other sources in case of a failure to get repayments compared to weekly system at PTF which seems to be too short for clients to get repayments hence encouraging default to avoid pressures from other group members.

**Journey:** at PTF about 3% of the respondents stated that some clients dropped out from their groups because they travelled to solve their personal problems. At SEDA no dropout due to journey was reported. This may imply that monthly system is better as enables clients to attend to other important activities without necessarily dropping out.

At PTF there seem to be more dropout due to travelling because of its weekly repayment which seem to be too short to enable clients get enough time to travel to distant places compared to monthly repayment system adopted by SEDA.

**Death:** at PTF death contributed 2% among its dropouts. No dropout due to death was found at SEDA.

### **5.5 Family factors prompting clients' dropout at SEDA and PTF**

The family factors prompting clients' dropout at SEDA and PTF are: Sickness: husbands stopped their wives, giving money to family members, death, marriage failure and interdiction of husbands as explained below:

**Sickness:** about 6% of SEDA and 9% of PTF's respondents dropped out due to sickness in their families. These percentages are almost the same indicating that the dropout due to sickness has more or less the same impact on both institutions.

**Husbands stopped their wives:** About 3% of SEDA and 3% of PTF's women respondents were stopped by their husbands from borrowing at SEDA and PTF. This is because women become too busy with their businesses and finding repayments with little or not beneficial impact to the family members. Sometimes money borrowed by women often gets spent without consulting husbands who are their first guarantors. However at the end of the day when a woman fails to repay it is the husband who becomes liable for the debts as a first guarantor of his wife. Under these circumstances, husbands often stop their wives or refuse to guarantee them to avoid future liability in case of repayment difficulties from their wives. These reasons seem to be common among some MFIs as shown in Chapter Two.

**Death:** At SEDA 2% of respondents dropped out due to death in their families. No respondent has dropped out at PTF due to death in the family.

**Giving money to family members:** At PTF 3% of its clients dropped out because they gave part of their loans to their family members i.e. (a husband and a brother), for business purposes. These family members later failed to pay back the money, which later led to the dropout of the respondent. At SEDA no respondent has dropped out because of giving loans to family members.

**Marriage failure:** At PTF 2% of its respondents dropped out because their marriage failed. At SEDA no respondent has been found to have dropped out due to



marriage failure. According to the respondent marriage failure made her face repayment difficulties due to lack of support from her husband. According to some group members the marriage failed because the respondent was not respectful to her husband after getting a bigger loan of Tsh. 1,700,000/=, equivalent to approximately USD 1700. This often happens when women who used to get support from their husbands feel that they can do without their husbands. This implies that loans do not always bring positive impact to the individual or to the family. Thus at times loans can be a source of problems rather than a solution to family problems as it happened at PULSE MFI in Zambia in Chapter Two where some borrowers were made worse particularly among the 50% who left the programme after receiving only one loan (Copestake, Bhalotra and Johson, 2000: 27).

**Husbands interdicted:** At PTF 2% of female respondents dropped out because their husbands were interdicted i.e. their husbands were restricted from their jobs by their employers due to factors related to their jobs. This affected the respondents' repayments which later led to dropout of the client due to lack of financial support from her husband. At SEDA the above factor was not reported as a factor for dropout.

### **5.6 Group factors prompting clients' dropout at SEDA and PTF**

The group factors prompting clients' dropout at SEDA and PTF are: poor repayment record, unfaithfulness of group leaders, lack of cooperation and lack of trust among group members

**Poor repayment:** About 12% and 9% of respondents at SEDA and PTF respectively stated that their groups expelled clients having poor repayment records. The aim was to avoid unnecessary fines and frequent contribution from those having poor repayment records. As indicated above the percentages of dropout at SEDA and PTF due to this problem are almost the same indicating how tough groups are both at SEDA and PTF in trying to eliminate those with repayment difficulties.

**Unfaithfulness of group leaders:** at SEDA, 5% of the respondents stated that they dropped out because their group leader was not faithful with their money as illustrated by a respondent below

**Case No.5.15: Unfaithfulness of group leaders at SEDA contribute to dropout**

Rebeca Mage from Twimanye group is 35 years of age and is educated to primary level. She said that their leader who used to collect and deposit their repayments in the bank did not deposit part of their repayment i.e. savings for four consecutive months. She said they came to know about it at the end of the loan cycle when some members requested their savings because they wanted to rest. This brought a lot of tension in the group and they decided to dropout from that group because of the unfaithful leader.

Among the PTF respondents no client has been mentioned to have dropped out due to group leaders' unfaithfulness. This is because at PTF credit officers collect the repayments of clients every week in their centres and so the group/centre leaders do not have access to clients' repayments

**Lack of cooperation:** about 2% and 9% of respondents at SEDA and PTF stated that they dropped out due to lack of cooperation in their group as stated by a SEDA respondent below.

**Case No.5.16: Lack of cooperation in groups at SEDA contribute to dropout**

Ashura Buko from Tumaini group is 36 years of age and is educated to primary level. She stated that she dropped out because her group members did not help her when she had repayment difficulties. She said that she got two serious problems in a short time: her brother died and so she travelled to attend her funeral service in Kondo and when she returned she found her shop had been robbed. This made her face repayment difficulties. She said that she approached her group members but they did not help her because of jealousy they had of her stolen shop which was performing very well since she joined SEDA in 2004. She said that she later dropped out because her group was no longer helpful to her.

At PTF the dropout due to this problem is high probably because of few clients in its groups i.e. 5 compared to 10 at SEDA. The reason is that in groups with few clients it is relatively difficult for a client with repayment difficulties to get assistance because those few may also be having financial problems. But in groups with bigger numbers like SEDA above it is relatively easier for a client to get a help because it is rare for many clients to face financial problems in the same period.

**Lack of trust:** about 3% of PTF clients stated that they dropped out due to lack of trust in their group as stated by a respondent below.

**Case No.5.17: Lack of trust in groups at PTF contribute to dropout**

Mathew Mkude from Melela centre is 28 years of age and is educated to primary level. He stated that he dropped out because of lack of trust in their group. He said that their group leader brought two new clients who were not know very well without their consent. He later realized that one of them did not appear in the repayment meeting for three weeks and the group leader was repaying for him. He said he dropped out because he suspected that the client brought in was not a true client but was purposely brought in to borrow a loan and give it to the group leader. He said that staying in such a group is risky because their group leader with two loans is likely to face repayment difficulties in the future and the whole group may start repaying for him. This is unfair as the rest of the members have only one loan.

Among the SEDA respondents no client has been mentioned to have dropped out due to lack of trust in their groups.

**5.7 Competitive factors prompting dropout at SEDA and PTF**

At SEDA 6% of its respondents shifted to other MFIs i.e. PRIDE and MOREFU due to better terms and services. The respondents stated that clients mainly shift to PRIDE due to better terms and services such as: clients being allowed to use their savings during repayment difficulties, smaller repayment amount for those borrowing bigger loans, clients allowed to double repayment and borrow next loans without waiting for others and in different loan cycles, no checking of businesses of the new entrants, presence of bonuses, individual loans and insurance services that are helpful to clients.

Those who shifted to MOREFU from SEDA stated that they stayed for about a month without a loan and the amount which was approved for payment was very small i.e. Tsh 50,000/ instead of the Tsh. 100,000/ they had requested. They said that one of

their friends who joined MOREFU which has a monthly repayment system got a loan of Tsh 100,000/ within a week and that MOREFU pays the clients who attend its pre-loan training programmes.

At PTF 11% of its respondents stated that they shifted to other MFIs due to better terms and services such as: flexibility in repayment, being allowed to borrow next loans without waiting for others to complete their repayments, presence of individual loans, accessible savings during repayment difficulties, bonuses and insurance services. Some clients also shifted from PTF to SEDA due to repayment schedules .i.e. those who shifted to SEDA from PTF were tired of weekly repayments at PTF. One client also shifted from PRIDE which is weekly to PTF which is weekly to avoid the transport cost of Tsh 400/=, she spends weekly for PRIDE's repayments. This client stated that she joined PTF because it has a centre close to her home place which enables her to walk on foot for a few minutes to make repayment at the centre without any cost.

It can be noted above that majority of clients tend to shift to PRIDE because it has relatively improved its services compared to other MFIs in Morogoro Municipality. This has been noted from the majority of respondents in which almost everyone gave the example of PRIDE's services. About insurance services, the only MFI which was mentioned by the respondents was PRIDE because it offers those services. If a client dies at PRIDE his or her family is paid Tsh. 600,000/=. Most clients liked this type of insurance service because it is helpful to them unlike the loan insurance fund at SEDA which does not satisfy them. They claim that SEDA loan insurance fund is not helpful to them in that when a client drops out voluntarily without a SEDA debts his or her contributions are not refunded.

Since clients have variety of needs such as insurance services which is helpful during emergencies, there is a need for SEDA and PTF to examine the possibility of introducing insurance services beneficial to their clients to avoid losing them to other MFIs which provide those services as is argued, "if MFIs services are improved through proper management and innovation then clients dropout can be reduced which often results from unmet needs", (MicroBanking Bulletin, 2001: 14). If the services needed by clients are introduced it will enable SEDA and PTF to retain their clients and hence be able to compete effectively in the lending market.

In this era of globalization in which competition is increasing there is a need for SEDA and PTF to be flexible in responding to changes needed by their clients otherwise the number of clients dropping out from their institutions may also increase. As explained in the preceding discussion that there are several MFIs in Morogoro Municipality and more may enter the market to help the governments' efforts of reducing poverty and reaching the MDG 1. All these institutions have different lending policies and services which have been put in place to attract new clients to join their institutions including the timely provisions of loans.

President Kikwete's Tsh. 21 billions given to 21 regions in Tanzania to be loaned out to small scale entrepreneurs with the lowest interest of 10% per annum may also increase the dropout at SEDA and PTF. This is because the above interest which is lower compared to the interest of 36% charged per annum by SEDA and PTF may encourage some clients to dropout from their institutions to take the advantage of the above lowest interest as stated by some respondents. The newspaper report about President Kikwete's

Tsh. 21 billions to be given out as loans to small-scale entrepreneurs in Tanzania is attached in appendix 15

In the future more MFIs are expected to join the lending market because international organizations have shown interests in funding MFIs after noting their effectiveness in reducing poverty. Due to this SEDA and PTF need to take proactive measure to avoid negative impacts in their institutions which may be brought by the increasing competition in the lending market.

### **5.8 Lessons learned from this study**

This study has revealed that there are some dropout factors which are common to all MFIs worldwide and those which are specific to MFIs in Latin America, Asia, Central and Eastern Europe. There are also factors which seem to be specific among MFIs in Africa and those within each MFI. Some of the factors that are common among all MFIs reviewed in Chapter Two and those studied i.e. SEDA and PTF are: high interest rates, small loan amount, problems with group liability, seasonal business, shifting of residential areas and short repayment period. Those common among MFIs in Latin America, Asia, Central and Eastern Europe are competitive factors due to presence of many MFIs in shown in Chapter Two.

Some of the factors for dropout which seem to be specific among MFIs located in certain area such as in Africa include: delay in loan disbursement, group size, lack of clients care, bad relationships with credit officers and disrespects for clients as noted at SEDA in Tanzania, CETZAM in Zambia, LAPO in Nigeria and among MFIs in Uganda (Musona and Coetzee, 2001: 27; Garuba, 2004: 2; Mutesasira, 1999: 12). However the most pressing factor seems to be the delay in loan disbursement. This has appeared to be a leading factor for dropout among three MFIs in Zambia i.e. PULSE, PRIDE and WFCZ (Musona and Coetzee, 2001: 27) as indicated in Chapter Two. In South Africa this problem also exist as stated by Stark and Nyirumuringa (2002: 7).

At SEDA in Tanzania this problem has also appeared to be the first factor for dropout as indicated in Chapter Four. There may be several factors at SEDA which contribute to this delay such as bureaucratic procedures and shortage of funds for lending. Probably the culture of lack of sense of urgency in Africa branded as, “no hurry in Africa”, may also account for this phenomenon. However, at PTF the problem of delay has been greatly reduced and no client mentioned it as a source of dropout.

There are also some factors which are specific to each MFI. For instance, at SEDA the delay in loan disbursement, lack of clients care and the problem with group size are specific to its institution because they have not prompted the dropout among the PTF’s respondents. Those specific to PTF which have not appeared at SEDA are: weekly repayments, lack of safe place for repayments, wastage of time in repayment meetings and the problem of flood which affected some of its clients.

This is what the researcher learnt in this study regarding the dropout factors among MFIs worldwide reviewed in Chapter Two and those studied i.e. SEDA and PTF.

## **Chapter Six**

### **Conclusion and the areas for further research**

#### **6.0 Introduction**

This chapter dwells on the conclusion including the important issues in the study and the possible areas that need further study.

#### **6.1 Conclusion**

This study has identified about 38 factors for dropout at SEDA and 40 at PTF as indicated in Table 4.9 and 4.18 in Chapter Four respectively. These factors were then grouped into adverse push and promising pull factors in Table 4.19 in Chapter Four. By identifying the push and pull factors from each institution this study has achieved its objectives number one and two. The objective number three which was to find the dropout rate in each MFIs has also been achieved in which those dropout rates were calculated for the past three years: 2004, 2005 and 2006 as shown in Chapter Three under the document analysis

By calculating the dropout rates for three years rather than one year, this study has gone beyond its objective number three which was to find a dropout rate in each MFI. This is useful for SEDA and PTF to learn from the past and be able to take measures aimed at reducing the dropout rate of their clients for their future benefit.

The objective number four which was to identify the weaknesses and strengths of SEDA and PTF has also been achieved as indicated in Chapter Five, where some of the main weaknesses of SEDA and PTF have been shown. By achieving its objectives this study has also managed to provide answers to all the research questions which are related to the objectives of the study.

By understanding these dropout factors at SEDA and PTF which has improved our knowledge, this study has achieved the purpose of the study which was to improve the knowledge and understanding of the factors prompting the dropout of SEDA and PTF clients in Morogoro Municipality. Understanding of these factors may help MFIs studied to take measures to reduce the dropout so that they can achieve their financial and social objectives of reducing poverty

In Chapter Four in Table 4.19, the researcher found more adverse push factors prompting clients' dropout than promising pull factors. This indicates that the result of this study supports the results of some previous researchers in East Africa that clients mainly drop out due to adverse push factors (Pagura, 2003:26), in Chapter Two.

However under the adverse push factors the organizational factors play a major role in prompting clients' dropout as represented by bigger percentages for both SEDA and PTF in Table 4.9 and 4.18 in Chapter Four. This shows that the result of this study supports the results of previous researchers in Chapter two that clients mostly dropout due to organizational factors (Garuba, 2004: 2; Matul and Vejzovic, 2004:7; Pagura, 2003:25-26; Hishigsuren, 2004:10). Regarding this, in Chapter Two it was argued, "in many cases it is actually the institution that makes a client leave and not the clients themselves making the decision" (Matul and Pawlak, 2004: 3). Since these organizational factors are within SEDA and PTF it would be relatively easy to address them because it is within their reach compared to other factors such as business, group, personal and family factors which are outside their institutions.

Under organizational factors the leading factors have been shown at the top followed by others as shown in Table 4.3 and 4.12 for SEDA and PTF respectively. This arrangement can help SEDA and PTF to know which factors need special attentions and which one follows when it comes to implementation.

Since the dropout rate among MFIs worldwide ranges from 3.5% to 60% (Aghion and Morduch, 2005: 5), and the dropout rates at SEDA and PTF which ranges from 11%-52%, are within the above range of 3.5% to 60%, it can be noted that the result of this study supports the findings of past researchers about the dropout rates in MFIs.

The result of this study may also be useful to policy makers who may take measures to ensure that clients dropout rate is reduced so that the national objectives of reducing poverty and reaching MDG I as championed by the international organizations are not greatly affected, as is argued in Chapter Two, ‘lost customers place our social agenda in peril’ (Wilson, 2001: 17).

This indicates that the issue of clients’ dropout is not only the concern of MFIs for achieving their financial objectives but also the concern of international organizations, the government and policy makers who formulate policies that targets reduction of poverty in half by 2015. Because if dropout is higher it may hinder government efforts of reducing poverty among Tanzanians due to losing poor clients before graduating out of poverty. This indicates the need for SEDA and PTF to take measures to ensure that their financial objectives are achieved without affecting government efforts of reducing poverty and reaching MDG 1.

However, the successful achievement of both objectives is a great challenge to MFIs as it competes with their financial objectives and priorities. This is because MFIs have their priorities, which may conflict with government priorities of reducing poverty. For instance the policy of achieving 100% repayment rate may contribute to dropout because the credit officers may be too tough on their clients who delay repayments. This may lead to dropout of some clients who fail to meet their repayment obligations.

Such policy is not bad as it aims to recover MFIs loans and interest which are important for their growth and sustainability but, on the other hand, it may be contributing to dropout which may affect their social objectives of reducing poverty

Most MFIs start to make profits during their 4<sup>th</sup> and 5<sup>th</sup> loan cycles which is their break even points as explained in Chapter Two. Due to this there is a great need for SEDA and PTF to make every effort to retain their clients to enable them reach the higher loan cycles which is useful for their profitability. The breakeven point is the point in which costs are equal to revenues and from there onwards then revenues of MFIs start rising above the costs. So from the 4<sup>th</sup> and the 5<sup>th</sup> loan cycle MFIs start recovering their costs and start making profits as revenues start rising above the costs. So if many clients are dropping out before reaching above the 4<sup>th</sup> and 5<sup>th</sup> loan cycle, then MFIs will be making losses because their revenues are still below the costs, as is argued in Chapter Two, ‘if clients are lost earlier before borrowing their 4<sup>th</sup> or 5<sup>th</sup> loan, which is a breakeven point for most MFIs, then a MFI incurs a huge cost it invested in lengthy training and recruiting clients which is hard to recover’ (Wright, 1997: 2-3).

This also indicates the need for SEDA and PTF to periodically examine why their clients dropout and to address those factors to reduce the dropout of their clients. Even though dropout cannot be completely avoided (Matul and Pawlak, 2004: 6), because of those who may graduate out of poverty and who may not need loans, what SEDA and

PTF can do is to take measure that can greatly reduce dropout to the level which cannot harm their growth and sustainability. These measures may involve priorities in retaining their existing clients rather than relying on new ones who may not be creditworthy or easy to dropout. As I can see, the new clients particularly those who replace the dropouts can easily withdraw from their institutions for the following reasons: these clients normally start with smaller loans as per the MFIs regulations, while their group members are already in higher loan cycles with bigger loans. This makes them shoulder the risk of guaranteeing other members with bigger loans, as is argued in Chapter two,

*The newer, replacement members can only get access to smaller loans, and above all, they have to take a disproportionate risk and guarantee the larger sums taken by their fellow group members, adding further stress to the group guarantee principle (Wright, 1997: 2-3)*

The risk of guaranteeing older clients with bigger loans is that if they fail to repay then new clients have to shoulder the burden of repaying bigger amounts taken by those clients. This most likely may drive them away if they would not be ready to shoulder such a risk. So SEDA and PTF need to take proactive measures aimed at reducing the dropout of their clients by providing them with services they need as is argued, “to satisfy demand and retain good clients, MFIs need to better understand and respond to their clients’ diverse financial needs and customer service preferences”(Campion, 2002:62)

MFIs entering the market are helpful to clients in terms of better services as explained in Chapter Two (Murray, 2001: 20; Cohen and Wright, 2003: 1). But they may be a threat to the existing institutions. So the strong strategies need to be taken to reduce this risk by improving clients handling techniques. This can make them feel that their institutions value them not only during the time when the business environment is promising but also during the time when the business environment is bad. So clients need to be valued during both ups and downs in business.

As dropout may occur due to factors outside the institution such as business, personal, family, group and competitive factors as explained in Chapter Two, there is need for SEDA and PTF to consider these factors as they may also affect their institutions.

So, if businesses of their clients have been affected by factors outside their institutions such as a cholera outbreak in Morogoro in 2006 as explained in Chapter Five, there is a need for them to examine the possibility of assisting their clients. For instance, they may extend their repayment dates than loosing them due to failure to meet repayment deadlines or lack of repayments for a short-lived problem. The extension may give clients more time to do business and be able to collect repayments. This is useful not only in retaining clients but also in showing them that MFIs values them during problems. As I can see, it is relatively less costly to retain clients by extending their repayment dates than recruiting new ones who are relatively risky and who may involve various administrative costs such as training and time.

The extension of repayment dates may be contrary to the loan agreements, but it may be more helpful to MFIs than loosing those clients who might have reached the higher loan cycles, which contributes a lot to their profitability due to bigger interest they repay. Reducing dropout is good because if it shoots up as it happened at SEDA in 2006

in which dropout shoot up to 52%, as shown in Chapter Five it can negatively impact their growth and sustainability.

Since clients are becoming more aware of the weaknesses and strengths of each MFI, they may be dropping out from one MFI and joining the other. Although this cannot be fully prevented, as explained above, SEDA and PTF can take measures to reduce this by tracing the reasons why their clients are leaving their institutions and to address them. This can be achieved by introducing exit interview technique to monitor the dropout. This is helpful as it can reduce the dropout as done by AGAPE an MFI in Colombia, Latin America as explained in Chapter Two in which the dropout rate was reduced from 62.8% to 34.8% between 1998 to 2000 (Machado, 2000: 5-8).

Alternatively, SEDA and PTF may introduce the system of measuring clients' satisfaction to see if they are satisfied with their services as done by some MFIs in Central and Eastern Europe. Measuring of clients' satisfaction is useful as MFIs are working under increasingly competitive environment as is argued, "measuring is helpful in detecting dissatisfaction factors which may be disadvantageous in the future" (Pawlak and Dorota, 2004:1).

To reduce the dropout due to poor repayments SEDA and PTF may introduce the systems which encourage repayments among their clients. This may involve introducing repayment incentives like bonuses, as is argued, "MFIs should use dynamic incentives to secure repayments when their clients face a rising number of outside options" (McIntosh, 2005: 987; Tanzania, 2000:13)

The sample taken for this study is 136 respondents; this may or may not be judged to be small by the readers. But I believe the results of this study reflect the true picture of what respondents stated which needs attention of SEDA and PTF's management. If these factors are addressed it can provide relief to clients because some problems prompting their dropout will be solved which may help their institutions to grow and become sustainable

In this study what the researcher has realized is that at times the findings of ones study may not necessarily support the findings of previous researchers even if the topics are the same. This is because this study has found a lower dropout rate at PTF which does not support the findings of previous researchers that dropout rate is higher among MFIs in East Africa as explained in Chapter Three. Hence, I respect the result of previous researchers which also supports my results at SEDA which also has a higher dropout rate, but I also acknowledge these differences for the case of PTF which has a lower dropout rate as explained in Chapter three.

## **6.2 The need for further study**

In this study some gaps have been noted which may need further study. In Chapter Four this study has discovered that clients mostly drop out due to organizational factors. But since the study has not found a client who has dropped out due to self-sufficiency with loans, it may imply that the dropouts still need loans to either graduate out of poverty or to keep on expanding their businesses. If the former it may imply that the dropouts at SEDA and PTF are still poor and this may mean that SEDA and PTF are not properly achieving their social objectives of reducing poverty. This may need further study to determine the extent of poverty among their dropouts and to see if MFIs are really capable of achieving both objectives: financial and social for reducing poverty without affecting the other. The reason is that there may be some clients who



have graduated out of poverty among those who have not been interviewed. So, further study is needed to determine this. If dropouts still need loans to expand their businesses it may mean that SEDA and PTF have been successful in reducing poverty among its dropouts.

SEDA and PTF also use group lending methodologies as explained in Chapter One, but some clients especially the old ones seem to dislike group liability as explained in Chapter Five. This indicates the need for SEDA to re-introduce its individual loans which has been stopped for a while. PTF also needs to consider the possibility of introducing the individual loans for its older clients who prefer it as explained in Chapter five.

In this study and according to the respondents I have realized that group liability is a source of major problems among the clients. Although this study has not indicated that group liability contributes greatly to clients' dropout, I have learned that if all SEDA and PTF's clients were under individual liability, then problems of clients' dropout could have been very low because of the absence of group problems such as repaying for others which most clients dislike it.

However to provide strong argument as to why group liability seems not suitable particularly for the older clients in a higher loan cycles, there is a need for further research as stated in Chapter five.

Since dropout rate at PTF is relatively low as indicated in Chapter Three, there may be a need for future research to examine the reasons why the dropout rate is lower at PTF than at SEDA while they are all in the same environment i.e. the same Municipality.

However, to a certain extent this study has noted that handling of clients at PTF is relatively better due to some reasons explained in Chapter Five. Those reasons may not be sufficient that is why as stated above there seems to be a need for further research, probably an in-depth case study at PTF alone to determine why it has a lower dropout rate than other MFIs.



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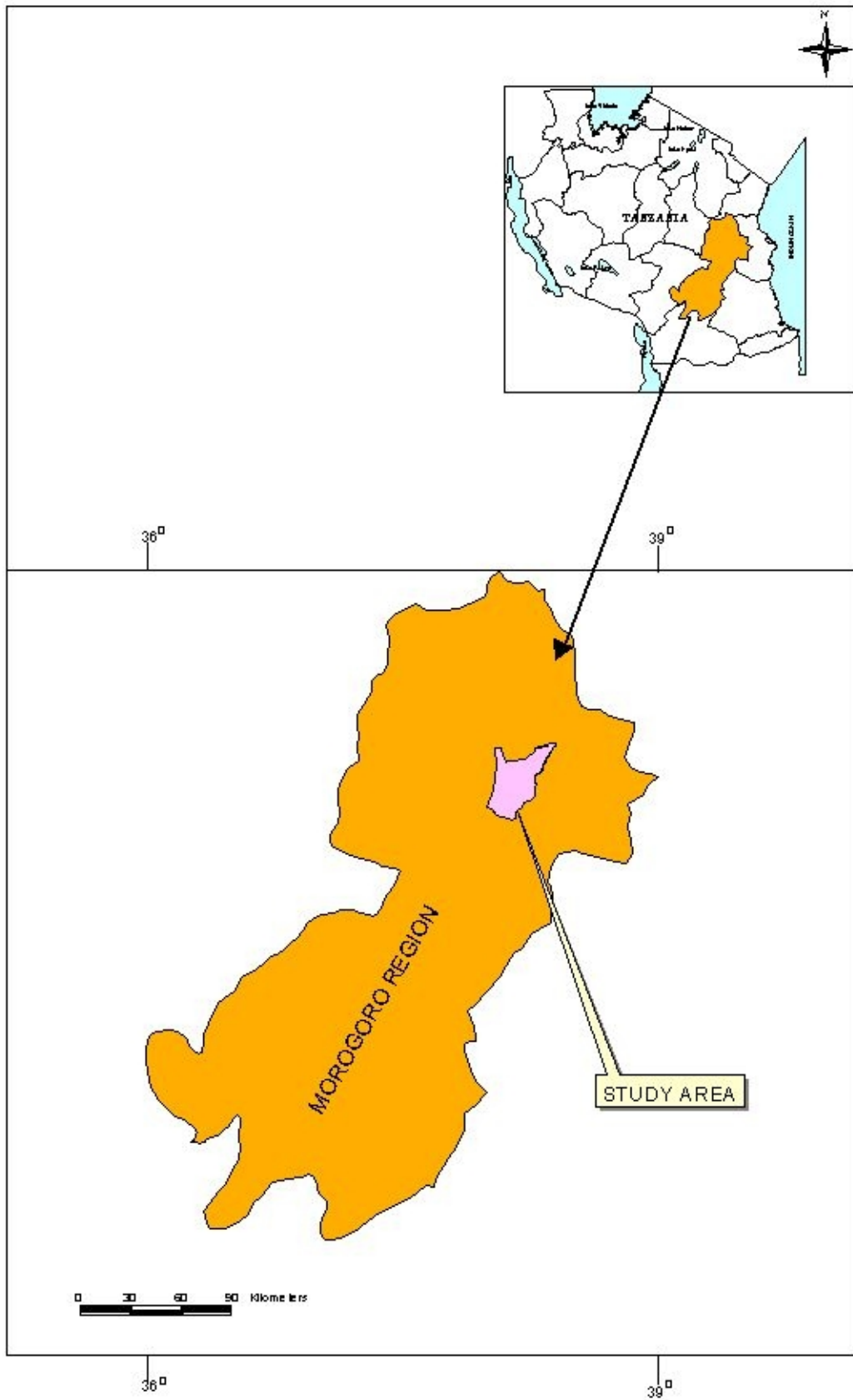
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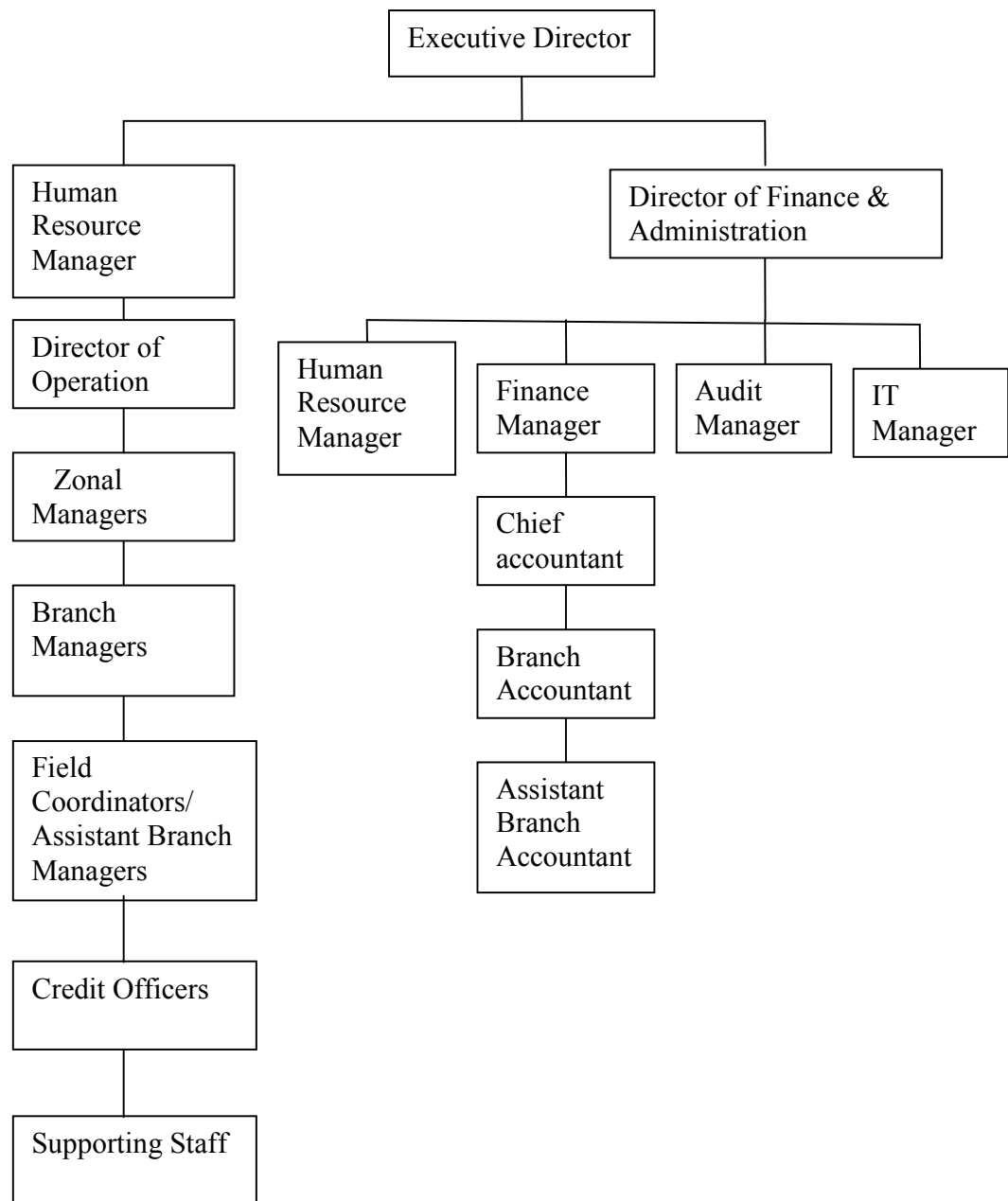
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**Appendix 1: Map of Morogoro Municipality indicating study area**



## Appendix 2: Organizational Structure of SEDA



### Appendix 3: Front View of SEDA Office

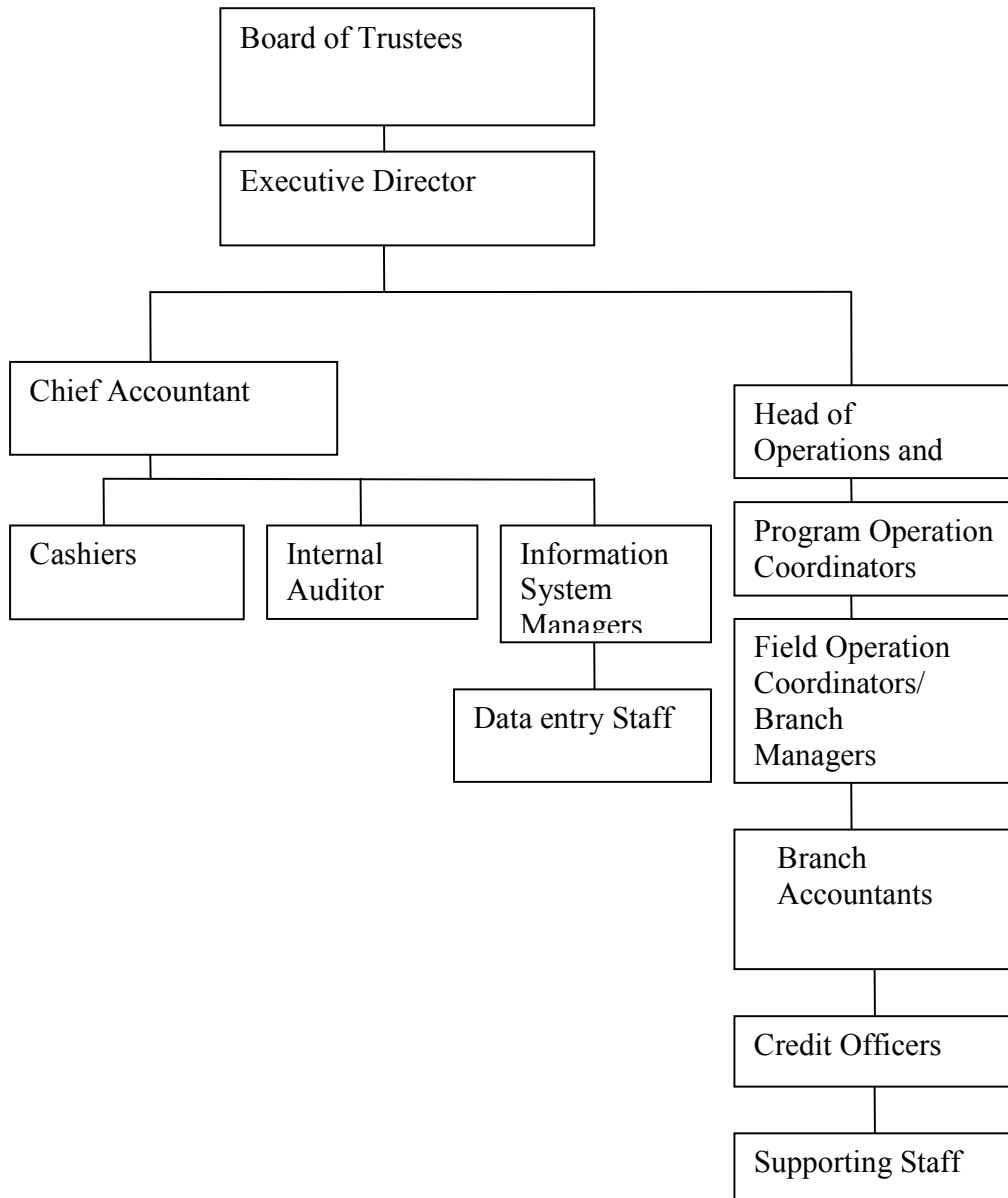




**Appendix 4: Some clients of SEDA men and women outside the office**



## Appendix 5: Organizational Structure of PTF



**Appendix 6: A front view of PTF Office**



**Appendix 7: The Nane Nane Center with women with their Branch Manager in a repayment meeting**



**Appendix 8: The Kasanga Center with both Men and Women with their credit officer in a repayment meeting**



**Appendix 9 (i-ii): Notice from the Municipal authority in Swahili warning people about cholera**

# TANGAZO MAALUM

**MKURUGENZI WA MANISPAA YA MOROGORO ANAWATANGAZIA WAKAZI WOTE WA MANISPAA KUWA UGONJWA HATARI WA KIPINDUPINDU UMEIBUKA KATIKA MAENEO YA KATA ZA MZINGA, MAZIMBU, BOMA, KILAKALA NA MWEMBESONGO KATIKA MANISPAA YA MOROGORO.**

**UPO UWEZEKANO WA UGONJWA HUU KUENDELEA KUTAPAKAA IWAPO KANUNI ZA MSINGI ZA AFYA ZIFUATAZO HAZITAZINGATIWA KIKAMILIFU.**

1. KUNAWA MIKONO KWA SABUNI KABLA YA KULA NA BAADA YA KUTOKA MSALANI.
2. KUTUMIA MAJI SALAMA – MAJI YALIYOCHESHWIWA KWA MUDA USIOPUNGUA DAKIKA 30.
3. KULA CHAKULA SALAMA TU – CHAKULA KILICHOWEKWA KATIKA VYOMBO SAFI NA KUFUNIKWA VIZURI AU KINACHOLIWA MARA TU BAADA YA KUANDALIWA.
4. KUACHA KABISA KULA VYAKULA/VINWAJI OVYO OVYO KATIKA MAENEO YASIYOAMINIKWA.
5. KUTUMIA MBOGA NA MATUNDA KWA UANGALIFU MKUBWA BAADA YA KUYASAFISHA VYA KUTOSHA.
6. KUWA NA CHOO BORA NA KUKITUMIA IPASAVYO.
7. KUYAWEKA MAZINGIRA YETU KIJUMLA KATIKA HALI YA USAFI.
8. WATOA HUDUMA WOTE WA VYAKULA WAHAKIKISHE KUWA WAMEPIMWA AFYA ZAO.

**KWA SABABU HII KUANZIA SASA SHUGHULI ZIFUATAZO ZINAPIGWA MARUFUKU.**

1. UTENGENEZAJI NA UNYWAJI WA POMBE ZA KIENYEJI.
2. UANDAAJI NA UNYWAJI WA AINA ZOTE ZA VYAKULA NA JUISI KATIKA MAENEO YASIYO RASMI.
3. UUZAJI WA VYAKULA, MATUNDA, MBOGA, NYAMA, SAMAKI, nk. KATIKA MAENEO YASIYORUHUSIWA.
4. UANDAAJI WA VYAKULA KATIKA MIKUSANYIKO YA AINA ZOTE BILA KIBALI AU USIMAMIZI WA AFISA WA AFYA.
5. MAZISHI KWA MAREHEMU WA KIPINDUPINDU BILA YA USIMAMIZI WA AFISA WA AFYA.

**HATUA ZIFUATAZO ZICHUKULIWE ENDAPO MGONJWA ANAHISIWA KUWA NA DALILI ZA KIPINDUPINDU:**

1. TOA TAARIFA NA MUWAHISHE MGONJWA HARAKA KATIKA KITUO CHA MATIBABU YA KIPINDUPINDU CHA KARIBU.
2. MPATIE MGONJWA MAJI YA KUTOSHA KAMA BADO ANAWEZA KUNYWA.
3. HAKIKISHA KUWA NGUO, MATAPISHI, KINYESI CHA MGONJWA HAKIENDELEI KUWA CHANZO CHA MAAMBUKIZO KWA WENGINE.
4. ZINGATIA KANUNI ZA MSINGI ZA AFYA – KUMBUKA KUWA UGONJWA WA KIPINDUPINDU HUPITIA MDOMONI.

**ADHABU KALI ZITATOLEWA KWA YEYOTE ATAKAYEKIUKA MASHARTI HAYA IKIWA NI PAMOJA NA KUCHUKULIWA HATUA ZA KISHERIA.**

**NATOA WITO KWA WATENDAJI WOTE NA WANANCHI KWA UJUMLA KUZINGATIA HAYA - TUSHIRIKIANE - TUNAWEZAI**

## **Appendix 9 (ii): Translated Version of the Notice in English:**

### **IMPORTANT NOTICE**

THE MOROGORO MUNICIPAL DIRECTOR ANNOUNCES THE MOROGORO RESIDENTS ABOUT THE OUTBREAK OF CHOLERA AT MZINGA, MAZIMBU, BOMA, KILAKALA AND MWEMBOSONGO WARDS IN THE MUNICIPALITY.

THERE IS A POSSIBILITY THAT THE DESEASE WILL SPREAD IF THE FOLLOWING PRECAUTION MEASURES ARE NOT TAKEN

1. WASHING HANDS USING SOAP BEFORE AND AFTER EATING
2. USING SAFE WATER FOR DRINKING i.e. WATER SHOULD BE BOILED FOR NOT LESS THAN 30 MINUTES.
3. TAKING ONLY SAFE FOOD i.e. FOOD SHOULD BE PLACED IN CLEAN DISHES, PROPERLY COVERD AND SHOULD BE EATEN WHILE HOT.
4. STOP TAKING FOOD AND DRINKS IN UNATHOURISED AREAS
5. BE CAREFUL IN EATING FRUITS. i.e. FRUITS SHOULD BE PROPERLY WASHED BEFORE BEING CONSUMED
6. KEEP TOILETS CLEAN
7. KEEP SORROUNDING CLEAN.

TO STOP THIS DESEASE FROM SPREADING FURTHER THE FOLLOWING ACTIVITIES ARE BANNED

1. MAKING AND TAKING LOCAL BREWS
2. MAKING AND TAKING ALL KINDS OF FOODS AND JUICES IN AN UNATHOURISED AREAS.
3. SELLING FOOD, VEGETABLES, FRUITS, MEAT, FISH ETC, IN AN UNATHOURISED AREAS
4. COOKING FOOD IN OVERCROWDED PLACES WITHOUT A LICENCE
5. FUNERALS FOR CHOLERA VICTIMS IN THE ABSENCE OF HEALT STAFF

THE FOLLOWING STEPS BE TAKEN IN CASE A PATIENT IS SUSPECTED TO BE SUFFERING FROM CHOLERA

1. REPORT THE MATTER AND TAKE THE PATIENT TO THE NEAREST HEALT CENTER
2. GIVE A PATIENT ENOUGH WATER TO DRINK
3. ENSURE THAT CLOTHES AND BODY EXCRETION FROM THE CHOLERA PATIENT SUCH AS FAECES AND VOMITINGS DO NOT BE A SOURCE OF TRANSMISSION OF DESEASE TO OTHERS
4. OBSERVE HEALT SAFETY REQUIREMENT- REMEMER THAT THE CHOLERA VIRUS ENTERS THE BODY THROUGH THE MOUTH!

SEVERE PUNISHMENT WILL BE IMPOSED TO ANYONE WHO WILL VIOLATE THESE CONDITIONS INCLUDING LEGAL ACTION

I REQUEST ALL THE EMPLOYEES AND THE CITIZENS TO OBSERVE THESE CONDITIONS- LETS COOPERATE- WE CAN!



**Appendix 10 (i-v): The selected pages of Court order which has relocated people from Saba Saba market:**

**IN THE DISTRICT COURT OF MOROGORO  
AT MOROGORO  
CIVIL CASE NO 46 OF 2003  
RASHIEDI NDEGE & OTHERS; ..... PLAINTIFF  
VERSUS  
MOROGORO MUNICIPAL COUNCIL; ..... DEFENDANTS**

**R U L I N G**

The applicant **RASHID NDEGE** filed the Chamber application for temporary injunction under the certificate of urgency for the following orders;

- 1 That this court be pleased to grant a permanent injunction restraining the Defendant or his agents from evicting the plaintiffs from the **Sabasaba Market**.
2. That the court be pleased to order the respondents be held and concluded to the Satisfaction of both parties
3. Costs of the application
4. Any relief(s) or order the court shall deem just.

The applicants were represented by **Mr. Abubakar**, Advocate from **Twaha Tashima** law chambers Advocates Dar es salaam while the respondents have been represented with **Miss Rosemary Kamgisha** (Solicitor).

## Appendix 10 (ii): Second page of the Court Order

3

Minister responsible for Local Governments. Those efforts of Settlement remained in vain. Later they received a letter from Municipal director informing them that the Municipal Council and Regional Commissioner directed from the effect of 31/12/2006 all market vender should have vacated the sabasaba market.

On his affidavit the applicant contended that there is no any arrangement is said to be in place by Municipal authority for them to shift to Mawenzi Market or any other Market at all. Thus he says, they have a doubt whether the respondents are serious about their smooth transfer. He insisted that to do that is against the order of the court.

The applicant affidavit further states that it was the Municipal council itself moved them from the main market, shifted them to Sabasaba (suit premises) the place which is specious to them therefore he prayed their player contained in chamber summons be granted.

In reply the Counter affidavits, respondent through his solicitor Mary Kamugisha, deponed that para 7, 8,9,10,11, are not in dispute,

She further deponed that the business were shifted to Sabasaba open space temporarily awaiting a permanent, Suitable market place, which she said now has been identified to be Mawenzi Market and other reserved for the Market use such as as Nanenane Mazimbu which is very specious. She argued that list of applicants apart from the deponed is not known, and that the applicant had no authority to file fresh application from the rest of the respondents.

## Appendix 10 (iii): Third page of the Court Order

6

As there was no plaint filed by the applicants, and the applicants brought their application under the certificate of urgency per their chamber summons, I find it is impossible the temporary injunction be filed in court before filing the suit. And as afore stated, the alleged Civil case No 46/2003 was marked withdrawn, thus the main suit should have been filed in court before filing the application.

Therefore I agreed with the authorities as it has been argued in the cited case of **T. A. Kare V. general Manager Mara Cooperative Union (1987) TLR 17 (HC) and in the** case of Ibrahim Ngairi (Supra) that the granting of a temporary injunction under order **XXX VII** rule 1 of the **CPC, 1966** is the matter of discretion of the court and this discretion can only be said to have been exercised judiciously if the court appreciated the facts and applied those facts to the principles governing the issuance of temporary injunction one of the principles is that the court should satisfy that there is substantial issue triable one between the parties and that there is a likely hood the applicant might be unveiled to relief and weather the status quo should not be preserved until the dispute is investigated.

From the reasons I have endeavoured to stated I quite agree with the point of law, objection raised with the Respondents counsel that the applicant's application is bad in law and should be dismissed. I find the point of objection with merits. Coming to the 2nd objection by the respondent that this court has no jurisdiction, in matters related to land I quite agree with them that the court which have jurisdiction are courts

## Appendix 10 (iv): Fourth page of the Court Order

11

that;8 ( where there are numerous persons having the same interest in One suit:

- (a) One or more of such persons, may, with the permission of court, sue or be sued, or may defend such suit, on behalf of, or for the benefit of, all persons so interested;

Thus rule 8 (1) (a) of the C P C is Mandatory for such a situation and failure to comply with is fatal.

The rationale for this rule is for instance, a person comes forward and seeks to sue on behalf of others those other persons might be dead non-existent or other wise fictitious. he might purpose to sue on behalf of persons who have not, in fact authorized him to do so. If this is not checked it can lead undesirable consequences, the court can exclude such possibilities for abiding with the above cited provision of law.

This was a position in the case of **K J MOTORS & THREE others AND RICHARD KISANZA & OTHERS (1999) CIVIL App. 74 T. C. A.** unreported.

Thus although civil case No 46/2003 proceeded with the plaintiff/applicant, on behalf of others, without representative suit being filed in court, I find the court cant proceed with the same mistake in this application in our hand, where the alleged other applicants are not known, and the applicant did not given authority from them. Being the case, from the afore mentioned reasons and the objection raised with the counsel for the respondent, I find the objections raised by the respondent are granted and the application by the applicant is here dismissed.

**Appendix 10 (v): Fifth page of the Court Order**

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Each party to bear on own costs.

**Sdg Mr P. W. BAMPIKYA – RM**

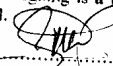
**11/01/2007**

The Ruling has been delivered in this court before the Applicants and Respondent.

**Sdg: Mr. P. W. BAMPIKYA –RM**

**11/01/07.**

I hereby certify that the foregoing is a true and correct copy of the original.

  
.....  
*Resident Magistrate*  
.....  
19.....

### Appendix 11 (i-ii)

The schedule of power rationing from TANESCO in Swahili:

#### RATIBA MPPYA YA MGAWO WA UMEME KAUNZIA 25/08/2006

SIKU/MUDA	FEEDER NAME	MAENEO HUSIKA
JUMAMOSI 7.00 – 19.00	CHALINZE (P) + BIGWA (P) + NGAZENGWA II +	NANENANE, MLIMA KOILA, TUNGI, MIKESSE, KINGOLWIRA, PANGAWE, BIGWA, MISONGENI, K/NYEMBE, KILAKALA, KINGALU, FOREST HILL, VETA, MOR, HOTEL K/NYEMBE, BIGWA NA MISONGENI, KICHANGANI, K/NDEGE, SABASABA, MAWENZI, MAFIGA, UJENZI, FIRE
JUMAPILI		
JUMATATU 7.00 – 19.00	BIGWA(P)+MZINGA(P) + T/FEEDER(P) + NGAZENGWA I	KILAKALA, KINGALU, FOREST HILL, VETA, MOR, HOTEL K/NYEMBE, BIGWA, MISONGENI, MZUMBE, MLALI, MZINGA, CHANGARAWA, SANGASANGA MSAMVU, CHAUKLA BARAFU, MIMPPYA, KWAMWIGOLE, KICHANGANI, MTAWALA, SIDO, NUNGE
JUMANNE 7.00 – 19.00	CHALINZE(P) + KILOSA + MAFIGA	NANENANE, MLIMA KOILA, TUNGI, MIKESSE, KINGOLWIRA, PANGAWE, MZINGA, KILOSA, MAZIMBU, MODECCO, MUSLIM UNIVERSITY, KIMAMBA, MZUMBE, MLALI, MJINI KATIKATI, SUA, MISUFINI, LADWA MISUMARI, VIBANDANI, FOLKLAND, BONDWA, KIREKA
JUMATANO 7.00 – 19.00	NGAZENGWA (I+II) + T/FEEDER (P)+ MZINGA(P)	MIMPPYA, KWAMWIGOLE, KICHANGANI, SIDO, NUNGE K/NDEGE, SABASABA, MAWENZI, UJENZI, MTAWALA, MAFIGA, CHAKULA BARAFU, MSAMVU, MZUMBE, MLALI, MZINGA, CHANGARAWA, SANGASANGA
ALHAMISI 7.00 – 19.00	MAFIGA + MTBW(A(P) + KILOSA	MJINI KATIKATI, SUA, MISUFINI, LADWA MISUMARI, VIBANDANI, FOLKLAND, BONDWA, KIREKA, KIHONDA, DAKAWA, MVOMERO, TURANI, MADIZINI, DUMULA, KILOSA, MAZIMBU, MODECCO, MUSLIM UNIVERSITY, KIMAMBA,
JUMAA		

## Appendix 11 (ii): Translated version of the schedule in English:

### Schedule of Power Rationing from 25/08/2006

DAY/TIME	FEEDER NAME	AREAS TO BE AFFECTED
SATURDAY 7.00-19.00	CHALINZE (P)+ BIGWA (P)+ NGAZENGWA II+	NANE NANE, MLIMA KOLA, TUNGI. MIKESE KINGOLWIRA, PANGAWE, BIGWA, MISONGENI, KI/NYEMBE, KICHANGANI, K/NDEGE, SABASABA, MAWENZI, MAFIGA, UJENZI, FIRE
SUNDAY		
MONDAY 7.00-19.00	BIGWA(P)+MZINGA(P)+ T/FEEDER(P)+ NGAZENGWA I	KILAKALA, KINGALU, FOREST HILL, VETA, MORO-HOTEL, K/NDEGE, BIGWA, MISONGENI, MZUMBE, MLALI MZINGA, CHANGARAWA, SANGA SANGA, MSAMVU, CHAUKLA, BARAFU, MJIMPYA, KWAMWIGOLE, KICHANGANI, MTAWALA, SIDO, NUNGE
TUESDAY 7.00-19.00	CHALINZE (P)+ KILOSA+MAFIGA	NANE NANE, MLIMA KOLA, TUNGI. MIKESE KINGOLWIRA, PANGAWE, MZINGA, KILOSA, MAZIMBU, MODECCO, MUSLIM, UNIVERSITY, KIMAMBA, MZUMBE, MLALI, MJINI KATIKATI, SUA MISUFINI, LADWA, MISUMARI, VIBANDANI, FOLKLAND, BONDWA, KIREKA
WEDNESDAY 7.00-19.00	NGAZENGWA (I+II) +/FEEDER (P) + MZINGA(P)	MJIMPYA, KWAMWIGOLE, KICHANGANI SIDO, NUNGE, K/NDEGE, SABASABA, MAWENZI, UJENZI, MTAWALA, MAFIGA, CHAKULA BARAFU, MSAMVU, MZUMBE MLALI, MZINGA, CHANGARAWA, SANGA SANGA
THURSDAY 7.00-19.00	MAFIGA+ MTIBWA (P) + KILOSA	MJINI KATIKATI, SUA MISUFINI, LADWA, MISUMARI, VIBANDANI, FOLKLAND, BONDWA, KIREKA, KIHONDA, DAKAWA, MVOMERO, TURIANI, MADIZINI, DUMILA, KILOSA, MAZIMBU, MODECCO, MUSLIM, UNIVERSITY, KIMAMBA
FRIDAY		

## Appendix 12: Newspaper report about Rift Valley fever in Tanzania

### Rift Valley Fever in northern Tanzania threatens pastoral recovery

Rift Valley Fever (RVF), an acute, fever-causing viral disease that affects livestock and humans, has broken out in northern Tanzania, causing human and animal deaths and threatening pastoralist livelihoods. Response activities and control measures by the Ministry of Livestock, Ministry of Health, local government and local non-governmental organizations are underway, but livestock death and quarantine measures will prevent pastoralists from benefiting from recent good rains and resultant good pasture conditions.

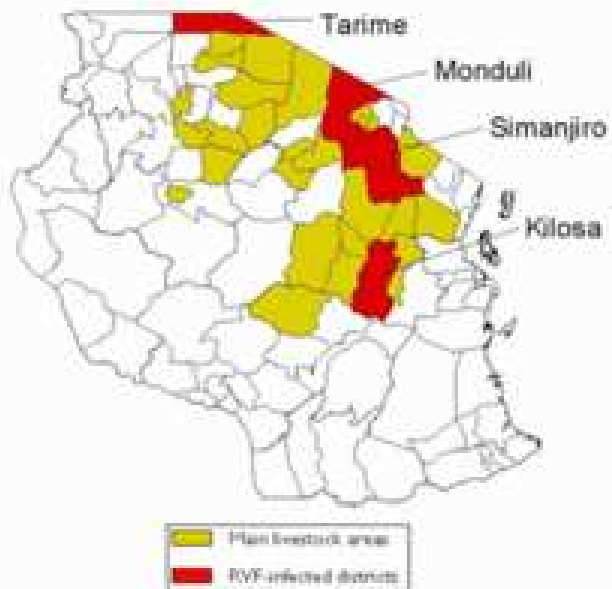
The Center for Disease Control in Nairobi, Kenya confirmed the presence of RVF in Tanzania on February 1, after testing samples collected by the Tanzanian Ministry of Livestock in Arusha. Animal abortions have been reported in Kilosa, Tarime, Monduli and Simanjiro districts, and three people have died in Monduli and Simanjiro districts (Figure 1).

Despite improved pasture and animal conditions in pastoral areas of Tanzania following good rains in late 2006 and early 2007, the disease is damaging pastoralist livelihoods through livestock deaths and abortions. The disease is also adversely impacting the livestock market, as inter-district movement of animals has been restricted. In addition to pastoralists, the disease threatens the livelihoods of those who depend on livestock products and related activities for labor opportunities.

The *Aedes* mosquito is the primary vector and reservoir of RVF, which thrives in the wet conditions currently present throughout Tanzania. The disease is also spread through contact with the blood and bodily fluids of infected people and animals, eating infected meat or drinking raw milk—a staple source of food for many pastoralists—from RVF-infected animals. Human symptoms of the disease include high fever, strong headaches, body pain, dizziness, nausea, pain within the eyes, loss of weight and bleeding through body cavities. Animal symptoms include mucus with blood, abortions, yellow color in animals' eyes and sudden death. Other human and animal diseases, such as malaria, have similar symptoms that can be mistaken for RVF, and careful diagnosis is necessary.

The Tanzanian government has deployed veterinary staff for surveillance and awareness activities in main livestock areas. About US\$ 100,000 has been disbursed for vaccinations and awareness-raising campaigns, and quarantine measures are being implemented where animals have tested positive for the disease. However, tight livestock movement restrictions on the border between Tanzania and Kenya—the main livestock outlet for the northern regions—will severely impact livestock trade and pastoral livelihoods.

Figure 1. Main livestock areas and RVF-infected districts as of February 20, 2007



[FULL-SIZE IMAGE](#) →

Source: FEWS NET



## Appendix 13: President Kikwete's 21 billions to be loaned out to small Entrepreneurs in Tanzania

09 Mar 2007



JK's billions now a headache for state, banks

2007-03-09 09:36:09

By Guardian Reporter

The Minister for Labor, Employment and Youth Development, Capt (rt) John Chiligati, yesterday held talks with chief executives of the National Microfinance Bank (NMB), CRDB Bank and their credit officers on modalities for speeding up the procedure of issuing President Jakaya Kikwete's 21bn/- loans.

Until now, only a decimal amount of loans endorsed last year to empower small-scale entrepreneurs—approximately 1bn/-, which is less than 5 per cent of the 21bn/- set for the purpose, has been dished out.

During the audience with the minister yesterday in Dar es Salaam, the CRDB Managing Director, Dr Charles Kimei, said his bank through its six SACCOS had dished out loans worth 293.8m/-.

On the other hand, NMB chief executive Ben Christiaan said his institution had given out a total of 753m/-.

Dr Kimei and Christiaan said the low pace in releasing the loans was due to the necessary banking procedures that the financial institutions needed to adhere to or else there was a possibility of incurring losses in case the recipients failed to repay them.

On the other hand, the CRDB head attributed part of the delay to short seminars provided to applicants and non applicant customers beforehand.

The two directors urged the government to provide education on banking regulations and state clearly that the so-called funds were not dished freely.

In his response, the minister called on banks to educate the applicants as most of them were not accustomed to banking regulations as they had not taken any loans before.

The government has appointed CRDB and NMB banks to provide loans aimed at improving income and providing employment to low income earners.

However, many applicants are complaining about unnecessary procedures and unwarranted delays.

During his tour of Morogoro Region, Prime Minister Edward Lowassa directed both the NMB and CRDB banks to immediately start issuing loans without conditions.

SOURCE: *GUARDIAN*

## **Appendix 14: Interview questionnaires for the management**

### **A. General Questions**

1. When did your institution started?-----
2. In which year did Morogoro branch start?-----
3. How many clients does the institutions have?-----
4. Does your loan service extend to clients outside Morogoro Municipality or only within the Municipality? Outside Municipality.....Inside the Municipality.....

### **B. Loans**

5. Mention the conditions required for a client to get a loan
6. Show the loan structure and the repayment period for each loan.
7. Mention other services offered by your institution other than loans.
8. How may loan cycles are there in a year?-----
9. In the first loan cycle in 2004 how many clients applied for loans?-----
10. Among those who applied for the loans how many have been approved and given training before receiving loans?.....
11. How many dropped out before completing the training period?.....
12. How many completed training but didn't receive loans?----
13. How many completed training and received loans?----
14. Among those who took loans in the first loan cycle how many did not take repeat loans in the second loan cycle?
15. What is the number of starting clients who took the loans at the beginning of the year 2004?.....
16. How many clients joined in between the period of 2004?.....
17. What is the number of closing clients who kept on repaying loans till the end of December 2004?.....
18. What is the number of starting clients who took loans at the beginning of the year 2005?.....
19. How many clients joined in between the period of 2005?.....
20. What is the number of closing clients who kept on repaying loans till the end of December 2005?.....
21. What is the number of starting clients who took loans at the beginning of the year 2006?.....
22. How many clients joined in between the period of 2006?.....
23. What is the number of closing clients who kept on repaying loans till the end of December 2006?.....
24. Do you provide credit officers with repayments objectives?
25. If yes, what is the minimum repayment percentage?---

### **C. Clients dropout**

26. What is the clients dropout rate for 2004,..... 2005.....,and 2006.....
27. Which months have higher dropout rate?..
28. In your opinion, which group has higher dropout rate? Men..... Women.....
29. In your opinion which group has higher dropout rate? Young clients..... Old clients.....

30. What are the family factors which lead to clients dropout?.....
31. What are the personal factors which lead to clients dropout?.....
32. What are the group factors which lead to clients dropout?.....
33. What are the business factors which lead to clients dropout?.....
34. Mention the number of clients who dropped due to the following reasons:
  - (a). Family problems.....
  - (b). Personal problems.....
  - (c). Reasons related to credit officers.....
  - (d). Expelled by group members.....
  - (e). Migration/transfer.....
  - (f). Obtain loans from other institutions .....
  - (g). Failure to attend meetings.....
  - (h). Stopped by their husbands..... or wives.....
  - (i). Business problems.....
  - (j). Failure to repay loans.....
  - (k). Refusal of group loans.....
  - (l). Refusal to repay for others .....
  - (i). Other reasons, mention.....their number.....
35. To what extent does poor repayment contribute to dropout?.....
36. To what extent does poor attendance in meetings contribute to dropout?.....
37. What are other factors which have lead to client dropout apart from personal, family, group and business factors?.....

#### **D. Training**

38. Are clients given training before receiving loans?.....
39. If yes which issues are taught in training?.....
40. How long does the training take?.....

## **Appendix 15: Interview questions for credit officers**

### **A. Groups**

1. How many groups are you serving?...
2. What is the number of clients in the groups you are serving?..

### **B. Dropouts**

3. How many loan terms are there in a year?.....
4. How long is loan cycle?..
5. How many clients have dropped out in your groups in each loan cycle in each year? for 2004.....,2005....., 2006?.....
6. What is the percentage of clients who have dropped out in each loan cycle in each year? for 2004....., 2005....., 2006?.....
6. Mentions the reasons for clients dropout in your groups
7. What are the family reasons which have prompted clients' dropout in your groups?
8. What are the personal reasons which have prompted clients' dropout in your groups?
9. What are the business reasons which have prompted clients' dropout in your groups?
10. What are the group reasons which have prompted clients' dropout in your groups?
11. To what extent does poor repayments contributes to dropout?
12. To what extent does poor attendance in meeting contributes to dropout?
13. How do you feel if clients drop out in your groups?
14. What are the objectives of your work?
15. Is there a minimum repayment rate established by your institutions?
16. If yes what is its percentage?..

## **Appendix 16: Interview Questions for the current clients**

### **Loans**

1. Do you stay within or outside the Municipality? Within the Municipality.....Outside the Municipality
2. When did you join this institution?.....
3. How many times are loans given in a year?.....
4. How many loans have you borrowed so far since you joined this institution?....
5. Mention the conditions which are required for the one to get a loan.....
6. How do you see those conditions?-----
7. How much did you borrow in your first loan?.....
8. Was such amount sufficient for your business objectives?.....
9. If not what do you propose?.....
10. How did you use your loan?.....
11. How long did you wait for your first loan?.....
12. How did you see such a waiting period?.....
13. Was it too long or reasonable? Too long.....Reasonable.....
14. Have you been given conditions on how you should use your loans?.....
15. If yes, on which activities are loans recommended to be used?.....
16. Is there a cost you pay in preparation for the loans? Yes.....No.....
17. If yes, is such amount too much or reasonable? Too much...Reasonable.....
18. Are the costs of loan follow up and of attending meetings a problem to you?
19. If yes, what do you comment to reduce this problem....
20. Is there a delay in loan disbursement? Yes.....No.....
21. If yes, mention the organization factors causing delays...
22. Mention the reasons for delays originating from the clients themselves.
23. Has your loan ever been delayed? Yes.....No.....
24. If yes, what do you comment to reduce this problem.....
25. Do some clients get loans earlier than others? ..... Yes.....No.....
26. Is there a favouratism in loan disbursement? Yes.....No.....
27. In your opinion, is there a need to provide some keep backs to get loans earlier.
28. What are the things you prefer in this organization?
29. Which are things you don't prefer?
30. In your opinion, which things needs to be addressed to make an institution attractive to clients?...
31. Did the loan help you? Yes.....No.....
32. If yes, mention some benefits you got from the loans you took.....
33. If it has affected you, mention some of the problems you got on your business.....
34. How long will you keep on borrowing loans in this institution?.....

### **B. Interests**

35. What is the interest rate charged?.....
36. How do you see such interest rate? .....
37. Do you think there is a need to reduce it Yes.....No.....
38. If yes, which rate could have been better .....% or Tsh.....

### **C. Repayment**

39. What is the duration of repayment?.....

40. Do you have comments on it?.....
41. What is the repayment period?.....
42. How do you see such a period?.....Too short..... Reasonable.....
43. How much have you been repaying for the first loan?.....
44. Do you have comments on such amount?.....
45. Are your group members complaining about such amount? Yes.....No.....
46. If yes, what do you recommend?.....
47. If a client fails to repay the loan what happens?.....
48. If a client fails to repay on a specified repayment date, is he/she allowed to repay the following day?..... Yes.....No.....
49. If no, do you have any comments?....
50. Does the institution allow less repayment? Yes.....No.....
51. If no, do you have any comments?....
52. In your opinion, how strong is the institution in following delayed repayments?

#### **D. Groups**

53. How many clients are there in your group?.....
54. What is the actual number of clients required in a group?.....
55. If number of clients' drops out in a group can they be allowed to get loans without finding replacement?.....
56. In forming groups did you freely select yourselves Yes.....No.....
57. If no, explain how your group was formed.....
58. Are you currently satisfied with the formation of your group? Yes.....No.....
59. If no, what are you discontented with?.....
60. In your group are there clients having bigger loans than others? Yes.....No.....
61. If yes, are you contented with such a situation? Yes.....No.....
62. If no, do you have any comments?....
63. Are there clients who have dropped out from your group? Yes.....No.....
64. If yes, were the drop outs having bigger or smaller loans? Bigger loans...Smaller Loans...
65. If the drop outs had bigger loans what are the reasons for their dropout?...
66. If the drop outs had smaller loans what are the reasons for their dropout?...
67. In general how do you see the loan services in this institution?-----
68. Do you think there are areas which need improvement? Yes.....No.....
69. If yes, mention those areas.....
70. How do you see the system of keeping clients with bigger and smaller loans in the same group?
71. Which problems can result if clients with bigger and smaller loans remain in the same group?....
72. Is there a client who is aged in your group and who has dropped out? Yes...No.....
73. If yes, what are the reasons for his/her dropout?.....
74. Is there any client in your group who failed to repay his/her loan?..... Yes.... No.....
75. If yes, what did you do as a group?.....
76. Are you satisfied with the action taken by your group members?
77. Do you have any comments regarding the group loans?.....
78. Is there a jealousy for business or for any other reason which has lead to misunderstanding among your group members? Yes.... No.....

79. If yes, is there a client who has been affected? Yes.... No.....
80. If yes, did the one affected dropped out from the group? Yes.... No.....
81. How do you feel if your group member drops out?.....
82. Mention some of the problems existing in your group...
83. Is there a group which has disintegrated after its members have dropped out?
84. In your opinion, what could be done to reduce group problems?.....
85. Are there clients in your group who have greatly benefited from the loans? Yes....  
No.....
86. If yes, are they still borrowing?
87. Are there clients who have been negatively affected by loans? Yes....  
No.....
88. If yes, are they still borrowing?
89. In your opinion, did majority of clients benefited from the loans?
90. If majority have not benefited from the loans what do you think is a problem?....
91. What are the things which clients are complaining about in this institution?

#### **E. Relationships**

92. In your group are there clients who are in bad relations with others? Yes..... No.....
93. If yes what is the source of problem between them?
94. In your group, are there clients who are in bad relations with group leaders? Yes.....  
No.....
95. If yes, what is the source of problem?
96. Has this contributed to dropout of some clients? Yes..... No.....
97. In your group, are there clients who have bad relations with credit officers? Yes.....  
No.....
98. If yes, has the bad relation contributed to dropout of some clients? Yes.....  
No...
99. In your opinion are clients respected in this institution? Yes.....  
No...
100. If no, what is the source of problem?
101. What do you propose to solve this problem?

#### **F. Meetings**

102. What is the system of meeting in this institution?
103. How long does the meeting take?
104. Is the time you spent in meeting too long or reasonable? Too long...Reasonable ....
105. If too long, what do you propose?
106. How is the attendance in the meetings?
107. If a client fails to attend in the meetings is there a specified penalty to be imposed on  
him or her?
108. If yes, what kind of penalty is that?
109. Is attendance in the meeting compulsory or voluntary?
110. Do you have any comments to improve the meetings?

#### **G. Business**

111. When you took your loan what type of business you started?.....
112. When did you start such a business?.....
113. Are you doing the same business now? Yes.....No.....?
114. If yes, how does it proceed?

115. If not in which business have you switched to?
116. In which months does your business perform well?
117. Which months are difficult to get repayment from your business?
118. Which techniques you use to secure repayment in those months in which business do not perform well
119. Have you ever done such a business previously?.....
120. Mention some of the problems you face in your business.....
121. How do you cope with those problems?
122. Do you conduct your business alone?.....
123. Do you conduct your business throughout the year? Yes.....No.....?
124. If not which season you prefer to conduct your business?---
125. Do you take loans in the season in which you don't do business? Yes.....No.....?
126. If yes, on which activities do you use such loans?
127. In your opinions what are the major reasons that makes clients to stop taking loans?.
128. In order to make your business successful what help other than loan you would like this institution to provide?

#### **H. Personal or family problems**

129. What are the personal problems that have lead to clients' dropout in your group?
130. What are the family problems that have lead to clients' dropout in your group?
131. What are the business problems that have lead to clients' dropout in your group?
132. What are other problems that have lead to clients' dropout in your group?
133. Did you face any problem in your family as a result of loan you borrow  
Yes.....No.....?
134. If yes, what are those problems?
135. Are those problems solved? Yes.....No.....?
136. To what extent does poor repayment and poor attendance in meetings contribute to dropout?

#### **I. Savings**

137. What amount do you save in this institution?
138. How do you see such amount?
139. In your opinion are clients satisfied with such amount they save?
140. If no, what is comments?
141. If you have emergency, is it allowed to take your savings to help you?  
Yes.....No.....
142. If no, how do you see those conditions?
143. If you want to take your savings what are you required to do?.
144. Do clients' savings get interest in this institution? Yes.....No.....
145. If no what is your opinion?
146. Are many clients complaining about this issue? Yes.....No.....
147. If yes, what solution do you propose?
148. Do you know any client who has joined more than one MFI? Yes.....No.....
149. Are there clients who have shifted to other MFIs in your group? Yes.....No.....
150. If yes, mention what has attracted him or her to those MFIs?
151. Is there a client who has failed to save in your group? Yes.....No.....
152. If yes, is he or she still in your group?



### **J. Other services**

153. Are there other services offered by this institution apart from loans? Yes.....No.....
154. If yes, mention those services .....
155. Are there useful services offered by other institutions not offered here?
156. If yes, mention those services.....
157. In your opinion did this institution give you all the services you needed?  
Yes.....No.....
158. If no, which services you needed which you did not get?
159. What do you propose so that this institution can meet all your needs?
160. Which services are not offered here but offered by other institutions?
161. If you compare this institution and other institutions which one has better loan conditions? This institution..... other institution.....
162. The way you saw this institution can you convince you friend to join it?..  
Yes.....No.....
163. If no, mention those reasons
164. Mention some of the weaknesses in this institution which needs to be addressed

### **K. Training**

165. Did you get training before receiving a loan?.. Yes.....No.....
166. If yes, which components did the training cover?
167. In your opinion was the training sufficient? Yes.....No.....
168. If not which things you expected which you did not get?
169. Which things you propose so that training can be helpful to clients?

### **L. Insurance services**

170. Is there insurance services in this institution?... Yes.....No.....
171. If no, do you like this service to be introduced? Yes.....No.....
172. If yes, how can this service help you.....
173. If no, why don't you like this service?.....
174. If insurance services are provided by your institution is joining compulsory or voluntary? Compulsory..... Voluntary.....
175. Did you join? Yes.....No.....
176. If not, do you plan to join? Yes.....No.....
177. If not mention the reasons why you didn't join.....
178. Do you have any question?

## Appendix 17: Interview questionnaires for dropouts

### A. Loans

1. Do you stay within or outside the Municipality? Within the Municipality.....Outside the Municipality
2. When did you join SEDA/PTF?.....
3. After joining how long did you wait till you got a loan?
4. How do you see such a waiting period?....
5. Is the waiting period too long or reasonable? Too long....Reasonable.....
6. How long is the loan cycle?..
7. What are the conditions required for a client to get a loan?....
8. Is there a cost you pay for the preparation of loans?....
9. If yes, which percentage is being charged?.....Or how much did you pay?.....
10. Is such a cost too much or reasonable?..... Too much....Reasonable?.....
11. Are the costs of loan follow up and of attending meetings a problem to you?Yes..No..
12. If yes, what do you propose?
13. How many times are loans given in a year?.....
14. How long have you been borrowing?....
15. How much did you borrow in your first loan?...Tsh.....
16. Was such amount sufficient for your business objectives?.....
17. If not, what did you do?.....
18. What is the reasonable amount which could have been sufficient?..
19. How did you use your loan?.....
20. On which type of business are loans recommended to be used as per loan conditions?...
21. What is the highest loan you took?
22. Was that amount sufficient for your business?
23. If not, what did you do?
24. Is there a delay in loan disbursement? Yes... No....
25. If yes, mention the organization factors causing delays...
26. Mention the reasons for delays originating from the clients themselves.
27. Is there a favouratism in loan disbursement? Yes.....No
28. Do some clients get loans earlier than others? ..... Yes.....No.....
29. If yes, what are the reasons behind?
30. In your opinion, is there a need to provide some keep backs to get a loan earlier?.
31. What are the things you preferred in your institution?
32. What are the things you didn't prefer in your institution?
33. Did other clients also complained about those things?
34. What are the things which need to be rectified to make institution attractive to clients.
35. If those things are rectified will you re-join your institution?
36. If no, why?
37. Do you know other clients who have dropped out from your group?
38. If yes, what are reasons which made them dropout?.....
39. In your opinion, did majority of clients benefited from the loans? Yes.. No...

40. If majority have not benefited from the loans what do you think is a problem?....
41. What are the things which clients are complaining about in this institution?
42. Have you benefited from the loans you took? Yes.... No.....
43. If no, what happened?
44. Since when did you stop taking loans?..
45. Have you stopped taking loans completely or temporarily?  
Completely...temporarily..
46. which reasons made you stop taking loans ?

#### **B. Interest**

47. What was the rate of interest charged?.....
48. How did you see such interest rate? .....
49. Was it affordable?....
50. If no, is there a need to reduce it? Yes.....No
51. If yes, which rate could be better ?.....% or Tsh.....

#### **C. Repayments**

52. What is the repayment period?.....
53. Was such period reasonable or too short? Reasonable...Too short...
54. How much were you repaying for your first loan?
55. Was the amount affordable? Yes..... No.....
56. Were other clients complaining about it?
57. If a client fails to repay his/her loans what happens?
58. Was there a client in your group who failed to repay the loan and the group became accountable
59. If yes, how do you find the group loans which have the risk of repaying for others?
60. Have ever got a difficulty of repaying your loan?.
61. If yes, what caused such a loan difficulty?..
62. In your opinion, how strong is your former institution in making repayment follow up?
63. Which months were difficult to get repayments installments....
64. How did you manage to make repayments in those months?

#### **D. Groups**

65. How many were you in your group?.....
66. In forming groups did you freely select yourselves Yes.....No.....
67. If no, explain how you formed your group.
68. In your group were there clients who were taking bigger loans than others? Yes...No....
69. If yes, how do you find the situation of some clients taking bigger loans than others in the same group?..
70. Are clients in your group who have greatly benefited from the loans.
71. If yes, are those clients still borrowing? Yes.....No.....
72. Were there clients who have not benefited from the loans?...
73. If yes, are they still borrowing? Yes.....No.....
74. Were there clients who have dropped out from your group? Yes... No...
75. If yes, were there dropouts from those taking bigger loans? Yes... No...
76. If yes, what are the reasons which lead to their dropout?
77. Were there dropouts from those taking smaller loans?

78. If yes, what are the reasons which lead to their dropouts
79. Is there a jealousy for business or for any other reason which has lead to misunderstanding among your group members? Yes.... No.....
80. If yes, is there a client who has been affected? Yes.... No.....
81. If yes, has he/she dropped out?
82. What are the problems which existed in your group?
83. Is there a group which has disintegrated after its members dropped out?
84. How was your relation with the group members, group leaders and credit officers?
85. What do you comment so as to reduce group problems?

#### **E. Meetings**

86. How was the meetings scheduled in your institution?.....
87. Was the duration of meetings reasonable?..
88. How was the attendance in meetings?
89. Have you ever fail to attend meetings?. Yes.... No.....
90. If yes, what was the reason which made you fail to attend meetings?...
91. Is there a penalty imposed on a client if he/she fails to attend meetings?
92. How may hours do you spend in meetings?....
93. Was such time reasonable?.... Yes.... No.....
94. If no, what is your comments?.
96. Which things you prefer in meetings?
97. Which things you dont prefer in meetings?
98. Is attendance in meetings compulsory?
99. Which areas needs to be addressed so that meetings become attractives to clients?.....

#### **F. Business**

100. What was the state of your business before stopping to take loans?
101. How is your business currently progressing?
102. When did you start such a business?...
103. Have you ever done such a business before? Yes.... No.....
104. Explain the problems facing you in your business
105. How do you cope with those problems?...
106. In which months your business performs better?.....
107. Have you ever spent your loan in commitments other than business?....
108. Do you have debts from other people? Yes.... No.....
109. If yes, how did those debts came into being,
110. What type of business do you run?..
111. Do you sell your products on credit?

#### **G. Personal or family reasons**

112. What business objectives you had which made you borrow a loan?.
113. Are your objectives fulfilled now?
114. If no, what did you do?

#### **H. Savings**

115. How much were you saving?
116. Do you have comments regarding such rate?
117. If you have emergency is it allowed to take savings to help you in your problems
118. If no, how do you see those conditions?

119. Are other clients complaining about those conditions?
120. What is your comments regarding such savings conditions?.
121. Are there clients from your group who have shifted to other institutions? Yes...  
No....
122. If yes, do you know the reasons why they have shifted? Yes... No....
123. If yes, explain briefly
124. Are you in any loan institution currently?.
125. If yes, are loan services better between the former and the new institutions?.
126. Explain briefly which services are better?.
127. Can you re-join your former institution if all weaknesses are addressed?
128. If no, explain why?

#### **I. Other services**

129. Are there other services which you needed which you did not get? Yes...No....
130. If no, mention those services which you needed but did not get
131. Are there other MFIs which you know which provide those services?
132. What do you think the institution can do to help you get the services you need?.
133. If you compare this institution and other institutions which one has better terms?
134. Mention some of the weaknesses of your institution
135. In order to make the institution attractive to clients which things needs to be rectified?

#### **J. Groups**

136. How many clients were there in your group?.....
137. Did you freely select yourselves when forming your group?.
138. If no, explain how your group was formed?..
139. Are you contented with the formation of your group?. Yes..No...
140. If no, explain how you would like your group to be.
141. In your group are there clients who have been borrowing bigger loans than others?  
Yes.. No...
142. If yes, were you satisfied with such a situation?.
143. If no, what is your comments?.....
144. Are there clients who have dropped out from your group?.
145. If yes, explain why they dropped out
146. Mention some of the weaknesses of this institutions which needs to be addressed
147. The way you have experienced with your former institution can you advice your friend to join it?.
148. If no, explain why.

#### **K. Training**

149. Did you get training before receiving loans? Yes.. No...
150. If yes, explain what training was about
151. In your opinion was training satisfactory? Yes.. No...
152. If no, mention the things you needed in training which you did not get
153. What do you comment to be added so that training can be beneficial to clients
154. In your opinion are clients respected in your institution
155. Do you have any question?